An Analysis of Nigeria's Pension Industry: Growth, Challenges, and Resilience from 2008 to 2020

Ashim Babatunde Sogunro
Department of Actuarial Science and Insurance at the Faculty of Management Science, University of Lagos, Lagos, Nigeria.

Olaronke Olufemi Oyelade
PhD candidate in the Department of Actuarial Science and Insurance at the Faculty of Management Science, University of Lagos, Lagos, Nigeria. E-mail: olabisironke@yahoo.com

Dallah Hamadu
Department of Actuarial Science and Insurance at the Faculty of Management Science, University of Lagos, Lagos, Nigeria

Abstract

This study provides an analysis of Nigeria's pension industry from 2008 to 2020, utilizing data obtained from the National Pension Commission (PenCom). It examines the growth and challenges of retirement savings account registration, pension operators, contributions, assets, and fund portfolio administration in the country. The data for this study, spanning 2008 to 2020, was sourced from the annual reports of PenCom, and a descriptive research design was employed to analyze the growth, challenges, and resilience of the Nigerian Pension Industry during this period. Key milestones include the implementation of the Contributory Pension Scheme (CPS), growth in pension assets, and increased pension coverage among the workforce. Private sector contributions to pension funds showed significant fluctuations but ultimately grew substantially, while public sector contributions demonstrated a more consistent upward trend. By 2020, public sector contributions had exceeded those from the private sector, possibly influenced by the economic impact of COVID-19. The pension fund market features a diverse range of operators, with 31 licensed PFAs managing funds across various sectors by 2020. The concentration of market share among leading Pension Fund Administrators (PFAs) indicates a competitive environment, with major entities capturing a significant portion of Retirement Savings Account (RSA) and Micro Pension Plan (MPP) registrations. Overall, the Nigerian pension sector has exhibited robust growth and resilience, effectively navigating economic challenges and expanding its asset base. The steady increase in both public and private contributions, alongside the diversification of pension assets, points towards continued enhancement of financial security for retirees.

Keywords: Contributory Pension Scheme, Pension Fund Administrators, Retirement Savings Account

1. Introduction

Over time, the contributory pension plan has emerged as one of the best pension administration practices worldwide. In 2004, Nigeria adopted the Defined Contributory Scheme, joining other reforming nations. Prior to this, the nation's public sector employees were covered by the Defined Benefit Scheme, which required all levels of government to fund their pensions and gratuities. The private sector, on the other hand, relied on the Nigeria Social Insurance Trust Fund (NSITF) for its contributory pension scheme. Before the introduction of the 2004 Pension Reform Act, both the public and private sectors' pension plans were plagued by crises. At that time, it was estimated that public retirees were owed over 2 trillion Naira in pension liabilities (Marcellus & Osadebe, 2014).

In June 2004, the Federal Government introduced a sustainable pension system aimed at achieving the nation's ultimate goal of providing every worker with a reliable, sufficient, and steady income upon retirement. The Pension Reform Act of 2004 established a Contributory Pension Scheme (CPS) based on individual accounts. This scheme is privately managed and fully funded by contributions from both employers and employees, and it applies to Nigerian employees in both the public and private sectors. Additionally, the act created the National Pension Commission (PenCom) as the sole supervisory and regulatory body for all pension-related matters in the country(Eme et al., 2014). Over time, the contributory pension plan has emerged as one of the best pension administration practices worldwide(Martina, 2024).

Prior to 2010, the pension industry in Nigeria operated with four distinct sectors: Pension Fund Administrators (PFAs), Pension Fund Custodians (PFCs), Closed Pension Fund Administrators (CPFAs), and Approved Existing Schemes (AES). Each sector had specific roles in managing and securing pension funds. PFAs were responsible for the management and investment of pension contributions, while PFCs acted as custodians, safeguarding the assets and ensuring compliance with regulations. CPFAs managed pension funds for specific companies under closed systems, and AES represented legacy pension schemes approved by regulators before the introduction of contributory pensions. In recent years, however, regulatory reforms have streamlined the sector, reducing the number of recognized pension operators to just two: PFAs and PFCs. This consolidation aimed to simplify pension operations, enhance oversight, and improve efficiency in the administration and management of retirement savings accounts. CPFAs have largely been absorbed into PFAs or ceased operations, and AES have been phased out or integrated into the contributory pension scheme(Chike & Obiagwu, 2020). This restructuring reflects the government's commitment to modernizing the pension industry, ensuring long-term sustainability, and protecting contributors' funds. The focus on PFAs and PFCs allows for better regulation and alignment with global best practices in pension fund administration

