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IMPACT OF THE CONTRIBUTORY PENSION FUND SCHEME ON NIGERIA ECONOMIC GROWTH

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Abstract

The study examines the impact of the contributory pension funds scheme on Nigeria economic growth. The study employed secondary source of data collection. The data were sourced from the central bank of Nigeria statistical bulletin. The data was analysed using ordinary least square method of statistical analysis. The study revealed that a contributory pension funds asset has significant impact on Nigeria economic growth while population of pensioners has no significant impact on the growth of Nigeria economy. The study recommended that pension funds assets should be invested productively in diversified investment portfolios so as to generate increased returns and at same time minimize risks to both pension funds administrators and the contributors to the funds in Nigeria.

Keywords: Pension Funds, Pensioners, Pension funds assets, Economic Growth

INTRODUCTION

Pension may be described as a sum of money receives regularly by a person after leaving employment as a result of old age, disability or having reached the retirement age as specified by the state. The pension could be in form of gratuity which may be paid on retirement to the person or his widow or dependent relatives by the state, former employer or from provident fund to which the pensioner and his employer had contributed money. The pension scheme prior to 2004 was characterised with many problems which make the payment of the retirement benefit a failure in Nigeria.

According to Koripamo- Agasi (2009) and Yunusa (2009), the major weakness of the pension scheme was lack of adequate and timely budgeting coupled with rising life expectancy, increase in the number of employers contributing to the scheme, prior implementation of the scheme, poor implementation of the scheme especially in the private sector as a result of poor supervision and regulation of the scheme by the government.

The challenges created by the pension scheme led to the birth of the Pension Reform Act, of 2014. Elemelu asserted that the Pension Reform Act, 2014 created a uniform contributory: private sector managed and fully funded pension system for birth public and private sector of the economy. It was meant to correct the loopholes created by the former pension scheme and provide enough resources to retirees after service.

The nation pension industry has been experiencing growth day in day out, especially with the pension Act of 2014 which had lent confidence to the industry. A more interesting thing happening in the industry is the permission given to contributors to choose avenues into which their funds may be invested. This gives room for diversification of the portfolio which yield long-term revenue streams that have the long term liabilities of pension funds in the country.

Essentially, the contributory pension scheme is not only to create access to retirement benefits as at when due or to promote savings culture in the nation ,but to serve as source of long term fund for government and quoted companies to satisfy their urge for long term financial needs.

The Contributory Pension Scheme is expected to serve as a succour to improve the life style of pensioners in Nigeria and at same time make surplus funds available in the capital market for investment purposes to grow the economy. However, several operational bottle necks as well as non-conformity by various stakeholders in the economy to the pension act have created a lot of problems which the scheme is currently battling with. Some of the problems include delay in paying retirees, immediate settlement of families of deceased contributors, profitable investment avenues that will increase the contributions of the contributors, inability of the pension funds administrators to compel employers to pay or remit funds to beneficiaries and so on.

The study therefore examines the impact of contributory pension funds on Nigeria Economic Growth.

Statement of Hypotheses

Ho1: Total pension funds assets have no significant effect on Nigeria Economic Growth.

Ho2: Numbers of pension funds contributors has no significant effect on Nigeria Economic Growth.

Scope of the Study

The study covers the contributory pension scheme from 2006-2016 so as to appreciate the contributions of this scheme and its potentials to promote Nigeria economic growth. The contributory pension act actually started in 2004 replacing the other pension policies in place since 1951. The choice of a ten (10) years time series data (20006-2016) of the pension policy was meant to examine the first 10 years of the take-off of the new pension policy in Nigeria after allowing for a moratorium of 2 years classified as teething period of the policy by the author. The time series data after this period are expected to be adequately good enough to measure the acceptability as well as the impact of the policy on the Nigeria economy.

LITERATURE REVIEW

Conceptual Review

The contributory pension funds started in June 2004 following the enactment of the Pension Reform Act, 2004 as amended to reflect the global practice, stimulate high confidence in the industry and safeguard the investment in the scheme.

Prior to the contributory pension scheme in 2004, there had been era of National Provident Funds (NPF) which was restructured into the National Social Insurance Trust Fund (NSITF). These earlier schemes however, lack transparency and was not effectively managed. The deficiency of the former schemes led to the enactment of the contributory pension fund act in 2004. The contributory pension scheme providers that both employer and employees of organisations contributes on monthly basis to the fund so as to meet up with the retirement benefits of workers as at when due thereby promoting savings in the economy. As a matter of fact, large numbers of Nigerian workforce lack savings habits and could not plan ahead of retirement.

The contributory pension scheme was adopted to guide against the consummation of the undesirable and undeserved process in assessing pension benefits by contributors. Pension funds in Nigeria since its establishment has been in customs of pension funds custodians who are banks financial intermediaries in Nigeria .Notably, First Bank custodian, Union Bank of Nigeria custodian ,Zenith Bank and Diamond Bank custodian with total average fund managed put at over #4.5 trillion.

