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PENSION FUND IN NIGERIA: AN APPRAISAL

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Abstract

This study gave a theoretical scrutiny of the Nigerian pension fund. Specifically, the study examines the historical development of pension and pension fund in Nigeria, a certain aspect of the Pension Reform Act 2004 and the current Act of 2014, potential regulatory opportunities for the investor on the investment of pension fund in Nigeria, pension fund and economic growth, and pension fund net assets value. This study is a desk research, and secondary materials were reviewed from related and relevant literature. The study observed that part of the problems of low capital formation to drive investment is attributable to the non-inclusion of the informal sector in the 2004 pension scheme. Given the number of registered contributors which stood at six million, twenty-five thousand one hundred and seventeen (6,025,117) employees in both private and public sector representing only about 11% of the total labour force in Nigeria with about N170 million population, and the current inclusion of the informal sector in the scheme, the implementation of the Pension Reform Act 2014 should be strictly pursued. More so, by the inclusion of the informal sector in the scheme and the formulation of the responsive regulation to facilitate the conversion rate into the scheme, the prospect of boosting the capital fund, that is, capital formation will be high. This suggests that there will be more long-term capital available for the execution of capital intensive projects.

Keywords: Pension Fund, Pension Reform Act, Economic Growth, Investment and Pension Fund Opportunities.

Introduction

Nigeria's general economic reform program has created significant opportunities in the financial services sector, particularly in the banking industry. Asset management is also another financial sector that has faced major changes, opening up a range of opportunities for foreign investors. Similarly, reforms to Nigeria's pension fund scheme have created new large pools of assets that require active management. Current reforms will substantially widen investment opportunities and make funds available to new asset classes and sectors of the economy.

The Pension Reform Act (PRA) of 2004 changed the standard pension model in Nigeria from defined benefit schemes to defined contribution schemes. The need to have long-term savings amongst employees for retirement and to establish a unique set of regulations for both the private and public sector employees were among the basic objective of the reforms. Notably, since inception, the pension industry has accumulated assets of $25bn (Leriba, 2014). As at October 2014 the National Pension Commission (PenCom), says that the country's pension assets have hit N4.6 trillion (News Agency of Nigeria [NAN], 2014). While as at October 2015 a report quoting the Director-General (DG) of PenCom Mrs. Chinelo Anohu-Amazu posits that the Contributory Pension Scheme (CPS) which kick-started in 2004 has now hit over N5trillion [$27bn] (Iloani, 2015). Under the pension scheme, employees are obliged regulatorily to maintain a Retirement Savings Account (RSA) with their chosen pension fund administrator (PFA) into which contributions from both the employee and employer are deposited.

Furthermore, the recent 2014 Pension Act, section (4) (1) stipulates that the rates as pertaining the monthly emolument shall be a minimum of 10% by the employer and a minimum of 8% by

the employee. Subsection (2) stipulates that upon agreement between the two parties, the rate can be revised upwards, from time to time, and the Commission shall be notified of such revision.

Interestingly, there has been considerable progress in the membership and contributions to the pension schemes. The total scheme membership has increased by 17% between September 2011 and September 2013(Barungi, 2014). Additionally, there has been an upturn in the private and public sector contributions by 7.15% over the same period (Leriba, 2014). With a growth rate of 30% over the last four years, total pension contributions are estimated to hit $100bn by 2020 according to the African Development Bank [AfDB] (Barungi, 2014). Though such projection has a healthy implication, however, the foremost issue is that in the light of the huge funds invested in retirement savings, there are growing concerns that there are few channels to deploy this money to the benefit of the real economy of Nigeria. Regulatory restrictions and investing limits are may inhibiting further growth potential and competitiveness in the pensions' industry. However, there may be attractive opportunities emanating from the regulations and also from the limited channels to deploy the pension funds. These have compelled the need to examine the regulatory opportunities for investors on the investment of pension funds in Nigeria.

