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PENSION FUNDS DEVELOPMENT AND ECONOMIC GROWTH IN NIGERIA (2004-2016)

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Abstract
The study examined the relationship between pension funds development and economic growth in Nigeria; for the period (2004-2016). Secondary data were used and collected from the Pencom Annual Statistics/Reports. Hypothesis was formulated and tested using Ordinary Least Square (OLS) estimation method. The findings revealed that total assets contributions from both private and public sector in Nigeria has a negative significant relationship with Gross Domestic Product in Nigeria. This means that for every unit change in total assets there is a corresponding negative change of (0.00216) on Gross Domestic Product in Nigeria. The p-value of (0.186745) indicated an insignificant relationship between total assets and Gross Domestic Product in Nigeria. This implies that total assets of pension fund are not fully utilized in the productive sector to stimulate growth and development in the Nigerian economy. The coefficient of determination indicates that about 37% of the variations in economic growth can be explained by changes in pension funds development variable (TA) in Nigeria. The study concluded that total assets of pension fund have not contributed positively to the growth of the Nigerian economy. The study recommended that ethics and moral standard should be built into the scheme.Training and retraining of staff and management of pension fund in Nigeria should be vigoriuosly pursued. Vibrant local and foreign seminars and workshops should be conducted regularly to sensitize both workers, staff, management and pensioneers. Pension funds institute should be established to carry out most of the enlightenment function to reduce cost of running training progrmmes. Prompt and regular payment of pensioneers should be adopted and practised. Ghost pensioneers should be identified and controlled. Portfolio investment of pension funds (total assets) should be encouraged.

Keywords: Pension, funds, development, economic, growth, Nigeria.

Introduction

Pension is a contract for a fixed sum to be paid regularly to a pensioner, typically following retirement from active service. It is different from severance pay because the former is paid in regular installments while the later is paid in on e lump sum (Ayegba, et al 2013). The work of Adams (2005) stated that pension is the amount paid by government or company to employee after working for some specific period of time, considered too old or ill to work or have reached the statutory age of retirement. It is usually seen as the monthly sum paid to a retired officer until death because the officer has worked with the organization paying the sum.

Ugwu (2006) stated that there are four main classifications of pension in Nigeria. They are: retiring pension: this type of pension is usually granted to a worker who is permitted to retire coupling a fixed period of quality service usually 30 to 35 years or on attaining the age of 60 to 65 years for the public service in Nigeria and 70 years age for professors and judges. Compensatory pension: this type of pension is granted to a worker whose permanent post is abolished and government in unable to provide him with suitable alternative employment. Super-annuity pension: this type of pension is given to a worker who retires at the prescribed age limit as stated in the condition of service. Compassionate allowance: this happens when is not admissible or allowed on account of a public servants removal from service for misconduct, insolvency or incompetence or inefficiency (Amujiri, 2009).

The work of Adeoti, Gunu & Tsado (2012) reveal that pension fund development and economic growth relationship contributes to effective management of the scheme in Nigeria evenly over time. Hence, pension in Nigeria has undergone reforms over years; because, of that pension fund assets have increased remarkably all over and contributed intensively to growth and development of the economy. From the Nigerian pension fund administration, studies reveals that the pension assets have grown steadily from ₦265 billion to ₦1.6 trillion between 2006 and 2012. The study conducted by Farayibi (2005) shows that registered contributors have increased from 932,435 in 2006 to 5,888,491 in 2012. This persistent growth of the funds or asserts is expected to contribute significantly to the Nigeria economy. Walker and Fernando (2002) suggest that the creation of a fully funded privately managed pension system may accelerate the process of financial market development thereby add value to the investment capital in the Nigerian economy.

Theoretical investigation by Elumelu (2005) observed that the pension scheme prior to 2004 was characterized by many problems which made the payment of the retirement benefit a failure in Nigeria. The old pension scheme lacked adequate and timely budgetary provision coupled with rising life expectancy, increasing number of employees, poor implementation of pension scheme in the private sector due to inadequate supervision and regulation of the system. The problems associated with the old pension system in Nigeria necessitated the pension reforms which change the defined benefit scheme to the defined contributory scheme (Koripamo-Agari, 2009 & Yunusa, 2009). The new pension Reform Act, predicated upon a defined contributory scheme, was established in 2004 to ameliorate the inadequate of the old scheme.

