The New Contributory Pension Scheme and the Investment of Pension Fund for Improved Benefits

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ABSTRACT

The study examined the new contributory pension scheme and the investment of pension fund for improved benefits. Descriptive statistics was used in analyzing the responses elicited through questionnaire, from the sampled population. Data gathered from in-depth interview were analyzed qualitatively in other to test the hypothesis. It was found that the investment of pension funds has not led to fair returns in retirees Retirement savings accounts (RSA) balance. The study suggests diversification of the portfolio and modes of investment of pension funds by the PFAs to include greater emphasis on the real estate and infrastructures, a part from government secured bonds. It is also suggested that Pen Com as the regulator should ensure adequate supervision of the activities of the PFAs so they can declare fair returns.

Keywords: Contributory Pensions, Investment, Pension Fund Administrators, Retirement Saving Account

INTRODUCTION

A critical element of the Contributory Pension Scheme as enshrined in the PRA 2014, is the mandatory investment of pension funds by the Pension Fund Administrators. The investment of pension funds is intended to enhance the Retirement Savings Account balances of the workers. Part XII, section 85(1) of the Pension Reform Act states that: all contributions made under the Act shall be invested by the pension fund Administrators with the objectives of safety and maintenance of fair returns on amount invested. Furthermore, the Act indicates in section (86) subsections (A-I) the modes of investment of pension funds which include bonds, bills, debentures, redeemable preference shares and other debts instruments issued by the Federal Government, Central Bank of Nigeria amongst other credible institutions. This listed mode of investment are to guarantee the security of investment of pension fund. This is especially the case in an unstable political and economic environment, were the stock market is usually affected by the vagaries of fragile economic and political forces. For instance the 2007 global financial crisis saw the stock market crashed due to massive decline in global economies and stock over sold, including high public debts (Ojoye, 2019; Oigbochie, and Chenge, 2023).

More often than not, the returns on investment of pension funds are characterized by confusion, secrecy, and a lack of clarity. Especially with regard to the actual amount that is supposed to be returned as profit from investment. It is commonplace to hear complaints of fraud and misappropriation of benefits from pension fund investments. It is also very common within the pension circle to hear grapevine accusations of PFAs feeding off the sweat of retirees. The PFAs are often accused of unexplained opulence. This has led to skepticism and concern about the level of transparency of the PFAs. By their own account, the PFAs seldom complain of a plethora of investment challenges that are too technical to explain to disgruntled and dissenting retirees. Arising from the discussion above, this article intends to address the issues surrounding the investment of contributory pension fund for improved benefits to the retirees.

LITERATURE REVIEW

Concept of Investment

Scholars and theorist have given various interpretation to the concept of investment. This is especially the case, due to the dominant role investment plays both with in the private and public space. Investment most often is regarded as the catalyst for business sustainability and expansion. Hayes and Boyle, (2023), posited that an investment is an asset or item acquired with the goal of generating income or appreciation. They also explain that the act of investing has the goal of generating income and increasing value over time. On the whole, they asserted that an investment can refer to any mechanism used for generating future income. This includes the purchase of bonds, stocks, or real estate property, among other examples (Hayes and Boyle, 2021). Vaidya, (2023) opined that investments are assets bought at present with the expectation of higher returns in the future. Its consumption is sacrificed now for benefits that can be reaped later.

From a broader viewpoint, an investment can be defined as an asset or item accrued with the goal of generating income or recognition. In an economic outlook, an investment is the purchase of goods that are not consumed today but are used in the future to generate wealth. In finance, an investment is a financial asset bought with the idea that the asset will provide income further or will later be sold at a higher cost price for a profit (Luenberger 1998). From the forgoing definitions, it can be deduced that investment are processes of capital formation that can be used to generate further income.

