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PENSION FUND ADMINISTRATION AND ECONOMIC GROWTH IN NIGERIA

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ABSRACT

The study has examined the relationship between pension fund administration and economic growth in Nigeria. The concept of pension and pension fund administration has been on for decades. Successive governments in Nigeria has over time come up with policies gear towards the reformation of the schemes on pension fund and how it should be properly administered so as to improve the well of the work force after they have worked meritoriously at the different tiers in ministries, parastatals, departments and extra- ministerial departments.

The study employs the desk top review methodology by examining existing literature on the topic in order to get adequate firsthand information.

Findings adduced from the theoretical and conceptual examinations point out lucidly that corruptions, poor accountability and in effective and inefficient copied pension fund policies and reforms from some certain countries of the world by Nigerian government are actually the bane of pension fund administration; and thus retards the growth of the Nigerian economy. It is therefore recommended that the defined contribution scheme should be encouraged, with effective legal backing and increased government responsibility to pension managers. Government should encourage savings and investment of pension funds in a bid to aid more capital development.

Keywords: Pension, pension fund, pension fund custodian, pension fund administration, economic growth.

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Introduction

The need to alleviate the pains and sufferings of the aged ones after working for a substantial period of their lives actually informed one of the primary reasons for the introduction of pension. In precise term, pension could be regarded as a devised way of caring for the welfare of persons who have meritoriously worked for an establishment or corporate organizations. One cannot actually with exactitude pinpoint the date and period the decision to embark on pensioning of retirees began in Nigeria with given data.

As noted by Ayegba, James and Odoh (2013), the history of pension in Nigeria could be traced to the prolonged battle between workers and employers of labour affirming that the victory of employees over employers manned the privilege of receiving gratuity and person. In the present day corporate organizations and establishments, much attention has now been given to the pension and gratuity of employees by employers more than never before. In this regard, Ayegba et al (2013) opine that a greater importance is given to pension and gratuity in any establishment premised on the belief that if employees future needs are guaranteed, their fears ameliorated and properly taken care of, they will be more motivated to contribute positively to organization's output. Hence, many corporate organizations, both public and private as well as labour union have emphasized the need for an efficient and workable pension scheme or plan that would help achieve the desire of the retirees to have a constant source of income to meet welfare and/or investment related needs.

Because of the relevance of pension and gratuity, successive regimes of government have made good attempt to regulate it through decrees and acts. The first legislative Act on pension in Nigeria was the 1951 pension ordinance. Thereafter several other Acts and decrees came up which include the National Provident Fund (NPF) in 1961, 1979 Pension Act No. 102 and Armed Forces Pension Act No. 103, 1987, Police and other government agencies pension scheme Act No. 75, 1987, Local Government Staff Pension Board, the 1993 National Social Insurance Trust Fund (NSITF), the 2004 contributory pension scheme Act, and to the present pension reform Act 2004. Each of these pension Acts *ab-initio* has its peculiar objectives and aims which on account of reoccurrence of certain prevailing circumstance became weak and inefficient to cope with.

Similarly, the weakness and inefficiency of these varying pension Acts may be attributed to the fact that they were either copied from already phasing out pension scheme models of other countries or at least were poorly and shortsightedly designed by the agencies and organs of government in Nigeria. Nonetheless of the failures of the several pension scheme Acts to regulate pension, the Nigerian government no doubt has generated a colossal amount of revenue therefrom. These revenues generated are not meant for immediate expenditure on the part of government but for reinvestment which serves as an avenue of enhancing the overall economic growth.

For instance, the contributory pension scheme Act of 2004 establishes a uniform contributory pension system for both the public and private sectors. It stipulates that each employee covered by the scheme must open a Retirement Savings Account (RSA) in which his/her monthly pension contributions would be credited. Each employee will contribute 7.5 percent of his/her monthly emoluments which in this context consists of basic salary, housing and transport allowances while the employer will contribute an equivalent amount. Thus, a minimum of 15 percent of the monthly emoluments are presumed to be credited into the Retirement Savings Account of the employee. Then the funds are made to be managed by licensed Pension Fund Administrators (PFAs), while the custody of the pension fund assets

are provided by licensed pension fund custodian (PFCs). The current contributory pension scheme Act of 2014 has given a new and different phase of pension fund administration in Nigeria. This is because of the upward review of rate of contribution. Section 4 of the Act stipulates that a minimum of ten percent shall be contributed by the employer and minimum of eight percent by the employee. The Act further stipulates the minimum pension contribution from 15% to 20% of monthly emolument in cases where the employer elects to bear the full responsibility of the scheme. The purpose of this is to provide additional benefits to the workers' Retirement Savings Account and thereby enhance respective monthly pension benefits upon retirement. Given the percentage increase in the new contributory scheme, it is of essence to empirically investigate how efficient is the pension fund administration and its overall impact on the Nigeria economic growth in light of the endemic state of corruption.

The rest of this paper is segmented into Section B, being the literature review, section C, the methodology, Section D, analysis and Section E, conclusion and recommendations.

