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EFFECT OF CONTRIBUTORY PENSION SCHEME ON GROWTH OF NIGERIAN ECONOMY

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ABSTRACT

The study explored the effect of contributory pension scheme on the growth of Nigerian economy. The study specifically examined the effect of contributory pension fund on GDP, capital market development and infrastructural development of Nigeria. The population of the study consisted of twenty one (21) Pension Funds Administrators (PFAs) operating in Nigeria as at 31st December, 2022. The sample size of the study was made up of ten (10) pension fund administrators in Nigeria using purposive sampling techniques. The study made use of time series data which were obtained from Central Bank of Nigeria (CBN) statistical bulletin, world development indicator, National Pension Commission, annual reports and accounts of PFAs. The study employed the Ordinary Least Square (OLS) simple regression to analyse the data. The findings showed that contributory pension fund has a significant effect on GDP, capital market development and infrastructural development of Nigeria. The study therefore conclude that contributory pension scheme significantly affects the economic growth of Nigeria. The study thus recommended among others that idle pension funds should be invested in infrastructural development and the other sectors that will boost the GDP of the economy.

1. INTRODUCTION

Every country faces many choices in 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 Nigerian economy is bedeviled with the challenge of how to improve economic growth to become an investment end of choice for international investors. One of the options is to boost the Contributory Pension Scheme; although, Yaqub (2010) described Nigeria's economic growth as sluggish. Zubair (2016) emphasized that the sluggishness can be

corrected with the huge capital generated from Contributory Pension Scheme. The contributory pension scheme is expected to mobilize savings for financial market development and economic growth. Pension funds add value to world economies through direct contribution to the GDP, accumulation of savings, financial market development, reducing old age poverty and acting as consumers of financial services (Njugana, 2010). 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 in unprecedented and unsustainable outstanding pension deficit estimated at over N2 trillion before 2004 (Balogun, 2006), weak, inefficient and non-transparent administration. There was no authenticated list/database 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 parastatal schemes were bankrupt before the defined benefit scheme was finally jettisoned and replaced with the funded contributory benefit scheme in July 2004.

The pension Reform Act 2004 was also established to address the manifested loopholes in the old defined benefit pension scheme and provide adequate resources after retirement from active 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. 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 Administrator (PFAs), Closed Pension Fund Administrators (CPAs), and Pension Fund Custodians (PFCs). Being a contributory scheme, employees are to contribute a minimum of 8 percent of basic salary, housing, and transport allowances and employers are to also contribute 10 percent to the fund. So, the total minimum monthly contribution of a typical employee contributor under the scheme is 18 percent. 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 CPAs, manage national data bank on pension, impose sanctions or fines on that payment and remittance of contributions are made and beneficiaries of Retirement Savings Accounts (RSA's) are paid as and when due. To avoid the illiquidity and sustainability that plagued the erstwhile defined benefit (PAYG) system, the Act and subject to enforcement by Pencom

specifically spelt out the investment of pension assets (Adejoh, 2013). Conceptually, a pension is the payment of a 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. This study zoomed to fill the research gap by empirically analyzing the impact of contributory pension scheme on the growth of Nigerian economy.

The Pension system in Nigeria has been a very important issue that should be properly handled so as to ensure that the employees do not suffer untold hardship after their service years. This problem lead to the formation of the new pension reform Act of 2004 by the Olusegun Obasanjo's Administration. The new pension Reform Act of 2004 is meant to ensure that employees whenever they retire from service have something to fall back on and to ensure that every employees receives his or her retirement benefit as at when due. Since the inception of the contributory pension scheme, a huge fund has been generated into the economy. For instance, in the work of Nwanne (2015), the amount of pension assets generated into the country is worth more than N4.4 trillion. The fear is that this huge amount may not be properly managed by those entrusted with the fund. Also, some pension fund Administrators do not have the necessary risk management profile while some fails to pay regards to rating signal needed to making sound investment decision. The decisions of the investment Managers of the Pension Fund Administrators (PFA) who are responsible for the investment decision making impacts greatly on the contribution value to the employees who are the fund owners (Adejoh, 2013). Therefore, in fear of lack of proper investment decision making, one wonders if the huge amount of money generated by different employees will be properly managed by those entrusted with the fund. This is to say that there is fear that funds or Retirees Saving Account (RSA) contribution can be mismanaged by the existing trustees. Furthermore, earlier studies (Njuguna, 2010), submit that pension fund contributes directly or indirectly to the economic growth of countries worldwide but the argument has remained whether it has a significant impact on the Economic Development of these countries. This funded pension scheme is now over 10years in Nigeria since its inception and one wonders if the acclaimed Economic advantage can be seen in Nigeria. Has the huge amount of money which has tremendously increased through the years to financial depending and capital market development reduced the problem of scarcity of fund for long term investment in Nigeria? Balogun (2006) and Ogumike (2008) were optimistic about the potentials of the new pension scheme to make financial deepening but without empirical evidence.

