Contributory Pension Fund and Its Impact on Economic Growth in Nigeria (2006 – 2015)

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ABSTRACT

The study examined how contributory pension fund influence the Gross Domestic Product (GDP) in Nigeria. Secondary data were collected from 2007 -2016 specifically from the Central Bank of Nigeria Statistical Bulletin and National Pension Commission of various years. The regression econometric technique was adopted to analyze the data at 5% level of significant. The study reveals that Population of the Pensioners has no positive significant impact on the growth of Nigeria Economy. Also Contributory Pension Fund has no positive significant impact on the Nigerian economy i.e. they both have a positive significant impact on Economic Growth. The study recommended that National Pension Commission should enhance pension savings mobilisation, effort should be intensified to encourage employers/employees in informal governmental and non-governmental sectors to participate actively in the contributory pension scheme towards economic growth in Nigeria.

Keywords

Pension, Contribution, Economic Growth, Gross Domestic Product

1. INTRODUCTION

An employee who has worked for an organization for some years is entitled to some benefit which could be in form of gratuity and pension payable to such employee by his employer at the time of retirement. Pension is viewed as a sum of money paid regularly to a person who no longer work because of old age, disability or retirement or to his widowed or dependent children by the state. Former Employers or from provident fund to which he and his employer both contributed to thee pension funds.

The pension scheme prior to 2004 was characterized with many problems which make the payment of the retirement benefit a failure in Nigeria. Koripamo—Agari (2009) pointed that the major weakness of pension scheme was lack of adequate and timely budgeting provision coupled with rising life expectancy. increasing number of employers, poor implementation of pension scheme in the private sector due to inadequate supervision and regulation of the system and too many. Private sector employees were not even covered by the form of pension scheme. These problems associated with payment of pension in Nigeria necessitated the government during the former president Olusegun Obasanjo regime could be reformed or reviewed which gave birth to the Pension Reform Act of 2014. Elumelu (2005) posit that the 2004 Pension Reform Act established a uniform contributory private sector managed and fully funded pension system for both the public and private sector of the economy.

The Pension Reform Act 2004 was also established to address the manifested loop-holes in the old defined benefit pension scheme and provide adequate resources to retirees after retirement from the service. The large capital pool demand that there should he sound and uniform investment decision making lo ensure that the value is added to Retirement Savings Account (RSA) contribution. Investment is normally done in the presence of numerous risky mostly political, markets and economic in nature. Investment and market analysis of these Pension Fund Administrators (PFAs) are always propelled to ensure that there is safeguard and safety of these pension assets. The fund accounting organ of Pension Fund Administrators (PFAs) record every hit of inflow and outflow of pension assets in and out of the entity fund.

The history of Nigeria’s pension system dates back to the year 1951 when the first pension scheme was inaugurated in the country. Ahme and Balogun. (2006) Nigeria first ever legislature instrument on pension matters was the pension ordinance of 1951 which had a retroactive effect from 1st January 1946. The law provided public servants with both pension and gratuity The National Provident

Fund (NPF) which was established in 1961, was the first legislation enacted to address pension matters of private organizations Pension Decree 102 and 103 of 1979 where enacted with retroactive effect from April. 1974 (Ahmed. 2006),

The police and other Government Agencies Pension Scheme were enacted under Pension Act No 75 of 1 987. This was followed by the Local Government staff pension Board in 1 987. In 1993, the National Social Insurance Trust Fund (NSITF) scheme was established by decree No 73 of 1993 to replace the defunct National Provident Fund (NPF) scheme with effect from 1st July, 1994 to cater for employees in the private sector of the economy against loss of employment income in old age. Invalidity or death

The New Pension Scheme was established for all employees of the Federal public service, Federal capital Territory and private sectors including informal sector employees in Nigeria. The major operators under the scheme at the National Pension Commission (PËNCOM).Pension Fund Administrators (PFAs), Closed Pension Fund Administrators (CPFAs) and Pension Fund Custodians (PFCs)

National pension commission

One of the reasons for the failure of Defined Benefit Scheme (DBS) was lack of strict and effective regulations. Having identified this, the modern scheme established this body, National Pension Commission to serve as the major regulatory organ to regulate all the pension system in the country. The scheme made provides that the National Pension Commission (PENCOM) shall regulate, supervise and ensure the effective administrations of pension matters in Nigeria.

In this regard, the commission is mandated under the pension Act to establish standard to rules for the management of pension funds. approved license and regulate the Pension Fund Administrators (PFAs), Pension Fund Custodians (PFCs), and the Closed Pension Fund Administrators (CPFA5), manage National data Bank on pension, impose sanctions or fines on erring employers and ensure that payment and remittance of contributions are made and beneficiaries of retirement savings accounts (RSAs) are paid as at when due.