Hence, the new pension act of 2004 has been able to address the problems of corruption for administration pension fund, embezzlement, inadequate build-up of pension fund, poor monetary and evaluation and the general institutional failure which characterized pension scheme in Nigeria. Thus, this Situation Poses great challenge to the financial security of workers after retirement. For instance, the contributory pension scheme act of 2004 establishes a uniform contributory pension system for both the public and private sectors. It stipulates that each employee covered by the scheme must open a Retirement Savings Account (RSA) in which his/ her monthly pension contributing would be credited. Each employee will contribute 7.5 percent of his/her monthly emoluments which in this context consists of basic salary housing and transport allowances while the employer will contribute an equivalent amount. Thus a minimum of 15 percent of the monthly emoluments are presumed to be credited into the retirement savings account of the employee. Then the funds are made to be manage by licensed Pension Fund Administrators (PFAs), while the custody of the pension fund assets are provided by licensed Pension Fund Custodian (PFCs).

The current Contributory Pension Scheme Act of 2014 has given a new and different phase of pension funds administration in Nigeria (Dalong, 2006). This is because; the upward review of the rate shall be contributed by the employer and minimum of eight percent by the employee. The act further stipulates that minimum pension contribution from 15% to 20% monthly emolument in case where the employer elects to bear the full responsibility of the scheme. The purpose of this is to provide additional benefits to the worker's retirement savings account and thereby enhance respective monthly pension benefits upon retirement. Given the percentage increase in the new contributory scheme, it is necessary to investigate empirically how efficient is the pension fund administration and its overall contribution to the Nigerian economy.

Issues and Challenges of Pension Fund Development in Nigeria

The management of pension fund in Nigeria has continued to pose a serious challenge to both government and private sector organizations in Nigeria, among these problems and challenges includes Koripano-Agari (2009): non availability or improper records/data storage in the system, improper investment of pension fund and inadequate funding of the scheme, Incompetent and inexperience with lack of trained pension staff which has resulted in uncoordinated administration. Weak regulatory framework, inefficient and non transparent system, perpetual frauds/irregularities without appropriate sanction on the perpetuators, inability of the regulatory and supervisory agencies to monitor pension fund schemes, inability to determine appropriate investment portfolio especially in this period of economic recession (Eche, 2011).

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

The Act further provides that pension funds would be administered and management only by Pension Fund Administration (PFAs) licensed under the Act. In their course of administration, the PFAs would: open retirement savings account for their client, invest and manage pension funds and assets in accordance with the provisions of the act, maintain books of account relating to pension funds management alongside with providing regular information on investment strategy, returns and other performance indicators to the commission and employees.

Theoretical study conducted by Henshaw (2012) revealed that a general challenge experinced in most developing contries is the need to make pension fund management a competive business by lowering entry barriers and restrictions on investible assests. Low coverage of the pension scheme is experienced in various countries as most private sector workers are captured in the informal sector and the low-income earners cannot afford appropriate retirement and old-age savings (BCL, 2012). The investments and repayment of retirement benefit as at when due; this could be difficult as some countries are still recovering from economy recession. Thus, increasing pressure from regulations, investment strategies and governance makes the management of pension funds even more difficult. Hence, it is against this background that the study attempts to investigate empirically the relationship between pension fund development and economic growth in Nigeria.

Methodology

The study applied *ex-post-facto* research design to source requisite information. An *ex-post-facto* research design is a systematic empirical inquiry that requires the use of variables which the researcher does not have the capacity to change its state or direction in the course of the study (Onwumere, 2009). Data for this study were sourced from the Pencom Annual Statistics/Reports (2004-2016). Online Edition available in: www.pencom.gov.ng. Data used in this study came mainly from the secondary source. Hence, Total assets was employed as the explanatory variable to measure Pension Funds development; whereas, Gross Domestic Product was employed as the dependent variable to measure economic growth as indicated in appendix **1.**

Model Specification

Bivariate linear regression model is used to test the null hypothesis proposed for this study: There is no positive significant relationship between total asset and Gross Domestic Product in Nigeria. Based on this hypothesis, a model is adopted from the work of (Ime & Mfon, 2004). Thus, the model is stated as:

GDP = *f*(PF, CPR)

Where:

GDP = Gross Domestic Product as proxy for Economic Growth

PF = Pension Fund

CPR = Contributory Pension Rate

The above variables were adjusted to align with the current study. The modified model is stated as: GDP = *f*(PF)……………………………………………………………….(i)

The mathematical form of the model is stated as:
$Ln(GDP) = b_0 + b_1LnTA + \mu$...(ii)
Where:
GDP = Gross Domestic Product as proxy for economic growth.
TA = Total Asset as proxy for Pension Funds Development
μ = Error term or Stochastic, b_0 = Constant, b_1 = Coefficient, b_0 = intercept and $b_{1,}$ are the coefficients of the regression equation. μ is the stochastic or error term; while, Ln is the natural log of the variables. Log transformation is necessary to reduce the problem of heteroskedasticity because it compresses the scale in which the variables are measured, thereby reducing a tenfold difference between two values to a twofold difference (Gujarati, 2004).