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Gunu and Tsado (2012), in their study revealed that the new pension scheme has started to contribute to the increase in growth and the development of the Nigerian capital markets but did not indicate if there has been a significant impact on the Nigerian capital market. Before the introduction of the 2004 pension management scheme, pension and gratuity were not paid to retirees as and when due, and this has adversely affected the Nigerian economy.

1.1 Objectives

The main objective of this study is to ascertain the effect of contributory pension scheme on the growth of Nigerian economy.

The specific objectives are, to:

1. examine the effect of contributory pension fund on GDP growth in Nigeria.
2. explore the effect of contributory Pension fund on capital market development in Nigeria.
3. ascertain the effect of contributory pension fund on infrastructural development in Nigeria.

1.2 Hypotheses

To achieve the objective of this study, the following hypotheses were formulated and tested. The null forms of the hypotheses are as stated below:

H_{o1}: Contributory pension fund has no significant effect on GDP growth in Nigeria.

H_{o2}: Contributory pension fund do not contribute significantly to development of capital market in Nigeria.

H_{o3}: Contributory pension fund does not contribute significantly to infrastructural development in Nigeria.

2. LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Gross Domestic Product

Gross Domestic Product is the total monetary value of goods and services produced within a country in a given period, usually a year (Papoola, 2014). Fundamentally, economic growth is an increase in the productive capacity of an economy, that is, an increase in the level of output, which can be achieved when all the factors of production are fully employed (Jhingan, 2010, Tijani & Adekunle, 2018). Empirically, Datom and Mancha (2021) found that an increases in pension fund contribution both from the private or public sector in Nigeria

positively and significantly influenced economic growth, and by extension, encourages market capitalization and investment in money and capital markets. Also, Gunu and Tsado (2012) revealed that the contributory pension scheme has begun to contribute to increase in growth of the Nigerian capital market and economic growth. Nwanne (2015) established that pension funds have negative and significant impact on economic growth while pension savings had positive and significant impact on economic growth. Ameh, Ajie and Duhu (2017) concluded that pension fund assets and pension contribution/savings mobilized over the years have positive but insignificant impact on economic growth. Tijani and Adekunle (2018) in their study found that contributory pension funds asset has significant impact on Nigeria economic growth. Adekoya and Nwaobia (2021) found that pension fund investment in Federal Government Securities (FGNS) had significant and positive effect on Gross Domestic Product (GDP).

Capital expenditures are capital investment of a country. They include all expenditures by government for building capital projects such as road, factories, schools, and equipment requirement for providing social and economic services (Nwaeze, 2010). However, capital expenditure simply means spending on assets. It involves the purchase of items that will last and be used time and time again in the provision of goods or services. For instance, in the case of government, examples would be the building of new hospitals, schools, power sector, telecommunication and road construction, purchase of new computer equipment or networks, constructing new roads etc. empirically, Oluitan and Falode (2020) found that Pension Fund Assets (PFA) has positive and significant effect on infrastructure financing. The capital market is an organized financial market for borrowing and lending of long-term funds to finance long-term capital projects so as to increase industrial output and capital formation. It is necessary for realization of a country's full socio-economic potentials. However, the capital markets are financial institutions that have the mechanisms and intermediation instruments to link deficit units (corporate organizations and governments) to surplus units (individuals and corporate organizations) of the economy thereby serving as an important tool for the mobilization and allocation of long-term funds among competing users for increased output and growth of the economy (Uruakpa, 2019; Taiwo et al., 2020; Eneisik et al., 2021). Empirically, Nageri, Adekunle and Muritala (2019) found the existence of long-run co-integration between pension fund and capital market development in Nigeria. Ijeoma and Nwufo (2015) revealed that contributory pension scheme has significantly impacted the development of the Nigeria capital Market.

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3. MATERIAL AND METHOD

The researcher adopted ex-post facto research design since the study target is to measure the impact of explanatory on the response variable, and in which the characteristics of the variables under investigation are not manipulated by the researcher. The population of this study consists of the twenty two (22) pension fund Administrators operating in Nigeria as at 31st December, 2023. A sample size of ten pension fund Administrators (PFA) was because the ten pension administrators were rated high enough by clients to give the information so desired. The ten sampled PFAs include: Legacy Pension PFA LTD, ARM Pension Manager PFA LTD, First Guarantee Pension LTD, Sigma Pension LTD, Premium Pension LTD, Stanbic IBTC Pension Managers LTD, Crusader Sterling Pension LTD, Fidelity Pension Managers LTD, Lead way Pension PFA LTD, Pension Alliance LTD. Descriptive statistics such as mean, standard deviation, Jarque-Bera goodness of fit test, and charts were used to describe the series of the dataset over the period, while the ordinary least squares regression analysis technique was used to measure the impact of contributory pension scheme on the growth of Nigerian economy.

