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An Assessment of the Impact of Contributory Pension Scheme to Nigerian Economic Development

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Keywords : pension, contributions, economic, development.

I. Introduction

a) Background of the Study

An employee who has worked for an organization for some years is entitled to some benefits which could be in form of gratuity and pension payable to such employee by its employer at the time of retirement. Pension is viewed as a sum of money paid regularly to a person who no longer work because of old age, disability or retirement or to his widowed or dependent children by the state, former employers or from provident fund to which he and his employer both contributed.

The pension system prior to 2004 was characterized with many problems which make the payment of the retirement benefit a failure in Nigeria. Koripamo-Agari (2009) and Yunusa (2009) pointed out that the major weaknesses of pension scheme was lack of adequate and timely budgetary provision coupled with rising life expectancy, increasing number of employers, poor implementation of pension scheme in the private sector due to inadequate supervision and regulation of the system and too many private sector employees were not even covered by the form of pension scheme.

These problems associated with payment of pension in Nigeria necessitated the government during Obasanjo regime could be reformed or reviewed which gave birth to the pension reform Act of 2004. Elumelu (2005) posits the 2004 Pension Reform Act established a uniform contributory; private sector managed and fully funded pension system for both the public and private sector of the country.

The Pension Reform Act 2004 was also established to address the manifested loopholes in the old defined benefit pension scheme and provide adequate resources to retirees after retirement from the service. The large capital pool demands that there should be sound and uniform investment decision making to ensure that value is added to Retirement Saving Account (RSA) contribution. Investment is normally done in the presence of numerous risk mostly political, markets and economic in nature. Investment and market analysis of these Pension Fund Administrators (PFAs) are always propelled to ensure that there is safeguard and safety of these pension assets. The fund accounting organ of PFAs record every bit of inflow and outflow of pension assets in and out of the entity fund.

The aim of the research paper is to assess primarily, the impact of investment decision on pension assets in the modern contributory pension scheme in Nigeria taking Legacy Pension Manager Ltd, Abuja, 2010, as a reference of the study.

b) Statement of the Problem

Although the new reform is guided by the key principles of sustainability, accountability, equity, flexibility and practicability, there is also this fear that funds or Retirees Savings Account (RSA) contributory can be mismanaged by the existing trustees. Also, risk of a given portfolio determines the return thereof. Some pension fund administrators do not have the necessary risk management profile while some fail to pay regard to

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rating signals needed to making sound investment decision.

The decision of investment managers of the pension fund administrators who are responsible for this process impact greatly on the contribution value due to employees (fund owners). Sound investment and efficient management of the huge pension fund assets has great implication on the economy. The spread of large accumulated fund to the capital and money markets are employment opportunities creation.

From the forgoing, the following specific problems will be studied:

- The impact of fund investment and management on the contributory fund and the Nigeria economy as a whole.
- The status of the fund assets regulation and framework.
- The nature and effect of risk prevailing in the pension assets.
- Monitoring and documentation of status report by the contributors.

c) *Objectives of the Study*

The main objective of this study is to assess the investment and management of contributory pension scheme fund with a view to determining its contribution to the economy through the investment of excess pool of fund in the capital and money markets and creation of employment opportunities.

The specific objectives are:

i. To examine how Contributory Pension Scheme influence the Gross Domestic product (GDP).
ii. To examine how the risk prevalent in pension fund investment affects pension management.

d) *Research Questions*

i. How does contributory pension scheme influence Gross Domestic product (GDP) in Nigeria?
ii. To what extent risk prevalent in Pension Fund Investment affect Pension Management in Nigeria?

e) *Research Hypothesis*

i. *Hypothesis I -*

H_0: Contributory Pension Scheme has no significant and Positive effect on Gross Domestic Product (GDP).

ii. *Hypothesis II -*

H_0: The Risk Prevalent in Pension Fund Investment has no significant Effect on Pension Management.

f) *Significance of the Study*

Every country faces many choice is dealing with micro and macro-economic issues. These choices are made daily in more or less coordinated ways with a long or short term perspective. The Pre-pension Reform Act 2004 was a "Pay As You Go" (PAGA) pension scheme faced with a lot of challenges that gave birth to the new contributory pension scheme. The significance of this work therefore can never be overemphasized as it will avail the stakeholders the necessary and basic understanding on how their mutual interests are protected.

The contributors would have a grasp of how their Retirement Savings Account (RSA) funds are managed by Pension Fund Administrators (PFAs) and safe custody by Pension Fund Custodians (PFCs) and its effect on the economy.

It is also of importance to Pension commission, PENCOM and the government at different levels as it provide avenue to overcome the short-comings in the modern system.

New pension scheme came into existence in 2004. Consequently, this is undoubtedly a new horizon that calls for detailed research. Pension fund accounting us a new area that needs input from scholars, hence, this study will help other researchers with interest in pension.

g) *Scope of the Study*

This study is on the issue of pension administration in Nigeria from 2005 to 2010. However, the area of coverage of the study of Contributory Pension Scheme, its operation and problems, provisions, operation mechanisms and most centrally, the management of contributory fund and its effect on the economy. Specifically, the work will be restricted to new pension scheme: Contributory Pension Scheme with particular reference to pension fund administrator, taking Legacy pension as a case study.

h) *Limitation of the Study*

The major limitation experienced in this study is the Pension Fund Administrators itself. Most of the information provided by the Legacy Pension Manager required explanation as to the reason behind such activities and actions. Nevertheless, there is always solution to a problem the problems were to an extent surmounted.

