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Pension Fund Asset Investment And Economic Growth In Nigeria

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ABSTRACT

The objective of this study was to assess the relationship between Pension Fund Asset Investment and Economic Growth in Nigeria utilizing time series data spanning for a twelve year period, from 2006 to 2017. Secondary data for the period were collected from the National Pension Commission (PenCom) Annual Reports, Central Bank of Nigeria, National Bureau of Statistics and World Bank development indicator (database) of twenty-one licensed pension fund administrator as at 31st December, 2017. The data collected were analyzed and tested for unit root, using the Augmented Dickey-Fuller test using E-Views, 9.0 statistical software. The Ordinary Least Square techniques were used to estimate three models in line with the formulated hypotheses. The results from the models revealed a significant positive relationship between pension fund assets, pension fund contribution, pension fund investment and gross domestic product at 5% level of significance. Consequently, it was recommended inter alia that there should be more emphasis on the management of pension assets in the capital market as well as government bond, real estate and investment trust to boost Gross Domestic Product (GDP) of Nigeria.

Keywords: Pension Fund, Social Security, Retirement Savings Account, Consolidated Revenue Fund

INTRODUCTION

Pension is a form of social security against old age, poverty and other uncertainties. It is a sum set aside for every worker (at retirement) who must have dutifully used his/her active life in serving a given organization. A worker who has worked in a given establishment for some years deserve some benefits which could take the form of pension or gratuity payable to the worker by the employer at the time of retirement. Pension fund is, therefore, fund set aside to cater for this. Pension administration in Nigeria has been saddled with many problems, both in the public service and private sector. Proper management of Pension fund asset to create and maintain of an enabling environment for the upkeep of individuals in organizations during retirement cannot be over emphasized. The public service operated an unfunded Defined Benefit Scheme and the payment of retirement benefits were budgeted annually. The management of Pension Fund in Nigeria is as old as Nigeria itself. Pension fund was introduced by the colonial masters to provide income and security for old age British citizens working in Nigeria upon retirement as a post-retirement benefit to employees. Pension Scheme was introduced into Nigeria by the Colonial Administration following the 1951 Pension Ordinance with retroactive effect from 1946. The Ordinance provided public servants with both pension and gratuity (Ahmad, 2006). The first pension scheme in Nigeria was set up for the employees of the Nigerian Breweries Limited in 1954, followed by United African Company in 1957. The first Social Security Scheme in Nigeria came into being in 1961 by the Act of Parliament, which established the National Provident Fund (NPF). The NPF scheme was set up to address pension matters of private organizations in Nigeria. In 1993, the National Social Insurance Trust Fund (NSITF) was set up by Decree No 73 of 1993 to replace the defunct NPF (Balogun, 2006).

Pension, as a form of official obligation in any employment relationship, is a legal and economic obligation in which employers of labour are mandated to fulfill her contractual relationship with employees (Onyeonoru, Matthew & David, 2013). It is a type of social security against old age, poverty and other uncertainties. Pension is a sum set aside for every worker (at retirement) who must have dutifully used his/her active life in serving a given organization. Pension Fund is fund from which pensions are paid, accumulated from contributions from employers, employees, or both. Pension funds are investment pools that pay for employee retirement commitments. Corporations and all levels of government provide pensions. The fund managers invest these contributions conservatively (Kimberly, 2018).

Statement of the Problem

With weak institutions, corruption, social injustice and insecurity, it is clear that the operation of the funded pension scheme in Nigeria has been hampered as it faces a lot of challenges which threatens its prospects. It is therefore essential to ascertain whether or not its operation has contributed to the growth and development of the Nigerian economy; and whether its continuity has prospects. The following questions also beg for answers; what is the general contribution of the funded pension scheme to growth and development? To what extent has the prevalent of risk in pension fund investment affected pension fund Management in Nigeria?. One major problems facing the contributory pension scheme in Nigeria is the dearth of investment outlets. This truth is not far-fetched as there are only eleven (11) classes of investment outlets available for investment of pension fund assets, which may pose a problem of scarcity of long-term funds for long-term investment. Pension fund scheme became largely unsustainable due to lack of adequate and timely budgetary provisions. This was the reason for the soaring gap between pension fund obligations and revenues, which threaten not only economic stability but also crowed out necessary investments in education, health and infrastructure. This was exacerbated by various increases in salaries, which ultimately led to increase pension and hence undue pressure on government fiscal responsibilities.