Literature Review

Conceptual Clarification

A pension is a contract for a fixed sum to be paid regularly to a pensioner, typically following retirement from service. It is different from severance pay because the former is paid in regular installments while the latter is paid in one lump sum (Ayegba, et al, 2013).A pension plan created by an employer for the benefit of employees is commonly referred to as an occupational or employer pension. Labour unions, the government and other organizations also fund pensions. Occupational pensions are a form of deferred compensation, usually advantageous to employee and employer for tax reasons. Many pension plans also contain an additional insurance aspect, since they often will pay benefits to survivors or disabled beneficiaries. The common use of the term pension is to describe the payments a person receives upon retirement, usually under pre-determined legal and/or contractual terms.

According to Adams (2005) pension is the amount paid by government or company to an employee after working for some specific period of time, considered too old or ill to work or have reached the statutory age of retirement. It is equally seen as the monthly sum paid to a retired officer until death because the officer has worked with the organization paying the sum.

Adebayo (2006) and Robelo (2002) asserted that pension is also the method whereby a person pays into pension scheme a proportion of his/her earnings during his working life. The contributions provide an income (or pension) on retirement that is treated as earned income. This is taxed at the investor's marginal rate of income tax. On the other hand, gratuity is a lump sum of money payable to a retiring officer who has served for a minimum period of time. Dhameji and Dhameji (2009) tried to link commitment to motivation and opined that commitment is also tied to how well an employee is motivated. Motivation here entails the process of influencing employee's behavior towards the attainment of organizational goals. Motivation includes meeting the psychological, financial and emotional needs of workers, because it creates an impression in them that there is life after retirement.

In the words of Sule and Ezugwu (2009), a good pension guarantees employee's comfort and commitment to the organization during his/her active years. According to Ozor (2006), Pension consists of lump sum payment paid to an employee upon his disengagement from active service. According to him, payment is usually in monthly installments. He further stated that pension plans may be contributory on non-contributory; fixed or variable benefits; group or individual; insured or trustee; private or public, and single or multi-employer.

Ugwu (2006) stated that there are four main classifications of pensions in Nigeria. These are:

1. **Retiring Pension:** This type of pension is usually granted to a worker who is permitted to retire after completing a fixed period of quality service usually 30 to 35 years or on attaining the age of 60 to 65 years for the public service in Nigeria and 70 years of age for professors and judges.

2. **Compensatory Pension:** This type of pension is granted to a worker whose permanent post is abolished and government is unable to provide him with suitable alternative employment.

3. **Superannuating Pension:** This type of pension plan is given to a worker who retires at the prescribed age limit as stated in the condition of service.

4. **Compassionate Allowance:** This happens when pension is not admissible or allowed on account of a public servants removal from service for misconduct, insolvency or incompetence or inefficiency (Amujiri, 2009:140).

Relationship between Pension Fund Administration and Economic Growth

According to Ugwoke and Ogoegbunam (2013), a well defined pension scheme helps to spread the cost of benefits evenly over time, thus eliminating the vagaries in economic fortunes. From a global perspective, pension assets have seen rapid growth over the past decades, although they suffered large losses during the financial crisis of 2007-2008 (Ime & Mfon, 2014). Meng and Pfall (2010) point out that the growth is notably due to both structural and parametric pension reforms since 1980s. Pensions in Nigeria have undergone one reform to another. Based on this, the pension fund assets have increased markedly all over the world (BIS, 2007, OECD, 2009), thus contributing intensively to capital development. HU (2012) also notes that pension fund markets in OECD countries have witnessed a noticeable increase in pension assets.

In assessment of the contribution of pension assets to the GDP in OECD countries, Australia came first with 2010 pension assets accounting for 105% of GDP, followed by that of Malaysia and Singapore. Average pension assets to GDP ratio growth in the 10-country region over the 10-year period was 19.9% in 2001 and 29.9% in 2010 (Ime & Mfon, 2014). The huge amount generated yearly from pension scheme and invested by the pension fund administration and pension fund custodian serve as an injection into the economy and is expected to increase the growth of the economy. Ime and Mfon (2014) stated that the financing of publicly-mandated pension schemes can affect aggregate savings and capital development, both of which can affect economic growth. They further stress that the accumulated assets of pension funds are a major source of aggregate savings and can easily run up to 100% of GDP and more depending on the size of contributions allocated to the system. Holzmam (1997) had earlier provides empirical evidence that financial market development and economic growth are closely related, and evidence from Chile suggests that the most positive value of funded pensions is the increase in the efficient use of existing capital. Meng and Pfall (2010) assessed the linkage between pension assets and capital market indicators across 32 countries. They ascertain that pension assets have a positive impact on the stock market in terms of depth and liquidity. This will invariably improve the well-being of the economy.