The sum have been growing steadily as a result of its wide acceptability and continuous public enlightenment by the pension funds administrators (PFAS) who are busy sensitizing the large populace to embrace the scheme. It was revealed that over 30% of the total employers in Nigeria have embraced the scheme.

Becker (2010) asserted that firms have initiative to expand cost of training as a result of delayed thereby causing average employee to work longer for the company. Ippolito (2012) provide an economic rationale to the introduction of the pension benefit guarantee fund (PBGF) in this model, a period of high inflation reduces the incentive of firms to use under funding as a tool to hold employees association to ransom, hence reducing their opposition to benefit insurance.

Ahmed, M.K. (2007) elaborated on the past schemes in the country. He opined that pension reserves had been used to achieve social, economic and developmental objectives in the country through directives for pension reserves to be given as special loan to government. In Korea, certain percentages of the pension funds were given out as special loan to the government. In Mauritius, all monies in the scheme was compulsorily invested in social amenities while in USA, such funds was invested in non-marketable government bonds. In Jordan, pension funds assets are used to develop productive projects with developmental dimensions.

Also, similar studies of Anglophone African countries shows that pension funds were used to finance housing development in Gambia, Ghana, Kenya, Tanzania, Zambia etc. However, the Privatization Policy suggests that there must be a fundamental reform of pension policy such that the predictable and cheap source of credit which pension funds represents can be beneficial to the capital market as investible funds rather than being available to meet social economic and developmental need of the people.

Amujiri (2009) classify pension in Nigeria hits four main classed. These are retirement pension, compensatory pension, superannuating pension and compassionate allowance. So a retiring worker is entitled to both gratuity and pension, though gratuity is a one and for all lump sum paid to the retiree.

METHODOLOGY

The study employed ex-post facto research, data extracted from the National Pension Commission and the Central Bank of Nigeria Statistical Bulletin 2006-2016.

The model below will guide the study

GDP =f (TPFA, TNPC).........1

GDP =B0 + B1 TPFA +B2 TNPC + ut......2

Where,

GDP =Gross Domestic Product of Nigeria Economy

TPFA =Total Pension Fund Assets

TNPC= Total Numbers of Pension Contributors

The data shall be analysed using least square method of statistical analysis.

ANALYSIS AND FINDINGS

Table 1: Summary of regression results

Multiple R	R-square	Adjusted R2	Standard error	Durbin Watson	Overall P-value	t-ratios	Coefficients of the estimate	P-value of the coefficients
0.94	0.86	0.85	10,959.08	1.003	0.001			
Predictors								
CPFA						0.914	0.012	0.000
TNPC						6.269	0.028	0.391

Source: Author's computation using SPSS 20.0 version (see appendix i)

From the table above, the regression equation estimating the relationship between the Gross Domestic Product of Nigerian economy (GDP), Pension Fund Assets (PFA) and Population of the Pensioners (POP) can be stated as:

GDP = -45943.940 + 0.012POP + 0.028PFA

From the equation of best fit above, it can be deduced that the number of pensioners in Nigeria (TNPC) has positive relationship with the Gross Domestic Product (GDP); similarly, the Contributory Pension Fund Assets (CPFA) maintains a positive relationship with GDP. Furthermore, despite the fact that TNPC has positive relationship with GDP, its contribution to GDP is nil as indicated by 0.000 coefficients. What the forgoing means is that irrespective of the degree of variations in the number of pensioners in Nigeria; it will have 1.2% positive effect on the GDP of the economy. Moreover, PFA maintains a direct relationship with GDP, it follows that a unit increase or decrease in contributory pension fund asset will culminate in about 2.8% increase or decrease in the Gross Domestic Product of the Nigerian economy. From the result, it shows that all the independent variables conform to a priori expectation.

The multiple correlation co-efficient (R) of 0.94 indicates a strong linear positive relationship between the independent variables (TNPC and PFA) 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 0.86 indicates that about 86% of the variation in the dependent variable (GDP) can be accounted for by the joint variations in the independent variables TNPC and PFA) while the remaining 14% is accounted for by other extraneous variables not captured in the model. This figure increases the goodness of fit of the model and because of the high value of 86%, the goodness of fit of the model is in order. In addition to this, the standard error of the model which stands at 10959 is considered to be relatively low when compared with absolute value of the imputed data some of which are measured in billions and millions of naira. The R^2 adjusted for error is 0.85 which is also very significant.