The model for the study is specified below:

$LOGGDP_t = \beta_O + \beta_1 LOGCPS_t + \varepsilon_t$ .....Eqn 1.

$LOGMCAP_t = \beta_o + \beta_1 LOGCPS_t + \varepsilon_t$.....Eqn 2.

$LOGCEXP_t = \beta_o + \beta_1 LOGCPS_t + \varepsilon_t$ -.....Eqn 3.

Where,

$LOGGDP_t$ = Log value of Gross Domestic Product at time t, (Dependent variable).

$LOGMCAP_t$ = Log value of market capitalization at time t, (Dependent variable).

$LOGCEXP_t$ = Log value of capital expenditure at time t, (Independent variable).

$LOGCPS_t$ = Log value of Contributory Pension Scheme at time t, (Independent variable).

β_o = Constant

β_1 is the regression coefficient or the coefficient of CPS in the equation.

ε_t = Random error associated with the model.

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4. RESULT AND DISCUSSIONS

4.1 Data Analysis

Table 1 Descriptive Result of the Study Variables

Parameters	LOGRGDP	LOGMCAP	LOGCEXP	LOGCPS
Mean	10.92581	9.377627	6.817582	-1.398442
Median	11.00093	9.602446	6.784310	-0.830113
Maximum	11.17588	10.56074	7.735870	-0.541285
Minimum	10.46369	7.655627	5.861498	-4.135167
Std. Dev.	0.243600	0.765918	0.460978	1.080648
Skewness	-0.645363	-0.832902	0.002861	-1.390728
Kurtosis	1.964212	3.078037	2.917750	3.776179
Jarque-Bera	1.940005	1.969868	0.004815	5.906756
Probability	0.379082	0.373464	0.997595	0.052163
Sum	185.7388	159.4197	115.8989	-23.77351
Sum Sq. Dev.	0.949452	9.386090	3.400011	18.68479
Observations	190	190	190	190

Source: Researchers' Extract from Eviews 10 Result, 2024

The descriptive statistics result presents the descriptive values of the research variables such mean, standard deviation, skewness, kurtosis and Jarque-Bera goodness of fit test. The result as presented shows that data series of Gross Domestic Product (LOGRGDP), market capitalization (LOGMCAP) and contributory pension fund (LOGCPS) are clustered on the negative tail of the distribution curve (i.e., Sk<0), while the data series of capital expenditure (LOGCEXP) is positively skewed (i.e., Sk>0). The kurtosis estimate shows a marginal excess value (i.e., K>3.0) in the series of LOGMCAP, LOGCEXP and LOGCPS. However, since the excess kurtosis is infinitesimal, it did not result to non-normality of the data series; hence, the associated probability values of the Jarque-Bera statistics (Prob. (J-B stat.)) are all greater than 0.05. The p-values greater than 0.05 confirmed that the data series of the study variables are significantly different from zero. This result therefore, informs the use of parametric statistics in further analysis.

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Table 2. Unit Root Test Result

Variable	ADF stat.	p-value	Order of integration	Inference
LOGRGDP	-4.124	0.0074	I(0)	Stationary
LOGMCAP	-4.275	0.0232	I(0)	"
LOGCEXP	-2.237	0.0303	I(0)	"
LOGCPS	-6.355	0.0001	I(0)	"

Source: Researchers' Extract from Eviews 10 Result, 2024

The unit root test as presented in table 2 above shows that the variables are stationary at order zero. Hence, they have constant mean and variance at order zero. This however, approves the application of ordinary least squares regression technique in ascertaining the effect of the independent variable on the dependent variables.