Contributory Pension Scheme

The definition of the concept of a contributory pension scheme has not received vast scholarly attention. The definition of its concept have mostly come from corporate bodies saddled with the business of pension administration, which might be unconnected to the fact that the scheme is of recent origin. The scheme came into existence via the Pension Reform Act (PRA) 2004, subsequently amended in 2014. Although its operations have received a plethora of scholarly examinations, especially with regards to the application of its provisions, but it is yet to receive robust penetration, as many public and private sector organizations have yet to key into it. Although the definition given by corporate organization about the CPS are closely related, due to their common element.

Consequently, the National Pension Commission, (2020) refers to the Contributory Pension Scheme (CPS) as an arrangement where both the employer and the employee contribute a portion of an employee's monthly emolument towards the payment of the employee's pension at retirement. Similarly, the United Bank for Africa (2022) refers to it as an arrangement where both the employer and the employee contribute towards the payment of the employee's pension at retirement. FCMB, (2022) reveals that the Scheme is contributory (employer and employee), fully funded, privately managed, third party custody of the funds and assets, it is based on individual accounts (Retirement Savings Accounts). It ensures that everyone who has worked for the Public or Private Sector receives his or her pension benefits as and when due. The cable (2022) explains that The CPS offers employees a reliable financial safety net, addressing the longstanding issue of inadequate funds to pay retirement benefits to retirees. By contributing a portion of their monthly income, employees gradually build a pension fund that grows over time, ensuring a stable income upon retirement. The scheme's mandatory nature ensures that employees remain committed to saving for their future, reducing the risk of financial uncertainty in old age. From the several definitions, one can deduce that the contributory pension scheme is a planning process that combines employer and employee contribution into a single pool that builds up over the cause of time in other to ensure secure income after retirement.

THEORETICAL DISCUSS

As stated in the introductory part of this study, the most crucial aspect of the contribution Pension Scheme is the mandatory investment of pension funds by the Pension Fund Administrators. These investments are intended to enhance the Retirement Savings accounts of the workers. Section 86 subsections (A-I) of the Pension Reform Act stipulates that pension funds should be invested in secured federal government investments that include bonds, bills, debentures, redeemable preference shares, and other debt instruments issued by the Federal Government, the Central Bank of Nigeria, and other credible institutions.

Apart from the mode of investment of pension funds provided under Section 86, subsections (A-I) of the PRA 2014, and the 2012 regulation on investment of pension fund asset, the 2017 Pen Com regulation on investment of pension fund assets, expands the list of eligible investments for pension fund administrators ("PFAs") to include the Sukuk bond issued by the Federal Government of Nigeria, its agencies, other affiliates, or the Central Bank of Nigeria ("CBN"). The PFAs are also allowed to invest in Non-Interest (Shariah)-compliant investment funds registered with the Securities and Exchange Commission ("SEC"). Other non-interest-compliant debt instruments issued by eligible listed and unlisted corporate entities are also permissible investments. The PFAs also invest in ordinary Shares of Public Companies to be listed on the Securities Exchange Commission through an initial public offering. Including Naira-Denominated Depositary receipts and notes (Pen Com Regulation, 2017).

In addition to these expanded modes of investment, The Pen Com regulation also gives some flexibility to RSA holders on how they want their pension funds to be managed. The Multi-Fund Structure was introduced to align the age and risk profile (tolerance level) of RSA holders. According to Anaesoronye (2022), the multi-fund structure comprises Fund I, Fund II, Fund III, Fund IV (Retiree Fund), Fund V (Micro Pension Fund), and Fund VI (Active and Retiree)—the Sharia Compliant Funds. The main difference among the funds has to do with the various levels of exposure to variable income, conventional, and sharia-compliant instruments. RSA holders are by default assigned to Fund II at the point of entry into the scheme. Similarly, RSA holders are also moved to Fund III once they reach 50 years of age and subsequently to Fund IV when they retire from active service.

Feedback from some of these new innovations, especially with regards to the expansion of pension fund investment, shows that pension fund assets have quadrupled. According to trends revealed by Pen Com Data, the value of pension fund assets under management increased from N265 billion in 2006, the year that the Pension Fund Administrators (PFAs) actually started engaging in investment activities, to over N8.35 trillion as of the end of September 2018 (Iluoani, 2018). Specifically, Poopola (2018) revealed that the total assets under the Contributory Pension Scheme rose by N100bn from N8.23tn in June to N8.33tn at the end of August 2018. Also, the value of pension assets stood at N15.58 trillion as of March 31, 2023, while CPS membership was 9.95 million.