Civil servants, prior to Pension Reform Act of 2004, bore no direct responsibility, by way of payroll tax, for the provision of pension; instead pension benefits were paid through budgetary allocations to be kept in the Consolidated Revenue Fund. In realizing the pension goals, pension industry initially relied upon pay-as-you-go (PAYG) scheme which seems cheap as there are few retirees then; however, costs rise while the population ages and hence the dependency ratio rises faster than the passivity ratio. PAYG is therefore criticised for being vulnerable to the effects of population ageing, this makes PAYG engender economic distortions and unsuitable for retirees situations like early retirements, disability pensions, evasion and disincentive to save. On the contrary, the current funded scheme offers better labour market incentives as well as aiding the development of financial markets. The social security pensions provided on the basis of pay-as-you-go are subject to political risks. The risks contemplated take three forms. The first relates to the tendency of politicians, eager to capture the votes of the electorate, to offer fabulous pension increases that they are either not going to pay or which may fall on regimes other than theirs. The second aspect of the risk refers to the fact that the pension account, in not being distanced from political control, falls easy 'prey' to politicians who dip hands into pension funds to cushion up temporary fiscal shocks. The third relates to the socio-political indifference to the plight of pensioners by politicians. Another weakness found in the public sector system concerns the less than dignifying manner with which the senior citizens are treated. One observes how weak and frail-looking elderly citizens are compulsorily required to travel long distances to the point of pension payment. Worse still, they are left, under inclement weather for long hours and sometimes for days, before collecting their stipends. Some pensioners were claimed to have died while standing in a queue waiting to receive pension money.

It is against this backdrop that this study tends to evaluate the relationship between Pension Fund Asset Investment and Economic Growth in Nigeria from 2006 to 2017.

Objectives of Study

The main objective of this study is to evaluate the relationship between Pension Fund Asset Investment and Economic Growth in Nigeria.

The specific objectives are to;

i. Determine the relationship between Pension Fund Assets and Gross Domestic Product of Nigeria.
ii. Assess the relationship between Pension Fund Investment and Gross Domestic Product of Nigeria.

Conceptual Framework

Pension Funds

Pension Funds, can be defined as financial intermediaries, usually sponsored by non-financial companies, which collect and invest funds on a pooled basis for eventual payment to members in the form of pensions. Pension funds are among the most important institutions in certain national financial markets. Pension Funds are institutions established under the social security policy of a jurisdiction. Social security means any kind of collective measures or activities designed to ensure that members of a society meet their basic needs and are protected from the contingencies to enable them maintain a standard of living consistent with social norms. Social security is defined in its broadest meaning by the International Labour Organization (ILO) as the protection measures which society provides for its members, through a series of public measures against economic and social distress that would otherwise be caused by the stoppages or substantial reduction of earnings resulting from sickness, maternity, employment injury, unemployment, disability, old age, death, the provision of medical care subsidies for families with children (Yartey, 2008).

Pension Fund Assets

Pension funds' assets are defined as assets bought with the contributions to a pension plan for the exclusive purpose of financing pension plan benefits. The pension fund is a pool of assets forming an independent legal entity. This indicator is measured in millions of USD or as a percentage of GDP. A pension fund is any plan, fund, or scheme that provides retirement income. The National Pension Commission (PenCom) said that the total pension fund assets stood at N8.14 trillion as at May 2018. The assets rose from N7.52 trillion in December 2017, to N8.14 trillion in May 2018 (Pencom, 2018). The pension assets as at December 2017 stood at N7.52tn, it moved up to N7.8 trillion as at February and soared to N7.94 trillion in March, then to N8.14 trillion in May. Pencom (2018) also posited that N5.2 trillion has been invested in Federal Government Securities by the Pension Fund Administrators (PFAs). The investment represented 70.08 per cent of the N8.14 trillion pension assets. A breakdown of the investment is FGN bonds got N3.96 trillion; treasury bills, N1.68 trillion, agency bond like the Nigeria Mortgage Refinancing Company (NMRC) and the Federal Mortgage Bank of Nigeria (FMBN) got N6.54 billion, Sukuk bonds got N51.98 billion and green bond got N8.26 billion. The state government securities gulped N154.02 billion; corporate bonds, N393.27 billion; corporate infrastructure bonds, N8.36 billion; banks, N662.80 billion; commercial papers, N71.75 billion and estate properties, N228.86 billion. Other classes of assets include, supra-national bonds, N8.21 billion; open/close end funds, N10.16 billion; mutual funds, N1987 billion; private equity fund N3727 billion; infrastructure fund, N8.95 billion and cash & other assets N96.13 billion (Pencom, 2018).