Table 3: Bivariate correlation result of the variables under investigation

Covariance Analysis: Ordinary

Date: 02/04/24 Time: 09:14

Sample: 2004 2022

Included observations: 190

Correlation t-Statistic Probability	LOGRGDP	LOGMCAP	LOGCEXP	LOGCPS
LOGRGDP	1.000000			

LOGMCAP	0.907823	1.000000		
	8.384276	-----		
	0.0000	-----		
LOGCEXP	0.728807	0.804587	1.000000	
	4.122361	5.247514	-----	
	0.0009	0.0001	-----	
LOGCPS	0.943774	0.919172	0.723424	1.000000
	11.05660	9.038661	4.058213	-----
	0.0000	0.0000	0.0010	-----

Source: Researchers' e-views 10.0 output, 2024

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Correlation test was performed on the data series to ascertain the level of linear association among the variables before measuring the impact of the explanatory to the response variables. The pairwise correlation result presented in table 4.2.3 indicates that the variables interact positively and significantly among themselves. This means that they lend positive support to each other such that appreciation of one favours the other; thus, they move in same direction. The highest relationship with respect to the dependent and independent variable was ascertained between contributory pension scheme (CPS) fund and Gross Domestic Product (r=0.944) while the least correlation coefficient was between contributory pension scheme (CPS) fund and capital expenditure (r=0.723). In other words, appreciation in contributory pension scheme would lead to increased economic growth, development of capital market and as well, increased capital expenditure in Nigeria.

4.2 Test of Hypotheses

4.2.1 Hypothesis One

Ho: Pension fund has no significant effect on GDP growth in Nigeria.

Table 4: Regression result of impact of CPS on GDP

Dependent Variable: LOGRGDP

Method: ARMA Maximum Likelihood (OPG - BHHH)

Date: 02/04/24 Time: 9:42

Sample: 2004 2022

Included observations: 190

Convergence achieved after 14 iterations

Coefficient covariance computed using outer product of gradients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	11.10177	0.183924	60.36058	0.0000
LOGCPS	0.118974	0.036855	3.228195	0.0072
AR(1)	0.966463	0.126528	7.638324	0.0000
SIGMASQ	0.001340	0.000819	1.636918	0.1276

R-squared	0.975988	Mean dependent var	10.91139
Adjusted R-squared	0.969985	S.D. dependent var	0.243985
S.E. of regression	0.042270	Akaike info criterion	-3.107218

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Sum squared resid	0.021441	Schwarz criterion	-2.914071
Log likelihood	28.85775	Hannan-Quinn criter.	-3.097328
F-statistic	162.5811	Durbin-Watson stat	1.502545
Prob(F-statistic)	0.000000		

Inverted AR Roots	.97

Source: Researchers' Eviews 10 Result

The regression result in table 4 above shows that pension fund (LOGCPS) with a coefficient value of 0.119; t-statistic value of 3.228 and associated probability value of 0.0072 < 0.05 has a significant positive impact on economic growth (GDP) in Nigeria. The researcher therefore rejects the null hypothesis and concludes that pension fund has significant positive impact on GDP growth in Nigeria. The R-squared estimate which measures the proportion of variations in response variable that is attributable to explanatory variable indicates that about 97.6% of the total variations in GDP growth can be explained by CPS in Nigeria. The remaining 2.4% are caused by other variables not found in the equation but indicated by the error term. The implication is that the model is a good one. The Durbin-Watson (D-W) statistic value of 1.502545 which is closer to 2 than to zero indicates that the model is devoid of first order autocorrelation problem.

This finding agrees with the work of Gunu (2012) in Nigeria. It also agrees with the findings of Adekoya and Nwaobia (2021) in Nigeria, and Datom and Mancha (2021) in Nigeria among other studies. Our finding is equally in support of the work of Farayibi (2016) that contributory pension has the capacity to boost the Gross Domestic Product (GDP) in Nigeria. It partially (in terms of direction) disobeys the work of Nwanne (2015) in Nigeria. In terms of magnitude, outcome of this study did not support the findings of Ameh et al (2017) in Nigeria.

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4.2.2 Hypothesis Two

Ho: Pension fund do not contribute significantly to development of capital market in Nigeria.

Table 5: Regression result of impact of CPS on MCAP

Dependent Variable: LOGMCAP

Method: Least Squares

Date: 02/04/24 Time: 10:08

Sample: 2004 2022

Included observations: 190

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.20101	0.108436	94.07420	0.0000
LOGCPS	0.620897	0.060436	10.27364	0.0000

R-squared	0.882892	Mean dependent var	9.303683
Adjusted R-squared	0.874527	S.D. dependent var	0.725665
S.E. of regression	0.257046	Akaike info criterion	0.237348
Sum squared resid	0.925020	Schwarz criterion	0.333922
Log likelihood	0.101215	Hannan-Quinn criter.	0.242294
F-statistic	105.5477	Durbin-Watson stat	1.709426
Prob(F-statistic)	0.000000		

