EXAMINATION OF CONTRIBUTORY PENSION ASSET IN NIGERIA'S PRIVATE AND PUBLIC SECTORS

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ABSTRACT

The compulsory contributory pension scheme seeks to among others ensure every eligible retiree enjoys retirement benefits upon retirement from the contributions saved while working by way of regularly periodic payments. Therefore, the pension contributions are the total contributions of both employer 10% and employee 8% accruing from the employees' monthly salary prior to retirement. The study employs the Pareto chart analysis using secondary data from the pension commission with a view to examining the contribution trend and contributions made by total public and private companies' pension assets over the years as well as the sectorial investment of the fund since enactment of Pension Reform Act 2014. It was observed that there was significant decline in the amount of contribution of the public sector prior to and during the election year whereas the private sector recorded drop in the year after election. Likewise observed an over concentration of investment asset in secured Government bonds. The pension commission should continue to give adequate attention to enforcement of remittances and possibly met sanctions as stipulated in the PRA 2014 as a deterrent to defaulting employers. It was recommended that there should be regular spot checks by pension commission on prompt remittance by employers, in compliance with the PRA 2014, and the broadening of risk assets of the fund.

Keywords: Contributory pension scheme, pension assets, pension commission, public sector, private sector

INTRODUCTION

Nigerian Pension Reform has continuously and uninterruptedly positioned as lengthened pension system that has the resistance to gain the supreme objectives of guaranteeing a steady and satisfactory retirement income for workers. Over the past decades, pension fund management and administration has increasingly received responsiveness in many countries. Policy makers have globally been attracted to pension system as a funding source (World Bank, 1994).

Voluntary contributions by employees in conjunction with obligatory retirement contribution are stated under PRA 2014 through workers remitting account known as RSA (retirement savings account) in order to enhance pensioners' benefits. Pension Fund Administrators (PFAs) invests pensioners' funds in long-term and short-term securities, such as government bonds, debentures, real estates, equities, and preference shares assets (PRA, 2022). PRA directs and controls uniform and obligatory retirement plan management of government and non-public economic systems in Nigeria. The PRA of 2014 stipulated a contributed values of 10% and 8% payment of employee's thirty days from employer and employee respectively (PRA, 2022).

In the words of Idowu (2006), wealth of lifetime is functioned as disposable consumption which explained relationship between individual saving decision and consumption pattern who is involved in administering a pension scheme. Dorsey (1998) opined that productive models of retirement are forces of quantity demanded and quantity supplied function, in which retirement plans have encouraged motivational bonuses to enhance employees in order to productively and increasingly improve outcomes. Allen and Santomero (1998), Matheson et al. (2004) and Bridgen and Meyer (2008) posit that transactions costs in security markets, result to difficulties for individual holding-consumers to averagely remit earnings through holding securities.

CONCEPTUAL REVIEW

Pension is a system regarded as section of retirement benefits. Employees' welfare affects productivity during the contract of employment. This directs the employees agitated actions as their utmost prioritized actions in several enacted laws especially labor law and pension reform Act in order to courageously standardize workers' securitization of welfare adequacy (Nwikpasi, 2016 citin in Fiiwe, 2020), in which benefits of awakened pensioners' minds stand as the main institution for retirees' benefits (Robolino, 2006 cited in Fapohunda, 2013).

In England, compensation instruments are used as retirement which could be used to replace payment and fund kindness (Mavlutova et al., 2016). Pension is basically adopted for segregation of funds by players of employment after assuring service genuineness, in which improvement of life style and income productivity have embraced by retirees as financial trust in order to principally and financially make enormous beneficial compensation to genuine workers (Fapohundan, 2013). Adeniji et al. (2017) states that Nigerian retired workers were restless due to mismanagement of Pension fund, but critically characterized defined benefits (Fiiwe, 2020) by PFA and PFC after workers' service genuineness, which this had brought agitations in order to fundamentally address basic issues of pension administration before and after PRA 2014 (Iyortsuun & Akpusugh, 2014).

The amendment of Pension Act as PRA 2014 states that the nonpublic economic system could involve and embrace PFC in as much workers employed are up to fifteen (15), in which proportional contribution of 10% and 8% would be remitted by employer and the employee respectively. If the employer had decided to remit full payment, employee monthly remuneration should not be lesser than 20%. Meanwhile, professorial and non-professorial employees in academic arena should retire at 70 and 65 years of age respectively irrespective of service years (Shadare & Aliyu, 2018).