Pension system in Nigeria

Over the years, Nigeria is faced with a lot of challenges among which is pension and gratuity of her workers. Both the private and public sector workers have been faced with these challenges. The public sector workers have suffered a lot under the Defined Benefit Scheme (DBS) and their private sector counterparts have been pained owing to different pension plans by their respective employers.

Amujiri (2009), view that, there are four main classification of Pension in Nigeria, these are retiring pension. Compensatory pension, super—annuating pension and compassionate allowance. It should also he noted that gratuity is a one-and-for-all lump sum of money paid to an employee on retirement. A retiring workers can be entitled to gratuity only or both gratuity and pension. It then means that a worker who is entitled to pension is also entitled to gratuity.

The contributory pension scheme since its embracement by the concerned entities and possible enforcement to make it operational in the economy witnessed serious setback due to the unacceptable dynamism and non-conformity with by various sectors. With the success recorded in the industry so far within the short period of operation in the economy, cannot be compare with the desire result pre-supposed to have been attained assuming all affected entities, individuals and states that are yet to enact bye-law to back its operational and enforcement embrace the scheme.

Therefore, the problem of enforcement of the enacted law/act becomes imperative as there is no strong task force or sanctions even though there were are paper enacted sanctions for those individuals, entities and government parastatals that refused to embrace into the scheme; but there has been no significant implementation of the act on the affected. This nonchalant attitude on the part of the regulatory agency has really encourage most affected entities to evade or circumvent the scheme that could have serve as a pool of fund for long-term source of fund for infrastructure development, provision of social amenities and other economic growth greed.

Apart from the non-enforcement of the act on the part of the regulator and no strict compliance by the most unquoted companies and government parastatals/states, there is low sensitization and dissemination of information by the pension fund administrators to the public. Also, risk of a given portfolio determines the return thereof. Some pension fund administrators do not have the necessary risk management profile while some fail to pay regard to rating signals needed to making sound investment decisions.

No prompt payments of the contribution due to salary not paid on time or arrears of salary owed, it was poorly funded or unfunded. Inefficient and non transparent, improper investment and management of pension funds created problem to pension scheme in Nigeria. Therefore, this paper looked into how pension fund has been generated and its proper utilization by the pension fund administrators. Attention is also going to be focus on the enacted law for the operation of the pension scheme and poor management of regulatory agencies.

The main objective of this study is to assess the investment and management of contributory pension fund with a view to determining its contribution to the economy through the investment of excess pool of funds in the capital and money market and creation of employment opportunities.

2. REVIEW OF LITERATURE

Conceptual review

Malaski. Firend and Capelli, (1980) which views the pension plan as method of defer some compensation until an employee retires. The employer promises to provide a pension payment on exchange for current service. The deferral of wages often results in individual tax savings. The advantages to the employee of providing a pension plan are less obvious, under the deferred wage theory. Firms offer pension plan because of economics scale in administrative. Portfolio management and other cost.

The deferred wage theory generally incorporates a long-term or lifetime implicit labour contract between the employer and employee that has various; implications for the employee (Logue. 2012). Ipolito, (2010) suggested that the delayed vesting of pension plans may decrease employee turnover costs. Becker (2010) suggest that firms have an incentives to expand training cost as a result of delayed vesting, since it causes average employee to work longer For the company. Resulting in a greater payback of these training costs

Endogbonya, (2013) carried out a study on the assessment of the impact of contributory pension scheme on Nigerian economic Development for the period of [2007-2010].the study used survey research design, and sample size of 30 and 70 for both staff and customers of legacy pension ltd .it also adopted correlation analysis for testing secondary data and ANOVA for the primary data. The study revealed the risk prevalent as positive effect on pension fund management and that the contributory pension scheme has significant positive impact on the GDP.

Odia and okoye (2012) compared the old scheme with the pension reform act 2004.the study adopted comparative analysis method to compared and contrast the pre-2004 pension scheme with pension act 2004. The study finds that PRA 2004 is better than the pre-2004 pension scheme, and that the PRA 2004 is expected remedy the deficiencies and inadequacies prevalent in the old pension scheme. The study recommended more stringent coordination, supervision and regulation of the pension industry in Nigeria.

Gunu and Tsado [2012] studied contributory pension system as tool for economic growth in Nigeria. The study used descriptive statistics, percentage and charts to analyse data collected. Their findings revealed that the contributory pension scheme has begun to contribute to increase in growth of the Nigerian capital market and economic growth.

