An Assessment of the Pension Fund Evolution, Trends and Multifund Structure in Nigeria. (1951 - 2019)

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Abstract

The pension sector in Nigeria has undergone several changes from its inception in 1951 when the Pension Ordinance (with retrospective effect from 1946) was introduced in Nigeria but applicable to only the United Kingdom officials posted to Nigeria. The first private pension scheme for employees was in 1954 specifically for the employees of the Nigerian Breweries. The reforms over the years cumulated to the Pension Reform Act of 2014 currently regulating the pension sector in Nigeria which also maintained the contributory Pension system where the employers and employees contributes 10% and 8% respectively of the employee's emolument on a monthly basis towards setting funds aside to meet up with the future pension liabilities of the employees at the point of retirement. The Pension Commission (PenCom) recently introduced the multi-fund structure as part of the ways of giving the contributors a degree of freedom on how their pension fund contributions can be invested, it created a funding structure divided into four funds namely Fund 1, Fund II, Fund III and Fund IV. Prior to the Pension Reform Act of 2004, payments of retirement's benefits were often set aside from the budgetary provisions which were often underfunded and resulting in huge pension liabilities for the public sector workers. The attendant effect was the inability of the government to fully meet up its pension liabilities to retirees. It was evident that the Defined Benefits Scheme was not sustainable due to inadequate budgetary provisions, delay in payment, frequent verification of pensioners to ascertain those alive and dead, and accumulation of benefits. Therefore, this paper seeks to assess the level of compliance with the provisions of the Pension Reform Act of 2014 both by the private sector employers and the government, the management of pension funds over the years by the regulatory bodies and to suggest ways of improving the Nigerian pension sector. This paper noted the phenomenal growth in the pension industry in Nigeria from a deficit of N2trn in form of pension liabilities as at 2004 to accumulation of pension assets of up to N4.1trn by the end of 2013 and over N9trn as at March 2019 while the number of registered contributors as at August 2018 stood at 8.27 million. This paper recommends that the pension commission should develop a more robust approach to pension administration in order to expand the scope of cover to the majority of the Nigerians, this approach should take into account the country's culture, political system, economy and the labour force structure with the aim of delivering a sustainable pension scheme which can provide adequate income at retirement with the ability to withstand political and economic shocks. Furthermore, PenCom should be more pragmatic in dealing with issues of non-remittance and under remittance of pension deductions by both the government and private sector employers and the need to widen the pension net to capture more contributors.

***Keywords**: Multi-Fund Structure, Pension, Reform*

Introduction

Pension is the regular income that is earned when someone retires from gainful employment while pension plan is an arrangement to provide people with an income when they are no longer earning a regular income from a gainful employment (PenCom, 2018a). The pension industry in Nigeria has experienced a phenomenal growth from a deficit of N2trn in form of pension liabilities in 2004 to accumulation of pension assets of up to N4.1trn by the end of 2013 and N9trn as at March 2019 according to the statement by the Acting Director General of the National

Pension Commission- Aisha Dahir-Umar (Punch Newspaper, 2019). The total number of registered contributors as at April 2007 was put at 2.2m, which has grown to 8.27 million contributors as at August, 2018. (Eme, Uche & Ijeoma 2014; Ahmad, 2007 & PenCom, 2018a). The Pension Reform Act 2014 requires the Pension Fund Administrators to invest pension fund assets with the objectives of ensuring safety and maintenance of fair return on amount invested. One of the commitments of the PFA's is to efficiently manage pension's contributions with the aim of providing the bests possible competitive returns, thus ensuring financial stability for contributors at retirement. In April 2017, the Pension Commission amended the regulation on investment of pension fund assets (which became operational in July 2018) paving way for the multi-fund structure from fund I – IV. Fund 1: below 50 years (by choice), Fund 2: below 50 years (by default), Fund 3: Pre-retiree funds (50 years +), Fund 4: Retiree funds (60years +) with the objectives of optimizing return for contributors by aligning the portfolio with their individual risk and return profile, increasing the safety of pension fund investment through a more diversified portfolio. In summary, the funds are structured demographically to fit the risk appetite of contributors. (PRA, 2014; Leadway, 2018 & PenCom, 2018a)