Pension Fund Investment

The main goals of pension investment are to ensure adequate, affordable and sustainable benefits to contributors, secure safety and security of funds, ensure adequate liquidity to pay all pension benefits of contributors as and when due, achieve an optimal trade-off of risk and return through strategic asset allocation. The asset class of investment include government securities, corporate bonds /debt (including real estate investment trust {REITs}, mortgage and asset backed securities), money market instruments, ordinary share, open and close – end funds (Eyamba, 2018). Under the new fund structure, all active young contributors under 49 years would be under Fund 2, with about 60 to 70 per cent of contributions to be invested in bonds and treasury bills. The balance would go into money market and other instruments (Bassey, 2018).

Fund 3, which is a pre-retirement fund, would be for those in the 50 to 60 years old bracket, with 80 per cent of the funds to be invested in bonds and treasury bills.

The 4th fund would be a retirees fund set aside for those aged 60 years and above.

The introduction of multi-fund investment structure for Retirement Savings Account (RSA) funds would address the varying risk appetite of contributors, as the different funds are tailored to fit the ages and risk profiles of contributors (Bassey, 2018).

Expanding the scope of allowable investment instruments and fund classes available to contributors would also improve returns on pension funds, as minimal limits have been set for variable income instruments which generally give higher returns over a given period. Apart from boosting returns on pension funds, the initiative would help resolve the challenge of asset- liability risk management by pension funds by better aligning the risk return expectations of contributors, better matching of pension assets and liabilities and diversifying pension fund portfolios (Eyamba, 2018). Increased pension fund assets representing about N270 billion followed enrollment of Contributory Pension Scheme by over 390,000 contributors, from 7.50 million as at March 31, 2017 to 7.90 million as at February 28, 2018 (PenCom, 2018).

Economic Growth

Economic growth is generally defined in terms of increase in Gross Domestic Product (GDP). Economic growth refers to an increase in a country's national output of goods and services or increase in the volume of output of goods and services within a specific period. Growth is usually taken to mean economic progress which is the rate at which the annual output of goods and services grow in real terms but economic development on the other hand is a less precise and more complex term which cannot be easily reduced to quantitative measurement in monetary terms alone. It involves a multitude of variables all of them dealing with man's existence (Okeke, Mbonu & Amahalu, 2018). To Okoye, Amahalu, Nweze and Obi (2016), economic growth is related to quantitative sustained increase in a country's per capital output or income accompanied by expansion in its labour force, consumption, capital and volume of trade, while economic development is a wider concept than economic growth. It relates to qualitative change in economic wants, goods, incentives, institutions, productivity and knowledge. It is the upward movement of the entire social system. This implies that an economy can grow but cannot develop because poverty, unemployment and inequalities may continue to persist. Thus, economic growth is the increase in the total output of an economy over a certain period of time,

Gross Domestic Product

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period. GDP includes all private and public consumption, government outlays, investments, private inventories, paid-in construction costs and the foreign balance of trade (exports are added, imports are subtracted) (Okoye, Okoye & Amahalu, 2015). GDP is a broad measurement of a nation's overall economic activity. GDP is commonly used as an indicator of the economic health of a country, as well as a gauge of a country's standard of living. Since the mode of measuring GDP is uniform from country to country, GDP can be used to compare the productivity of various countries with a high degree of accuracy. Adjusting for inflation from year to year allows for the seamless comparison of current GDP measurements with measurements from previous years or quarters. In this way, a nation's GDP from any period can be measured as a percentage relative to previous periods (Amahalu, Egolum & Okoye, 2014).