The concept of contributory pension fund in Nigeria started in June 2004 with the enactment of the Pension Reform Act 2004 that was recently amended to reflect the best global practice. To safeguard and stimulate high confidence from the industry, the amended Pension Reform Act 2014 was signed into law in July 2014 and its adoption takes immediate effect.

However, prior to the contributory pension scheme in June 2004. The concept of pension has undergone metamorphosis phases range from the era of National Provident Funds (NPF) and National Social Insurance Trust Fund (NISTF). Each concept in operation has its hiccups and its lacks transparency and efficiency in management of pension fund. This deficiency force the legislative arms of the government based on the draft recommendation of the committee or contributory pension fund in Nigeria to enact the repealed Pension Reform Act 2004.

The basic ideology was the fact that both employers and employees contribute on monthly basis to fund retirement benefit so that the workers can receive their benefit as at when due and to promote savings culture. As a matter of fact, substantial percentage of Nigeria workforce lack saving culture or do not have any plan in place to remedy their financial demands or obligations at retirement apart from those in public sector who were entitled to gratuity and uncertain pension benefit. Then the public sector practice or operates a defined benefit that as characterized with non-availability of funds at the point of retirement shielded with irregularities and malpractices. To guide against the consummation of this undesirable and undeserved process in accessing pension benefit gave rise to the adoption of contributory pension scheme. The scheme specifies relevant scopes to ensure its success and stipulate sanctions where not complied with, but the judiciary process has weakened the process. The scheme has been operational for the period of ten (10) years in Nigeria and its impact can he felt in all sectors of the economy. Workers now develop confidence in its workability base on the dogmatic approach adopted by the pension fund administrators in Nigeria in managing pool of finds efficiently. All mobilized pension funds in Nigeria since its inception are held in custody h now four (4) licensed pension fund custodians which are banks. They are First Bank Custodian, Union Bank of Africa (UBA) custodian. Zenith and Diamond Bank Custodian with total average fund under management (SUM) of over 4.5 trillions.

The amount in the custody have been growing steadily considering its wide acceptability and continuous public enlightenment by the Pension Fund Administrators (PFAs) activities to sensitize the large quotas of non compliance to embrace the scheme. Statistic revealed that 30% of the total employers in Nigeria have adopted/embraced the scheme hi1e 70% are yet to. Therefore, we can access to potential for economic growth and development in Future.

Theoretical review

Pension Benefit Guarantee Insurance Theory:

The problem of under funded define benefit plans was a driving element in the introduction of pension benefit guarantee insurance in most cases such scheme have been introduced, such as the pension benefit guarantee fund (PBGF).

Ippolito, (2012), in the union hold-up model provides an economic rationale for the introduction of the pension benefit guarantee Fund (PBGF). In this model, a period of high inflation reduced the incentive of firms to use under-Funding as a tool to hold unions in check. Hence reducing their opposition to benefit insurance, while. on the other hand. Unionized workers were able to obtain a significant transfer from the pension benefit guarantee fund (PBGF). This works in situation where the fraction of beneficiaries is small enough with respect to the overall universe of plan members. Such that the additional cost of insurance is negligible for each individual. Benefit guarantee funds face challenge of their own. As usual in an insurance setting, these challenges can be usual in an insurance setting, theses challenge can be analyzed along the lines of moral hazard and adverse selection. KPMG (2013) take up their model and discuss the introduction of public insurance in this setting. Again they look at an optimal labour contract with the additional feature that firms might face borrowing constraint. As before, under-funding can he an equilibrium outcome in the absence of benefit guarantee. When introducing a public benefit guarantee fund, they that the problem of under-funding is accentuated. A standard moral

Hazard argument, Specifically, while firms with sufficient capital would fully fund pension plans in the absence of insurance and only firm with low level of capital reduce funding of plans, the introduction of a benefit guarantee induces ail firm to reduce contribution to the plan. Additionally the authors look at the investment decision of plan managers by introducing a risky asset. While a risky aspect might increase the funding tendency of firms in their plans, It is also the case that risk exposure of the plan increases with minimal funding level. Hence, the introduction of a benefit guarantee might induce firms to increase their risk exposure.

Finally, benefit insurance where insurance rate do not adequately reflect bankruptcy risk, might induce firms with well—funded defined benefit pension plans to terminate their plans or convert them into defined contribution plans. This gives rise to a problem of adverse selection in the universe of plans benefiting from the insurance (Wilcox. 2006). In summary the existence of a benefit guarantee insurance can increase hut need not cause the degree of under-funding and induce plan managers to invest in risky portfolios.

