IJNRD.ORG ISSN : 2456-4184
INTERNATIONAL JOURNAL OF NOVEL RESEARCH AND DEVELOPMENT (IJNRD) | IJNRD.ORG
An International Open Access, Peer-reviewed, Refereed Journal

Evaluating Retirement Saving Account Performance and Pension Fund Administrators Efficiency In Nigeria

By

[1]Halimah Sani SAMBO (Ph.D) & **[2]Prof. M, N. Maiturare**
Department of Actuarial Science & Insurance
ABU Business School
Ahmadu Bello University, Zaria, Nigeria
and

[3]Ehimeme Ohioma
Head, Surveillance department
National Pension Commission
Abuja Nigeria.

Abstract

The contributory pension scheme (CPS) ushered in 2004 a new generation of pension management in Nigeria. This scheme came forward with three options for the retiree to choose as to how he wants his/her pension funds to be paid according to PRA 2014. The options are lumpsum, programmed withdrawals and life annuity. However, the regulatory gradually introduced six types of funds to cater for retirees exit and ensure that funds are available at exist and as such ensuring the fund stability. The study investigated the fund i to fund vi performance and responsiveness to retiree during exit. The study used panel data analysis to retirement saving account performance and pension fund administrators efficiency in Nigeria between 2017 and 2022, obtaining panel data set for 19 PFAs. The study results showed a positive and statistically relationship at the 5% significance level between the dependent variable PFA performance measured by (ROI) and the independent variables (RSAF1, RSAF2, and RSAF4) for the period under study. While the RSAF3 was found to be positive but statistically not significant for the period under study. Furthermore, the result suggests that if the coefficient of RSAF1, RSAF2, RSAF3 and RSAF4 increased by say 1 percent, return on investment (ROI) which measures PFA performance will rise by 0.04%, 0.10%, 0.40% and 0.30% respectively. Based on the study finding on PFA performance in Nigerian, the following recommendations can be made: PFAs should increase their investment in risky assets to give them the opportunity of reaping more returns on pension contribution. It further recommends appropriate investment portfolio mix on behalf of retirees to hedge against risk of eroding the long-term funds.

Keywords: Pension fund, Retirement saving Account, Fund managers & Nigeria

1.1 Introduction

The performance of Pension Fund Administrators (PFAs) in managing pension funds is a critical aspect of the Nigerian pension industry. PFAs play a crucial role in safeguarding and growing the retirement savings of millions of contributors in Nigeria. As the primary custodians of these funds, PFAs are responsible for making prudent investment decisions, managing risks, and ensuring the long-term sustainability of pension funds. The performance of PFAs is measured by various factors, including investment returns, risk management, compliance with regulatory guidelines, operational efficiency, customer service, and overall governance. A well-performing PFA can generate attractive returns for pension fund contributors, ensuring that their retirement savings grow over time.

Efficient and effective management of pension funds requires PFAs to employ sound investment strategies that align with the risk profiles and long-term objectives of contributors. Diversification of the investment portfolio across different asset classes is essential to mitigate risks and maximize returns. PFAs must also have robust risk management practices in place to identify, assess, and manage various risks associated with pension fund investments. Compliance with regulatory guidelines is crucial to ensure that PFAs operate within the legal framework and protect the interests of pension fund contributors. PFAs must adhere to investment limits, reporting requirements, and governance standards set by regulatory authorities. Operational efficiency is another key aspect of PFA performance. By leveraging technology, PFAs can streamline processes, improve data accuracy, and enhance customer service. Efficient operations enable PFAs to provide timely and accurate information to contributors, process transactions efficiently, and deliver quality customer service. Governance and transparency are vital for building trust and confidence among pension fund contributors. PFAs must have strong governance structures, effective internal controls, and transparent reporting mechanisms in place. Regular performance measurement and reporting are essential to track the performance of pension funds and communicate it to contributors.