There is also a limitation to textbooks, Journals and other materials in the library which are relevant to the research work. I have to source for some materials outside the library.

In addition, there was insufficient time for the study. In fact, it is very difficult for a student to go for a research work at the detriment of his lectures. This affects the expected quality of the research work.

Furthermore, inadequate finance has an effect on this research work due to the current situation of the economy which makes prices of things very high viz-a-vis the cost of transportation the pension fund administrator to obtain relevant materials to this research work were very expensive.

However, the challenges were brought under control to ensure the success of this work.

II. Literature Review and Theoretical Framework

a) Literature Review

In the view of Ndebbio (2000), financial deepening means an increase in the supply of financial assets in the economy and therefore the sum of all the measures of financial assets gives us the approximate size of financial deepening. From this, it is suggested that the financial sector is the conduit through which financial deepening is manifested. The Department for International Development (DFID) (2004) defined the financial sector of an economy as the wholesale, retail, formal and informal institutions in an economy offering financial services to consumers, businesses and other financial institutions. It therefore broadly includes everything from banks, stock exchanges, insurers, credit unions, microfinance institutions and money holders.

Through its contributory features, the funded scheme has the inherent potential to boost savings. OECD (2005) has observed that institutional investors, in particular pension funds, mutual funds and insurance have enhanced their role as collectors of savings over the past few decades. It went on to conclude that this trend is likely to continue as retirement saving grows and the increased pension saving will augment the size of capital markets. The large pool of savings which constitutes pension funds must be channeled into portfolios for reasonable returns so that old-age liquidity of the retirees (former affiliates) and hence their old-age consumption (welfare) can be assured. This requires a high degree of financial intermediation in the financial sector. Such a come-together of the deficit and surplus spending units is likely to result in more deepening of the financial system (Goldsmith, 1969; Ghani, 1992; Greenwood and Jovanovic, 1990).

Ardic and Damar (2006) in their study of financial sector deepening and economic growth in Turkey captured financial depth as total bank deposits divided by Gross Domestic Product GDP. De Jesus Emidio (2007) utilized the ratio of bank deposits liabilities to nominal GDP to capture information on the extent of financial intermediation and the savings level in the economy of Mozambique. McDonal and Schumacher (2007) in their study of financial deepening in sub-Saharan Africa saw financial depth as the ratio of GDP of bank credit to the private sector.

Hasan et al (2007) in their study of institutional development, financial a deepening and economic growth in China, used two measures of financial deepening. One measure was based on banks alone; which was the ratio of total bank loans to GDP and the other was the non-bank sources; which was the ratio of equity and non-financial corporate debt (long term and short term corporate bonds) issuance to GDP. In essence, issuance of equity and corporate bonds represents the activities of the capital markets.

Rousseau and Wachtel (2008) in their study of the impact if financial deepening on economic growth used three measures of financial development, namely; the ratios to GDP of liquid liabilities (M3), liquid liabilities less narrow money (M3 less M1) and credit allocated to the private sector. Lastly, Singh et al (2009) in their study of financial deepening in CFA France Zone captured financial depth as credit to the private sector in terms of GDP.

b) Pension System in Nigeria

Over the years, Nigeria is faced with a lot of challenges among which is pension and gratuity of her workers. Both the private and public sector workers have been faced with this challenge. The public sector workers have suffered a lot under the Defined Benefit Scheme (DBS) and their private sector counterparts have been pained owing to different pension plans by their respective employers.

Retirement benefit paid to retired employees prior to 2004 Reform Act was gratuity and pension. Adegbayi (2005) views gratuity as the payment of a lump sum to an ex-employee at the period of retirement while pension is the payment of monthly stipend to a person who has retired from active employment or business engagement. The payment is sustained by way of deductions from past entitlements or past earnings, which are saved to provide retirement benefits. Thus as a tax saving devise, savings toward pensions is quite encouraging. Equally, since pension saving is long term, it is also useful as a macro-economic tool for national development by enabling money to be in circulation for long-term investment.

As viewed by Ugwu (2006) in Amujiri (2009) there are four main classification of pension in Nigeria. These are retiring pension, compensatory pension, superannuating pension and compassionate allowance. It should also be noted that gratuity is a one-and-for-all lump sum of money paid to an employee on retirement. A retiring worker can be entitled to gratuity only or both gratuity and pension. It then means that a worker who is entitled to pension is also entitled to gratuity.

c) An Overview of Pension Systems in Nigeria

The history of Nigeria's pension system dates back to the year 1951 when the first pension scheme was inaugurated in the country. According to Balogun (2006), Nigeria's first ever legislative instrument on pension matters was the Pension Ordinance of 1951 which had a retroactive effect from 1st January, 1946. The law provided public servants with both pension and gratuity. The National Provident Fund (NPF) which was established in 1961, was the first legislation enacted to address pension matters of private organizations.

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Pensions Decrees 102 and 103 (for the military) of 1979 were enacted with retroactive effect from April, 1974 (Ahmed, 2006).

