Contributing Effect of Closed Pension Fund Scheme on Sustainable Economic Development in Nigeria (2007-2023)

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ABSTRACT

This research work examined the contributing effect of closed pension fund on sustainable Nigerian economic development. Time series data from the period of 2007 to 2023 were sourced from the annual reports of Pension Commission. Auto Regression Distributed Lag technique was used for estimation with the aid E-view version 12 statistical tool. Dependent variable, per capita income was used to measure sustainable economic development while contribution from the closed pension fund scheme was an independent variable.

The regression result showed that closed pension fund has a negative and non statistical significant effect on per Capita income in Nigeria. The study recommended that the PENCOM should conduct a thorough review that would reveal the reasons behind the negative effect of closed pension funds on per capita income and consider merging or consolidating closed pension funds with other pension schemes funds to improve economies of scale.

Keywords: Pencom, Pension, Closed pension Fund.

Background to the study

Pension funds, as significant financial institutions, play a crucial role in capital formation that can be employed to provide significant economic development in a country. It is a known fact that pension industry pooled a significant amount of funds from different sectors of the economy and as the population increases, net asset value of the industry increased greatly.

In many countries the public pension fund is the largest domestic source of long-term savings, raising important policy questions about the bearing that pension reserves have on national savings, fiscal policy, the financial sector, and, ultimately, growth (World Bank, 2003).

In Nigeria, net asset value of pension industry is increasing on yearly basis which ought to contribute to increase in economic growth of the nation. (PENCOM). Constant increase in this ratio of different sectors contributing should benefit the entire citizens. Close evaluation of different sectors contributing to the net asset value of pension funds revealed that that closed pension fund contribution is reducing while net asset is increasing.

This study appraised the contributing effect of closed pension fund unit on sustainable economic development of Nigeria with a view of empowering the policymakers with effective strategies to optimize this contribution for positive and significant impact to pension funds for the country's sustainable development goals.

Statement of the problem

The study sought to evaluate the performance of closed pension fund scheme in relation to the total net asset value of pension funds. Despite the fact that Net value asset of pension funds increase on yearly basis, close observation on different units contributing to the scheme reveals that contribution from closed pension funds in reducing greatly coupled to the fact that Pension Reform Act 2014 forbids entrance of registration of new employees to this unit.

What is then the financial benefits of retaining this unit as an entity? What is the financial benefit of this reducing idle fund to the entire citizens? Why has regulation forbids restructure and reorganization of this unit to be merged with other pension fund administrators?

Objective and hypothesis of the Study

The broad objective of this study was to appraise the performance of closed pension fund scheme on sustainability of Nigerian economic development; while the specific objective is to:

Investigate the degree at which the pension fund contribution of closed pension fund (CPF) affects per capita income.

H_0: Closed pension fund (CPF) contributions have no significant effect on per capita income in Nigeria.

CONCEPTUAL REVIEW

Pension fund

The pension industry in Nigeria is primarily regulated by the Commission. To ensure an efficient administration system for pensions in Nigeria and to actualize the reforms for which the PRA was conceptualized, the Act has created two main stakeholders, tasked with varying functions. These are:(a) PFAs; and (b)PFCs

Closed pension fund contributions

Tapia (2008) explained closed pension entities as companies private set up for the sole purpose of implementing and managing closed pension plans. They are established by single employers, multiple employers and recently by labour unions or professional associations. The pension funds' assets are legally segregated from the sponsors' and submitted to specific accounting, financing and actuarial regulations. The closed entities are supervised by PENCOM.

Pension schemes in the private sector existing prior to the introduction of the Contributory Pension Scheme (CPS) in June, 2004 were allowed to continue as CPFAs, subject to guidelines issued by PenCom. The companies are required to have operated a fully funded existing pension scheme with assets of at least ₦500 million.

Closed Pension Fund Administrator (CPFA)

Pension schemes in the private sector existing prior to the introduction of the Contributory Pension Scheme (CPS) in June, 2004 were allowed to continue as CPFAs, subject to guidelines issued by PenCom. The companies are required to have operated a fully funded existing pension scheme with assets of at least N500 million. A condition precedent on the issuance of a CPFA license is that the company must possess the requisite capacity for the management of pension fund assets and show that it had managed its pension scheme effectively for at least five (5) years prior to the commencement of the CPS.