In 2004, obstacles encountered brought reformation of 2004 pension Act, which states the adequate payments of government and non-public retirement benefits, rules and regulations of retirement benefits and payments management. Though, improvement of PRA 2004 had brought different problems which produced a revised PRA in 2014 (PRA, 2014; Edogbanya, 2013; Ajiboye, 2011; PRA, 2004).

Under PRA 2014, withdrawal can be effected either at 50 years of age or retirement period from a worker retirement savings account (RSA) as conditional statement. Though, placement of restrictions on workers' age lesser than 50 years are strictly denied from withdrawing from their RSA except the worker who had retired before the stated age in conjunction with contract of employment terms and conditions, and health and medical incapacitated as well as bodily permanent disability or insanity disability (PRA, 2004). Likewise, lump sum withdrawal, annually, quarterly or monthly programmed withdrawal or life annuity can be arranged from the RSA balance (PRA, 2014; Nyong & Duze, 2011). The proposed amendments request the Nigerian Police Force exemption from Contributory Pension Scheme (CPS) requirements as the Nigerian Army force exemptions.

THEORETICAL FRAMEWORK

Theory of Life Cycle

According to Idowu (2006) which reviewed theory from Modigliani and Brumberg (1980) asserted life cycle theory has functional life-period resourceful of retirees' will which based on individual strategy of consumption and decisional savings in respect to way of administering a pension plan scheme. Though, retirement reforming plan could be reviewed participant pensioner scheme's wealth, in which the theory argued that retirement reforming scheme could have effect earnings rate of a participant pensioner scheme through retiree's medium resource, in which reliability of PFCs and PFAs had improved households decision for savings their wealth for futuristic basis. Meanwhile, world economic recession and management have not been influenced by theory.

Theory of Pooling

Allen and Santomero (1998) postulated that transactions costs in securities transactions costs in securities markets result to difficulties for individual holding-consumers to averagely remit earnings through holding securities income through direct securities holdings. Also the whole inherent risks incurred if diversification were not sufficient for high return to be compensated, which made the pension funds by negotiating lower custodial fees and transaction costs in order to reduce the cost of transaction (Matheson, Jorge, Ramana & Anna, 2004; Bridgen & Meyer, 2008).

Theory of Wage Deferment

Malaski et al. (1980-82) posited that pension fund plan deferred retirement and wage theory offered by firms that pension plans would be determined by economies of scale, administrative costs, and management portfolio (Lester, 1967, Freeman, 1981 & Fosu 1983). Logue (1979) opined that the incorporation of either long-term or lifetime contract of employment between master and servant has had different effects on employers, which suggested that investment may lead the reduction of employee turnover costs.

EMPIRICAL REVIEW

In Nigeria, civil service's staffs commitment loyalty and attitudinal behavior in relation to pension has effectively led by contributory retirement plan (Chizueze et al., 2011), which the research had found contributory retirement plan has significantly affected the staffs commitment on work loyalty and attitudinal behavior in relation to pension. The recommendation should be strictly measured by governmental agencies in order to embrace the implementation and monitoring effectiveness in accordance to PRA 2014.

According to Fiiwe (2020) revealed that hough, defined benefit and contributory schemes did not contain adequate benefits packaging covers for pensioners in terms of entrepreneurial benefits after retirement, recreational facilities, health insurance, and housing scheme for retirees, in which these could be incorporated into the new pension scheme.

Oguntodu (2020) examined retirement plan impact on pension invested value objectives for frequent income stream of prospective pensioners in Nigerian academic and revealed that retirement plan had consequent significance for futuristic performance of prospective pensioners in the academic arena. In conclusion, both schemes led to futuristic prospective pensioners' sustainability which equally and prudently recommended that government should persuade all single persons to search for ways of investing in financial properties in order to additionally assist workers' productive and efficient sustainability.

Chukwuma and Pretoria (2018) opined that the study attempted to examine the current PRA consequent for pensioners' living. The study asserted checks and balances should be established as stock exchange market floor in order to competitively bid for pension fund assets through regulatory law. The recommendation of this study states that retirees should receive 50% of their last basic salary payment as provision under CPS to be fully implemented before period of retirement.

Ifeanyichukwu et al. (2018) examined non-obligatory pension contributory scheme and retirees' welfare from University of Nigeria. Iwuagwu (2016) opined that Nigeria may adequately cater for her upper classcitizens in as much there is no strict adoption of corporate governance principles compliances by pension fund administrators and custodians in order to eliminate fraudulent acts as well as enhance efficiency of pension funds management and investment.

Ijeoma and Nwufo (2015). Stabilization of Nigerian CPS was studied, which was positively strong association between GDP and contributory pension funds in Nigeria. Likewise, Nigerian Capital market was developed due to the significance impact of CPS on it. In Nigeria, CPS performance is evidently and significantly ascertained to strategic investment and adequate risk management practices.