Nigeria's pension administration systems have improved, particularly for retirees from the Federal Public Service, empirical data indicates that the Pension Reform Act (PRA) 2014's Contributory Pension Scheme still has certain shortcomings and challenges reminiscent of the previous system (Chike & Obiagwu, 2020). Despite the success and the short comings of the CPS, the National Pension Commission has played a pivotal role in shaping the pension industry in Nigeria from 2008 to 2020. Over this period, the industry has witnessed significant growth and transformation, driven by comprehensive regulatory reforms and strategic initiatives aimed at ensuring the sustainability and efficiency of pension administration. This review examines the key developments, trends, and milestones within the pension industry over these years, highlighting the impact of PenCom's policies on the retirement savings accounts (RSAs), pension fund assets, and overall sector performance. By analyzing the progress and challenges encountered, this overview provides valuable insights into the evolution of Nigeria's pension landscape and the strides made towards securing the financial future of its workforce. Consequently, this paper attempts to review the various growth, challenges, and resilience of pension industry from 2008 to 2020.

The scope of this study was limited to the Nigerian pension industry from 2008 to 2020. The study was restricted to analyzing the industry's performance and operations under the contributory pension plan (CPS), which was established by the 2004 Pension Reform Act and amended in 2014. The study only used secondary data obtained from National Pension Commission annual reports which might not fully represent the dynamics of the informal sector or take into consideration the real-world experiences of pension contributors and retirees.

2. Literature review

2.1 Conceptual review

The Nigerian pension industry experienced a notable transformation between 2008 and 2020, in terms of growth, challenges, and resilience. The transition from the defined benefit scheme (DBS) to the contributory pension scheme (CPS) under the 2004 Pension Reform Act (PRA), which was amended in 2014, brought about mandatory contributions from both employer and employee into Retirement Savings Accounts (RSAs) managed by Pension Fund Administrators (PFAs) and regulated by the National Pension Commission (PenCom). During this period outstanding progress was made, with RSA registrations above nine million and pension assets exceeding NGN 12 trillion, due to increased compliance, investment diversification and technological advancement (PenCom, 2020; PwC Nigeria, 2020). Nevertheless, challenges such as low coverage of informal sector workers, economic instability affecting fund returns, non-compliance by small and medium enterprises, and lingering governance concerns remain (Adegbite & Olayemi, 2018; Dorfman, 2015). Through policy changes which include a micro-pension plan, improved regulatory supervision and more efficient fund management the industry has demonstrated its resilience in overcoming these challenges(Agusto & Co., 2020; Eme et al., 2014).To ensure sustainable development and adequate retirement income for contributors, it will continue to be imperative to address inadequate coverage, reduce economic risks, and build trust via transparency.

2.2 Empirical review

Over the past few decades, the majority of EU member states have implemented significant pension reforms to improve fiscal sustainability while preserving a sufficient level of pension income. Since 2000, there has been a particularly strong intensity of pension reforms(Marcellus & Osadebe, 2014). Numerous actions have been taken to implement these reforms, significantly altering the parameters and rules of the pension system (Carone et al., 2017). Holzmann (2013) argued that pension systems and their reforms are continuously evolving due to shifting objectives, changing reform needs, and a dynamic environment.

The pension system in China is complex (Liu & Sun, 2016). Several public pension plans make up the first layer; some are required (Public Employee Pension and Basic Old Age Insurance), while others are optional (Urban Resident Pension and New Rural Resident Pension) (Zhu & Walker, 2018). The goal of these public pension plans is to offer all citizens, regardless of employment status, a minimum level of social security when they get older. Employers who voluntarily offer employer-sponsored annuity plans as a complement to public pension schemes make up the second layer. Annuity insurance policies based on household savings make up the third layer. The government provides significant direct fiscal subsidies to the public pension plans in the first tier, while tax breaks are granted to all schemes or products, regardless of layer (Fang, & Feng, 2018). In the overview of Italian pension conducted by Aben (2011), he posited that Italian pension system consists of 3 pillars. The first pillar is a public and unfunded pay as you go scheme, the second and third pillar are private and funded systems. Bonin (2009) evaluated the status of the German pension system following a series of changes meant to ensure long-term viability. He contended that the most recent reforms have, in theory, converted Germany's defined benefit pension system to a defined contribution scheme, which has significantly stabilized pension finances.

