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The Contributions of Pension Board Schemes to the Nigerian Capital Market

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Abstract: The contributions of pension board schemes to the Nigerian Capital Market have contributed a lot to the economic growth and development such as alleviation of poverty , buying of securities and social belongings to the retire civil servant among others. Pension is all about contract for fixed sum of money deducted from civil servant salary for future usage after retirement. A pension plan is a legally binding contract having an explicit retirement objectives. The Pension Reform Act 2014 was made to meet the challenges and provide effective and effective services. Secondary data was used to provide the theoretical framework for the study. At the end, conclusion and recommendation are provided.
Keywords: Capital Market, Nigeria, Pension Reform, services

INTRODUCTION

Pension system are designed to provide an income to those individuals who suffer a loss in earning capacity through advanced age, the experience of a disability, or the death of a wage earner in the family, while in some cases, the systems are designed to facilitate direct transfer from the government to these particular target groups and may be evaluated as such. In most cases, the emphasis is on providing a mechanism whereby the individual might insure himself against the loss of future earnings.

There is need for pension systems. In most traditional societies families or communities care for individuals, who reach old age, become disabled or suffer the death of a wage earner. However, even in these instances, there are always individuals who do not have children to care for them or whose. Communities and families are too poor to supply adequate care or are otherwise unable to supply care. As modernized societies and people move from the communities in which they have been raised, community and family ties weaken and leave the elderly and disabled without an adequate safety net. Individuals may try save but in the absence of secure financial markets, savings often take form of real estate, livestock or jewelry all of which suffer from fluctuation in price and potential misfortunes due to disease, theft or war. For this reasons government often takes on the role of making some type of pension system available.

According to Schwarz [1] even in developed communities, in which reasonably secure financial markets exist government frequently either support pensions directly or mandate the participation in pensions plan furnished by employers or private persons providers. Two reasons are commonly cited for government involvement in old – age pension systems either as direct provider or as regulator and mandatory. First, workers may suffer from "Myopia" and not think about old age when they are young and healthy. But the time they begin to worry about old age, it may be too late for them to take adequate steps to provide for themselves. Secondly, workers may incur "moral hazard" by consuming as much as possible when young, with the expectation that society will care for them when they are old. The objectives of a pension system are, firstly, to reduce poverty among the elderly and secondly, to smooth consumption between among the working years and the retirement years, such that an individual does not suffer a huge drop in living standards when old age or disability reduces has earnings ability. Recently in Nigeria, the non-contributory, unfounded pension system was replaced by a fully contributory pension scheme.

METHODOLOGY

The data for the study were generated mainly from secondary sources which include, text books from library, journal papers, dictionary, magazines, newspaper pamphlets and internet etc. the data were extracted through readings. All these data were collected and analyzed to the point of discount all conclusions therein. Therefore an analytical method is central to the approach utilized in treating all facts and opinions obtained from the said sources.

NATIONAL PENSION COMMISSION (PENCOM)

The National Pension Commission (PENCOM), was established by the Pension Reform Act 2004 (now repealed and re-enacted as Pension Reform Act, 2014) to act as the regulator and supervisor on all pension matters in the country. Under the Act, PenCom shall receive and investigate any complaint of impropriety leveled against any Pension Fund Administrator (PFA), and Pension Fund Custodian (PFC), or employer or any of their agents. The commission stands as a watchdog, with the overriding objective of ensuring that all pension matters are administered with minimum exposure to fraud and risk. The Guidelines issued by the Commission requires the use of approved risk rating agencies to determine the viability of an investment instrument, Mazi Azubuike [2].

The commission can apply sanctions on any operator, its agent or the Compliance Officer for non-compliance. Sanction could either be legal or administrative or both and could range from N0.25 million to N10 million as well as from 3 to 10 years imprisonment or both fine and imprisonment depending on the magnitude of the offence. To this effect, all activities of the pension fund operators and their agents must be transparent. They are also required by blaw to publish their audited accounts, Mazi Azubuike, [2].

The commission will have the responsibility for licensing, approving, regulating and monitoring the investment activities of pension administration and custodians. What the Scheme offers the pension reform act 2004 was enacted to address the observed weaknesses of the pension act 1990, as well as the police and agencies pension offices. According to Oshinowo [3], the objectives of the pension reform are to: - Establish a sustainable pension system, to empower the workers. Ensure transparency and efficiency in the management of pension funds. Promote savings culture promote wider coverage of pension scheme, Establish strong regulation and supervisory framework. As stated by Onasanya [4], the objective of the scheme are to ensure that every pension who in either the public service of the federation, federal capital territory or private sector receives his retirement benefit as and when due. The scheme also aims at assisting improvident individuals by ensuring that they save in other to cater for their livelihood during old age.