Also, because extant literature makes reference to the PRA 2004, there is the need to update prior studies by drawing attention to current PRA 2014 with its accompanying opportunities and potentials. In the light of this, this study gives a theoretical appraisal of the Nigerian pension fund. Specifically, the study examines the historical development of pension and pension fund in Nigeria, the Pension Reform Act, supervision/regulation on the investment of pension fund in Nigeria, pension fund and economic growth in Nigeria, pension fund net assets value.

Literature Review

Historical Development of Pension and Pension Fund in Nigeria

The history of pension worldwide can be traced to Germany (Njuguna, 2010). According to Njuguna (2010), authors like Curtler and Johnson (2004), Guinan (2003), Langley (2006) and Newmann (2005), gave credit to former German Chancellor Otto Von Bismarck for enacting a compulsory savings programme for workers in large firms who were exposed to the socialist ideologies in 1889.

A pension fund is an investment fund/pool into which scheme members pay contributions to building up a lump sum to provide an income in retirement (Wall, 2014). In Nigeria, the development of pension scheme can be drawn from the beginning of organized workforces in the private and public sectors in the colonial era of the 20th century (Barrow, 2008). According to Barrow (2008) and Odia and Okoye (2012), the first pension law in Nigeria was known as the Pension Ordinance of 1951, which has retroactive effect from January 1, 1946. The 1951 Pension Ordinance provide for full pension rights of the colonial administrators and partial right granted at the discretion of the colonial Governor-General for Nigerian workers in the civil service at that time. This ordinance transmuted into the Pension Act of 1958 (Barrow, 2008). The above historical view was also shared by Odia and Okoye (2012). They stated that the history of the Nigerian pension administration could be traced back to the early 1950s. They further opine that the PRA of 2004 brought into limelight the new pension scheme in Nigeria, which is a defined contributory scheme, unlike the old scheme which was largely defined benefits. However, in the old Nigerian Pension System, only public sector employees were captured through statutory compulsion. In the private sector, not all employers had the pension schemes in place. This was because there was no statutory demand on them to do so. Those who had the schemes in place related to lump sum payments at the verge of retirement known as pay-off were also not statutorily obligated (Nnanta, Okoh & Ugwu, 2011).

Further, the first legislation to address pension matters of private organizations is the National Provident Fund (NPF) scheme which was established in 1961 (Sule, Umogbai & Emerole, 2011). Eighteen (18) years later the Pension Act No. 102 of 1979 (Udoji Commission) was established as well as the Armed Forces Pension Act No. 103 of the same year (Barrow, 2008). Similarly, the pension plan for the police and other Government Agencies' were enacted under Pension Act No. 75 of 1987, accompanied by the Local Government Pension Edict which crowned into the establishment of the Local Government Staff Pension Board of 1987. The defunct NPF scheme was replaced in 1993, by the establishment of the National Social Insurance Trust Fund (NSITF) scheme effective from 1st July 1994. The essence is to cater for employees in the private sector of the economy against loss of employment income in old age invalidity or death (Sule et al., 2011).

These Decrees remained the operative laws on public service and military pension in Nigeria until July 2004. However, several government circulars and regulations were issued to alter their provisions and implementations. For instance, compulsory retirement at the age of 60 years or 35 years of service, whichever comes earlier in 1988, and in 1992, the period to qualify for gratuity and pensions were reduced from 10 years to 5 years and from 15 years to 10 years respectively (Barrow, 2008).

According to Barrow (2008), in 1997 parastatals were given the opportunity have individual pension arrangements for their staff. They were also allowed to appoint Boards of Trustees (BOT) to oversee their pension plans as stated in a Standard Trust Deed and Rules prepared by the Office of the Head of Service of the Federation. Each BOT has the freedom to make a decision on whether to maintain an insured scheme or self-administered arrangement.

Interestingly, prior to the enactment of the PRA 2004 there were three regulators in the pension industry. They include; the Securities and Exchange Commission (SEC), the National Insurance Commission (NAICOM) and the Joint Tax Board (JTB). The SEC remains the commission that licenses pension fund managers while the NAICOM is still the agency responsible for licensing and regulating insurance companies in the country. The JTB is saddled with the responsibilities of approving and monitoring all private pension schemes with enabling powers from Schedule 3 of the Personal Income Tax Decree 104 of 1993 (Bassey, Etim & Asinya, 2010).