The 2004 pension reform policy in Nigeria drew inspiration from the Chilean experience of 1981, aiming to address economic development and social objectives through the DC scheme. However, as highlighted in the literature, Nigeria lacks the required preconditions, such as well-regulated capital markets, to effectively absorb pension savings (Ubhenin, 2012). The interplay and interactions of various intervening bureaucratic elements in the ministries, departments, and agencies of governments at different levels clearly hinder the PRA 2014's ability to operate. According to Anazodo & Okoye (2012), corruption and widespread impunity are commonplace in Nigerian bureaucracy. The civil service has not been able to achieve high performance and efficiency because of persistent fraudulent tendencies(Shimawua & Iorhemen, 1998).

Ubhenin (2012) suggests several recommendations to maximize benefits for Nigerian workers. First, the institutions of governance should be strengthened. Second, it is important to inform the contributors that even under the new plan, they can still access up to 25% of their retirement funds in one lump sum to launch a new venture or handle the transition from work to retirement. Third, all aspects of pension administration should be designed with transparency in mind. Fourth, management principles should be developed with a focus on creativity, innovativeness, openness, transparency, and persuasiveness to create a situation where employers, employees, and the national economy all benefit. Lastly, discussions should be held with significant stakeholders to address ongoing issues and enhance the effectiveness of the pension system.

3. Methodology

This study adopted a descriptive research design to study the growth, challenges and resilience of Nigeria Pension Industry from 2008 to 2020. The methodology is primarily based on a thorough analysis of secondary data, which includes reports and publications from the National Pension Commission (PenCom), particularly its annual reports covering the period from 2008 to 2020. The reports from PenCom provide reliable and comprehensive insights into the industry's performance, including key indicators such as pension asset growth, the number of Retirement Savings Accounts (RSAs), compliance rates, investment strategies, and governance structures.

Population of the Study

The population of this study consists of licensed pension fund administrators in Nigeria.

Method of data collection

The data for this study were sourced from the National Pension Commission annual reports published between 2008 and 2020. These reports provide comprehensive statistics on various aspects of the pension industry, including the Number of Pension fund administrators (PFAs), Pension fund asset growth, Retirement savings accounts (RSAs) and Micro Pension Plan registration (MPP)

Data Validation

The data from PenCom reports were cross-verified with independent industry reports and academic sources to ensure reliability and consistency.

Data Analysis

The collected data were analyzed using descriptive and trend analysis techniques:

Descriptive Statistics: Summarized key figures and trends in RSA registrations, asset growth, and Pension fund contribution growth.

Trend Analysis: Examined changes over time to identify growth trajectories, recurring challenges, and the impact of major policy reforms such as the 2014 Pension Reform Act.

Content Analysis: Reviewed qualitative information to extract insights into industry resilience and the effectiveness of implemented strategies.

4. Result and discussion

4.1 RSA registration and Pension Fund Contributions by PFA

The analysis of RSA registrations by sectors; public and private as well as age distribution reveals that contributors aged 30-39 represented the largest share of RSA holders in 2018, as illustrated in Fig 1 (a) and (b). Specifically, this age group made up 36.27% of RSA holders during the reviewed period. This age group predominates among males in both the public and private sectors. Those in the 40-49 age bracket comprised 27.93% of the registered RSA holders by the end of the year. Combined, these two age groups accounted for 64.20% of the total RSA registrations by the end of 2018. The total membership of the pension schemes grew by 5.67%, from 8,469,257 in 2018 to 8,949,536 in 2019. The RSA registration increased by 3.60% from 8,949,536 to 9,271,665 at the end of December 2020. The addition age registration for 2020 is shown in Fig 1 (c).