The police and other Government Agencies' Pension Scheme were enacted under Pension Act No. 75 of 1987. This was followed by the Local Government Pension Edict which culminated into the establishment of the Local Government Staff Pension Board of 1987. In 1993, the National Social Insurance Trust Fund (NSITF) scheme was established by decree No. 73 of 1993 to replace the defunct NPF scheme with effect from 1st July, 1994 to cater for employees in the private sector of the economy against loss of employment income in old, invalidity or death.

Before 2004, most public organizations operated a Defined Benefit (Pay-As-You-Go) scheme and final entitlements were based on length of service and terminal emoluments. The defined benefit pension scheme in Nigeria was plagued by many problems among which were poor funding due to inadequate budgetary allocations [for instance shortage of budgetary release relative to benefits resulted into unprecedented and unsustainable outstanding pension deficit estimated at over ₦ 2 trillion before 2004 (Balogun, 2006)], weak, inefficient and non-transparent administration. There was no authenticated list/data base on pensioners and about 14 documents were required to file for pension claims. Restrictive and sharp practices in the investment and management of pension funds exacerbated the problems of pension liabilities and over 300 parastatals' schemes were bankrupt before the defined benefit scheme was finally jettisoned and replaced with the funded contributory benefit scheme in July, 2004.

The new pension scheme was established for all employees of the Federal Public service, Federal Capital Territory and the private sectors (including informal sector employees) in Nigeria. The major operators under the scheme are the National Pension Commission (PenCom), Pension Fund Administrators (PFAs), Closed Pension Fund Administrators (CPFAs) and Pension Fund Custodians (PFCs). Being a contributory scheme, employees are to contribute minimum of 7.5 percent of basic salary, housing and transport allowances and employers are to also contribute a matching fund. So the total minimum monthly contribution of a typical employee contributor under the scheme is 15 percent of basic salary, housing and transport allowances.

PenCom was established to regulate, supervise and ensure an effective administration of pension matters. In this regard, the commission is mandated under the Act to, inter alia, establish standard rules for the management of pension funds, approve, license and regulate PFAs, PFCs and CPFAs, manage national data bank on pension, impose sanctions or fines on erring employers, PFAs, PFCs and CPFAs and ensure that payment and remittance of contributions are made and beneficiaries of retirement savings accounts (RSAs) are paid as and when due. In order to avoid the illiquidity and unsustainability that plagued the erstwhile defined benefit (PAYG) system, the Act and subject to enforcement by PenCom, specifically spelt out the investment of pension assets.

d) Objectives of the New Pension Scheme in Nigeria

Prior to the new pension scheme, Nigeria operated a Pay As You Go defined Benefit Scheme burdened with a lot of problem. Ahmad (2008) attributed the non-performance of the define benefit system of pension to under fund; unsustainable outstanding pension liabilities; weak and inefficient pension administration; demographic shifts and aging of the scheme; non-courage of workers in the private sector by any form of compulsory retirement benefit arrangement; and poor regulation of the hitherto scheme.

Due to the above deficiencies, there was need for proper and adequate reformation in order to properly cater and provide for retiree benefit. These identified loopholes necessitated the ushering in of the modern Contributory Pension Scheme (CPS). The CPS in the words of Ahmed (2006) is premised on the following:

- To ensure that every workers receives his retirement benefits as and when due.
- To empower the worker and assist workers to save in order to cater for their livelihood during old age.
- Stem the growth of pension liabilities.
- Establish uniform rules, regulation and standards for the administration of pension matters.
- Secure compliance and promote wider coverage.

e) Regulatory body and the operators under the new system

i. National Pension Commission

One of the reasons for the failure of DBS was lack of strict and effective regulations. Having identified this, the modern scheme established this body, PenCom to serve as the major regulatory organ to regulate all the pension system in the country.

The scheme made provides that National Pension Commission (PenCom) shall regulate, supervise and ensure the effective administration of pension matters in Nigeria. The PRA 2004 also ushered in the operators who are the Pension Fund Administrators (PFAs), Pension Fund Custodians (PFCs) and the Closed Pension Fund Administrators (CPFAs).

Section 21 of PRA 2004 states that the powers of the Commission shall be to formulate, direct and oversee the overall policy on pension matters in Nigeria; fix the terms and conditions of service including remuneration of the employees of the Commission; request or call for information from any employer or pension administrator or custodian or any person or institution on matters relating to retirement benefit; charge and collect such fees, levies or penalties, as may be specified by the Commission; establish and acquire offices and other premises for the use of the Commission in such locations as it may deem necessary for the proper performance of its functions under this Act; establish standards, rules and regulations for the management of pension funds under this Act; investigate any pension fund administrator, custodian or other party involved in the management of pension funds; Impose administrative sanctions or fines on erring employers or pension fund administrators or custodians; Order the transfer of management or custody of all pension funds or assets being managed by a pension fund administrator or held by a custodian whose license has been revoked under this Act or subject to insolvency proceedings to another pension fund administration or custodian, as the case may be; And do such other things in its opinion are necessary to ensure the efficient performance of the functions of the Commission under this Act.

ii. *Pension Fund Administrators*

The new pension scheme requires pension funds to be privately managed by licensed Pension Fund Administrators. Pension Fund Administrators (PFAs) have been duly licensed to open Retirement Savings Accounts for employees, invest and manage the pension funds in a manner as the Commission may from time to time prescribe, maintain books of accounts on all transactions relating to the pension funds managed by it, provide regular information to the employees or beneficiaries and pay retirement benefits to employees in accordance with the provisions of the Pension Reform Act 2004.