From the Nigerian pension fund administration, an observation indicates that the pension assets have grown steadily from N265 billion to N1.6 trillion between 2006 and 2012. Registered contributors have increased from 932,435 in 2006 to 5,888,491 in 2012 (BGL, 2012).This persistent growth in pension funds or assets is expected to significantly impact on the Nigerian economy. Walker and Fernando (2002) suggest that the creation of a fully funded, privately managed pension system may accelerate the process of financial market development, thereby improving growth and welfare. IMF (1995) states that in economic policy discussions, national savings are generally claimed to be positively influenced by deepening of the financial market induced by pension reform. Gunu and Tsado (2012) posit that contributory pension system (CPS ensures that a saving culture is imbibed by the workers which leads to the accumulation of capital that is needed for societal development. In addition, the incentives provided by the contributory pension scheme like tax incentives for both employers and employees as well as for voluntary contributions further encourage savings among the employees (Adetola, 2006). He further posits that since pension savings is long term, it is useful as a macro-economic tool for national development by enabling money to be in circulation for long term investment, which in turn promotes economic expansion.

Pension Administration in Nigeria

The Pension Reform Act (PRA) 2004 provides for the establishment of a contributory pension scheme for any employment in the Federal Republic of Nigeria. It stipulates the payment of retirement benefit to employees to whom the scheme applies, which comprises every public sector employee and private sector employees in a firm with staff strength in excess of five employees. The Act also establishes the National Pension Commission (PENCOM), whose duties include to regulate, supervise and ensure the effective administration of pension matters in Nigeria; to approve, license and supervise the administration of pension funds by appropriate pension administrators; and to establish standards, rules and issuance of guidelines for the management and investment of pension funds in Nigeria (PENCOM, 2004).

The Act further provides that pension funds would be administered and managed only by Pension Fund Administrators (PFAs) licensed under the Act. In their course of administration, the PFAs would: open retirement savings account for their client; invest and manage pension funds and assets in accordance with the provisions of the Ac; maintain books of account relating to pension funds managed by it alongside providing regular information on investment strategy, returns and other performance indicators to the Commission and employees. However, the Act stipulates that pension funds and assets are to be held solely in custody for the PFA by an independent Pension Fund Custodian (PFC), whose responsibility includes the receipt of total contribution remitted by the employer within 24 hours, notify of PFA of same and retain the pension assets in safe custody on trust for the employee and beneficiaries of the retirement savings account (PENCOM, 2004; Sogunle, 2011). The PC provides some control over the activities of the PFA and provides a hedge against unauthorized access or trading. On the contrary, they are prevented from utilizing any pension fund assets in its custody to meet its own financial challenges or that of a third party.

The Challenges

A general challenge experienced in most developing countries is the need to make pension fund management a competitive business by lowering entry barriers and restrictions on investible assets. Low coverage of the pension scheme is being experienced in various countries as most private sector workers are captured in the informal sector and the low-income earners cannot afford appropriate retirement and old-age savings (BCL, 2012). There

is also a challenge in the area of continued maintenance of appropriate level of investments and payments of retirement benefit as at when due. This could be difficult as some countries are still recovering from economic recession. Increasing pressure from regulations, investment strategies and governance makes the management of pension funds even more difficult.

In Nigeria, the low coverage of pension contributors to the working population suggests that the social statistics data that gives more population may be mis-leading. This poses a challenge to Nigerian pension managers. Lack of trust in the country's financial system does hinder the informal sector from joining in the scheme (Ogobuchi, Chukwuemeka, and Uche, 2011).

A more pressuring issue too, is the high amount of unused cash within the system due to lack of investible assets. Like other developing countries, restriction on asset allocation can only be beneficial to the industry on the short run. Regulatory restriction and asset allocation continue to inhibit industry competitiveness. While the restriction has protected the industry from losses arising from the crash of the equity market, it also inhibits from benefiting from equity market boom. In addition, owing to the restriction of excessive foreign investment, the Nigerian pension sector may lose out on huge potential returns on investment in other emerging markets developmental projects with a possibility of reprisal investments in Nigeria's infrastructural project (Ogwumike, 2008; Ogobuchi, Chukwuemeka, and Uche, 2011).

Conclusion and Recommendations

This paper has conceptually examined pension fund administration and economic growth in Nigeria. The pension funds collected over the years have grown astronomically since 2006 till date. Even empirical evidences indicate pension fund influences the growth of an economy which is not dissimilar from the Nigeria perspective. Similarly, pension scheme has undergone several reforms which signify that it is meant for the betterment of the Nigeria country. Despite this, there are still pockets of issues Nigeria is grappling with and thus adversely affect the economy. It is therefore suggested:

1. The defined contribution scheme should be encouraged, with effective legal backing and increased government responsibility to pension managers.
2. There is also increasing need for efficient risk management framework in investment strategies.
3. Diversification of pension funds into alternative asset classes to ensure much higher correlation to equities in a market sell-off.
4. Avenues should be created for protection of invested funds.
5. There should be increased focus on investments in emerging market funds where economic growths are projected to be strong.
6. Government should encourage savings and investment of pension funds in a bid to aid more capital development.
7. Researchers are encouraged to research more into the topic.

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