Although scholars are worried about the laxity in the execution of this investment process by the Pension Fund Administrators, in spite of Pen Com regulations that ensure safe and secure investment of pension funds in accordance to international standard best practices of pension management. Workers are usually in the dark with respect to how their funds is thriving in the investment market. Retirees under the Federal Contributory Pension Scheme have protested over a wide range of issues, crucial among them is the non-payment of accrued interest on bounded entitlements since July 2007, when the scheme took effect (Ezenwa and Ogbwagu 2014; Akinselure, 2018). Again, concerns have been expressed that the new pension system provides privileges to private investors over workers and contributors with respect to returns on invested funds. This is to say greater priority is given to private investment, through constant information about how their fund is thriving in the investment market. This constant information comes through monthly, quarterly, and annual releases on profit or loss in investment. Although the pension fund is invested in securities that are hedged against risk, but this does not insulate them from the vagaries of an unstable investment climate. For instance, guardian in her 2022 editorial report, identified plethora of investment challenges, that include; insecurity, lack of power supply, foreign exchange hazard marked by the constant devaluation of the naira, policy inconsistency and unfriendly tax system, marked by high taxes of 32.5%.

According to Olarewanju (2013), the atmosphere of secrecy surrounding the operations of the pension fund investments diminishes the credibility and transparency of the process. He further states that it is rather a deliberate strategy to undermine and sabotage the interests of the unwary working population as it relates to their pension funds. Dostal (2010) revealed that pension fund administrators fail their customers in terms of providing clear information about their investment strategies. A survey of PFA websites showed that many have not been updated. It has also been pointed out that virtually all companies were in breach of Pen Com's guidelines to publish the rates of returns of the Retirement Savings Account (RSA) fund at the end of each financial year and to make unit prices for their RSA funds readily accessible on their websites. Scholars and experts have equally pointed out that the silence on rates of return appears to be no coincidence. But rather a bid to cover up negative returns once inflation and management charges are factored in. Apart from inflationary pressures, the near total restriction of pension funds investment in Federal Government of Nigeria securities is another debilitating factor (Ezenwa and Ogbwagu, 2014).

RESEARCH METHODOLOGY

The study employed both the primary and secondary source of data collection. Secondary sources were sourced from journals, books, internet sources, magazine and other published and unpublished materials. The secondary sources of data provides extensive bibliographic and contextual information that supported the primary source of data meaningfully. The primary data was sourced through the administration of questionnaire which was administered on official and retires of the FCDA. The study adopted a descriptive research design. Which involves a systematic collection, analysis and presentation of data on the contributory pension scheme and the investment of pension fund. It employed quantitative research which implies collection of data through questionnaire and interview. The study was conducted in Abuja**.** Retires were randomly selected on the basis of common interest. The study population are retirees of the FCDA. A total of 162 respondents were identified and selected population. The respondents were selected based on the fact that they retire under the contributory pension scheme and are directly impacted by the operations of the scheme. The data collected were subjected to descriptive statistics. The descriptive statistics employed in this study are the use of mean and standard deviation to weigh the degree of response.

DATA ANALYSIS AND INTERPRETATION

Statement	**N**	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
Retirees are remunerated with interest accruing to their pension fund every three years	162	1	5	2.58	1.119
PFAs reflect interest to Pensioners contribution on their monthly or quarterly statement of account on Retirement Saving Account	162	1	5	2.59	.896
Pensioners receive bonus shares from investment	162	1	5	2.50	.998
The initial 25% bulk withdrawal from RSA on attainment of 50 years after six months waiting period id an improved package to retirees	162	1	5	2.10	1.389