Pension Fund Asset Investment and Economic Growth

Pension schemes help to mitigate the large gender inequalities that exist particularly in developing countries with respect to formal pension coverage. In addition to moral or ideological opinions on pension schemes and their different types, academic research has identified a variety of mechanisms for how pension scheme can improve the welfare and economic growth in a country. Ponczek (2012) has shown that pension schemes are beneficial for the elderly, their families and, in particular, children residing in an elderly household. Ravallion, Chen and Sangraula (2007) showed that extending pension coverage to poor black elderly in South Africa significantly improved the health of these elderly. Long and Pfau (2008) found that increases in social pensions have been a main source of poverty reduction in Thailand.

Empirical Review

Odo and Okeke (2016) examined the influence of the contributory pension scheme on the financial system development in Nigeria. Evidence accumulated from both theoretical and empirical literature point to the power of contributory pension to deepen the financial system. An empirical work earlier done showed that the total domestic savings (TDS) increased during the post-pension period; and that the capital market capitalization rose significantly over the period. It was also observed that its implementation has created an impressive scenario whereby new pension funds account for 30% and 8% bond and stock markets capitalization, respectively. This was beside the increased activities in the life subsector of the insurance industry.

Musawa and Mwaanga (2017) assessed the effect of pension funds and capital market. Therefore, the study was an attempt to investigate the long run effect of pension fund's investment on the Lusaka securities exchange performance. The study used quarterly data for the period ranging from January 2009 to December 2015, and employed the cointegration and vector error correction; the results proved the existence of long run relationships between the pension funds and the market capitalization. The relationship implies that if pension funds are encouraged to invest more in equity, it will contribute to the growth of capital market, hence developing. Recommendations have been made to policy makers on how they can use the sector to improve the performance of the capital market

Agbata, Ekwueme and Edirin (2017) determined how the administration of the Pension Scheme could be perked up in Nigeria through effective management that would reduce fraudulent practices apparent in the scheme. By following the precept of library research via the survey design, a 5-point Likert Scale questionnaire was designed to deduce primary information about pension matters from a sample of 435 knowledgeable respondents. The collected data were presented and analyzed. Three hypotheses were formulated and tested based on Multiple Regression Analysis models with the aid of Minitab version 17. The findings show that, despite the provisions of the Act (the Pension Reform Act - PRA), intents for committing Pension Fraud have not reduced to a significant extent. Also, the accumulated assets of pension funds have not been adequately diversified into profitable investment alternatives. Therefore, we recommend that, among other things, amendments should concertedly be made to the PRA to at least discourage acts of pension frauds by instituting severe punitive measures for culprits, while simultaneously inculcating moral ethics among public servants in Nigeria

METHODOLOGY

Research Design

This study adopted the ex-post facto method of research and time series design procedure.

Population of the Study

The population of this study consists of twenty-one (21) licensed pension fund administrators in Nigeria as at 31st December, 2017 (refer to appendix A).

Source of Data

This study used secondary data from different sources: Central Bank of Nigeria (CBN) annual economic reports and financial Statistical Bulletin, World Bank economic reports and the annual publications of the Pension Commission of Nigeria as well as the National Bureau of Statistics (NBS) for a twelve (12) year period ranging from 2006-2017. The licensing of Pension Fund Administrators (PFA) by Pension Commission (PENCOM) in 2006 informed the choice of the base year of 2006.

Research Variables

Independent Variables

Pension Fund Asset Investment which formed the explanatory variable of this study was surrogated by:

i. Pension Fund Assets: extracted from Pension Commission (PENCOM) annual reports (various issues)

ii. Pension Fund Investment: extracted from Pension Commission (PENCOM) annual reports (various issues)

Dependent Variables

The dependent variable is economic growth, which was proxied by:

i. Gross Domestic Product: extracted from Central Bank of Nigeria Statistical Bulletin, World Bank economic reports and National Bureau of Statistics (several issues)

Model Specification

In order to ascertain the relationship between Pension Fund Asset Investment and Economic Growth in Nigeria, the following functional relationship was expressed as follows:

GDP = f (PFA,and PFI).