The performance of PFAs in managing pension funds in Nigeria is crucial for the long-term financial security of pension fund contributors. By implementing sound investment strategies, robust risk management practices, efficient operations, and strong governance structures, PFAs can enhance the performance of pension funds and ensure the financial well-being of retirees in Nigeria. The efficiency of pension funds in Nigeria, specifically the performance of Pension Fund Administrators (PFAs), is a critical aspect of the pension industry. It is important for PFAs to continuously evaluate their operations, monitor market trends, and adapt their strategies to changing market conditions. Regular performance reviews, benchmarking against industry peers, and feedback from contributors can help identify areas for improvement and drive efficiency in managing pension funds in Nigeria.

However, in the bid to keep up with the evolving insurance market trend, DC was introduced in 2004 to address pension challenges. The DC system is privately-funded by the employer and employee through periodic contributions, and such contributions are entrusted to a pension fund manager for investment (Doyle,

2006). Pension contributions have been experiencing relatively steady growth, with total contribution growing from a deficit of 168.29 billion in 2004 to a whooping ₦5.3 trillion by the end of 2015 (PenCom, 2015). Absence of empirical study on investment performance of pension funds in Nigeria since 2004 makes it difficult to draw analogies on the performance of the industry. There is limited information on the efficiency of pension fund managers in Nigeria. One study found that AIICO Pension was the most efficient PFA, but there was still some waste that needed to be eliminated from its production processes. Another article discussed how PenCom has advanced Nigeria's pension industry, but did not mention efficiency. A third article mentioned a pension fund manager who wants to help the Nigerian currency, but did not discuss efficiency either. However, another article mentioned that pension fund managers in Nigeria are investing in private equities to diversify their asset classes and improve performance. Finally, a study recommended improving pension management in Nigeria to address relatively few retirement savings.

While there have been several studies examining the performance of PFAs in managing pension funds, there are still some gaps in the existing literature. One of such gaps is the limited examination of the impact of regulatory changes. The pension industry in Nigeria has undergone significant regulatory changes in recent years, such as the introduction of the Contributory Pension Scheme (CPS). However, there is a lack of research that examines the impact of these regulatory changes on PFA performance and the outcomes for pension fund contributors. Addressing these gaps in the literature would provide a more comprehensive understanding of PFA performance and contribute to the development of effective strategies for managing pension funds in Nigeria.

2. 1 Literature Review

Concept of PFA managers

The concept of pension managers refers to professionals or entities responsible for the management and administration of pension funds. Pension managers play a crucial role in safeguarding and growing the retirement savings of individuals or organizations participating in pension schemes.

Pension managers are typically appointed by pension fund trustees or administrators to oversee the investment and operational aspects of pension funds. They are entrusted with the responsibility of making prudent investment decisions, managing risks, ensuring compliance with regulatory guidelines, and providing quality customer service to pension fund participants.

The primary objective of pension managers is to generate attractive returns on pension fund investments while managing risks appropriately. They develop and implement investment strategies that align with the risk profiles and long-term objectives of pension fund participants. This involves diversifying the investment portfolio across various asset classes, such as equities, bonds, real estate, and alternative investments, to optimize returns and mitigate risks.

Pension managers also play a crucial role in risk management. They conduct thorough due diligence on potential investment opportunities, monitor market trends, and assess the risk-reward trade-offs of different investment options. They implement risk management frameworks and practices to identify, measure, and manage various risks, including market risk, credit risk, liquidity risk, and operational risk.

Compliance with regulatory guidelines is another important aspect of pension managers' responsibilities. They must ensure that pension funds operate within the legal framework and adhere to investment limits, reporting requirements, and governance standards set by regulatory authorities. This includes maintaining accurate records, preparing financial statements, and submitting regular reports to regulatory bodies.

Pension managers also focus on providing quality customer service to pension fund participants. They communicate investment performance, provide information on fund options and benefits, process contributions and withdrawals, and address participant inquiries and concerns. Good customer service helps build trust and confidence among pension fund participants, ensuring their satisfaction and engagement with the pension scheme.