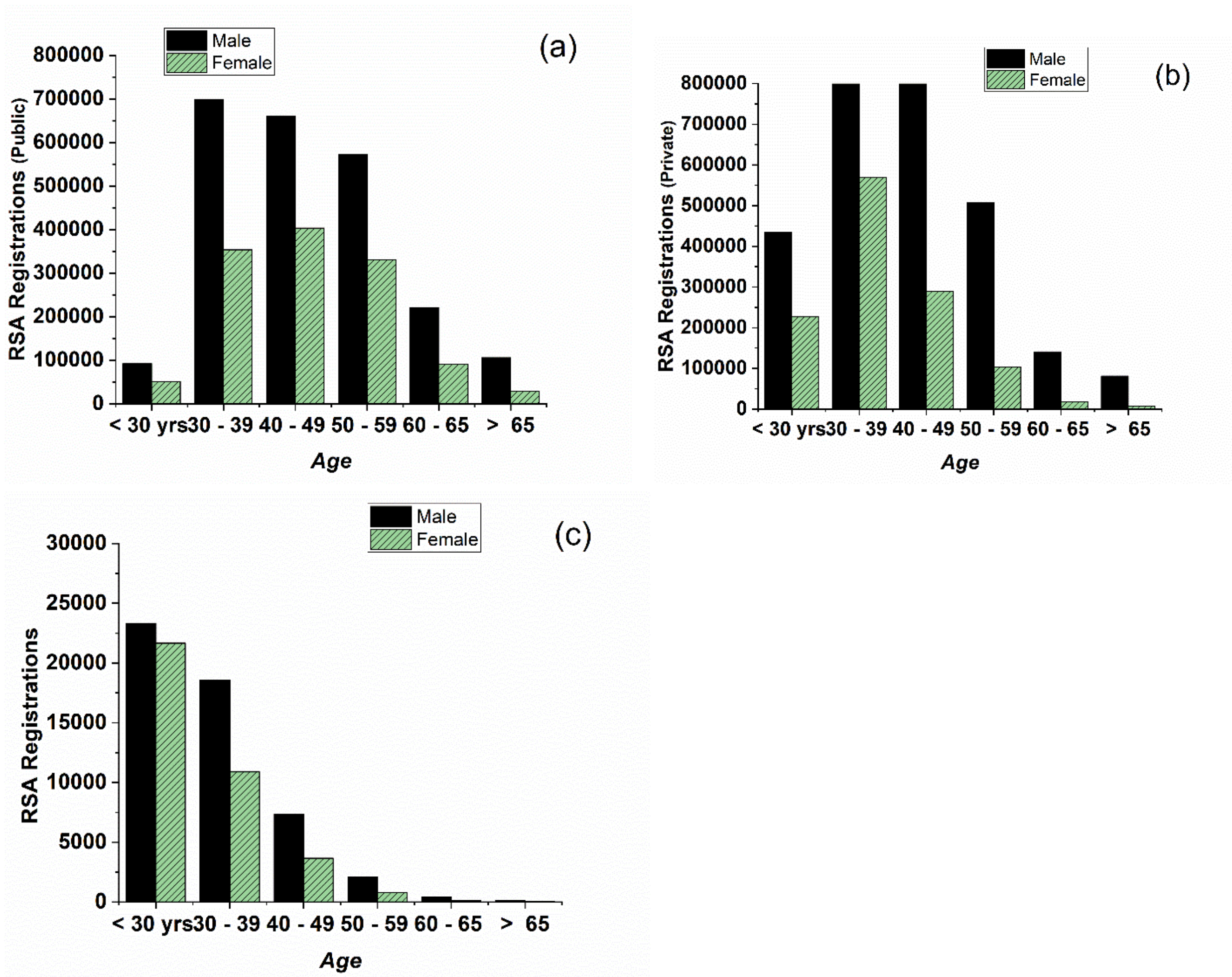

Figure 1: Total number of RSA registration in (a) public sector as at 2018 (b) private sector as at 2018 (c) additional registration at 2020