In 1979, defined benefits scheme was administratively challenged, in which survey design and theory of structural functionalism were employed. Nweke (2014) asserted that retirees were not adequately prepared for their retirement, corruption on the parts of governmental agencies and retirement managers as well as confronted challenges on this plan. The recommendations are viewed on standardized pensions review, and provision for civil servant biometric data capturing machine as well as indictment of corrupted pension managers.

In 2014, section 17 of PRA states retirement contribution plan would be privately managed in order for specifically making provisional institutes that would have managed plan through PENCOM establishment. The principal goals and objectives of PENCOM are enforced and administered for provisional operations of the PRA; co-ordination and enforcement of all laws on retirement compensations; and regulation, supervision for the effectiveness and efficiency of retirement administrative matters and benefits in Nigeria.

METHODOLOGY

This study adopted ex-post facto research design to examine contributory pension assets of private and public sectors in Nigeria through 45 private and public sectors listed as between the timeframe of 2004 to 2020. Therefore, sample size for this research was sixteen (17) of the listed insurance companies that were selected through secondary data only, which was obtained from the pension contributions of the two form limited liability sectors of all the sampled firms of the study, within the period of seventeen years (2004 – 2020). This study employed the Pareto Chart analysis to make the examination analysis to cover the statistics for private and public sector contributions to the pension funds and the approved segments of investment contained in the PRA 2014 in relation to the data extracted for maximum information from the available data from the apex Pension regulator. The data in respect of the variables of the study were extracted through the respective percentages taken from the sampled firms.

RESULTS AND DISCUSSION

Table 1 Private and Public Sector Pension Contributions as at, December 2020

Year	Amount(N billion)		Actual Growth (N'billion)		% Growth (YOY)	
	Private Sector	Public Sector	Private Sector	Public Sector	Private Sector	Public Sector
2004	-	15.60			-	
2005	-	34.68		19.08	-	122.31
2006	23.03	37.38	23.03	2.70	-	7.79
2007	68.34	80.63	45.31	43.25	196.74	115.70
2008	80.81	99.28	12.47	18.65	18.25	23.13
2009	91.21	137.10	10.40	37.82	12.87	38.09
2010	103.03	162.46	11.82	25.36	12.96	18.50
2011	119.53	228.92	16.50	66.46	16.01	40.91
2012	159.52	302.24	39.99	73.32	33.46	32.03
2013	225.42	278.50	65.90	-23.74	41.31	-7.85
2014	343.97	237.76	118.55	-40.74	52.59	-14.63
2015	358.91	200.05	14.94	-37.71	4.34	-15.86
2016	262.33	225.86	(96.58)	25.81	-26.91	12.90
2017	353.73	257.11	91.39	31.24	34.84	13.83
2018	340.72	266.84	(13.01)	9.73	-3.68	3.78
2019	369.13	331.56	28.41	64.73	8.34	24.26
2020	371.12	526.97	1.99	205.41	0.54	61.95
Total	**3,270.80**	**3,432.94**				

Source: Research Findings, 2023

Table 1 is showing the annual pension funds contribution of the private sector to the fund depicting annual changes in amount contributed and the year on year, percentage change in contribution. The year 2007 showing highest growth rate of 196% while 2016 with a negative of 27%. On the other hand, 2017 recorded the highest growth amount of 91 billion naira whereas 2016 a decline of about 97 billion naira.

Table 2 is showing the annual pension funds contribution for the public sector and annual growth rate in billions of naira and the year on year, percent growth rate with the year 2005 showing 122% growth signifying increased policy enrolment by employers in the Public sector. This is followed by 2007 with a growth of about 116% followed be the year 2020 with about 62%. Whereas' the year 2015 showed the highest drop of about 16% followed by year 2014 with about 15% This can be attributed to election year and the prior year, when government officials were having non-challant attitude to government policies in anticipate of possible changes in either government of the policy itself. Amount rise in the year 2020 shows the growth of 205 billion naira followed by the year 2012 and 2011 with about 73 and 66 billion naira respectively. On the other hand, the year 2014, 2015 and 2013 showed a negative growth of about 41, 38 and 24 billion naira respectively.