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The retirement benefits bond redemption fund is an additional benefit to retirees	162	1	5	2.15	1.473
The monthly pension benefit in the new contributory pension scheme is higher than what was obtainable in the old defined benefit scheme, due to investment of pension fund	162	1	5	2.10	1.463
The programmed payment of monthly defined contributory pension benefits does not last for life	162	1	13	4.35	1.497
Payment of 5% of employee's annual emolument for three years as life insurance premium by the employer is a source of additional income to pensioners	162	1	5	2.85	.992
The monthly Pension benefit of the new Contributory Pension Scheme is higher than what is obtainable in the old defined benefit scheme	162	1	5	1.98	1.226
	162				

Field Work 2023

The five point likert scale is considered an interval scale. The mean is very significant. From 1-1.80, it means strongly disagree. From 1.80- 2.60 it means disagree, from 2.61 -3.40 it means neutral. From 3.41 - 4.20 it means agree, from 4.21 -5 it means strongly agree.

In statement 1, 2 and 3, the mean 2.58, 2.59, 2.50 and 2.85 suggest that majority of the respondents are unsure that retirees are remunerated with interest accruing to their pension fund every three years. They were equally uncertain that PFAs reflects interest to Pensioners contribution on their monthly or quarterly statement of account on RSA. They were also doubtful that Retirees receive bonus shares from investment. As well as the Payment of 5% of employee's annual emolument for three years as life insurance premium by the employer is a source of additional income to pensioners.

The mean 2.10, 2.15 and 2.10 indicates that respondent disagreed that the initial 25% bulk withdrawal from RSA on attainment of 50 years after six months waiting period is an improved package to retirees. They also rejected the view that Retirement benefits bond redemption fund is an additional benefit to retirees. As well as Monthly pension benefit in the new contributory pension scheme is higher than what was obtainable in the old defined benefit scheme, due to investment of pension fund.

The mean 4.35 suggest that respondents strongly acceded that the programmed payment of monthly-defined contributory pension benefits does not last for life. While the mean 1.98 indicates that respondents were totally opposed to the view that the monthly Pension benefit of the new Contributory Pension Scheme is higher than what is obtainable in the old defined benefit scheme.

DISCUSSION OF FINDINGS

Findings from questionnaire responses and interview questions put forward to senior officials and retirees of FCDA showed that the majority of the retirees opposed the view that "retirees are remunerated with interest accruing to their investment". "They also disagreed with the view that PFAs reflect interest on pensioner's contributions." Including the view that the initial 25% bulk withdrawal from RSA on attaining 50 is an improved package for retirees". "Similarly, they dissented that the monthly contribution in the new contributory pension scheme is higher than what was obtainable in the old defined benefit scheme."

They argued that retirees are not aware of any interest accruing to them; if there is, it is to elongate the tenure of the programmed withdrawal. This opinion corroborates the findings of Nwanne (2015) in his study of the impact of CPS on Nigeria's economic growth. The outcome of his study revealed that pension savings are low, which is an indication of low investment in pension funds; hence, investment outlets should be expanded. It was further argued that retirees from the old defined benefit scheme earn more than those in the new contributory pension scheme, that no director in the new contributory pension scheme has earned a monthly salary after retirement of up to a hundred thousand, and that retirees are also advocating for 75% release of their accrued rights, contending that 25% is too meagre.

However, the PFAs have questioned the rationality of the forgoing arguments. According to them, the reason for complaints from retirees about the scheme is a lack of knowledge. Which they blame on the reluctance of the retirees to gain further information about the operations of the scheme. Rather, they focus more on financial benefit. They also stressed that additional benefits from the investment of pension funds are usually added every three months. That comes with a statement of account provided either in hardcopy or electronically, i.e., through emails. The statement of account shows profits and losses made within a particular quota, usually three months. According to Pen Com guidelines, if the retiree or contributory worker is not satisfied with the interest paid in that particular period, he or she is free to switch over to another PFA while notifying his PFA of the decision. This switch is popularly referred to as the transfer window, during which the RSA holder has the right to move to another PFA by undergoing mandatory data recapture. After which, the RSA holder will write an application letter informing his PFA of his intentions to transfer his RSA to another PFA. The rest will be between the new PFA and his old PFA. The transfers usually take place at the end of the last month of the quota as provided by the PRA 2014.