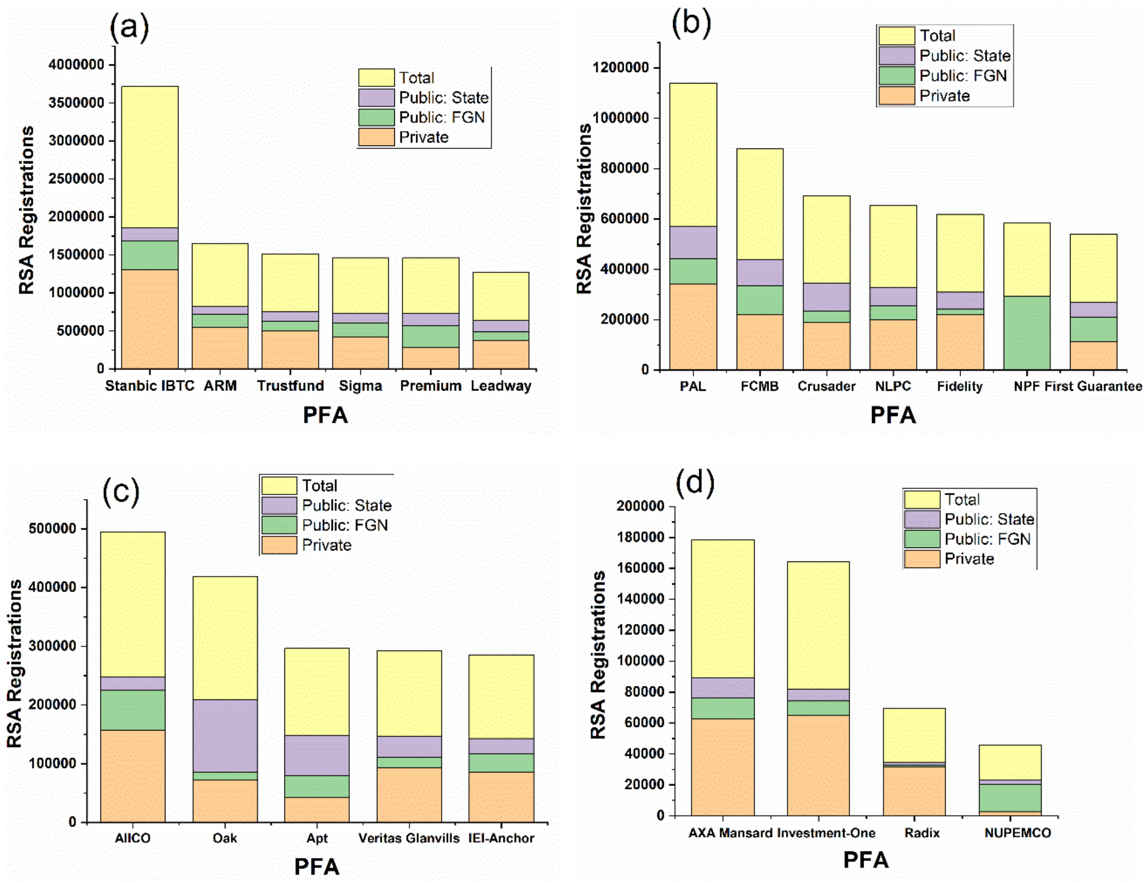

Figure 2: RSA Registration by PFAs at 2020

Additionally, the RSA registration numbers relative to the PFAs at the end of 2020 are shown in Figure 2. An analysis of the RSA registrations reveals that Stanbic IBTC Pension Managers Limited had the highest proportion, with 20.16% of registered RSAs. ARM Pension Managers Limited and Trustfund Pensions Limited followed with 8.97% and 8.21%, respectively. Nigeria Universities Pension Management Company Limited and Radix Pension Managers Limited registered 0.25% and 0.38% of the RSAs, respectively. Further analysis shows that the Private Sector accounted for 5,327,303 (57.81%) of the total RSAs registered from inception to December 31, 2020, while the Public Sector (FGN, State, and Local Governments) accounted for 3,888,393 (42.19%) of the total registered RSAs. In terms of market share ranking, the top three PFAs accounted for 37.34% of the total RSA registrations. The top five and top ten PFAs accounted for 53.19% and 78.36% of the total RSA registrations, respectively. Furthermore, the bottom three PFAs accounted for 1.52% of total RSA registrations, while the bottom five and bottom ten PFAs accounted for 4.03% and 21.64%, respectively.

However, in terms of the Micro Pension Plan (MPP) as of 2020, ARM leads, as depicted in Figure 3. ARM has 16,000 registrations, while Stanbic and Fidelity have 9,000 and 7,500 RSAs, respectively.