The current contributory scheme requires both employees and employers to makes joint compulsory contribution of 15% monthly emolument. These contributions will over time constitute long-time investible fund which in turn lend depth of financial markets and consequently gain enhance lower cost of capital nationwide.

The Old Pension Scheme in Nigeria

Nigeria had operated, particularly in the public sector, a defined pension scheme, which was non-contributory and largely unfounded. The pension scheme was also characterized by a Pay As You Go Scheme (PAYG) as retires were to be supported not by any previous contribution, but by annual budgetary provision.

According to Onasanya [4], the fact that the old scheme was largely unfounded made the funds to pay retires lacking and this led to an accumulation of debt variously at more than three trillion naira. Chizea [5], also stated that what we had hitherto was essentially a nominal pension scheme, particularly in the public sector where it was largely not founded, with the enormous pensions arrears and the disgraceful plight of pensioners in their attempt to collect their pensions. He went to say that the situation was relatively better in the private sector as some companies managed to operate pension schemes, which were functional from the perspective that they were able to make some payments. Nonetheless, they still suffered from the neglect such payouts should be index linked.

A survey conducted between 1990 and 1991 revealed that a paltry 1.3 percent Nigerian workers were covered under any pension scheme, compared with 60 percent in Mauritius and 17 percent in neighboring Cameroon [5], Oshinowo [3], the Director General of Nigerian Employers Consultative Forum stated the pre-pension reform act dispensation problems as unfounded and inadequate budget allocation for person in the public sector, huge outstanding pension liabilities estimated at over N1 trillion in the public sector and pension.

Many workers in the private sector were not covered by any form of retirement benefit scheme, particularly in the small and medium scale business. Most of the existing schemes in the private sector were “resignation” rather than retirement schemes. In most cases, gratuity is managed on a pay as you go basic and mainly a defined benefit scheme. Administration of schemes in the private sector is either out sourced or self-administered. Most provident fund schemes and gratuity schemes in the private sector are products of collective agreement between management and the union. All these identified shortcoming of the old scheme led to the promulgation of new pension act in the country

The Pension Reforms

The immediate past administration in the country rose to the challenge of the festering sore that the administration of pension in the country had become by the establishment of the Fola Adeola Committee on Pension Reform. The work of this committee resulted in the inauguration of the new pension regime. The Pension Reform Act 2004 was promulgated and signed into law on June 25, 2004. The new pension scheme is in three structures; it includes Pension Funds Administrators (PFA). Pension Asset Custodian (PAC), and Closed Funds Administrators (CFA). The new scheme is contributory, fully funded, particularly as it is private sector driven and the employers of labour are not the administrators of the scheme. The scheme is compulsory for all employees in the public sector and for employees of the private sector institutions employing more than five persons. Under the scheme, the individual exercises judgment regarding which administrator to patronize, open an account and makes a minimum contribution of 7.5% of the monthly emolument, (basic salary, housing and transport allowance) which is equally supplemented by the employer making a total monthly contribution of 15% of total emolument. But armed forces personnel are expected to contribute only 2.5% while the government contribution similarly to 15% of emolument. One of the incentives offered under this scheme is the fact that contribution is tax deductible. Employees with 3 years or less to their retirement and existing pensioners are exempt from the scheme. The employer is obliged under the scheme to deduct and remit contribution to a custodian within seven days from the day salary was paid. The custodian, on the other hand, is obliged to inform the PFA within 24hours of the receipt of the contribution. An employee is allowed to withdraw from the balance standing to the credit of the retirement savings account provided that the amount remaining after the withdrawal is sufficient to produce an annuity or fund programmed withdrawal that will produce an amount not less than 50% of the monthly remuneration as the date of retirement permitted when the employee had attained the age of 50% years or upon retirement. The pension fund administrators are expected to open retirement savings account for employees, invest and manage the pension funds and maintain books of accounts. They are also to provide regular information to the employees and pay retirement benefits in accordance with the provision of the pension reform. PFA's must be limited liability companies and must have a minimum paid up share capital of at least N150 million. The National Pension Commission will regulate. Supervise and ensure effective administration of pension matters in Nigeria.

THE CAPITAL MARKET

According to Mazi Azubuike [2] capital market is a long term end of financial market. It is the market for long-term capital. It provides the framework through which owners of surplus long term funds are able to meet those that require long-term funds. It also offers access to a wide range of assets which investors are free to price and invest in. Its securities include equities, industrial loans, preference shares, debentures, Federal, State, and Local government bonds.