The pension sector in Nigeria over the years have witness several changes in terms of its management and administration with the aim of better repositioning the sector and bringing it in tune with the modern day reality from 1946 till date. Therefore this paper seeks to assess the effect of the various reforms, policy and regulatory interventions in the pension industry over the years and also seek to examine the impact of the newly introduced multi-fund structure on the pension industry by the National Pension Commission. Therefore, this paper is structured to cover the following: Section one covers the introduction, section two reviewed the relevant literatures, section three presents the methodology, section four covers the data presentation and analysis while section five concludes and make recommendations.

Literature Review

Historically, between 1951 when the pension ordinance (with retrospective effect from January 1, 1946) came into effect and 2014 when the Pension Reform Act was signed into law, there have been several reforms within the pension industry which cumulated into the recently introduced Multi-Fund Structure regime in 2018 and the Micro Pension scheme by the National Pension commission in Nigeria. All these reforms were aimed at better repositioning the Nigerian pension sector and safeguarding the pension funds by the Pension Commission. Nigeria currently practice the Contributory Pension Scheme (CPS) where the employers and employees are mandated to contribute on a monthly basis 10% and 8% of the employees' emoluments respectively to a common purse managed by the PFA's / CPFA's and the PFC's as may be applicable.

Bassey, Etim and Asinya (2008) carried research on an overview of the Nigerian pension scheme from 1951-2004. The data collected for the study were analyzed with the aid of a Chi-square (X2). The findings of the study reveal that the 2004 pension scheme significantly minimized the plight of Nigerian Pensioners when compared to the Pre 2004 Schemes and should be encouraged. The study concludes that with the contributory and fully funded nature of the Scheme coupled with the clear legal and administrative sanctions spelt out for erring parties, the underfunding and corruption which informed the frequent pension verification exercise that characterized the Pre 2004 Schemes have been reduced to the barest minimum.

Hu (2005) empirically examined pension reform, economic growth and financial development. The study adopted panel data analysis to find out a negative relationship in the short run and a positive relationship in the long run. Blake (2003) study examined the accumulation and allocation phases of the U.K pension scheme, and concluded that whether a system is a DC scheme or a DB scheme, appropriate financial instruments and investment strategy are more critical than both the financial market structure and the nature of the financial institutions in driving successful private sector pensions, his study revealed that in many markets including the U.K, pension fund administrators underperformed in the market.

Adeniji, Akinnusi, Falola, and Ohunakin (2017) investigated the administration of retirement benefits in Nigeria: periscoping the effect on retirees. The study used Regression analysis to test the study's hypotheses. Tobin's Q and operational efficiency indicators were adapted to measure financial performance (Gross profit and the operating expenses). The study revealed that there was a statistically significant impact of financial performance on the firms' values. Therefore, the study recommends that the firms' management, stakeholders and investors should be concerned with using appropriate indicators to analyze financial performance that are developed by the researchers such as the operating efficiency indicators, in addition to TQ index.

Historical Trends of Nigeria's Pension System

Historically, between 1951 and 2014 the pension industry in Nigeria has undergone several changes. From the pension Ordinance of 1951 (with retrospective effect from 1946) to the Nigerian Breweries employees pension scheme in 1954, the 1961 National provident fund, the pension Decrees 102 and 103 of 1979, the NSITF Scheme of 1993 to the 1997 reform that allowed Parastatals to have individual pension arrangement to the 2004 Pension Reform Act that introduced the contributory pension scheme and the 2014 Pension Reform Act that repealed the PRA of 2004 and the newly introduced Micro pension and Multi-Fund structure regime by PenCom which are aimed towards better positioning the Nigerian pension sector and safeguarding the pension asset.

(i) Pension Ordinance, Private Sector Pension scheme and National Provident Fund (1951 - 1961)

Eme et al. (2014) noted that the Nigerian pension scheme was modeled after the British structure which started in 1951 when the colonial administration established a scheme through an instrument called Pension Ordinance with retroactive effect from 1946 applicable only to United Kingdom officials posted to Nigeria. The Governor-General was vested with the power to grant pensions and gratuities but subject to the approval of the Secretary of State for Colonial Affairs.