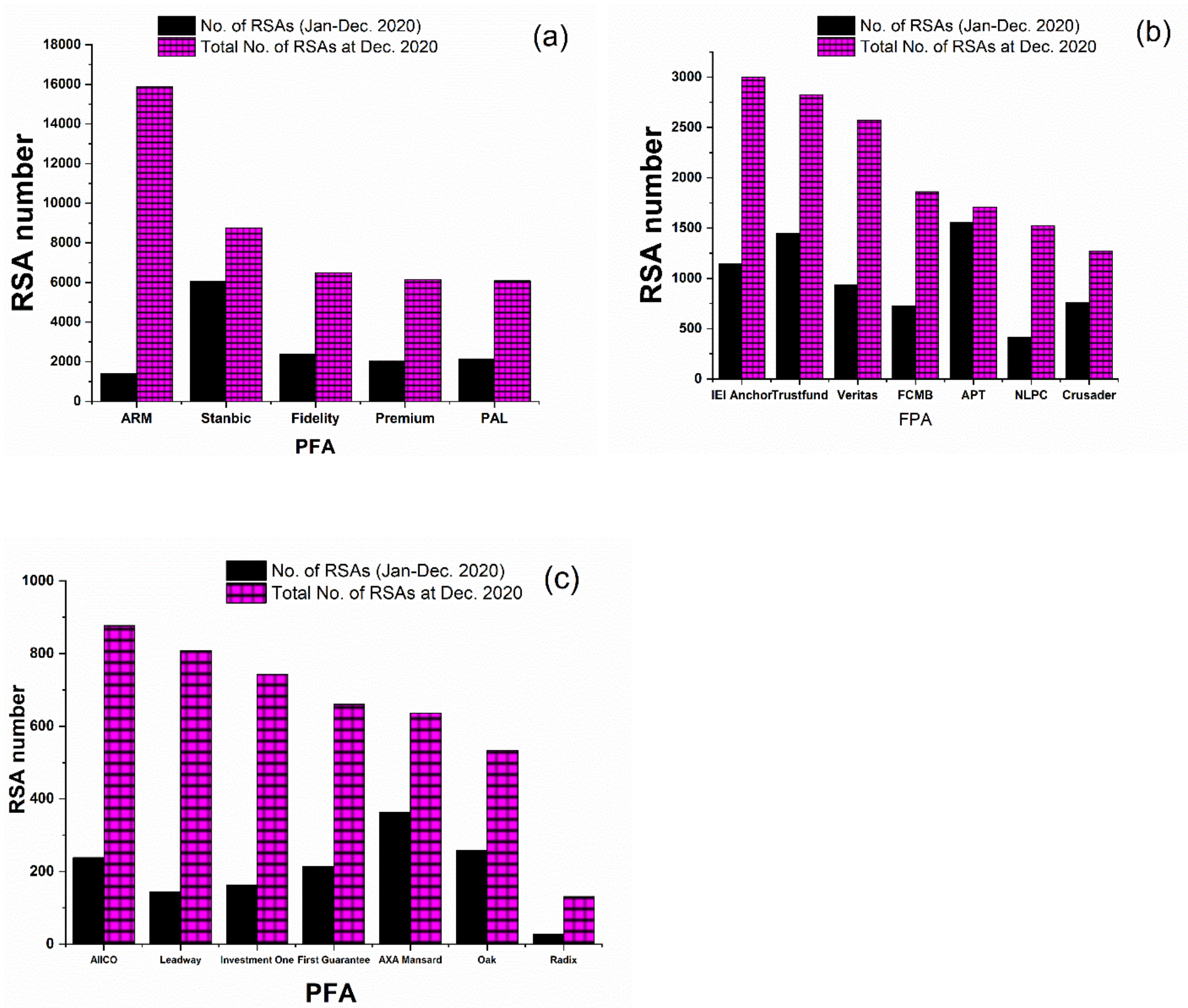

Figure 3: RSA Registrations for the Micro Pension Plan (MPP) at 2020

An analysis of the MPP registration count as of December 2020 reveals that the top 3 PFAs accounted for 49.80% of the total MPP registrations. The top 5 and top 10 PFAs accounted for 69.36% and 88.51% of the total registrations, respectively. Conversely, the bottom 3 PFAs accounted for 2.09% of total MPP registrations, while the bottom 5 and bottom 10 PFAs accounted for 4.34% and 14.21% of the total MPP registrations, respectively. The top 3 PFAs accounted for 49.80% of all MPP registrations as of December 2020. Of all registrations, the top 5 and top 10 PFAs accounted for 69.36% and 88.51%, respectively. On the other hand, the lowest 3 PFAs made up 2.09% of all MPP registrations, and the lowest 5 and 10 PFAs made up 4.34% and 14.21% of all MPP registrations, respectively.

4.2 Number of Pension Operators

A breakdown of the Pension Fund Operators is provided in Fig 4. The number of licensed PFAs in Nigeria stands at 31, reflecting a diverse range of institutions managing pension funds across various sectors. This growth underscores the increasing importance and recognition of pension management as a critical aspect of social security and financial planning in Nigeria.