They argued that if employees were given more than 25%, the aim of the scheme would have been defeated. The above submission is contrary to the findings in Edogbanya and Adejo (2013) that most RSA holders do not receive their monthly RSA status report. According to findings from this study, the status report is necessary because it is a monthly contribution that enables the RSA holders to access the status of their contribution. The implication from the finding here, which states that retirees receive additional benefit on the investment of their pension, is not valid because pensioners who are the chief beneficiaries of such returns on investment of their pension fund are not aware of any return on investment, which is similar to the submission of Ezenwa and Ogbwagu (2014), where they lamented that over the years, there appears to be some laxity in the execution of the investment process by the Pension Fund Administrator. According to them, workers are usually in the dark with respect to how their funds are thriving in the investment market.

In a similar vein, Olarenwaju (2013) lamented that contributors are being excluded from the investment decisions of the PFAs in spite of the fact that they ultimately have implications for the pension savings account. He also decried the level of secrecy surrounding the operation of pension fund investment, which diminishes the credibility and transparency of the process. According to Dostal (2010), the silence on the rate of returns appears to be no coincidence and covers up negative returns once inflation and management charges are factored in.

Although Henshaw (2019), the technical commissioner of the National Pension Commission, asserts that the fund still suffers from numerous challenges, which are: Securing the safety and security of pension funds; Ensuring that pension funds invested earn real returns; underdeveloped capital market for equities and fixed-income securities; Dearth of investment instruments; High costs for raising investments in the capital market; Investment in real estate; Clamour for the use of fund balances as collateral; introduction to multi-fund portfolios; Fees; shifting the financial market from dependence on bank funding to Capital Market funding in order to facilitate economic development; Banks and asset management companies to develop corporate skills; Maintenance of macroeconomic stability; Ensuring that conflicts of interest are minimized or prevented; Inadequate capacity in the pension industry (operators, regulators, and contributing public) Limited number of Rating Agencies and poor rating culture; Coordination between all institutions concerned CBN, SEC, NSE, DMO, CSCS, and FIRS.

CONCLUSION

The contributory pension scheme, as a mutual contribution between the employer and employees (18% is paid into the retirees RSA), has bolstered the desire for effective management through a secure and transparent investment. This desire was expressed in the provision of the, the Pension Reform Act that identified certain investment safeguard that would ensure fair investment returns. Although, doubt have being expressed about the level of sincerity of the PFAs in ensuring fair return on investment. There are complaints of secrecy, dishonesty, and exploitation as regards the investment of pension fund. Although, stakeholders are not unaware stock market volatility. But retiree's confidence can be restored through sincerity, honesty and openness with regards to gains from investment of pension fund by the PFAs.

RECOMMENDATIONS

The findings of this study brings to fore some salient policy recommendations that can be used to stem the deficit of transparency on pension fund investment.

Returns have barely covered a high inflation rate over the years, meaning that peoples' savings are effectively losing their values. Therefore the National Pension Commission (Pen Com) should ensure the diversification of the portfolio and modes of investment of pension funds by the Pension Fund Administrators PFAs to include greater emphasis on the real estate and infrastructures as critical drivers of the economy. This would ultimately ignite high values and ameliorate the crushing effects of inflation thereby providing the necessary dividends for the final beneficiaries: the worker-investor.

The National Pension Commission (Pen Com) should develop a guideline that compel companies to get listed on the stock exchange and solicit risk rating, Possibility of off-shore investments to mitigate risk; Development of new investment instruments; Corporate Bonds, Mortgage Backed Bonds, Infrastructural Bonds, etc. are the solutions that will stymie investment loss of pension fund.

Finally the study recommends that the National Pension Commission Pen Com should ensure proper supervision of the activities of the PFAs with regards to investment of pension fund in other to ensure that they declare fair returns.

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