The CPFAs operate mostly as Defined Benefits Schemes with a guarantee from the sponsor companies over any funding deficit. The Pension Reform Act, 2014 has foreclosed new entrants into the CPFAs. Commencing 1st July, 2014, all new employees of the sponsor companies are required to join the CPS and open Retirement Savings Accounts (RSAs) with a PFA of their choice. Furthermore, an existing employee still reserves the right/option of pulling out of the CPFA to join the CPS.

Names of existing closed pension funds administrators in Nigeria

1. Nestle Nigeria Trust CPFA Limited
2. Progress Trust CPFA Limited
3. Shell Nig. Closed Pension Fund Administrator Ltd.
4. Total Energies Nigeria Limited.
5. Nigerian Agip CPFA ltd

Table1. Closed Pension Fund Administrators

S/N	Closed Pension Fund administrators	Pension fund administrators	Pension fund custodians
1	Total Energies Nigeria Limited	FCMB Pensions	First Pension custodian
2	Shell Nigeria Closed pension Ltd	Fidelity Pensions	UBA pensions custodian
3	Progress Trust CPFA	GTCO pensions	Zenith Pension custodian
	Nigerian Agip CPFA Ltd	Leadway Pensure	
5	Nestle Nigerian Trust Ltd	Nupemco	
6		NLPC Pension	
7		Norrenberger Pension	
8		NPF pensions	
9		Oak pension	
10		Parthian Pension	
11		PAL pension	
12		Premium Pension	
13		Stanbic-IBTC pension	
14		Tangerine APT pensions	
15		Trustfund pensions	
16		Veritas Clavills Pension	

Per capital income

Economic Development is assumed to take place when there is a rise in the standard of living of the citizens. Real per capita income is assumed to be the best index for depicting the average standard of living of the population, and so it is widely used as an index of economic development. Many economists argued that per capita income is a better measure of development than Gross Domestic Product (GDP) and Gross National Income (GNI). Thus, development is meaningless, if it does not improve the standard of living of the people. Per capita income is calculated as national income, divided by total population.

Kenton (2024) opined that per capita income is a measure of the amount of money earned per person in a nation or geographic region. It is used to determine the average per-person income for an area and to evaluate the standard of living and quality of life of the population. Per capita income includes all individuals, not just adults of working age. Per capita income counts every individual adult and child, even newborn babies, as a member of the population. This stands in contrast to other common measurements of an area's prosperity, such as household income, which counts all people residing under one roof as a household, and family income, which counts as a family those related by birth, marriage, or adoption who live under the same roof.

Theoretical framework

Social contract theory Thomas Hobbes theory of social contract appeared for the first time in Leviathan published in the year 1651 during the civil War in Britain. Thomas Hobbes' legal theory is based on social contract. According to him, prior to social contract, man lived in the state of nature. Man has natural desire for security and order . in order to secure self protection and self preservation and total misery and pain, man entered into a contract. This idea of self preservation and self provision are inherent in man's nature and in order to achieve this they voluntarily surrendered all their rights and freedoms to some authority by this contract who must

command obedience. As a result of this contract, the mightiest authority is to protect and preserve their lives and property.

Empirical framework

Nwala, *et al* (2024) examined the effect of pension fund asset and savings on pension fund performance in Nigeria from 2013-2022. The study employed *ex-post facto* design. Time series data were collected from the central bank of Nigeria bulletin and were analyzed using ordinary least square regression. The findings showed that pension fund asset have a negative relationship with benefits paid and pension fund saving is statistically significant in explaining the variation in Benefits paid in Nigeria.

Oseghale et al (2025) examined the pension fund investment strategies and pension fund sustainability in Nigeria. Using primary data obtained from active and retired staff of the University of Teaching Hospital (UBTH), Benin City, Edo State, Nigeria. Across-sectional research design was adopted, and 4668 active and retired staff from 2010 to 2022 of the UBTH who benefited from the contributory pension scheme, irrespective of their positions, constituted the research population.