Data Analysis and Discussion
A sample of 13-year observations of time series data for the period, 2004-2016 were collected from Pencom Annual Statistics/Reports and presented as follows: Ordinary Least Square techniques was used to test the hypothesis: **(i)** There is no positive significant relationship between total asset and Gross Domestic Product in Nigeria. Total asset was employed as the explanatory variable and used to measure Pension Funds Development; whereas, Gross Domestic Product was employed as the dependent variable to measure economic growth.

Dependent Variable: GDP
Method: Least Squares
Date: 03/07/2017
Sample: 2004- 2016
Included observation: 13

Variable	Coefficient	Std. Error	t-Statistic	Prob
C	43379.55	87.16.602	4.976656	0.000025
TOTAL ASSEST	-0.000216	0.000145	-1.490249	0.001867

R-Squared	0.370148	mean dependent var	3338.334
Ajusted R-squared	0.148506	S.D dependent var	22700.02
Sum of regression	20946.78	Akaike info criterion	22.94967
Sum squared resid	2.63E+09	Schwarz criterion	22.81572
F-statistics	2.220842	Hannan-Quinn criter.	22.81572
Prob (F-statistic)	0.186745	Durbin-Watson	1.718695

Source: Author's computation with the use of E-view 8.0

The result of the statistical estimation (Table 1) suggests that total assest is negatively relate with Gross Domestic Product in Nigeria. The investigation also observed that total assets contributes (-0.000216) to Gross Domestic Product in Nigeria. The implication is that for every unit change in total assets there is a corresponding negative change of (0.000216) on Gross Domestic Product in Nigeria. The p-value of (0.186745) indicates an insignificant relationship between total assest and Gross Domestic Product. This implies that total assets of pension funds are not fully utlized effectively in the productive sector to stimulate the growth and development of the economy. Hence, the co-efficient of determination of (0.370148) signfies that total assets can explain 37% of the performance of Gross Domestic Product in Nigeria. While the remaining 63% of the performance of Gross Domestic Product in Nigeria could be accounted or explain by other variables not incluted in the model. Finally, the Durbin-Watson Statistics of 1.718695 shows the absence of positive autocorrelation among the variables in the model.

Conclusion and Recommendation

The study attempts to examine pension funds development and economic growth in Nigeria for the period 2004-2016. Several challenges has been identified as: non availability of acurate records/data, inadequate fundings, use of biometric system, incompetent and inexperience of pension staff, uncoordinated administration, perpetual fraudulent activities/irregularities, improper investment of asset fund in a good portfolio and unimproved bond capital market. The study shows that most of this challenges of pension fund administration has been from time imemorial but drastic improvement and prospect are witnessed. Management has to speed up in some areas were they are lacking behind; especially, on prompt and regular payment of pensioneers. No organization in the world can do without finance and fund. Thus, management should adopt the strategy that will move the organization forward and bring life to it. Hence, the study recommends that ethics and moral standard should be built into the scheme.Training and retraining of staff and management of pension fund in Nigeria should be adopted. More local and foreign seminars and workshop should be conducted regularly to sensitize both workers, staff, management and pensioneers. Pension funds institute should be established to carry out most of the enlightenment function to reduce cost of running training progrmmes. Prompt and regular payment of pension should be adopted and practised. Ghost pensioneers should be identified and controlled. Portfolio invesment of pension funds (total assets) should be encouraged.

Contribution to Knowledge

The study was able to modify the model, expand the existing literature and updated data that will enable researchers and scholars to use it for further studies. The study concludes that assets of the pension fund are not fully utilized in the productive sector to stimulate growth and development of the Nigerian economy. The factors responsible for this can be traceable to corruption at all level, economic and political instability, lack of political will, absence of proper regulatory framework and inability to implement the formulated policies by the regulatory authority (PENCOM)

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Appendix 1: Pension Fund and Economic Growth in Nigeria (2004-2016)

YEAR	TOTAL ASSET (N'Billion)	GDP (N'Billion)
2004		11,411.07
2005	108, 755, 505	14,610.88
2006	130,449, 342	18,564.59
2007	1,362, 961	20,657.32
2008	1, 630, 339	24,296.33
2009	1,395,369	24,794.24
2010	2, 475, 195	54,204.80
2011	3,392, 117	63,258.58
2012	4,065, 672	71,186.53
2013	3,464, 633	80,222.13
2014	3,264, 253	83,193.463
2015	3,163, 473	87,576.474
2016	3,026, 388	88,761.223

Source: Pencom Annual Statistics/Reports (2004-2016)