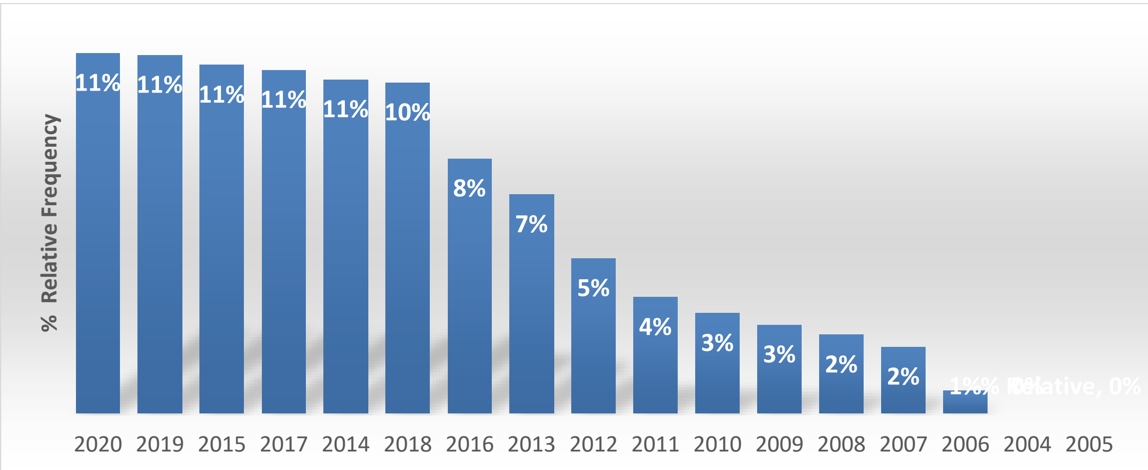

Fig 1: Private Sector Pareto Chart Year: 2020

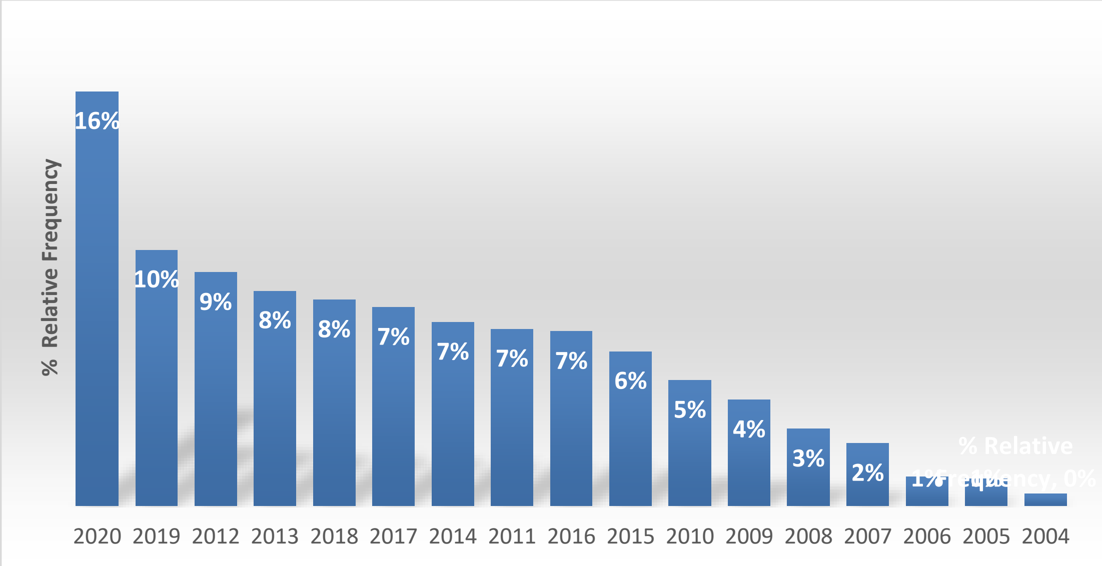

Fig. 2: Public Sector Pareto Chart Year: 2020
Source: Research Findings, 2023

DISCUSSION ON FINDINGS

Fig. 1: A Pareto Chart histogram of private sector annual pension funds contribution showing annual percent relative frequency of total contribution for the sector in percent descending order for each year from the year 2004 – 2020. The year 2020 having the highest contribution of 11% while the year 2006 with the lowest contribution of 1%. The 2004 and 2005 has shown 0% because the sector commenced actual contribution in 2006 contrary to the commencement year of PRA in 2004. There is no steady growing trend in the annual contribution pattern after the year 2013 thus the year 2014 and 2015 contributing about 11% in contrast to the abnormal 8% in the year 2016 and 10% in the 2018.