PenCom (2018a) noted that the first private sector pension scheme for employees was by the Nigerian Breweries in 1954 while Eme, et al (2014) pointed out that United African Company (UAC) started their own private pension in 1957. The National Provident Fund (NPF) of 1961 was the first formal social protection scheme for the private sector employees; it was contributory in nature and provided one-off lump sum payment. It was more of a savings contributory scheme which requires the contribution of N4 each by the employer and the employee and provided for the payment of one-off lump sum payment as benefits.

(ii) Pension Decrees 102 & 103, Nigeria Social Insurance Trust Fund (NSITF) and Individual Pension arrangements by Parastatals. (1979 - 1997)

The Pension Decrees 102 and 103 of 1979 were enacted for the Civil Service and the Military respectively with retroactive effect from 1974. In 1993, the Nigeria Social Insurance Trust Fund was established to replace the National Provident Fund which was designed to take care of the private sector employees. This law overrides all other Pension Acts in the country and it remained the law on pension in Nigeria till 2004 when the Pension Act was signed into law. Before the enactment of Decree 102 of 1979, the Federal Government of Nigeria had resolved that there was a need to safeguard pension receipts from inflation (Uzoma, 1993). Therefore, paragraph 111 of the White Paper of the government on the report submitted by Udoji Public Service Review Commission of 1974, stated that:

> ***"Provisions ought to be made whereby retirement settlement could be automatically adjusted to conform to rising cost of standard of living and that the proposed arrangements for periodically reviewed compensation would apply mutatis, and mutandis to pensions"***
> (Odo, Igbeka , & Ani, 2011)

This Act combines all enactments on pension and gratuity mechanisms devised for public servants by Udoji Public Service Review Commission in the year 1974, One of the major drawbacks of this provision was the emergence of ghost pensioners as a result of lack of effective monitoring of the procedures for payment processes implemented by states with resultant effect of an accumulated pension liabilities running into billions of Naira. (Bassey *et'al.,* 2008).

The Armed Forces Pensions Act No. 103 of 1979 was enacted to deal with pension issues of the members of the Armed Forces, disability benefits and gratitude scales designed for the

Armed Forces officers, and public service organizations. The Act consolidated all enactments dealing with pension benefits and gratuity scales for the Armed Forces.

(iii) Pension Reform Act (2004 - 2014)

Prior to the Pension Reform Act of 2004, payments of retirement's benefits were often set aside from the budgetary provisions which were often underfunded and resulting in huge pension liabilities for the public sector workers. The attendant effect was the inability of the government to fully meet up its pension liabilities to retirees. It was evident that the Defined Benefits Scheme was not sustainable due to inadequate budgetary provisions, delay in payment, frequent verification of pensioners to ascertain those alive and dead, and accumulation of benefits.

The private sector was the most hit as many employees were excluded from pension benefits, underfunded or out rightly unfunded. There were many sharp practices needing a serious intervention from the government. This and many more problems gave birth to the Pension Reform Act of 2004 to address the associated problems of pension benefits for retirees under the administration of the former president of Nigeria, Olusegun Obasanjo.

The National Pension Commission was established in 2004 to serve as the regulatory body on pension matters by regulating, supervising and ensuring the effective administration of the pension scheme in Nigeria. The Act establishing the body empowered PenCom to issue guidelines for the investment of pension funds, approve, license, regulate and supervise Pension Fund Administrators, Custodians and other institutions relating to pension matters. They are also to ensure the maintenance of a National Data Bank on all pension matters while also establishing standards, rules and guidelines for the management of pension funds.

The PRA 2014 made provisions for the informal sector and employers in the private sector with a minimum of three employees. Also the Act increased the monthly contribution from 15% to 18%. The Act also empowered PenCom to institute criminal proceedings against employers for persistent refusal to remit pension contributions subject to the fiat of the Attorney General.