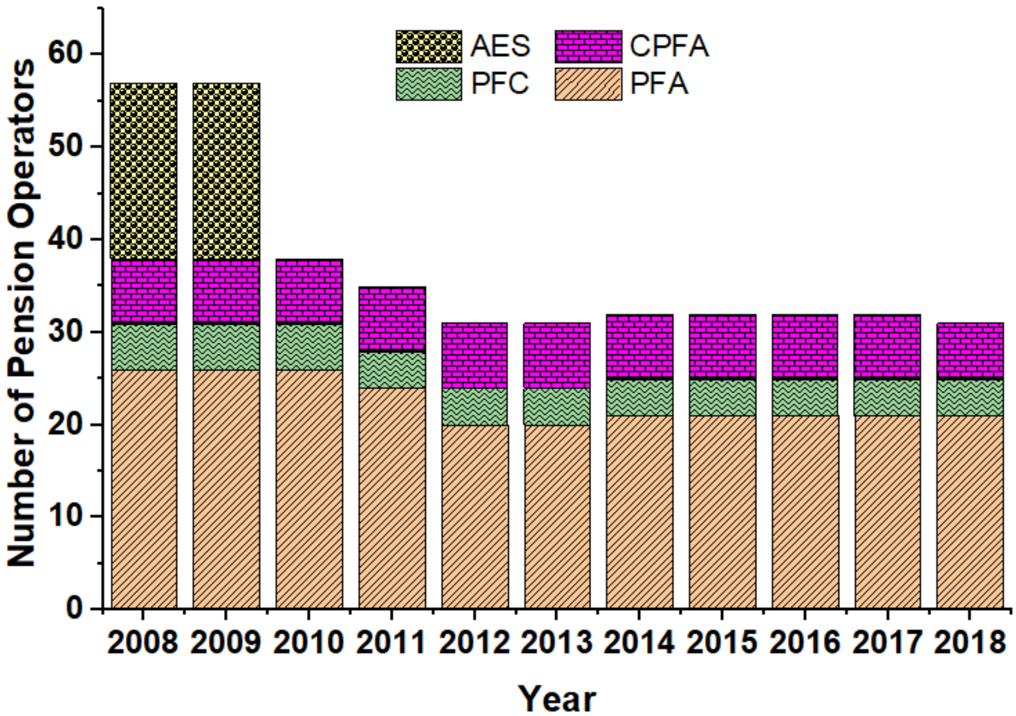

Figure 4: Number of Pension Operators

4.3 Pension Contributions

Figure 5 illustrates the contributions of both the public and private sectors towards pension funds over time. Public contributions started at 15.6 billion in 2004 and increased steadily, reaching 536.97 billion in 2020. This growth, particularly evident after 2009, indicates a heightened commitment from the public sector towards pension funding. Private contributions began at 23.03 billion in 2006, showing growth over the years but with more fluctuation compared to public contributions. By 2020, private contributions reached 371.12 billion. Public contributions generally exceeded private contributions each year until 2014 when the private sector contributions surpassed public contributions. Between 2014 and 2019, private sector contributions were more than 133% higher than public sector contributions. However, by 2019, public contributions started to catch up with private contributions, and by 2020, public sector contributions exceeded private contributions again. This shift can be attributed to the impact of COVID-19 in 2020, leading to many companies reducing operations or shutting down entirely. From the general trends of contributions from both the private and public, the fund in pension is increasing towards 1 trillion naira as at 2020.