Adegbayi (2005) has identified that the roles of PFAs are to open RSA for all employees registered by it with a Personal Identification Number (PIN); invest and manage the Fund and assets; Calculate annuities; and pay Retirement Benefits. It is glaring that the PFAs are the veritable operators that add value to the contributors' fund.

iii. *Pension Fund Custodians*

Pension Fund Custodians (PFCs) will be responsible for the warehousing of the pension fund assets. The PFAs shall not be allowed to hold the pension fund assets. The employer sends the contributions directly to the Custodian, who notifies the PFA of the receipt of the contribution and the PFA subsequently credits the retirement savings account of the employee.

Specifically, the primary functions of PFCs are: Receive and Hold the Fund upon trust for Contributors and Beneficiaries; Settle investment transactions on behalf of the PFA; provide independent reports to the Pension Commission on Fund assets and Undertake statistical analysis on the investment and returns on behalf of the Pension Commission and the PFA.

As a matter of fact, the functions of the PFAs and the PFCs interlock and act as a grid against financial impropriety. Thus, even though the PFA opens the account, it does not have access to the money except for purposes of investment, which asset representation must still be kept with the custodian, who settles payment and other transactions made on particular investment undertaking. The money is also not controlled by the PFC, who must act upon the instructions of the PFA and cannot treat funds with it as mere cash savings. Since both parties assume joint trust positions, an incidence of financial imprudence is reduced but cannot be totally ruled out.

iv. *The Closed Pension Fund Administrators*

The Closed Pension Fund Administrators (CPFAs) are specifically established by companies with strong financial standing to manage their pension funds. There are about seven CPFAs owned mostly by multinational companies to enable them administer their pension funds under the guide and direction of PenCom.

f) Opportunities created by the contributory pension scheme

A lot of opportunities are created in the modern CPS. The scheme has boasted the capital and money markets and this has brought a tremendous growth to the economy. As it stands, all PFAs have their funds invested in the capital market through equities and bonds. Also the banks and other money market operators have had their own share through fixed deposits. The PFAs and PFCs that were the offshoot of the new scheme have created employment opportunities and savings for employees among others.

Oshiomole (2007) caped up the available and inherent potentials the Nigeria and Nigerians stand to gain with advent of the CPS. In his opinion CPS has created opportunities ranging from individual retirement savings account which enhances fund accumulation, mobility of labour without any effect on the RSA fund, contributors' rights to change PFA as the occasion demands, access to retirement benefits as at when due, minimum pension guarantee to accumulation of long-term funds which has contributed to the growth in the capital market.

The new pension scheme has laid to rest Ghost Pension Syndrome (Amujiri, 2009:148). Also, Agbese (2008) in Amujiri (2009) opined that the introduction of the new pension scheme in Nigeria marked a turning point in Nigeria economy because it made the incidence of Ghost Pensioner to disappear completely from payroll of pensioners nationwide.

Since individuals own the contributions, the pensioner is no longer at the mercy of government or employer and is assured of regular payment of

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retirement benefits. The employee has up to date information on his retirement savings account. The scheme imposes fiscal discipline on the nation and a solid foundation for economic development. There is an expansion of convertible funds, creation of a huge pools of long term funds and enhances accountability.

The scheme introduces clear legal and administrative sanctions and there is a separation of investment, administration and custody of assets.

Transparency is also assured by the requirement for published rate of returns, regular statement of contributions and earnings and audited account.

g) The problems of contributory pension scheme

i. Remittance of the benefits to the Retirements Savings Account (RSA) by firms, employers and employees may be difficult.
ii. How genuine are our pension fund administrators and custodians that have licensed; were the licenses given to those competent and qualified?
iii. What are the legal frameworks put in place by government such that in spite of political changes, the scheme is sustained by subsequent government?
iv. How do we ensure effective implementation of penalties in the act of non-compliers regardless of their status and origin?
v. How will government and national pension commission monitor, supervise, and enforce the provisions of the Pension Reform Act 2004?
vi. What happen if PFAs or PFCs default or went into liquidation?

h) Theoretical Framework

The underpinning theory guiding this study is the deferred wage theory (Malaski, Firend and Capelli, 1981-82 and March 1980) which views the pension plan as a method to defer some compensation until an employee retires. The employer promises to provide a pension payment in exchange for current services. The deferral of wages often results in individual tax savings. The advantages to the employer of providing a pension plan are less obvious. Under the deferred wage theory, firms offer pension plans because of economies scale in administrative, portfolio management and other costs, e.g. Lester (1967), Fosu (1983) and Freeman (1981). The employer receives cash flow benefits to the extent that the present value of deferred wages exceeds the required funding (especially as now required by ERISA).

The deferred wage theory generally incorporates a long-term or lifetime implicit labor contract between the employer and employee that has various implications for the employer (Logue, 1979). Salop and Salop (1976) and Blinder (1982) suggest that the delayed vesting of pension plans may decrease employee turnover costs. Becker (1964) suggest that firms have an incentive to expand training costs as a result of delayed vesting, since it causes “average” employees to work longer for the company, resulting in a greater payback of these training costs.