Other relevant articles and publications on pension are as follows: Ibiwoye and Ajijola (2012), Maiturare and Adeyele (2010), William, Montserrat, Gustavo and Habib (2017), International Organisation of Pension Supervisors' (IOPS) toolkit for risk based pension supervision publication (2012), Severinson and Stewart (2012).

Methodology

This study was carried out to assess the pension industry in Nigeria from 1951 to 2019. It examined the history of the pension system in Nigeria, the trends and the newly introduced multi fund structure system by the National Pension Commission. To achieve this purpose, materials were sourced from secondary sources such as the National Bureau of Statistics, the Pension Commission, industry data, Newspapers and other sources. The study focused on the Retirement Savings Account contributors over a period of five years from 2014 to 2018 in order to examine the demographics of the contributors in the private and public sector and their pension contributions over the observed years and also carried out a review of the various pension legislations and its effect on the Nigeria Pension Industry between 1951 to 2019 was also carried out.

Data Presentation and Analysis

The section presents the analysis of the (i) the composition of the Retirement Savings Account from 2014 – 2018 between the private and the public sector (ii) classification of contributors' by age over a period of five years (iii) Asset allocation under the multi fund structure system (iv) the historical trend of the Nigeria pension system from 1951 till date.

Table 1: showing the RSA composition between the public and private sector from 2014 to 2018.

RETIREMENT SAVINGS ACCOUNT COMPOSITION FROM 2014 – 2018					
RSA MEMBERSHIP / YEAR	**2014**	**2015**	**2016**	**2017**	**2018**
PUBLIC SECTOR	**3,093,448**	**3,268,439**	**3,375,321**	**3,478,867**	**3,609,350**
PRIVATE PARTICIPATION	**3,302,221**	**3,616,957**	**3,972,707**	**4,345,044**	**4,800,834**
TOTAL	**6,395,669**	**6,885,396**	**7,348,028**	**7,823,911**	**8,410,184**
	RATIO OF PARTICIPATION				
PUBLIC SECTOR	48.37%	47.47%	45.94%	44.46%	42.92%
PRIVATE PARTICIPATION	51.63%	52.53%	54.06%	55.54%	57.08%

Source: PENCOM/NBS (2018b)

The table above shows that within the period under consideration, the private sector participation in the pension scheme increased gradually from 51.63% in 2014 to 57.08% in 2018 while the public sector participation reduced from 48.37% to 42.92% during the same period under review. This suggests that organizations in the private sector are increasingly complying with the pension regulations that require them to mandatorily enroll their workers under the contributory pension scheme.

Table 2 showing the total number of contributors based on age categorization over a five year period.

CONTRIBUTORS BY AGE CLASSIFICATION			
YEAR	**BELOW 50 YEARS**	**50 - 59 YEARS (PRE-RETIREES)**	**60 YEARS AND ABOVE (RETIREES)**
2014	4,964,104	1,102,750	328,815
2015	5,283,422	1,203,742	398,232
2016	5,577,480	1,289,387	481,161
2017	5,844,534	1,401,484	577,893
2018	6,203,242	1,512,019	694,923
TOTAL	**27,872,782** (75.61%)	**6,509,382** (17.66%)	**2,481,024** (6.73%)

Source: PENCOM/NBS (2018b)

The table above shows the total number of contributors by age and the percentage of their contributions over a period of five years. With the introduction of the multi fund structure system by the Pension Commission, taking 2014 – 2018 as the period under consideration, it clearly shows that majority of the contributors (75.61%) are those below the age of 50 and automatically falls under the fund 1 and 2 classification by PenCom while the pre-retirees (50-59 years) constitute 17.66% and the retirees (60 years and above) constitute 6.7% of the total contributors.