Source: Researchers' Eviews 10 Result

The regression result in table 5 above shows that pension fund (CPS) with a coefficient value of 0.621; t-statistic value of 10.274 and associated probability value of 0.000 < 0.05 contributes positively and significantly to market capitalization (MCAP) in Nigeria. The null hypothesis is therefore rejected, hence the conclusion that pension fund contributes significantly to development of capital market in Nigeria. The R-squared value is 0.883 which indicates that about 88.3% of the total variations in MCAP can be explained by CPS in Nigeria. The remaining 11.7% are caused by other variables not found in the equation but indicated by the error term. This implies that the model is a good one. The Durbin-Watson (D-W) statistic value of 1.72 which is closer to 2 than to zero indicates that the model is devoid of first order serial correlation problem

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This result is consistent with the work of Gunu and Tsado (2012) in Nigeria. It also agrees with the findings of Farayibi (2016) in Nigeria, that pension fund contributions from both private and public sectors in Nigeria is a supportive and substantial investment fund in the capital and money markets. Outcome of this study did not fall in disagreement to the work of Nageri et al (2019) that pension fund assets drive capital market in Nigeria.

4.2.3 Hypothesis Three

Ho: Pension fund does not contribute significantly to infrastructural development in Nigeria.

Table 6: Regression result of impact of CPS on CEXP

Dependent Variable: LOGCEXP

Method: ARMA Maximum Likelihood (OPG - BHHH)

Date: 02/05/24 Time: 10:28

Sample: 2004 2022

Included observations: 190

Convergence achieved after 18 iterations

Coefficient covariance computed using outer product of gradients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.305938	0.273620	26.70108	0.0000
LOGCPS	0.322810	0.257422	1.254012	0.2337
AR(1)	0.628307	0.176504	3.559735	0.0039
SIGMASQ	0.064668	0.031289	2.066806	0.0610

R-squared	0.661369	Mean dependent var	6.781992
Adjusted R-squared	0.576712	S.D. dependent var	0.451330
S.E. of regression	0.293638	Akaike info criterion	0.630765
Sum squared resid	1.034680	Schwarz criterion	0.823912
Log likelihood	-1.046118	Hannan-Quinn criter.	0.640655
F-statistic	7.812278	Durbin-Watson stat	1.586051
Prob(F-statistic)	0.003724		

Inverted AR Roots	.63

Source: Researchers' Eviews 10 Result

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From the regression result, coefficient of pension fund is 0.323, with t-statistic value of 1.254 and associated probability value of 0.2337>0.05. It shows that pension fund contributes positively and insignificantly to infrastructural development proxy by capital expenditure in Nigeria. As a result, the null hypothesis is upheld that the contribution of Pension fund to infrastructural development in Nigeria is not statistically significant. The R-squared value of 0.661 indicates that about 66.1% of the total variations in MCAP can be explained by CPS in Nigeria. The remaining 33.9% are caused by other variables not found in the equation but indicated by the error term. This implies that the model is not a bad one. The Durbin-Watson (D-W) statistic value of 1.59 which is closer to 2 than to zero indicates that there is no problem of first order serial correlation in the model.

This result bows in support of the work of Kalu and Attamah (2015) in Anambra state Nigeria. Looking at it from the angle of direction of effect, outcome of this study did not disobey the findings of Oluitan and Falode (2020) that pension fund assets contribute positively to infrastructure financing. However, from the angle of magnitude, our finding did not submit to the work of Oluitan and Falode (2020) that pension fund assets offer significant support to infrastructure financing in Nigeria.

CONCLUSION AND RECOMMENDATION

This study has empirically provided evidence of effect of contributory pension scheme on the growth of Nigerian economy. The research target was achieved using Ordinary Least Squares (OLS) regression analysis mechanism on a time series data covering from 2004-2022. Based on our research findings, it was highly obvious that pension fund contributions were statistically significant to the growth of Nigerian economy. Based on our research findings, the following recommendations were made:

1. Since the impact of pension funds to economic growth is positive and statistically significant, Federal Government of Nigeria should maintain that pension contributions are effectively and efficiently utilised in virtually all the productive sectors of the economy so as to enhance economic growth and development of the country.
2. Since pension funds has the capacity to add value to financial market development, the study recommended that Federal Government of Nigeria should consider investing all accumulated pension fund assets in the capital market, thereby

facilitating domestic bond issuances and access to long-term finance for firms and infrastructure projects that is consistent with pension fund investment objective.

3. Excessive pension funds/assets, instead of being embezzled or shared among managing authorities, should be used to facilitate infrastructural (capital projects) development that will attract economic growth and development for improved standard of living of the citizens. Also, an upward review of the percentage of the total pension funds asset that can be invested in infrastructure should be considered. This will give the Pension Fund Administrators (PFAs) the opportunity to consider investing more in infrastructure.

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