III. Research Methodology

a) Introduction

The study examines the usefulness of Contributory Pension Scheme to Nigerian Economic Development. This chapter would therefore, show the research design, area of the study, population size of eh study, sample size and sampling technique, validity and reliability of the research instruments, source of data collection and method of data analysis.

b) Research Design

Research design is the guideline which directs the researcher towards solving the research problem. In the course of this study the researcher will adopt survey method of data collection. That means, data will be gathered from both primary and secondary data using questionnaire method of data collection.

c) Area of the study

Legacy Pension Managers is situated at No. 39, Adetokunbo Ademola crescent, Wuse II, Abuja, the Federal Capital Territory (FTC). Abuja is located in the center of Nigeria and has land area of 5000 square km. It is bounded on the north by Kaduna State, on the west by Niger State, on the east and south-east by Nasarsawa State and on the south-west by Kogi State. It falls within latitude 745^0 and 739^0. It shares savannah grass with the North. And overall effect of this is that Abuja has rich soil for Agriculture and enjoys equitable climate that is neither hot nor too cold all year round.

d) Population size of the study

Population refers to the entire members or elements in which the researcher is interested. Then population of this study covers the 5000 customers and 50 staff of Legacy Pension Manager.

e) Sample size and sampling technique

The researcher further used judgmental sampling to select 30 staffs and 70 customers from Legacy Pension Managers.

f) Source of data collection

The researcher used both primary and secondary methods of data collection in obtaining data for the work.

i. *Primary Data*

According to Orji (2009) primary data refers to data that contains direct accounts that are obtainable observations, direct participation and questionnaires. The primary data used for this research work is personal interview and questionnaires.

ii. *Secondary Data*

The secondary sources of information used are journals, magazines, seminar-papers and from Federal Bureau for Statistics.

g) Method of data analysis

The analytical tools used in analyzing the data collected for the study is the descriptive statistics. In the same vein, the study used Pearsons Product Movement correlation coefficient and the student t-test to test the formula hypothesis.

The product movement correlation coefficient in testing the hypothesis is to determine the extent of correlation between the coefficient of correlation, while the t-test is used for ascertainment of the significance that exists between the variables.

IV. Data Presentation and Analysis

a) Data Presentation

Based on the research question and hypothesis that guide this study, the data collected are presented, analyzed and discussed in this chapter. The researcher had earlier defined a sample size of (30) staffs and (70) RSA holders for the study. Questionnaires were prepared and administered based on gender, age and education.

In this section, the researcher presented and analyzed the personal data of the respondents. This analysis if based on percentages as shown below:

Table 1 : Sex Distribution of the Respondents

Responses	Frequency	Percentages (%)
Male	20	67
Female	10	33
Total	30	100

Source: Field Survey, 2013.

The above table revealed that 20 respondents representing 67% were male while 10 respondents representing 33% were female.

Table 2 : Age Distribution of the Respondents

Responses	Frequency	Percentages (%)
21-30years	5	17
31-45years	15	50
46-60years	10	33
Total	30	100

Source: Field Survey, 2013.

The above table shows that 5 respondents representing 17% fall within age bracket of 21-30years while 15 respondents representing 50% were within 31-45years and 46-60years were 10 representing 33%.

Table 3 : Educational Qualification

Responses	Frequency	Percentage (%)
OND/NCE	10	33
HND/DEGREE	15	50
MSC AND ABOVE	5	17
Total	30	100

Source: Field Survey, 2013.

The above table revealed that 10 respondents representing 33% had educational qualification of OND/NCE while 15% respondents representing 50% were HND/DEGREE holder and 5 respondents representing 17% had MSC and above.

b) Data Analysis

In this section, the researcher presented and analyzed all data collected in the course of the study. Here, the researcher used frequency table and percentage to present, interpret and analyzed the data.

Question Four: The Operational Risk Affects Pension Fund Management?

Table 4

Responses	Frequency	Percentage (%)
Strongly Agreed	13	43
Agreed	11	37
Disagreed	4	13
Strongly Disagreed	2	7
Total	30	100

Source: Field Survey, 2013.

The above table indicates that 13 respondents representing 43% strongly agreed to the question, the operational risk effect on pension fund management, 11 respondents representing 37% agreed, 4 respondents representing 13% disagreed while 2 respondents representing 7% strongly disagreed and. This implies that there is operational risk effect on pension fund management.

Question Five: Inefficient Management of Investment Risk?

Table 5

Responses	Frequency	Percentage (%)
Strongly agreed	12	40
Agreed	10	33
Strongly agreed	3	10
Disagreed	5	17
Total	30	100

Source: Field Survey, 2013.

The table above shows that 12 respondents representing 40% strongly agreed that there is inefficient management of investment risk, 10 respondents representing 33 % agreed, 3 respondents representing 10% strongly disagreed and 5 respondents representing

17% disagreed. It therefore implies that there is inefficient management of investment risk.

Question Six: The Market Risk Reduces the Return on Pension Fund Investment?