Table 3 showing the asset allocation limit under the multi fund structure by PENCOM

ASSET CLASS	CURRENT ASSETS ALLOCATION		ASSETS ALLOCATION UNDER MULTIFUND STRUCTURE (MAXIMUM PORTFOLIO LIMITS)			
	RSA 'ACTIVE' FUND	RSA RETIREE FUND	FUND 1 Below 50 Years (By choice)	FUND 2 Below 50 Years (Default Fund)	FUND 3 PRE-RETIREE FUND (50 years +)	FUND 4 RETIREE FUND (60 years+)
Ordinary Shares	25%	10%	30%	25%	10%	5%
Open/Close-End Funds	20%	NIL	25%	20%	10%	5%
Private Equity Funds	5%	NIL	10%	5%	NIL	NIL
Infrastructure Funds	5%	NIL	10%	5%	NIL	NIL
FGN Securities (Bonds and Treasury Bills)	80%	80%	60%	70%	80%	80%
State Government Bonds	20%	20%	10%	15%	20%	20%
Corporate Bonds	35%	35%	35%	40%	45%	45%
Supranational Bonds	5%	5%	20%	20%	20%	20%
Money Market Instruments	35%	35%	30%	30%	35%	35%

SOURCE: PenCom (2018a)

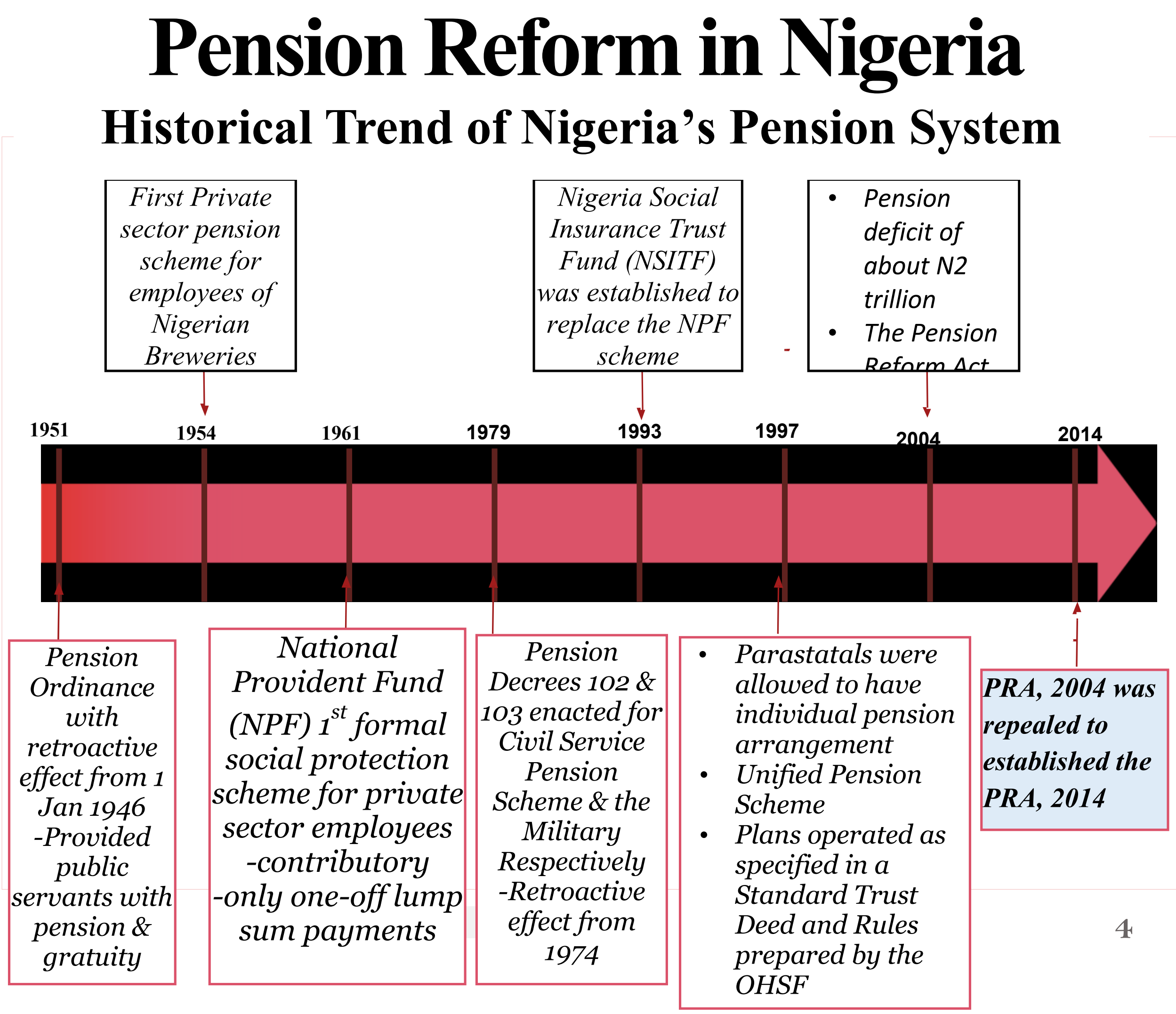
The multi-fund structure aim to provide a diversified investment portfolio option for all the categories of contributors unlike the previous traditional allocation of pension assets to pre-defined and restricted investment option. To this end, the Pension Commission in Nigeria amended the regulation on investment of pension asset in 2018 to a multi fund structure comprising of funds I-IV with the primary aim of placing individual contributors into different fund type based on their age and risk profile. The newly introduced Multi-fund structure seeks to align contributor's retirement savings to their risk appetite under four different funds as provided by the regulators bearing in mind each contributor's age and risk tolerance level.