The primary aim of the Nigerian Capital market is to mobilize long-term funds. The Nigerian Stock Exchange (NSE) is the centre point of the capital market while the Securities and Exchange Commission (SEC) serves as the apex regulatory body. It provides a mechanism for mobilizing private and public savings and makes such funds available for productive purposes. The Exchange also provides a means for trading in existing securities. To enable small as well as large-scale enterprises gain access to public lasting, the NSC operates the main Exchange for relatively large enterprise and the Second-Tier Security Market (SSM) where listing requirements are less stringent for small and medium scale enterprises. The exchange which started with only 19 securities traded on its flows in 1961, now has 279 securities made up of 34 Federal Government Stocks, 62 corporate/Bonds and 183 equities all with a total market capitalization of ₦170 billion. The major instruments used a raise funds in the market include equities, debentures, bonds and socks. Capital markets are classified into two segments, namely primary and secondary. The primary market for new issues of securities, the mode of offer for the securities traded in this market includes offer for subscriptions rights issues, offer for sale, private placement etc. while the secondary market is a market for trading in existing securities.

THE PENSION SCHEME AND THE ECONOMY

Any social problem that may involve expenditures in double digit percentage of gross domestic products will have substantial impaction the economy in which it exists. Pension systems can affect poverty among the elderly they can affect relationship between younger ones and elder cohorts, as well as family living agreement, they also have the substantial impact on labour markets and employment particularly if they are financial through contributory systems, they can impact national savings and the development of financial market, affect the composition of government spending by squeezing out other types of spending, they can even affect the overall level of government spending [1]. The pension reform in Nigeria affects public finances, the capital market, the labour market, saving and economic growth.

According to Uzoh [6] the pension reform will alter the tie paths to all major macro floes and stocks, short and long time. It is one of the most complex of structural reforms to undertake because it upsets existing political-economy equilibrium, affects public fiancés, intervene severally in the functioning of labour and capital market and changes in the economy's saving, investment and growth patterns from the short to the very long term. Development in pension funding may trigger qualitative effects such as stimulation of financial innovation, increasing competing within the banking sector and hence its efficiency and improvements in the corporate sector and corporate governance structures. A fully funded pension scheme would have a very positive effect on the financial market development. This stems from the fact that pension funding increases personal savings and tends to promote rapid build-up long time funds, increasing the availability of long term debt resulting rise in productive capital formation. The introduction of new players, especially institutional investors, could help in increasing the relative importance of equity and corporate bond market. A diversified investor based will ensure a stable demand for fixed-income securities. Thus will in turn help enhance the supply of long term fund and lead to increase market stability and efficiency [7].

The new pension scheme is indeed an improvement compared to what existed before now and promises a bright future for those that desires to patronize it. It guarantees a reliable and appreciable flow of income for subscribers when they are no longer in active service.

Challenges of the Pension Scheme

Olukale, 2006 challenges of the Scheme one important shortcoming of act; however, is its failure to provide what happened to states and local Government employees. The non inclusion of these tiers of Government in the Pension Act 2004 has been contributed to the need to avoid a conflict of legislation.

Furthermore, there are challenges ahead with regard to the implementation of the reform. Some of the challenge that have been identify are the dearth of outlets for investments of the fund; how to identify and secure the participation of everyone covered by the act, especially those within the informal sector: hoe to combat issues arising from transition and how safety and reasonable returns on the fund would be measured and guaranteed.

According to Mobolurin [8] the limit and parameters set in the pension act 200 have been identified as a factors that may create investment outlet constraints for the licensed Pension Fund Administrators (PFA's) under the new contributory pension scheme. Aside this, he stated that rigidity in legislation may stifle creativity and innovation in the market.

Other problems that are encountered by the new scheme would include how to build up the confidence of the workers and trade unions on the new scheme. It is usually not easy for people to accept changes.

The transfer/management of the already existing funds for pension could pose and challenge the scheme as well as delays in remittance of funds for to pension administrators and the transfer of the assets to custodians by private companies that have obtained approval to retain scheme.

Difficulties may also arise in the provision of benefits to employees going on early retirement or that have resigned scheme.

Most civil servants lack the basic knowledge about what the pension contributions is all about, at such are less care about the pension talk less of its impotency.

Only 17 of the 36 state Governments and Federal Capital Territory have passed bills to adopt and implemented the Compulsory Pensions Scheme (CPS).

CONCLUSION

In conclusion, the contributions of pension schemes will go a long a way in increasing pension literacy awareness about the benefits and opportunities of pension before and after retirement of both public and private sectors. The capital market as a market of long-term funds can also provide an avenue for effective utilization of its pension contributions effectively and efficiency, thus lead to economic growth and development of the economy.

RECOMMOMENDATION

- The use of Information Communication Technology should be adopted (e-channel payments) for expansion of collection and disbursement methods.
- The Pension Fund Administrators (PFAs) should actively engage cooperatives and other bodies in order to lean the best ways for serving low income clients or civil servants'
- National Pension Commission should provides room for communication for consumer protection initiatives;
- It also create a pension framework for effective informal sector
- The compulsory inclusion of all states of the nation should be in the current pension scheme as well as inclusion of smaller firms and cooperatives.

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