Table 6

Responses	Frequency	Percentage (%)
Strongly agreed	8	27
Agreed	12	40
Strongly disagreed	4	13
Disagreed	6	20
Total	30	100

Source: Field Survey, 2013.

The table above shows that 8 respondents representing 27% strongly agreed that the market risk reduces the return on pension management fund investment, 12 respondents representing 40% agreed, 4 respondents representing 13% strongly disagreed and 6 respondents representing 20% disagreed. It therefore implies that the market risk reduces the return on pension fund investment.

Question Seven: The establishment of PFAs and PFCs Lead to Job Opportunity Creation?

Table 7

Responses	Frequency	Percentages (%)
Strongly Agreed	8	27
Agreed	12	40
Disagreed	4	13
Strongly Disagreed	6	20
Total	30	100

Source: Field Survey, 2012.

The table above shows that 8 respondents representing 27% strongly agreed to the statement that the establishment of PFAs and PFCS lead to job opportunity creation, 12 respondents representing 40% agreed, while 4 respondents representing 13% disagreed and 6 respondents representing 20% strongly disagreed. This implies that PFAs and PFCs create job opportunities.

Question Eight: There Was Prompt Access to Financial Statement And Status Report?

Table 8

Responses	Frequency	Percentages (%)
Strongly Agreed	10	14
Agreed	15	21
Disagreed	20	36
Strongly Disagreed	25	29
Total	70	100

Source: Field Survey, 2012.

The above table indicates 10 respondents (14%) strongly agreed to the statement that there was prompt access to financial statement and status report, 15 respondents (21%) agreed, 20 respondents (36%) disagreed, while 25 respondents representing (29%) strongly disagreed. This implies that there is no prompt access to financial statement and status report by the RSA holders.

Question Nine: The CPS Provides Resources for Investment In The Money And Capital Markets?

Table 9

Responses	Frequency	Percentage (%)
Strongly Agreed	13	43
Agreed	12	40
Strongly Disagreed	3	10
Disagreed	2	7
Total	30	100

Source: Field Survey, 2013.

From the table above, 13 respondents representing 43% of the strongly agreed to the statement that the CPS provides resources for investment in the money and capital markets, 12 respondents representing 40% agreed, 3 respondents representing 10% strongly disagreed and 2 respondents representing 7% disagreed. It therefore means that, from the responses in the table, the CPS provides resources for investment in the money and capital markets.

Question Ten: The Payment of Tax to Government through Personal Income Tax of the Employees of the Various PFAS and PFCS?

Table 10

Responses	Frequency	Percentage (%)
Strongly Agreed	10	33
Agreed	12	40
Strongly Disagreed	2	7
Disagreed	6	20
Total	30	100

Source: Field Survey, 2013.

The table shows that 10 respondents representing 33% strongly agreed to the employees of various PFAs and PFCs pay tax to government through personal income tax, 12 respondents representing 40% agreed, 2 respondents representing 7 strongly disagreed while 6 respondents representing 20% disagreed. It is therefore evident from the responses that the employees of the various PFAs and PFCs pay tax to government through personal income tax.

Question Eleven: The Pension Reform Act of 2004 Help In Reducing Problem of Defined Scheme?

Table 11

Responses	Frequency	Percentage (%)
Strongly Agreed	20	29
Agreed	25	36
Strongly Disagreed	10	14
Disagreed	15	21
Total	70	100

Source: Field Survey, 2013.

Table 10 above shows that 20 respondents representing 29% strongly agreed that Pension Reform Act of 2004 helps in reducing the problem of defined scheme, 25 respondents representing 36 agreed, 10 respondents representing 14% strongly disagreed and 15 respondents representing 21% disagreed. It therefore means that the Pension Reform Act 2004 helps in reducing the problem of the defined scheme.

Question Twelve: The CPS Enhances Adequate And Prompt Payment To Retirees?

Table 12

Responses	Frequency	Percentage (%)
Strongly Agreed	20	29
Agreed	28	40
Strongly Disagreed	10	14
Disagreed	12	17
Total	70	100

Source: Field Survey, 2012.

Table 11 reveals that 20 respondents representing 29% strongly agreed to the statement that CPS enhances adequate and prompt payment to retirees, 28 respondents representing 40% agreed, 10 respondents representing 14% strongly disagreed and 12 respondents representing 17% disagreed. Therefore, from the responses in the table it is evident that the CPS enhances adequate and prompt payment to retirees.

The data presented, analyzed and interpreted as shown below is composed mainly of secondary data obtained from the records of the Contributory Pension fund and the Federal Bureau for Statistics.

The Contributory Pension Scheme (CPS) and Gross Domestic Product (GDP).

Table 13

Years	CPS (₦ Trillion)	GDP (₦ Trillion)	Percentage of CPS in GDP
2005	0.164	11.674	1.4
2006	0.189	14.735	1.3
2007	0.243	18.710	1.3
2008	0.284	20.874	1.4
2009	0.384	25.425	1.5
2010	0.412	25.490	1.6

Source: Contributory Pension Scheme (CPS) and Federal Bureau for Statistics (FBS), 2012.