FUND 1: By design, this fund category is meant for any contributor who has a high taste for high risk instruments. It is targeted principally at young contributors primarily because they have more years ahead of them to actively work before retiring which is long enough for them to recover from any losses suffered during the investment period. For a contributor to move to fund 1, he must be less than 50 years of age and must put in a formal request to the Pension Fund Administrators.

FUND II: This class of fund is for young and middle-age contributors between the ages of 49 and below. It is suitable for those with medium risk appetite when compared with fund 1. This fund allows every class of contributors to migrate to it with the exception of retirees.

FUND III: This category is suitable for pre-retirees between the ages of 50-60 years; however young contributors can migrate to this fund category too. This fund is for contributors with a low risk appetite.

FUND IV: This is exclusively reserved for retirees from the ages of 60 and above. It takes into account their risk appetite and their retirement needs. It doesn't allow investment in private equity fund and infrastructure fund.



SOURCE: PenCom (2018a)

The table above shows the historical trends of Nigeria's pension system and the key reforms in each of the legislations from 1951 to 2014 when the Pension Reform Act of 2014 came into force.

Conclusions and Recommendations

Within the period under review, it was observed that the level of participation between the private sector and public sector in the pension scheme increased significantly with more private sector participation. As at 2018, the private sector participation was 57.08% while the public sector participation was 42.92%. Also there has been a steady increase in the retirement Savings Account (RSA) over the years, as at quarter four of 2018, the total number of contributors stood as 8,410,184. The pension asset also recorded a significant growth from a deficit of N2trn pension liabilities in 2004 to an accumulation of N489.8 billion in asset as at 2007 and N4.1trn by the end of 2013 to over N9trn as at March, 2019.

From the above statistics, it is evident that the establishment of the National Pension Commission (PenCom) has led to remarkable improvements in the management and administration of pension funds in Nigeria coupled with the various reforms implemented by PenCom which have contributed to the expansion of the pension assets and investments in Nigeria. Therefore, this paper concludes that the multi fund structure newly introduced by PenCom will go a long way in boosting the confidence level of the contributors and operators within the pension industry as it offers flexibilities in terms of the available investment options.

This paper recommends that the pension commission should develop a more robust approach to pension administration in order to expand the scope of cover to the majority of Nigerian workers who are entitled to pension cover under the Pension Reform Act of 2014. This approach should take into account the country's culture, fluctuational government policies, political system, economy and the labour force structure with the aim of delivering a sustainable pension scheme which can provide adequate income at retirement with the ability to withstand political and economic shocks.

Furthermore, PenCom should be more pragmatic in dealing with issues of non-remittance and under remittance of pension deductions and other sharp practices within the industry by both the government and private sector employers. This paper also recommends that age should not be the sole criterion for placing contributors into the different fund categories in the newly introduced multi fund structure and there is need for more awareness campaign on the part of the regulatory body regarding the existence, importance and workings of the multi fund structure systems to the contributors.

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