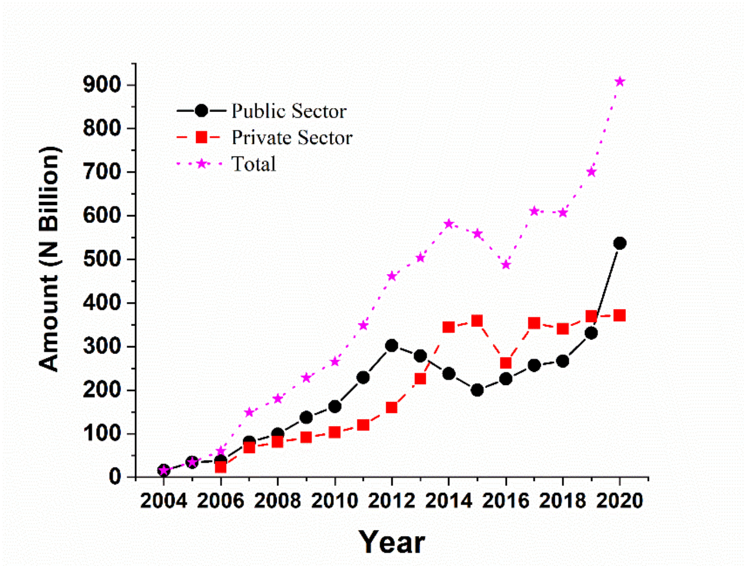

Figure 5: Public and Private Sectors Pension Contributions

4.4 Pension Assets

In 2007, the pension assets were spread over seven main classes namely ordinary shares, government securities, corporate debt securities, money market instruments, mutual funds, real estate property and others as presented in Table 1. Ordinary shares take 29.86% and 20.27% of the total assets for year 2007 and 2008 respectively. The total asset moved from 815 billion to 1.1 trillion assets during the same year period. There are many developments as at 2020 on the pension asset managements as shown in Table 2. The introduction of the multi-fund structure in Nigeria's CPS in 2018 aimed to categorize pension investments into four funds (Funds I, II, III, and IV) based on age and risk profile. Fund I, which has the highest risk exposure, is available to young contributors (under 50) strictly by formal request. Fund II serves as the default for contributors under 49, while Fund III is for those 50 and above. Fund IV is designed exclusively for retirees and follows the most conservative investment approach. Each fund has distinct limits on investing in variable income instruments like equities, with Fund I allowing up to 75% and Fund IV only 10%. This structure seeks to balance risk and returns according to contributors' age and risk tolerance, providing potentially higher returns for younger contributors and stability for those nearing retirement. By the end of 2020 the asset class has increased to 11 from seven in 2007. In addition, the assets value has increased tremendously. For example, Ordinary share as increased to 951.26 billion from 222.77 billion in 2008. Federal government security has taken the leading share of 66.64% of the total assets. This clearly show government has taken more interest in the pension funds.

Table 1 Pension Fund Portfolio (2008)

	2008		**2007**	
Asset Class	Amount	Percent	Amount	Percent
	(N billion)		(N billion)	
Ordinary Shares	222.77	20.27	243.44	29.86
Federal Government Securities	350.82	31.92	279.74	34.32
Corporate Debt Securities	15.12	1.38	0.24	0.03
Money Market Instruments	349.69	31.82	186.01	22.82
Mutual Funds	9.03	0.82	4.46	0.55
Real Estate Property	125.13	11.39	79.08	9.7
Unquoted Securities	6.86	0.62	4.43	0.54
Others	19.57	1.78	17.79	2.18
Total Pension Assets	**1,098.99**	100	**815.19**	100

(Sources: PenCom Annual Report, 2008)

Table 2 Pension Fund Portfolio (2020)

ASSET CLASS	Fund I	Fund II	Fund III	Fund IV	Fund V	CPFA	AES	TOTAL	
	₦ Billion	₦ Billion	₦ Billion	₦ Billion	₦ Billion	₦ Billion	₦ Billion	₦ Billion	Weight %
Quoted Ordinary Shares	5.92	571.05	126.95	10.87	0	132.02	104.45	951.26	**7.73**
Federal Govt. Securities	15.2	3,611.55	2,280.34	655.33	0.03	881	757.32	8,200.75	**66.64**
State Govt.	0.53	67.61	31.79	10.75	-	10.84	15.07	136.59	**1.11**
Corporate Debt Securities	3.8	279.93	152.27	65.51	-	183.59	69.74	754.84	**6.13**
Supranational	-	0.56	0.13	0.44	-	0.25		1.38	**0.01**
Money market Instruments	7.1	697.94	497.78	184.53	0.04	136.05	195.97	1,719.42	**13.97**

Mutual Funds	1.06	25.97	3.68	1.37	-	54.01	1.91	88	**0.72**
Private	-	21.6	-		-	13.75	0.13	35.48	**0.29**
Infrastructure	0.59	39.4	1.86		-	8.43	3.77	54.04	**0.44**
Real Estate						125.23	114.18	239.42	**1.95**
Cash & Other	0.92	40.01	25.69	33.87	0.01	12.47	12.01	124.98	**1.02**
Total	**35.13**	**5,355.63**	**3,120.49**	**962.66**	**0.07**	**1,557.62**	**1,274.55**	**12,306.15**	100

(Sources: PenCom Annual Report, 2020)

5. Conclusion

The analysis of RSA registrations and pension fund contributions by PFAs reveals significant growth and diversification in Nigeria's pension sector. Contributors aged 30-39 dominated RSA registrations in 2018, highlighting a strong engagement from the younger workforce. The overall membership of pension schemes showed a steady increase, with the RSA scheme maintaining a dominant position. Private sector contributions to pension funds exhibited notable fluctuations but ultimately grew significantly, while public sector contributions demonstrated a more consistent upward trend. By 2020, the public sector's contributions had surpassed those of the private sector, possibly due to the economic impact of COVID-19.

The pension fund market is characterized by a diverse range of operators, with 31 licensed PFAs managing pension funds across various sectors as of 2020. The consolidation of market share among the top PFAs indicates a competitive environment, with leading PFAs capturing a significant portion of RSA and MPP registrations.

Pension assets have diversified and expanded considerably from 2007 to 2020, with a marked increase in asset value and the number of asset classes. The federal government's increased involvement in pension funds, as evidenced by the substantial share of federal government securities, underscores the sector's growing importance in social security and financial planning. Overall, the Nigerian pension sector has shown robust growth and resilience, adapting to economic challenges and increasing its asset base. The steady rise in both public and private contributions, along with the diversification of pension assets, indicates a positive trajectory toward enhancing financial security for retirees.

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