



# Guidelines on Voluntary Pension Commission

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## **Guidelines on Voluntary Pension Commission**

The National Pension Commission (“PenCom” or “the Commission”) recently issued its Guidelines on “Voluntary Contribution under the Contributory Pension Scheme”.

The Guidelines aim to establish a uniform set of rules for the operation of, and participation in, Voluntary Contributions (VCs) and augment retirement benefits for:

- retirees under both the extant Contributory Pension Scheme (CPS)
- and the defunct Defined Benefit Scheme (DBS) and exempted persons under the Pensions Reform Act (PRA).

Below are the highlights of the provisions of the Guidelines:

### **1. Eligibility criteria**

The Guidelines specify the eligibility criteria for persons who may make VCs to include:

- a) any employee in an organization with three or more employees
- b) any worker/retiree in an organization that operates a Closed Pension Fund Administration scheme
- c) (and employed prior to June 2014) or an Approved Existing Scheme;
- d) any person who is either retired, disengaged or whose employment was terminated and is currently
- e) receiving pension under the CPS but secures another employment on a contract basis;
- f) any retiree under the defunct DBS who secures another contract of employment;

- g) judicial officers, members of the Armed Forces and Secret Service;
- h) any appointee of the President of the Federal Republic of Nigeria, State Governor and elected officers who are not career civil servants;
- i) any foreigner who resides and works in the Nigerian formal sector

## **2. Limitation of VCs and currency of contribution**

The Guidelines prescribe a limit of one-third of an employee's monthly salary as maximum contribution to the employee's VC, in line with the Labour Act of 1990. VC shall only be made once a month for all categories of contributors.

The Guidelines further provide that VC shall only be made in Naira and prescribe a penalty of not less than 2 per cent of the unremitted contribution for each month or part of each month that the default continues.

## **3. Timing of withdrawal**

a. Active or mandatory contributors shall only have access to 50% of VCs made into their Retirement Savings Account (RSA) after two (2) years of such contributions. The balance of 50% shall be available for withdrawal upon retirement of the contributors from active employment. For this purpose, the Pension Fund Administrators shall be required to determine the amount of VC that qualifies for withdrawal at each relevant date based on the 2-year rule.

b. Other categories of contributors mentioned in paragraphs 1(c) – 1(g) shall only be eligible to withdraw all their VC at the expiration or termination of their contracts. However, exempted but active contributors can only withdraw their entire VCs upon retirement, where such VCs have been retained in their RSA for a minimum period of two years.

#### **4. Taxation of voluntary contributions**

- a)** Mandatory or active contributors who make VC withdrawals before five years (from the date the VC was made) shall be taxed only on the income which accrues on such VC.
- b)** Other categories of contributors mentioned in paragraphs 1(c) – 1(g) shall be taxed on both the principal amount of the VC and the income thereon, where the VC is withdrawn before the end of five years from the date the VC contribution was made.
- c)** The Pension Fund Custodian (PFCs) shall be required to deduct and remit the tax payable on any VC withdrawal to the relevant tax authorities, within 21 days following the end of the month of deduction of the VC.
- d)** However, any retirement benefits payable to mandatory or active contributors under the CPS shall not be taxable.

PenCom has issued the Guidelines in furtherance of its objective to ensure a sustainable and adequate source of retirement income for employees in Nigeria, and further increase the participation base for pension contributions in Nigeria.

The Guidelines, which follow the Commission's issuance of its Circular (Ref:PENCOM/INSP/CIR/SURV/17/22) on "Withdrawals from Voluntary Contributions" to all licensed Pension Fund Administrators and Pension Fund Custodians in November 2017, also address the quantum of monthly voluntary contributions and the amount that can be withdrawn by active contributors.