According to Balogun (2006), just like the private pension scheme, a Defined Benefit (pay-as-you-go) Scheme was also operated by most public organizations before the enactment of PRA 2004. Final entitlements were conditioned upon the length of service and terminal emoluments. Federal Government funded the Defined Benefit (DB) plan through budgetary allocation. The DB plan was also administered by Pensions Department of the Office of Head of Service of the Federation.

Notably, the PRA of 2004 is a legislation of the Federal Government aimed at providing the solution to the associated problems of the old Pension System. The PRA 2004 redefined the mandate of the Fund to accommodate not only pension but also the provision of Social Security Insurances services. It established a Pension System that is uniform for both the public and private sectors respectively. The Social Security Insurances services received statutory backing from the mandate given by section 71(2) of the PRA to NSITF when the Employee Compensation Act of 2010 was signed into law in December 2010 by the assent of the then President Goodluck E. Jonathan, GCFR (http://www.nsitf.gov.ng).

Essentially, the most recent legislation – Pension Reform Act 2014, has been established by PenCom, who administer, supervise and regulate all pension matters in Nigeria. The Act repeals the PRA No.2, 2004. The PenCom would continue to govern and regulate the administration of the uniform Contributory Pension Scheme for both the Public and Private Sectors in Nigeria (http://www.pencom.gov.ng/).

Potential Regulatory Opportunities for Investors and Infrastructural advancement on the Investment of Pension Funds in Nigeria.

PenCom, on 16th December 2010 released The Regulation on the investment of pension fund assets and was tagged the "Regulation”. The requirements of the Regulation are consistent with the provisions of the PRA 2004. The Regulation pursues to provide uniform rules and standards for the investment of pension fund assets. Views by analysts suggest that the Regulation possesses the potential to catalyse the development of infrastructure and revive the capital market in Nigeria. The Regulation will also lead to the dominance of institutional investors in the

Nigerian capital market by the establishment of key funds to attract the huge pension fund assets under management (Osae-Brown, 2010).

The Regulation

In 2004, PenCom was established and since then over 4.3 million Nigerians has been registered. However, this is a small proportion of the number of people who are employed in Nigeria (Okenyi, 2010). Prior to the introduction of the Regulation, PenCom came to the conclusion that the way in which the pension system was operated in Nigeria did not provide the economy with the long-term funding benefits that pension funds have the potential to bring. Changes observed in the pension system were driven by the importance placed by PenCom on guaranteeing the safety of the funds and to ensure their survival. According to the former Minister of Trade and Investment, Mr. Olusegun Aganga, the Regulation has been introduced to bridge the gap between Nigeria's infrastructure deficit, which is estimated to be over US$ 100 billion, and the supply of capital available for the public and private sector combined, by exploring the use of pension funds to obtain long-term financing for infrastructure development. The Regulation also aims to make optimal use of the pension fund assets, currently estimated to be over N2 trillion with the potential to rise to N18 trillion, to ease the existing constraints on infrastructure financing in Nigeria (Kings & Wood- Mallesons, 2011).

Investment of Pension Fund

According to Odia and Okoye (2012), the foremost concern of the 2004 pension scheme is the safety of the fund and the sustenance of fair returns on investment. Corroborating this statement, the PenCom boss Mrs. Chinelo posit that a key attribute of the CPS is the institutionalization of risk-based regulation as a way of stimulating a long-term sustainability of the pension industry (Iloani, 2015). The "safety" mantra has been prompted by determination of the quality of instrument to invest. Odia and Okoye (2012) further posit that PFA is anticipated to adopt a risk management profile in making investment decisions with due regard to the credit rating of companies registered under the Investment and Securities Acts of 1999. Also, section (66) of the PRA 2004 states that the PFA appoints Risk Management Committee that function as an Investment Strategy Committee. The Committee determines the risk profile of investment

portfolio; ensures adequate internal control measures and procedures; and take care of other matters as directed by the Board of Directors of the PFA. Also, the onus to determine the portfolio mix consistent with the risk profile, evaluate and review the performance of investment on a periodic basis rest with the Investment Strategy Committee. This committee also ensures compliance and minimizes the occurrence of loss.