The sample size used for the study was 400 respondents. Data analysis engaged descriptive statistics and linear regression analysis to test the hypothesis of the study at 5% significance level. The study found that pension fund sustainability is significant and positively related to pension fund investment strategies.

Udom and Nwakanma, (2022) critically examined pension administration and retiree well-being in Nigeria with particular reference to the retirees of Akwa Ibom State secondary education board. The study adopted the simple random sampling technique to select three Local Government Areas in Akwa Ibom State where data were collected from respodents. Primary data were analyzed using descriptive statistics, while chi-square statistical technique was employed to evaluate the relationship between pension administration in Nigeria and retiree wellbeing. The study reveals that the current poor state of pension administration in Akwa Ibom State affects negatively the material conditions and well-being of retirees of Akwa Ibom State.

Babajide, Okunlola, Lawal, Akinjare and Lawal (2021) investigated financial inclusion: implication on per capita income in Nigeria. The study examined the interplay of deposit money banks (DMBs) activities as a link between financial inclusion and economic growth per capita. Deposits mobilised in rural and urban areas, and credit disbursed to rural and urban areas were used as variables and time series data were collected the Central Bank of Nigeria (CBN) statistical bulletin and the World Bank Financial Indicator for 33 years (1982 – 2018).

Descriptive analysis, Johansen cointegration, vector error correction mechanism (VECM), and ordinary least squares regression tools were used as the estimation techniques. Findings show that although deposit mobilization and credit disbursed in rural areas are statistically significant in explaining per capita growth and thereby fulfilling the primary level of inclusion in rural areas contrary to expectations, deposit mobilised and credit disbursed in urban areas are not statistically significant in explaining per capita growth.

Onyebuchi, (2020) investigated Pension fund, financial development and output growth in Nigeria. The study anchored on financial intermediation theory. Variables consider were Real Gross Domestic Product (RGDP), Public Sector Pension Fund Contribution (PUPF), Private Sector Pension Fund Contribution (PRPF) and Market Capitalization (MC).

Data from 2008 to 2018 were elicited from secondary sources and were analyzed using Autoregressive Distributive Lag (ARDL) model, the study found out that pension fund contribution is effective in stimulating growth through investment in portfolios that yield short term returns; this implies that pension fund contribution cannot on its own without a credible financial system impact on economic growth. The policy implication of this study is for Pension Fund Administrators (PFAs) to invest in portfolios with short-term returns; thus, a large chunk of funds invested in federal government securities should be unbundled to other portfolios that yield short term returns.

Data Analysis

Table 2

Year	CPF (₦'billion)	NAV ₦'billion	PCI ($)	Percentage contribution of CPF to NAV
2007	202.63	815.18	1876	0.248
2008	294.62	1098.99	2228	0.268
2009	342.36	1529.63	1884	0.224
2010	404.37	2029.77	2280	0.199
2011	454.64	2450.38	2505	0.186
2012	536.09	3195.47	2728	0.167
2013	622.23	4057.44	2977	0.153
2014	662.52	4611.62	3201	0.143
2015	755.09	5302.89	2680	0.142
2016	870.95	6164.77	2145	0.1412
2017	1008.85	8637.82	1942	0.1167
2018	1077.57	8637.82	2126	0.1247
2019	1258.90	10215.98	2334	0.1232
2020	1522.62	12306.15	2075	0.1237
2021	1522.75	13424.82	2066	0.1134
2022	1,530.89	14390.8	2163	0.1063
2023	1,808.64	17012.3	1621	0.1063

Source: PENCOM Annual Reports

Keys: CPF- Closed pension fund administrators, NAV-Net asset value of pension fund, PCI- per capita income.