From the above function, the following testable models were derived:

Model 1: $GDP_t = \beta_0 + \beta_1 PFA_t + \varepsilon_t$

Model 3: $GDP_t = \beta_0 + \beta_1 PFI_t + \varepsilon_t$

Where:

GDP_t = Gross Domestic Product for 12 years period;

PFA_t = Pension Fund Assets for 12 years period;

PFI_t = Pension Fund Investment for 12 years period;

β_0 = Constant term;

β_1 = Coefficient of the parameter estimates

ε_t = Error term

Decision Rule

The decision will be based on 5% (0.05) level of significance. The null hypothesis (H_o) will be accepted, if probability value (ie. P_{value} or Sig.) calculated is greater than or equal to (≥) the stated 5% level of significance, otherwise reject.

DATA PRESENTATION AND ANALYSIS

Test of Reliability (Unit Root Testing)

In order to avoid the generation of spurious regression normally associated with time series data, the model specified above requires the test for the existence of unit root for each of the variables. This study makes use of the Augmented Dickey-Fuller (ADF) test.

Table 1: Detrended Result

Variables	Test Statistic	Test Critical Values			Status	Prob.
	ADF	1% level	5% level	10% level	Stationary	
GDP	-4.843076	-4.420595	-3.259808	-2.771129	1(1)	0.0167
PFA	-5.181990	-4.420595	-3.259808	-2.771129	1(1)	0.0038
PFI	-5.742365	-4.420595	-3.259808	-2.771129	1(1)	0.0045

Source: E-Views 9.0 ADF Output, 2019

Thus, it is clear in table 1 that all the variables have unit root in their level form but at first difference the variables became stationary. Thus, the model follows integrating process.

Table 2: Pearson Correlation Matrix

	GDP	PFA	PFI
GDP	1.000	0.234	0.342
PFA	0.234	1.000	0.436
PFI	0.342	0.436	1.000

Source: E-Views 9.0 Correlation Output, 2019

The Pearson correlation matrix as presented in table 2 indicates the existence of a positive relationship between PFA, PFC, PFI and GDP at correlation coefficients of 0.234, 0.361, and 0.342 respectively.

Test of Hypotheses

Test of Hypothesis I

Ho_1: There is no significant relationship between Pension Fund Assets and Gross Domestic Product of Nigeria.

H_1: There is significant relationship between Pension Fund Assets and Gross Domestic Product of Nigeria.

Table 3: Ordinary Least Square regression analysis testing the relationship between GDP and PFA

Dependent Variable: DGDP
Method: Least Squares
Date: 07/26/19 Time: 15:06
Sample (adjusted): 2007 2017
Included observations: 11 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.122607	0.732834	4.167306	0.0008
DPFA	0.292543	0.932781	6.713625	0.0000

R-squared	0.410811	Mean dependent var	0.010909
Adjusted R-squared	0.349099	S.D. dependent var	2.026171
S.E. of regression	2.124196	Akaike info criterion	4.507629
Sum squared resid	40.60987	Schwarz criterion	4.579974
Log likelihood	-22.79196	Hannan-Quinn criter.	4.462026
F-statistic	14.98360	Durbin-Watson stat	1.587578
Prob(F-statistic)	0.000013		

Source: E-Views Output, 9.0, 2019

Interpretation of Regressed Result

The model as shown in table 3 shows a good fit since it has an R-squared of about 41 per cent. This suggests that about 41% of the variation in economic growth is associated with variation in pension fund asset in the economy. In other words, only about 59% variation in economic growth is attributed to other variables other than PFA, captured by the stochastic error term. However, the p-value of 0.0000 and t-statistic values of 6.713625 suggests that PFA coefficient is statistically significant in explaining variation in economic growth. The PFA coefficient value of; β_1= 0.292543 implies that GDP positively correlates with PFA. On the basis of a priori expectation, the variable (PFA) has the expected positive signs.

$GDP = 0.122607 + 0.292543PFA + \mu$

Thus, this study has provided evidence that there is a significant positive relationship between Pension Fund Assets and Gross Domestic Product of Nigeria at 5% level of significance.

Test of Hypothesis II

Ho_3: There is no significant relationship between Pension Fund Investment and Gross Domestic Product of Nigeria.

H_3: There is significant relationship between Pension Fund Investment and Gross Domestic Product of Nigeria.