Against the guaranteed structure, section (86) of the PRA, 2014 states that the PFA is to invest in the any of the following:

(a) Bonds, bills and the securities issued or guaranteed by the Federal Government and the Central Bank of Nigeria;

(b) Bonds, bills and other securities issued by the State and Local Governments;

(c) Bonds, debenture, redeemable preference shares and other debt instruments issued by corporate entities and listed in on a Stock Exchange registered under the Investment and Securities Act;

(d) Ordinary shares of public limited companies listed on the Nigerian Stock Exchange registered under the Investment and Securities Act;

(e) Bank deposits and bank securities

(f) Investment certificates of closed-end investment fund or hybrid investment fund listed on a securities exchange registered under the Investment and Securities Act with good track records of earnings;

(g) units sold by open-ended investment funds or specialist open-ended investment funds registered under the Investment and Securities Act;

(h) real estate development investment; or

(i) special investment funds and such other financial instruments as the Commission may, from time to time, approve.

However, section (89) states that the PFA shall not:

(a) sell pension fund asset to: (i) itself (ii) any shareholders director or affiliates of the PFA (iii) any employee of the PFA (iv) Either of i-iii or those related to them (v) affiliates of any shareholders of the PFA (vi) the PFC.

(b) Purchase any pension fund assets and

(c) Apply pension fund assets under its management by ways of loans or credits as collaterals for any loan taken by any PFA.

Also, section (90) (1-2) gave the Commission by way of regulation, the power to impose additional restrictions on investments by PFAs with the objective of protecting the interest of the beneficiaries of the RSA, also, the guideline issued by the Commission on the quality of instruments that pension fund assets may be invested in and to ensure the safety of pension assets in general.

Given the level of investment and restrictions on investment by PFAs, previously, due to the impact of the global financial crisis on the Nigerian capital market in 2008, there were worries on how to invest in N700 billion pension funds on equity shares in the Nigerian Capital market. This was because of the effects of institutional shareholdings and the global meltdown eroding such investments overnights (Odia & Okoye, 2012). However, the current PRA 2014 which was signed into law on the 1 July 2014 has the potential of relegating such fears as it has created a better avenue for PFA to invest pension fund assets within and outside Nigeria with more safety and minimal occurrence of loss. Also, with the high degree of concentration in the industry, there are perceived opportunities that expected from the recapitalization of the existing PFAs for improved operations. Such opportunities for the industry players as may be seen from the advantages of merger and acquisition may emanate from economies of scale, organic growth, and technological sharing amongst others. Meanwhile, as at 2015, the pension industry after re-capitalization has 21 PFAs [see Appendix I], seven closed pension fund administrators (CPFA) and four pension fund custodians [PFCs] (http://pencom.gov.ng).

Essentially, considering the permission given by the PRA 2014 for PFA to invest outside Nigeria, section 87 (1), states that a PFA may invest in the pension funds in units of any investment outside Nigeria within the categories of investments set out in section 86 of the 2014

Act. Whereas, section 87(2) states that subject to the subsisting CBN foreign exchange rules, the Commission may recommend to the President for necessary approval, the portfolio limits for the investment of pension fund or assets outside the shores of the Federal Republic of Nigeria.

More so, some of the salient provisions of the 2014 Act as pointed out by PenCom DG Mrs. Chinelo Anohu-Amazu include: upward review of minimum contribution rate to enhance adequacy of pension benefits; expanding the coverage for the employees of private sector; an upward review of penalties and sanctions for violations; standards for states and local governments in the scheme; and the coverage of the informal sector (Tolu-Kusimo, 2014).