Durbin Watson Statistic of 2.003 is higher than the R^2 value of 0.86 and the benchmark value of 2 which frees the model variables from autocorrelation complicity. T-ratios measures how large the coefficients will vary if carried out on repeated sampling. Thus, PFA has positive t-ratio of 6.269 which is considered fairly high; it means that CPFA will have very little variation in repeated sampling than TNPC which has positive t-ratio of 0.914. Furthermore, looking at the significance of each of the coefficients of the predictors, PFA with 0.000 coefficients is highly statistically significant to the specified model since it is less than 0.05 thresholds, while TNPC with coefficient significance of 0.391 is lowly significant statistically since it is above 0.05 thresholds.

Test of Hypotheses and discussion of Findings

The decision rule for testing hypothesis is that Null Hypothesis (H0) should be rejected and Alternate Hypothesis (H1) accepted if P-value is less than 0.05 threshold and vice versa.

(1) H0: Contributory Pension Fund Asset has no significant positive impact on the economic growth in Nigeria ;

H1: Contributory Pension Fund Asset has significant positive impact on Nigeria economic growth.

Looking at the result in table 1, P-value of 0.391 greater than critical value of 0.05; we therefore accept the HO and reject the H1. This means that Contributory Pension Fund asset has no significant positive impact on the economic growth in Nigeria

(2) H02: Population of the pensioners has no significant impact on the growth of Nigerian economy;

H12: Population of the pensioners has significant impact on the growth of Nigerian economy

Since P-value of 0.00 is less than critical value of 0.05, we reject the H0 and accept the H1 which means that Population of the pensioners has significant impact on the growth of Nigerian economy; nevertheless, increase in pensioners increases the pension assets which on the long run have positive impact on the overall economic growth.

CONCLUSION

Pension fund is a scheme in which both employers and employees contributed to a common purse and managed by a designated administrator. The benefit of contributing to pension fund enables the contributors to have something to fall back on upon retirement from active service. This study proxied pension fund with the total asset mobilised in the scheme as well as the population of the contributors. Based on the analysis, it was concluded that Contributory Pension Fund asset has significant positive impact on the economic growth in Nigeria, and that increase in pension fund assets promotes Nigeria economic growth and vice versa; also, population of the pensioners has significant impact on the growth of Nigerian economy; because increase in pensioners will increases the pension assets which on the long run have positive impact on the overall economic growth.

RECOMMENDATIONS

The study recommends as follows:

i. Since, the pension fund asset is positively related to economy growth as indicated by the findings of the study; therefore, pension fund asset should be invested in the diversified portfolio of investments so as to increase returns while minimizing risk.
ii. The pension fund assets of workers should be channelled into investment avenues considering the ages of the workers so that workers who are old could get their benefits as at when due after retirement.
iii. There should be more awareness about the benefits of the pension scheme to contributors so as to reduce the rate of poverty upon retirements by the pensioners.
iv. The pension companies should attend quickly to retired workers all over the country by the settlement of their retirement benefits. Earlier payment of the retirees will increase their life expectancy and as well increase investment within the economy thereby promoting economic growth.

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APPENDIX

I: REGRESSION OUTPUT

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	TOTAL PENSION FUND ASSET, POPULATION OF THE PENSIONERS[b]	.	Enter

a. Dependent Variable: GROSS DOMESTIC PRODUCT OF NIGERIAN ECONOMY

b. All requested variables entered.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	.941[a]	.885	.853	10959.07518	.885	27.056	2

Model Summary[b]

Model	Change Statistics		Durbin-Watson
	df2	Sig. F Change	
1	7[a]	.001	2.003

a. Predictors: (Constant), TOTAL PENSION FUND ASSET, POPULATION OF THE PENSIONERS

b. Dependent Variable: GROSS DOMESTIC PRODUCT OF NIGERIAN ECONOMY

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6498835205.684	2	3249417602.842	27.056	.001[b]
	Residual	840709301.787	7	120101328.827		
	Total	7339544507.471	9			

a. Dependent Variable: GROSS DOMESTIC PRODUCT OF NIGERIAN ECONOMY

b. Predictors: (Constant), TOTAL PENSION FUND ASSET, POPULATION OF THE PENSIONERS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-45943.940	14065.916		-3.266	.014
	POPULATION OF THE PENSIONERS	.012	.000	.128	.914	.391
	TOTAL PENSION FUND ASSET	.028	.004	.881	6.269	.000

a. Dependent Variable: GROSS DOMESTIC PRODUCT OF NIGERIAN ECONOMY

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	3663.4856	84570.1563	46136.6140	26871.78447	10
Residual	-16596.46484	10947.39453	.00000	9664.99584	10
Std. Predicted Value	-1.581	1.430	.000	1.000	10
Std. Residual	-1.514	.999	.000	.882	10

a. Dependent Variable: GROSS DOMESTIC PRODUCT OF NIGERIAN ECONOMY

TNPC =Number of Registered Pension Contributors.