Table 3: Descriptive Analysis

	CPF	NAV	PCI
Mean	875.0424	6816.578	2284.176
Median	755.0900	5302.890	2163.000
Maximum	1808.640	17012.30	3201.000
Minimum	202.6300	815.1800	1621.000
Std. Dev.	503.5074	5125.033	415.5351
Skewness	0.409147	0.561400	0.692784
Kurtosis	1.878952	2.056254	2.825622
Jarque-Bera	1.364500	1.523862	1.381395
Probability	0.505478	0.466764	0.501226
Sum	14875.72	115881.8	38831.00
Sum Sq. Dev.	4056315.	4.20E+08	2762710.
Observations	17	17	17

Source: Author's computation using E-views version 12

Measures of Normality

Kurtosis measures the peakness or flatness of the distribution series. A normal distribution has 3 which is called mesoturtic. From the table 2, all variables are platykurtic which shows that contributions have flat curve distribution because their values are lower than 3.

Skewness measures the degree of asymmetry of the series. All variables show positive skewness and within zero value. It means that all these variables are asymmetrical around their mean values.

Table 4: Regression result

Dependent Variable: LOGPCI
Method: ARDL
Date: 09/05/25 Time: 10:57
Sample (adjusted): 2008 2023
Included observations: 16 after adjustments
Maximum dependent lags: 1 (Automatic selection)
Model selection method: Akaike info criterion (AIC)
Dynamic regressors (1 lag, automatic): LOGCPF LOGNAV
Fixed regressors: C
Number of models evaluated: 4
Selected Model: ARDL(1, 0, 1)

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
LOGPCI(-1)	0.494118	0.228289	2.164440	0.0533
LOGCPF	-1.018446	0.719992	-1.414524	0.1849
LOGNAV	-0.097944	0.658855	-0.148658	0.8845
LOGNAV(-1)	0.674826	0.424539	1.589548	0.1402
C	5.874649	2.189569	2.683016	0.0213

R-squared	0.636367	Mean dependent var	7.730226
Adjusted R-squared	0.504137	S.D. dependent var	0.175682
S.E. of regression	0.123711	Akaike info criterion	-1.091429
Sum squared resid	0.168349	Schwarz criterion	-0.849995
Log likelihood	13.73143	Hannan-Quinn criter.	-1.079066
F-statistic	4.812570	Durbin-Watson stat	1.646344
Prob(F-statistic)	0.017253		

*Note: p-values and any subsequent tests do not account for model selection.

Source: E-Views version 12, 2025

Table 4 shows that explanatory variable closed pension fund contribution had a negative but non significant effect on dependent variable per capita income. The result also indicates that explanatory variables only account for 63 percent of explained variable of per capita income while other variables account for 37 percent.

Null Hypothesis: D(LOGCPF) has a unit root
Exogenous: Constant, Linear Trend
Lag Length: 1 (Automatic - based on SIC, maxlag=3)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-4.105850	0.0304
Test critical values:	1% level	-4.800080	
	5% level	-3.791172	
	10% level	-3.342253	

*MacKinnon (1996) one-sided p-values.
Warning: Probabilities and critical values calculated for 20 observations
and may not be accurate for a sample size of 14

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(LOGCPF,2)
Method: Least Squares
Date: 09/05/25 Time: 10:59
Sample (adjusted): 2010 2023
Included observations: 14 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LOGCPF(-1))	-1.626352	0.396106	-4.105850	0.0021
D(LOGCPF(-1),2)	0.370631	0.227817	1.626881	0.1348
C	0.302780	0.092011	3.290678	0.0081
@TREND("2007")	-0.010568	0.005128	-2.060615	0.0663

R-squared	0.654176	Mean dependent var	0.001182
Adjusted R-squared	0.550429	S.D. dependent var	0.085689
S.E. of regression	0.057454	Akaike info criterion	-2.640698
Sum squared resid	0.033010	Schwarz criterion	-2.458110
Log likelihood	22.48489	Hannan-Quinn criter.	-2.657600
F-statistic	6.305476	Durbin-Watson stat	2.032294
Prob(F-statistic)	0.011290		

Source: E-Views version 12, 2025

Testing of hypothesis

The model for testing the hypothesis was estimated using Auto regression distributive lag techniques. The output data was presented in table 3.