However, this new dimension may pose a threat to the prosperity of the Nigeria economy as investors in pension funds may direct or redirect their investment portfolios outside Nigeria thereby affecting the Nigerian Gross Domestic Product (GDP) and financial market development amongst others. Nonetheless, the portfolio limits for the investment of pension fund or assets outside Nigeria should not be handled with latency as it has the potential of encouraging investment in local sectors within Nigeria.

Investment in Infrastructure Projects by Pension Funds

The Regulation provides that pension fund assets can be invested in infrastructure projects through eligible bonds or debt securities, provided that certain requirements be satisfied. In particular, pension funds must be:

(a) awarded to a concessionaire through an open and transparent bidding

(b) not less than N5 billion in value

(c) managed by a concessionaire with a good track record;

(d) in accordance with, and meet due process requirements of the Public Private Partnership Policy, as certified by he Infrastructure Concession and Regulatory Commission and approved by the Federal Executive Council;

(e) of the nature of core infrastructure, these assets include railways, toll roads, airports, ports, power and gas, pipelines, and other infrastructure projects that may be approved by the

PENCOM from time to time. Such assets can yield long-term and predictable revenue streams which match the long term liabilities of a pension fund covering the same period, which makes a good fit.

Moreover, the current regulation as depicted in the table below shows clear-cut improvements on regulation that encourages timely investment in and management of pension fund assets locally and globally by expanding the percentage of pension fund assets that can be invested in any economy, and lifting the barricades of engaging global PFCs for allowable foreign investments.

Analysis of Prior and Current PenCom Regulation

Position prior to the enactment of the Regulation	Position under the Regulation
Pension funds could invest in shares of companies that had paid a dividend in a minimum of three of the last five years.	Pension funds can now invest in shares of companies that have paid a dividend for a minimum of one year of the last five years.
Previously Nigerian fund managers could invest 25% in equities, 35% in money markets and the rest in government bonds.	PenCom has maintained that the PFAs shall not invest more than 35% of pension assets under its management directly or indirectly in any one type of investment.
A maximum of 40% of pension fund assets under management could be invested in any one sector of the economy up until 30 September 2012.	A maximum of 45% of pension fund assets under management can be invested in any one sector of the economy up until 30 June 2012.

A maximum of 35% of pension fund assets under management can be invested in any one sector of the economy up to 30 September 2013.	A maximum of 40% of pension fund assets can be invested in any one sector of the economy until 30 June 2013, and a maximum of 3% of pension fund assets under management can be invested in any one sector of the economy up to 30 June 2014.
The PFCs in discharging their contractual functions to PFAs were barred from contracting out of the custody of pension fund assets to third parties, except for allowable investments made outside Nigeria.	The PFCs are now required to obtain prior approval from PENCOM before engaging a global Custodian for such allowable foreign investments.
PFAs were required to maintain a single fund for the investment of Pension Fund Assets until multiple funds were approved by PENCOM.	The PFAs are to maintain Active and Retiree Funds for the investment of pension fund assets of Retirement Savings Account Funds, pending the approval of multiple funds by the Commission

Cuddled from Kings and Wood (2011)

Statistical Evidence of Pension Funds and Economic Growth

The significance of pension fund to the economic advancement, growth, and development of any economy cannot be overstressed as global indices indicate that pension assets are playing an important role in mobilizing savings for investment in the critical sectors (Gunu & Tsado, 2012). Pension funds contribute directly and indirectly to the economic prosperity of nations globally (Njuguna, 2010). The world economies enjoy more value from Pension funds through direct contribution to the GDP, accumulation of savings, financial market development, reducing old-age poverty and acting as consumers of financial services (Clark, as cited in Njuguna, 2010). For example in Australia, the pension assets amount to AU$ 1trillion (which is up to the rate of 20% of the GDP). In Belgium pension assets amounted to 140 billion Euro in 2004 (Njuguna, 2010). In 2003, the pension assets of Canada were worth CAD 1.3 trillion (30% of the GDP), while in

China pension assets amounted to RMB 714 billion (24% of GDP) for the same year. The pension assets contribution to GDP of the United Kingdom was up to the rate of 14% (GDP 1.9 trillion) in 2003. Reporting on the contribution of pension assets in the United States of America, Njuguna (2010) documented that the pension assets had a value of US$ 14.5 trillion (37.7% of all household financial assets). In Namibia, with about 15,000 workforces captured under the CPS, the total pension asset amounted up to N25 billion (US$ 3.5 billion) which is at the rate of 68% of their GDP in 2004 (Gunu & Tsado, 2012).