Empirical review

Ardic and Damar (2006) in their study of financial sector deepening and economic growth in turkey captured financial depth as total bank deposits divided by gross domestic product (GOP). In line with their study De Jesus Emidio (2007) utilized the ratio of bank deposit liabilities to nominal gross domestic product (GOP) to capture information on the extent of financial intermediation and the savings level in the economy of Mozambique.

Mcdonal and Schumacher (2007) in their study of financial deepening in sub-Saharan Africa saw financial depth as the ratio of gross domestic product (GDP) of bank credit to the private sector. Hasan, (2007) in a study of institutional growth and development, pension scheme and economic growth in China, used to measures of financial deepening, one measure was based on the fact that institutional investors, in particular pension funds. Mutual funds and insurance have enhanced their roles as collector of savings over the past few decades. He went on to conclude that this trend is likely to continue as retirement savings grows and the increased pension savings will augment the size of capital markets. The large pool of savings which constitutes pension funds must be channelled into portfolios for reasonable returns so that old age liquidities of the retirees (former affiliates) and hence their old-age consumption (welfare) and the assured. This requires a high degree of' financial intermediation in the financial sector, such a come—together of the deficit and surplus spending units is likely to result in more deepening of the financial system Ghani, (2009).

Nnata, Okoh and Ugwu (2011) examined the implications of the new pension reform for social security planning in the local government in Nigeria. The study employed the techniques of content analysis to analyse and interpreter the views of several studies on the old and new pension scheme. The study finds that the advantage of PRA 2004 have translated into improved social security planning for the retired workers dead or alive and for their families to achieve a degree of economic security and provision of cash payments to help income lost as a result of retirement or death.

3. METHOD OF THE STUDY

Research Design

This study examines the impact of contributory pension fund on economic growth in Nigeria. This study makes use of the ex-post-facto research design. Accurate model for the study will be clearly specified, data were obtained from the National Pension Commission and the Central Bank of Nigeria statistical bulletin 2007-2016. The OLS multiple regression was adopted to analyze the collected data.

Model Specification

To examine the impact of pension fund on economic growth in Nigeria, the below model was specified:-

GDP= f (PFA, POP) ------------------------------------- (1)

Where:-

GDP =Gross Domestic Product of the Nigerian Economy

PFA =Pension fund assets

POP=population of pensioners in Nigeria

Model Estimation

GDP$= B_0 + B_1POP + B_2TPFA + U_t$----------------- (2)

Method of data collection

The researcher makes use of secondary data for the study. Data were obtained from journals, seminar papers which relates to the study. Central Bank of Nigeria (CBN) Statistical Bulletin and the National Pension Commission 2007—2016

Method of data analysis

The study used the OLS multiple regression for analyzing the collected data in order to investigate the impact of contributory pension fund in Nigeria on Economic Growth.

4. RESULT

Descriptive Statistics

	Mean	Std. Deviation	N
Gross Domestic Product	46136613.7230	28557046.07704	10
Population of pensioner	4042528.2000	1728223.48586	10
Total pension fund asset	3217197.7380	897714.30693	10

Variables Entered

Model	Variables Entered	Variables Removed	Method
1	Total pension fund asset, Population of pensioners	.	Enter

a. Dependent Variable: Gross Domestic Product
b. All requested variables entered.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.935[a]	.875	.839	11454252.24603

a. Predictors: (Constant), Total pension fund asset, Population of pensioner

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	6421144664205235.000	2	3210572332102617.500	24.471	.001[b]
	Residual	918399261610202.800	7	131199894515743.250		
	Total	7339543925815438.000	9			

a. Dependent Variable: Gross Domestic Product
b. Predictors: (Constant), Total pension fund asset, Population of pensioner

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations		
		B	Std. Error	Beta			Zero-order	Partial	Part
1	(Constant)	-31707674.281	44889038.132		-.706	.503			
	POP	8.379	20.154	.507	.416	.690	.934	.155	.056
	TPFA	13.667	38.799	.430	.352	.735	.934	.132	.047

a. Dependent Variable: Gross Domestic Product

Source:- Author's computation using SPSS version 20

POP:- Represent Population pensioners in Nigeria

TPFA:- Represent Total pension fund assets

Interpretation of results

From the above multiple linear regression results, the regression equation estimating the relationship between the gross domestic products (GDP), (POP) Population pensioners in Nigeria (POP) and Total pension fund assets (TPFA) can be stated as

GDP= $B_0 + B_1 POP + B_2 TPFA + U_t$

GDP= -31707674.281 + 8.379POP + 13.667TPFA

The above model stated and explains as a unit increase in the explanatory variable will lead to an increased in the Gross Domestic Product (GDP) i.e. a unit increased in (TPFA) will lead to an increase in the (GDP) also a unit increase in (POP) will lead to an increase in the Gross Domestic Product (GDP). The multiple correlation co-efficient (R) of 0.93 indicates a strong linear positive relationship between the independent variable (POP and TFA) and the dependent variable which is the gross domestic product of Nigerian economy (GDP) since the value is close to 1. Also, the coefficient of determination (R^2) of 0.87 indicates that about 87% of the variation in the dependent variable (GDP) can be accounted for by the joint variation in the independent variable (POP and PFA) while the remaining 13% is accounted for by other extraneous variables not captured in the model. The adjusted R^2 for error is 0.84 which is very significant.