Table 7 shows that ₦ 164 billion representing 1.4% of the Nigeria GDP of ₦11.674 trillion was generated as CPS in 2005, ₦189 billion representing 1.3% of GDP of ₦14.735 trillion as CPS in 2006, ₦243 billion representing 1.3% of GDP of ₦18.710 trillion as CPS in 2007, ₦284 billion representing 1.4% of GDP of ₦20.874 trillion was generated as CPS in 2008, ₦384 billion representing 1.5% of GDP of ₦25.425 trillion as CPS in 2009 while ₦412 billion was realized by the Contributory Pension Scheme in 2010.

The data in table 7 was used to test H_0: Contributory Pension Scheme has no significant and Positive effect on Gross Domestic Product (GDP).

c) *Test of hypothesis*

H_0: Contributory Pension Scheme has no significant and Positive effect on Gross Domestic Product (GDP).

Table 14 : Contingency Table

S/N	X(CPS) (₦trillion)	Y(GDP) (₦ trillion)	X^2 (₦ trillion)	Y^2 (₦ trillion)	XY (₦ trillion)
1	0.164	11.674	0.027	136.282	1.915
2	0.189	14.735	0.036	217.297	2.7785
3	0.243	18.710	0.059	350.064	4.547
4	0.284	20.874	0.081	435.724	5.928
5	0.384	25.425	0.147	646.431	9.763
6	0.412	25.490	0.170	649.740	10.502
	$\Sigma x= 1.676$	$\Sigma y= 116.908$	$\Sigma x^2= 0.5$	$\Sigma y^2=2435.538$	$\Sigma xy= 35.44$

Source: Field Survey, 2013.

By applying the formula for Pearsons Product correlation coefficient;

$$r = \frac{\Sigma xy - \Sigma x \Sigma y}{\sqrt{[n\Sigma x^2 - (\Sigma x)^2]\,[n\Sigma y^2 - (\Sigma y)^2]}}$$

$$r = \frac{6(35.44) - 1.676 \times 116.908}{\sqrt{[6(0.52) - (1.676)^2]\,[6(2435.538) - (116.908)^2]}}$$

$$r = \frac{212.64 - 195.94}{\sqrt{(3.12 - 2.81)\,(14613.23 - 13667.48)}}$$

$$r = \frac{16.7}{\sqrt{0.31 \times 945.75}}$$

$$r = \frac{16.7}{\sqrt{293.18}}$$

$$r = \frac{16.7}{17.12}$$

$$r = 0.98$$

This shows a very high positive correlation between Contributory Pension Scheme (CPS) and the Gross Domestic Product GDP of Nigeria economy. This reflects a high positive influence which Contributory Pension Scheme has on wealth creation in Nigeria.

However, to test the significance of this positive correlation coefficient, the researcher converted the value of "r" to "t" score with the following formula provided by Healey (1993); $t = r\sqrt{\frac{n-2}{1-r^2}}$

Where; t = the needed significance of correlation coefficient
n = the number of sample population
r = the already determined correlation coefficient
n-2 = the degree of freedom
r^2 = the coefficient of determination

$$t = 0.98\sqrt{\frac{6-2}{1-0.98^2}}$$

$$t = 0.98\sqrt{\frac{4}{0.04}}$$

$$t = 0.98\sqrt{100}$$

$$t = 0.98 \times 810$$

$$t = 9.8$$

The critical table value is 2.776 at 5% alpha level of significance and degree of freedom is 4.

i. *Decision Rule*

Since the t-calculated value of 9.8 is greater than the t-table value of 2.776, the null hypothesis (H_0) therefore is rejected and alternate hypothesis (H_1) should be accepted. Hence Contributory Pension Scheme CPS has significant effect on Gross Domestic Product (GDP).

ii. *Test of Hypothesis Two*

H_0: The Risk Prevalent in Pension Fund Investment has no Significant Effect on Pension Management.

The researcher used Analysis of Variance table below:

Anova Table

Source	SS	Df	MS	F- ratio	Remark
Between	SS_B	t-1	SS_B/df_B	MS_B/MS_W	Accept or reject
Within	SS_W	N-t	SS_W/df_W		
Total	SS_T	N-1			

Source: Adefila (2008).

In order to accept or reject the null hypothesis the researcher used questions 4, 5, and 6 to test hypothesis two.

The risk prevalent in the pension fund investment has no significant effect on pension management.

Variable	Questions 4	Question 5	Question 6	Total
Strongly agreed	13	12	8	33
Agreed	11	10	12	33
Strongly disagree	2	3	4	9
Disagreed	4	5	6	15
Total	30	30	30	90

Source: Field Survey, 2012.

Sum of square between (SS_B) = $\left(\Sigma \frac{x^2}{n} + \text{------} + \frac{x^2}{n}\right) - \frac{Q^2}{N}$

Where:

n = Number of column in a group = 3
N = Total number of active cells = 12
Q = Grand total and all the cells = 90

$$SS_B = \frac{33^2}{3} + \frac{33^2}{3} + \frac{9^2}{3} + \frac{15^2}{3} - \frac{90^2}{12}$$

$$= \frac{1089}{3} + \frac{1089}{3} + \frac{81}{3} + \frac{225}{3} - \frac{8100}{12}$$

$= 363 + 363 + 27 + 75 – 675$

$= 828 – 675$

$= 153$

Sum of square total (SS_T) = $\left(\Sigma \frac{x^2}{n} + \text{------} + \frac{x^2)}{n}\right) - \frac{Q^2}{N}$