In Nigeria, the impact of pension funds in the economy growth process is not only a reflection of its level of continuous rise as a fraction of GDP but also in its contributions to Gross National Savings. By prior projection, as a way of National Savings for a long-term loan, the pension industry under the 2004 old scheme was expected to generate over N900 billion long-term loanable fund annually (Balogun, 2006). However, as at 2014, PenCom posit that the country's pension assets have hit N4.6 trillion (NAN, 2014). Similarly, Barungi (2014) maintain that pension fund growth has been fluctuating, moving from a USD 16.3 billion deficit in 2004 to a USD 19.3 billion surplus in 2012, with a further rise to about the tune of USD 23.2 billion in 2013. According to Barungi, the total pension funds are projected to hit USD 100 billion by 2020 drawing from the position that in the medium term, pension funds may lead to asset bubbles given their level and growth potential compared to the slow pace growth of other investment instruments.

As at 2010, the contribution of pension assets mainly on fixed income securities (such as Treasury bills, bonds, corporate debts and money market instruments) to the Nigeria GDP stood at 7%. (World Bank, 2011). As at 2013, pension assets have successively moved to 9.57% from 1.43% in 2006 as a proportion of GDP (Robertson, 2015). Unprogressively, as at 2014, pension fund assets as a percentage of rebased GDP stood at 5% as posited by Mrs. Nike James in a conference organized by PenCom and KPMG (Tolu-Kusimo, 2014).

Despite such statistical deficit portrayed in the relatively low contribution of pension fund assets to the GDP as compared to 2013 figure, Mrs. Nike James further posits that by 2024, projecting from previous annual growth, the pension assets will hit N38 trillion. By this projection, it is timely and advisable that the PFAs and PFCs should start building more capability and capacity

to manage and invest this pool of funds, and more channels to direct these funds for investment should be secured with more safety measures and a robust corporate governance structure.

Given this favourable projection in the pension industry, it is also interesting to know that the industry has also experienced remarkable changes in the mix of portfolio owing to the dictates of the Securities market. An Alternative investment asset such as supranational bonds and private equity funds were allowed over the years as the industry advance in operations, and operators develop better capacity and confidence. Additionally, the level of diversification was promoted through infrastructure bonds and funds. Conversely, pension funds investment portfolio in Fixed Income Securities as at March 2014 stood at 81%, whereas pension funds investment portfolio in Funds and Equities stood at 1% and 15% respectively (Robertson, 2015).

Conclusively, the recent PRA of 2014 with its provision mandating enterprises having a minimum of three employees to implement the CPS will have an impact on the further growth of the industry. The implication of the CPS on Nigerian economy apart from its potentials to contribute to GDP is that these funds provided from the scheme will be made available to finance infrastructural projects such as electricity, railway, tourism, likewise real estate projects, amongst others (Balogun, 2006; Robertson, 2015).

Pension Fund Net Assets Value

From the monthly PenCom report obtained by *Premium Times* in December 2014, the report has it that the assets comprise the domestic ordinary shares, foreign ordinary shares, Federal Government and state government securities. Among other assets, as mentioned in the report, were corporate debt securities, supranational bonds, local money market securities, foreign money market securities, open/close-end funds, real estate properties, private equity funds and cash.