Restatement of hypothesis

H_0: Closed pension fund contribution has no significant effect on per capita income in Nigeria

H_1: Closed pension fund has significant effect on per capita income in Nigeria

Dependent Variable: LogPCI

Variable	Coefficient	t-statistics	P-Value(Prob)	Decision
Log CPF-	1.018446	-1.414524	0.1847	Accept H_0

The regression coefficient points out that closed pension fund contribution has a negative effect on the dependent variable, per capita income. Every increase in closed pension contribution leads to a decrease in per capita income. P-value (0.1847) shows a non statistical significance. This means that the data is too small to make any significant effect.

DISCUSSION OF THE FINDING

This study has examined contributing effect of closed pension fund on sustainable Nigerian economic development over the period of 2007 to 2023. The result showed that all variables have short run relationship with the dependent variable.

The finding of the study revealed that the closed pension fund contribution to the net asset value of the pension fund had negative and non statistical significant effect on per capita income in Nigeria. The negative effect can be attributed to the minimal percentage of the number of employees contributing ti this scheme. The record shows that employees from only five companies contributed to this scheme while new enrolment had been restricted by the new pension rules and regulations. Administrative costs are increasing on daily basis in Nigeria, running expenses of theses five companies can be more that benefits to contribute to the economy.

Worldometer.com reported Nigeria population as at February 8,2025 at 24,529,097 citizens while employees contributing to the closed pension fund is less than one million

. given that closed pension fund had a negative significant effect on per capita income, it shows that demography of employees contributing to this scheme is too small and there is need for total closure of the scheme to pave way for new contributory scheme. Obviously, concentration on one scheme is suggestive for positive effect on the economy.

CONCLUSION

Sustainable economic development is an important goal that every successive government aims at. Pension fund is prominent among capital accumulation channels that should be explored by government. The study has shown that the Nigerian pension scheme and ecosystem have not pooled significant fund that significantly influenced per capita income despite large active population of Nigeria. It seems there are distrust on the economy or possible policy lapses that tolerate corruption at the expense of patriotism.

RECOMMENDATION

Given that the closed pension fund contribution has negative and non significant effect on per capita income in Nigeria, the study recommends as follows:

a. **Conduct a thorough review of closed pension fund**: PENCOM should investigate the reasons behind the negative effect of closed pension funds on per capita income and continuous decrease in the aggregate contribution including regulation framework that restraint enrolment of new entrant to the scheme, cost saving strategies that will contribute to the financial benefits derived from the scheme.

b. **Consider merging or consolidating closed pension funds:** PENCOM should evaluate the feasibility of merging or consolidating closed pension funds with other pension schemes funds to improve economies of scale.

c. Reform closed pension fund: Given the negative effect of closed pension fund on per capita income, policymakers should review and reform the management of these funds to ensure they contribute positively to economic development.

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Null Hypothesis: D(LOGNAV) has a unit root
Exogenous: Constant, Linear Trend
Lag Length: 1 (Automatic - based on SIC, maxlag=3)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-4.556620	0.0148
Test critical values:	1% level	-4.800080	
	5% level	-3.791172	
	10% level	-3.342253	

*MacKinnon (1996) one-sided p-values.
Warning: Probabilities and critical values calculated for 20 observations
and may not be accurate for a sample size of 14

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(LOGNAV,2)
Method: Least Squares
Date: 09/05/25 Time: 11:01
Sample (adjusted): 2010 2023
Included observations: 14 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LOGNAV(-1))	-2.127047	0.466804	-4.556620	0.0010
D(LOGNAV(-1),2)	0.492826	0.278274	1.771008	0.1070
C	0.645765	0.162123	3.983176	0.0026
@TREND("2007")	-0.027217	0.008292	-3.282341	0.0083

R-squared	0.782804	Mean dependent var	-0.011663
Adjusted R-squared	0.717646	S.D. dependent var	0.131661
S.E. of regression	0.069961	Akaike info criterion	-2.246806
Sum squared resid	0.048945	Schwarz criterion	-2.064218
Log likelihood	19.72764	Hannan-Quinn criter.	-2.263708
F-statistic	12.01382	Durbin-Watson stat	2.276113
Prob(F-statistic)	0.001184		