Also worthy of note is the year 2015 coming 3rd after the year 2020 and 2019 displacing the year 2017, 2018 and 2016 to 4th, 6th and 7th respectively. This trend and irregularity can be attributed to failure in supervision and monitoring of employers' compliance to PRA 2014 (as amended from 2004) by the apex pension regulator "Pencom" The high percentage change in contribution of the year 2015 and 2014 can also be attributed to the compliance of employers to amendment of the PRA in 2014 where remittance rate was reviewed to 18% (employer 10% and employee 8%) from the original rate of 15% (7.5% each by employer and employee)

Fig. 2: A Pareto Chart histogram of Public sector annual pension funds contribution showing annual percent relative frequency of total contribution for the sector in descending order for each year from the year 2004 – 2020. There is steady growth from PRA inception year of 2004 to 5% in the year 2010. The rise to 7% from 5% in 2011 and 9% in 2012 signify increased contribution or compliance to the PRA.

However, the significant drop in collection in 2015 could either be attributed to poor compliance to act or outright non-implementation of amended act of 2014. This can also be attributed to election year where government officials are non-compliant or abusive of policies in anticipation of likely changes in government. The unusual leap from 10% in 2019 to 16% in the 2020 (60% rise) is an indication of sudden compliance to the PRA or regulators enhanced supervision or monitoring of compliance of employers in the public sector. The collection for the year 2021 will throw more light to these facts.

SUMMARY, CONCLUSION, AND RECOMMENDATIONS

The examination of retirement contribution asset of private and public sectors and the investment segments of the funds accumulated in line with approval by the PRA 2014 (as amended from 2004). The period chosen for this study is inception of the pension act 2004 to the year 2020. Data collections were generated through Nigeria Pension Commission (PENCOM) statistical bulletin and the annual and quarterly report of the apex regulator. The results shows' a decreasing trend in pension funds contribution remittance prior to and significantly in election year of 2015 and a remarkable leap in the year 2020 as depicted in the Pareto Chart histogram. The results for the private sector contribution showed remarkable drop after the election year of 2015 and steady rise up to the year 2020.

It is evident from the results so far that there are inadequacies in the supervision, monitoring and enforcement of sanctions by pension commission the apex industry regulator as it relates to prompt remittances of pension funds due for collection by pension fund custodians PFC for onward investment activities by the pension funds administrators PFA's. The defaulting employers enjoy the delays or non-remittances due to absence of exemplary or inadequate sanctions on defaulters of the PRA 2014 as amended. This trend if not checked could take Nigeria to the dark days of pensioners' no being able to access their due at the appropriate time.

Retirement plan might bring outcomes not only on marginal returns but also investment so those reluctant and less-regulated controls in some provinces in Nigeria are based ROI so that Pension Fund Administrators might have distributed the funds to their potential and existing retirees in Contributory Pension Scheme, which should have been used as reasonable parts by International Monetary Fund (1994) in order to seriously impend ageing crisis.

In African countries, life expectancy experienced by people living above 60 years is protectively and increasingly beyond 50% for ten years, in which life expectancy increment would have not been doubtful for increment of healthcare functional delivery but uneasy agricultural safety (Ilesanmi, 2006; Smart, 2012). In addition to this, employees of some companies especially private sectors do not optimistic about returns of invested assets or small remitted funds which yielded little profitable amount from pension fund administrators in spite there is statutory format for contributory employees assets (Bertrand, 2003; Fapohunda, 2013).

Having examined contributory pension scheme in Nigeria, the privately and publicly sectors had been examined various sectors in which the funds were invested the researcher hereby recommends thus:

1) PFAs and PFC as well as PENCOM's financial statements of contribution should be more promptly integrated and reconciled for transparent and accountable systemic internal control.
2) Regular spot checks should be carried out by Pension Commission of all employers to ensure prompt pension remittances are implemented as at when due to avoid delays and non-compliance to issues on contributions.
3) Professionalism of assets management for categories of investment must be well-noticed and emphasized by brokers either as a long-term (government bond, real estate, investment trust) or short-term (treasury bill, treasury certificate, commercial paper) investment through capital market and money market in order to enhance investment returns for pensioners pooled funds.
4) The amendment Pension Commissioned Act has to effectively monitor, supervise and enforce the stated guidelines towards the effectiveness of investible funds accumulation.
5) More energy should be deployed to monitoring and evaluation of contribution remittances prior to and during election periods especially for the public sector where employers tend to deliberately delay or are non-compliant to remittances as contained in the pension act.
6) Independent auditors should be incorporated in the act to audit employers' compliance to pension contribution remittances.
7) A review and introduction of flexible investment guaranteed component not exceeding ten percent share capital of PFA's to give room for high-risk investment of choice by the PFA's instead of purely regulated regime. Cross border investment can be allowed under this segment of the capital.

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