TEST OF HYPOTHESES

The decision rule for testing hypotheses is that Null hypotheses (Ho) should be rejected and Alternative Hypotheses (H1) should be accepted if significant value is less than 0.05 and vice versa.

TESTOFHYPOTHESIS ONE

H_0: Contributory pension fund has no positive significant impact on the economic growth in Nigeria.

H_1: Contributory pension fund has positive significant impact on the economic growth in Nigeria.

Decision Rule-: Reject H_0 if Sig value $< \propto = 0.05$ Otherwise we fail to Reject H_0 and accept the alternative hypothesis

Decision:- Since 0.735 > is greater than 0.05 we fails to reject the null hypothesis

Conclusion:- I hereby conclude that Contributory pension fund has no positive significant impact on the economic growth in Nigeria.

TEST OF HYPOTHESIS TWO

H_0: Population of the pensioners has no positive significant impact on the growth of Nigeria economy

H_1: Population of the pensioners has a positive significant impact on the growth of Nigeria economy

Decision Rule-: Reject H_0 if Sig value $< \propto = 0.05$ Otherwise we have no enough reason to Reject H_0 and accept the alternative hypothesis

Decision:- Since 0.690 > is greater than 0.05 we fail reject the null hypothesis and accept the alternative hypothesis

Conclusion:- I hereby conclude from the analysis carried out that Population of the pensioners has no positive significant impact on the growth of Nigeria economy.

DISCUSSION AND FINDINGS

From the result above, it can be deduced that the number of pensioners in Nigeria (POP) has positive relationship with the Gross Domestic Product (GDP); similarly, the pension Fund Assets (CPFA) maintains a positive relationship with GDP. Furthermore, despite the fact that POP has positive relationship with GDP, its contribution to GDP is nil as indicated by 0.155 coefficients. What the forgoing means is that irrespective of the degree of variations in the number of pensioners in Nigeria, it will have no effect on the GDP. Moreover, TPFA maintains a direct relationship with GDP with 0.132 coefficient, it follows that a unit increase or decrease in the Gross Domestic Product of the Nigeria economy. The findings of this study conform to the findings of Hassan (2007) in his study of institutional growth and development, pension scheme and economic growth in china which found that pension scheme has no significant effect on economic growth.

5. CONCLUSION AND RECOMMENDATIONS

This paper examines the impact of contributory pension fund on economic growth in Nigeria. To achieve this, the study utilized the OLS regression analysis to test the relationship. The pension Reform in Nigeria has created a huge pool of stable and long terms funds for the social-economic and infrastructural development in Nigeria, it contributories to the development of the Nigerian financial system, as pension administration are now major institutional investors. However, the impact pension fund would play is determined by the size and stage of development of the capital market and availability of invest able product that satisfy the investment criteria as well as meet the long term risk reward profile of the pension fund. The contributory pension scheme is still at its accumulation stage and would remain so for a long while (in view of this relatively young age of registered contributors.

Having reviewed the impact of contributory pension fund on economic growth in Nigeria, the researcher hereby recommended the following:-

1. Pension Commission(PENCOM) should enhance pension savings mobilisation, effort should be intensified to encourage employers/employees in informal governmental and non-governmental sectors to participate actively in the contributory pension scheme towards economic growth in Nigeria

2. Government should provide low income earners with subsidies to their pension as a way of supplementing their self funded Defined contribution. These will encourage greater participation and savings contribution from low income Earners in the informal sectors

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APPENDIX

Years	GDP	Population of Pensioners in Nigeria	Total Pension Fund Assets
2007	14610881	1311035	1761062
2008	18564595	1677330	2026085
2009	20657318	2784273	2686018
2010	24296329	3465764	2969585
2011	24794239	4012498	3087680
2012	54612264	4542250	3398726
2013	62980397	4925350	3683183
2014	71713935	5393001	3890260
2015	80092563	5917207	4058088
2016	16843615	6396574	4611290

Source: From the central bank of Nigeria Statistical Bulletin and National Pension Commission 2016