The analysis of the net asset value indicates that under the domestic ordinary shares, Approved Existing Scheme, AES, stood at N127.7 billion whereas the Closed Pension Fund Administrator

(CPFA) was N94.7 billion (NAN, 2014). It also indicated that Retirement Savings Account Active Fund stood at N365.5 billion while retiree fund stood at N4.58 billion bringing to a total of domestic ordinary shares to N592.5 billion. According to the report from *Premium Times* obtained by NAN (2014), foreign ordinary shares, with only CPFA as its component accounted for N54.97 billion within the period under review. According to the report, under the Federal Government securities, bonds accounted for a N2.3 trillion, representing 49.9 per cent of the total assets value, while Treasury bills accounted for N541.96 billion. The report also showed that the state government securities accounted for N179.53 billion while corporate debt securities stood at N91.61 billion. It stated that supra-national bonds amounted to N12.14 billion while local money market securities totaled N561.64 billion. The report also indicated that foreign money market securities accounted for N992.32 million and open/close-end funds mounted to N20.30 billion while real estate properties accounted for N204.32 billion. According to the report, private equity fund accounted for N9.45 billion while cash and other assets accounted for N19.68 billion. As at March 2014, the total pension fund asset in the pension industry portfolio is up to the tune of USD 25m (Leriba, 2014).

Opportunities

The move made by PenCom in December 2012, which amended the investment regulations to include exchange traded funds (ETFs) as allowable instruments, and also, the amendments regarding the guidelines on private equity, global depository receipts/notes (GDRs/GDNs) and Eurobonds, sought to increase options for pension asset investment in alternative channels while continuing to focus on returns and safety. Sequel to this change in investment guidelines and rules, up to March 2014, for example, there has been an increase in 53.8% on the pension fund assets invested in open, closed-end and hybrid funds including ETFs.

According to a portfolio manager within the industry who was interviewed by Leriba (2014), the expansion of investment guidelines has seen the industry open up with PFAs now able to invest in supranational bonds (such as those issued by multilateral development finance institutions), private equity and infrastructure bonds. Previously, these class of assets was not available to PFAs.

The PRA 2014 provides healthier guidelines on domestic investments of pension funds in sectors geared to benefit the Nigerian economy. The Act also provides investment options for pension industry players by incorporating sector-focused funds. This, according to Leriba (2014) may include infrastructure development, the manufacturing and the power generating sectors which have the potential to make available long-term capital to fund the $14bn in the infrastructure needed by the Nigerian economy. However, there is high concern that the channels available for deploying the pension funds to benefit the real economy remain limited.

Additionally, in June 2014, PenCom pronounced plans to extend the contributory pension scheme to accommodate the informal sector, with an amendment to the regulation which was included in the 2013 Pension Reform Bill. Expectedly, the plan is now a reality as the DG of the PenCom authoritatively posits that the 2014 PRA has taken care of the informal sector amongst others (Tolu-Kusimo, 2014). As of March 2014, the figure of registered contributors stood at 6,025,117 employees covering both the public and private sectors, which is only about 11% of the total labour force in Nigeria. More than 70% of the working population has not joined.

However, there is an expectation that the conversion rate will increase as the public and private sector starts taking advantages of the good provisions of the Act as regards tax exemption on any interests, profits, dividends, investments and other income accruable to pension funds or asset. Further, with the capacity for growth evident in the low conversion rate to date, and the current inclusion of the informal sector as contained in the PRA 2014 will enhance the progress of the pensions industry through increased membership and pension contributions.

Among the changes which are expected to create that opportunity include expanding the scope of companies that have to be enlisted with the national scheme to all companies with three or more employees (instead of five). Job definitions are also being widened to include ‘blue collar’ jobs (for example drivers, plumbers, vendors, amongst others) in the informal sector. It will also

include an increase in the total percentage contribution of 5%, with the employer paying 12% and the remainder being paid by the employee.

According to Leriba (2014) while quoting an industry executive, states that “Of the 170-million people in Nigeria there are only roughly 5-million pension fund members with white collar employment. The structural framework of pension scheme made it difficult to include the informal market, with payments of contributions only being made by a company’s Human Resource department. The essence of this was to avoid any money laundering.