Table 5: Ordinary Least Square regression analysis testing the relationship between GDP and PFI

Dependent Variable: DGDP
Method: Least Squares
Date: 07/26/19 Time: 15:08
Sample (adjusted): 2007 2017
Included observations: 11 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.008487	0.652509	-0.013007	0.9899
DPFI	0.159222	0.916657	3.173699	0.0029

R-squared	0.393341	Mean dependent var	0.010909
Adjusted R-squared	0.317399	S.D. dependent var	2.026171
S.E. of regression	2.132201	Akaike info criterion	4.515152
Sum squared resid	40.91652	Schwarz criterion	4.587497
Log likelihood	-22.83334	Hannan-Quinn criter.	4.469549
F-statistic	9.030171	Durbin-Watson stat	1.666278
Prob(F-statistic)	0.002946		

Source: E-Views Output, 9.0, 2019

Interpretation of Regressed Result

The model as shown in table 5 shows a good fit since it has an R-squared of about 39 per cent. This suggests that about 39% of the variation in economic growth is associated with variation in pension fund investment in the economy. In other words, only about 61% variation in economic growth is attributed to other variables other than PFI, captured by the stochastic error term. However, the p-value of 0.0029 and t-statistic values of 3.173699 suggests that PFI coefficient is statistically significant in explaining variation in economic growth. The PFI coefficient value of; β_1= 0.159222 implies that GDP positively correlates with PFI. On the basis of a priori expectation, the variable (PFI) has the expected positive signs.

$GDP = -0.008487 + 0.159222PFI + \mu$

The F-statistic of 9.030171 and the associated p-value of 0.0029 shows that the overall model is statistically significant at 5% level, thus the hypothesis of significant linear relationship between the dependent and independent variable is upheld. The Durbin-Watson statistic, which is a test for first-order autocorrelation shows that the model is free from the problem of autocorrelation. This was indicated by the Durbin-Watson statistic value of 1.666278 which is approximately 2.

Decision:

This study upholds that there is a significant positive relationship between Pension Fund Investment and Gross Domestic Product of Nigeria at 5% level of significance.

Summary of Findings

From the analysis and discussion of findings, the following are the summary of key findings:

i. There is a significant positive relationship between Pension Fund Assets and Gross Domestic Product of Nigeria at 5% level of significance.
ii. There is a significant positive relationship between Pension Fund Investment and Gross Domestic Product of Nigeria at 5% level of significance.

CONCLUSION

The broad objective of this study was to ascertain the relationship between Pension Fund Asset Investment and Economic Growth in Nigeria from 2006-2017. This research adopted the Augmented Dickey Fuller test to verify the stationarity of the data. Ordinary Least Squares regression model (OLS) was employed in examining the variables in the hypotheses. The empirical findings revealed that PFA, PFC and PFI exerted a positive and significant relationship with the GDP at 5% level of significance.

Hence, it was concluded therefore that Pension Fund Asset Investment has significant impact on Nigeria economy at 5% level of significance.

RECOMMENDATIONS

Following the empirical findings of this study, the following recommendations were made:

i. There should be more emphasis on the management of pension assets in the capital market as well as government bond, real estate, investment trust to boost Gross Domestic Product (GDP) of Nigeria.

ii. The pooled fund should be invested in federal government securities to make resources available for economic growth and national welfare/improved standard of living

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Appendix A

List of Licensed Pension Fund Administrators

i. AIICO Pension Managers Limited
ii. APT Pension Funds Managers Limited
iii. ARM Pension Managers Limited
iv. AXA Mansard Pensions Limited
v. Crusader Sterling Pension Limited
vi. Fidelity Pension Managers Limited
vii. First Guarantee Pension Limited
viii. Future Unity Glanvills Pensions Limited
ix. IEI-Anchor Pension Managers Limited
x. IGI Pension Fund Managers Limited
xi. Investment One Pension Managers Limited
xii. Leadway Pensure PFA Limited
xiii. Legacy Pension Managers Limited PFA
xiv. NLPC Pension Fund Administrators Ltd
xv. NPF Pension Managers
xvi. Oak Pensions Limited
xvii. Pension Alliance Limited
xviii. Premium Pension
xix. Sigma Pension Limited
xx. Stanbic IBTC Pension Managers Limited
xxi. Trust Fund Pension PLC