$= 13^2 + 12^2 + 8^2 + 11^2 + 10^2 + 12^2 + 2^2 + 3^2 + 4^2 + 4^2 + 5^2 + 6^2 - 90^2\ 12$

$= 169 + 144 + 64 + 121 + 100 + 144 + 4 + 9 + 16 + 16 + 25 + 36 – 675$

$= 848 – 675$

$= 173$

Sum of square within (SS_W) = SS_T - SS_B
= 173 – 153
= 20

Degree of freedom (df_B) = t-1

T = total number of group available = 4
= 4-1
= 3

Degree of freedom within (df_W) = N-t
= 12-4
= 8

Anova Summary Table

Source	SS	DF	MS	F-ratio
Between	153	3	51	20.40
Within	20	8	2.5	
Total	173	11		

Critical value at of 5% level of significance with degree of freedom 3to 8 is 4.07.

Degree of freedom total (df_t) = N-1
= 12-1
= 11

Means square between (MS_B) = $SS_B\ df_B$
= 153/3
= 51

Mean square within (MS_W) = $SS_W\ Df_W$
= 20/8
= 2.5

F- ratio = MS_B/ MS_W = 51/2.5 = 20.40

iii. *Decision Rule*

Since the calculated value of 20.40 is greater than the critical value of 4.07, the alternate hypothesis (H_1) is accepted and the null hypothesis (H_o) is rejected. Therefore, the researcher concludes that risk prevalent in pension fund has significant effect on pension management.

V. Summary of Findings, Conclusion and Recommendations

a) *Summary of Findings*

The researcher discovered from his findings that the new contributory pension scheme which was ushered in by the Reform Act 2004, has helped in reducing the problem associated with the define benefit scheme. The researcher discovered the followings findings:

i. Adequate investment and management of the pool of fund contributed by employees and employers has immensely contributed to development of the economy.
ii. The risk prevalent in pension fund investment has significant effect on pension management.
iii. The RSA fund financial statement and RSA status report are not received promptly.
iv. Creating job or employment to the masses thereby reducing unemployment and alleviating poverty.
v. Provide resources for investment in the money and capital market.
vi. Payment of tax to government through personal income tax of the employees of the various PFA and PFCs.
vii. Enhances adequate and prompt payment of pension to retirees.

b) *Conclusion*

The study has shown that effective and sound investment and management of pension fund has a tremendous impact the economy as a whole. There will huge investment of fund in the capital and money markets, creation of employment opportunities as well increased tax revenue to the government.

The analyses have shown that among all the investment outlets, hybrid fund and equity have proven to be the most volatile. This volatility is a response to economic and political risks that the country and of course the global economies have not fully recovered from the global economic crises. Also, the country's stepping into the electoral year has a great undertone on Nigerian capital market. The regression also reveals that government bond, money market instrument and corporate bond have an appreciable impact on the net asset value and/or the unit prices. The changes in un-invested cash are as a result of receipt of bond and money market instrument interests and ordinary share dividends as well as temporary liquidation/termination of MMIs etc.

The responses from the respondents show that investment decision making is based on informed judgments and fund accounting are both handled by professionals. However, the risk department is viewed to concentrate more attention on regulatory compliance than pre-investment risk appraisal. The survey also disclosed that some PFAs do not submit their daily, weekly, monthly and annual Pension Regulatory Reports (PENRR) as at when due. This has led to payment of fines by defaulting PFAs to PENCOM. Responses by respondents have also shown that most of RSA holders do not receive their monthly RSA status report. This status report is necessary because it is the major communication that enables the RSA holders to assess the monthly contributions.

Coupled with the risk management, the contributory pension has served in effective and efficient capacity in boosting the Gross Domestic Product (GDP) and very convenient to retirees compared to the previous defined benefit scheme.

c) *Recommendations*

Having reviewed the Contributory Pension Scheme (CPS), the researcher hereby recommend thus:

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 the country (Nigeria).
ii. Risk assessment should be improved upon in the area of pre-investment risk appraisal. This will help to guide against economic and political risks that are prevalent in an emerging economy of ours.
iii. PenCom should ensure effective monitoring, supervision and enforcement of the provision of the PRA 2004, which are the inevitable ingredients in the Contributory Pension Scheme towards Gross Domestic Product (GDP).
iv. There should be prompt reconciliation between PFAs, PFCs and PENCOM and statements of accounts should be given to contributors regularly. This will bring transparency and accountability to the system.
v. PFAs should send RSA reports via mail and SMS alert to RSA holders regularly to enable them monitor and document the pension contribution. Also there should be a good network of accessibility to members of PFAs whereby discrepancies between their payment and the status reports can be easily tracked and corrected no matter the distance under a limited reasonable time.
vi. The Pension Regulatory Reports (PENRRs) should be promptly submitted to the regulatory authority as at when due. However whenever there is default and non-compliance, there should tough penalty on PFAs and PFCs to serve as determent to others.
vii. Computed charges by PFAs should be strictly monitored by PenCom to avoid overcharge. This is because it has negative impact on the RSA contribution.
viii. Professionals should be employed by PFAs to bring competence and professionalism to the investment of funds and risks and return thereon.

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