Opportunities for Foreign Investors

To secure an appreciable growth in the pension fund industry and for such growth to translate into economic development, there is the need to fortify the weak link between pension funds and the real sector through the establishment of additional private-sector financial intermediaries like specialised banks, private equity, venture capital funds and micro-credit providers. This presents an opportunity for foreign investors to either invest in current pension industry facilitated through mergers and acquisitions or enter the industry themselves.

Also, the increment according to Leriba (2014) in the paid-up capital base of the licensed PFAs from a minimum of US$0.92m to $6.1m in June 2011 which was met successfully by only seven PFAs and 21 out of the 23 PFAs is also a strong signal for foreign investors. It indicates that the industry is now healthier with higher credibility and reliability in pension fund administration. It also has a way of boosting investors’ confidence as it keeps them more secured from any future insolvency. Additionally, the successful recapitalization makes available more funds for investment in pension fund assets while making robust the Nigerian capital market.

Conclusion/ Recommendations

This study examines the Nigerian pension fund. Specifically, the study examines the historical development of pension and pension fund in Nigeria, certain aspect of the PRA 2014, supervision/regulation on the investment of pension fund in Nigeria, pension fund and economic

growth in Nigeria, and pension fund net assets value. The study also discussed opportunities available to both national and international investors who may which to invest in the pension industry. Given the number of registered contributors which stood at 6,025,117 employees in both private and public sector representing only about 11% of the total labour force in Nigeria, and the inclusion of the informal sector in the scheme, the implementation process of the 2014 PRA should also be strictly pursued. By inclusion of the informal sector in the scheme and creating the responsive regulation to facilitate the conversion rate, the prospect of boosting the capital fund will be high, which means, there will be more long-term capital available for capital intensive projects execution. Also, in order to ensure a correlation between growth in the pension fund industry and economic development, there is a need to fortify the weak link between pension funds and the real sector by establishing additional private-sector financial intermediaries like specialised banks, private equity, venture capital funds and micro-credit providers which has the capacity in facilitating any pension funds that may seem idle for the efficient development of the capital market and economic prosperity. This presents an opportunity for foreign investors to either invest in current pension industry incumbents through mergers and acquisitions or enter the industry themselves.

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Appendix

Before re-capitalisation	**After re-capitalisation**
AIICO Pension Managers Limited	AIICO Pension Managers Limited
Amana Capital Pension Limited	APT Pension Fund Managers Limited
APT Pension Fund Managers Limited	ARM Pension Managers Limited
ARM Pension Managers Limited	Crusader Sterling Pensions Limited
Citi Trust Pension Managers Limited	First Guarantee Pension Limited
CRIB Pension Fund Managers Limited	Future Unity Glanvils Pensions Limited
Crusader Sterling Pensions Limited	GTB-AM Pensions Limited
Evergreen Pensions Limited & Fidelity Pension Managers	IEI-Anchor Pension Managers Limited
First Guarantee Pension Limited	IGI Pension Fund Managers Limited
Future Unity Glanvils Pensions Limited	Leadway Pensure PFA Limited
IEI-Anchor Pension Managers Limited	Legacy Pension Managers Limited
IGI Pension Fund Managers Limited	NLPC Pension Fund Administrators Limited
Leadway Pensure PFA Limited	OAK Pensions Limited (**acquired Crib Pensions and Evergreen Pensions**)
Legacy Pension Managers Limited	Penman Pensions Limited
NLPC Pension Fund Administrators Limited	Pensions Alliance Limited
OAK Pensions Limited	Premium Pension Limited
Penman Pensions Limited	Royal Trust Pension Fund Administrator Limited

Pensions Alliance Limited	Sigma Pensions Limited (**acquired Amana**)
Premium Pension Limited	Stanbic IBTC Pension Managers Limited
Royal Trust Pension Fund Administrator Limited	Trustfund Pensions Plc.
Sigma Pensions Limited	NPF Pensions Limited
Stanbic IBTC Pension Managers Limited	
Trustfund Pensions Plc.	

Source: Leriba (2014)

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