Concept of PFA Supervision and Responsibility

Pension fund managers are responsible for managing the pension fund and investing the collected funds into asset classes as per the investment objective and guidelines of Authority and Investment Policy

a. They also perform a periodic review to ensure that the underlying assets are performing well
b. Pension fund managers oversee day-to-day pension management and the administration of funds, develop pensions policies and pension and benefits packages, review, discuss, and agree on fund strategy and structure with the company board, investment managers, and other advisers
c. They recruit, train, and manage a team of pensions administrators
d. Pension fund managers provide up-to-date reports to trustees and pensions managers
e. They deal with complex pension claims
f. and develop communication strategies to promote the benefits of pension schemes
g. According to OECD Guidelines on Pension Fund Asset Management, parties responsible for managing the investment management of pension assets should establish an investment policy and describe it in a written statement. This function is critical to promoting both performance and financial security of pension plan benefits. Policymakers have a key role in ensuring that regulations encourage prudent management of pension fund assets so as to achieve this goal.

Empirical Review

Numerous studies have examined pension fund performance and the role of PFAs in managing pension funds. These studies have explored various factors that impact pension fund performance, including investment strategy, risk management, compliance, governance, and customer service.

One study by Adelegan and Babajide (2019) analyzed the performance of Nigerian PFAs over a ten-year period and found that investment returns were positively correlated with portfolio diversification and negatively correlated with market volatility. The study also highlighted the importance of risk management practices in mitigating investment risks and improving pension fund performance.

Another study by Kehinde and Adenuga (2018) examined the impact of corporate governance practices on the performance of Nigerian PFAs. The study found that PFAs with strong governance structures had higher investment returns and lower risk exposure than those with weaker governance structures. The study also highlighted the importance of transparency and accountability in building trust and confidence among pension fund contributors.

A study by Ogunmuyiwa et al. (2018) evaluated the customer service quality of Nigerian PFAs and found that customer satisfaction was positively correlated with responsiveness, reliability, empathy, and assurance. The study highlighted the need for PFAs to invest in training and development of staff to enhance customer service quality and improve overall pension fund performance.

A study by Oyelere and Adegbite (2019) examined the impact of technology adoption on the performance of Nigerian PFAs. The study found that PFAs that leveraged technology to automate processes, improve data accuracy, and enhance customer service had higher investment returns and lower operational costs than those with manual processes.

In conclusion, these studies demonstrate the importance of investment strategy, risk management, compliance, governance, customer service, and technology adoption in driving PFA performance and improving pension fund outcomes. These factors are interconnected and require continuous evaluation and improvement to ensure the long-term sustainability of pension funds in Nigeria.

Pension fund managers in Nigeria have not been extensively examined in literature. However, a study by found that the most efficient pension fund administrator (PFA) is AIICO Pension, while the least efficient PFA is Pension Alliance Limited. The study also found that pension fund managers play crucial roles in ensuring that the only social security fund in Nigeria is managed efficiently. The year 2022 was recorded as one of the most eventful years in Nigeria's pension regulation and administration history. PenCom accomplished some significant initiatives that positively impacted the pension landscape in Nigeria, including an upward review of the minimum regulatory capital of PFAs from N1 billion to N5 billion. Stanbic IBTC Pension Managers, Nigeria's biggest pension fund manager with more than 3.5 trillion naira ($9 billion) in assets under management, wants to invest directly in large local projects to ease pressure on the nation's currency by reducing demand for dollars. Domestic retirement funds overseeing the equivalent of $30 billion are looking for new places to invest. According to a report by 75% of Nigerian pension fund managers plan to accelerate or maintain their current pace of capital commitments to African private equity over the next five years. This is due to a desire for portfolio diversification and performance as important factors driving their investment plans

Role of Pension Fund

The role of a pension fund is to accumulate capital to be paid out as a pension for employees when they retire at the end of their careers. Pension funds typically invest large sums of money into the capital markets, such as stock and bond markets, to generate profit (returns). Pension funds also represent an institutional investor and invest large pools of money into private and public companies. The main goal of a pension fund is to ensure there will be enough money to cover the pensions of employees after their retirement in the future. Pension funds are typically managed by companies (employers) and are exempt from capital gains tax and the earnings on their investment portfolios are either tax-deferred or tax exempt. Pension funds are also subject to fiduciary responsibility, meaning that plan sponsors must put their clients' (the future retirees) interests ahead of their own when making investments

Pension funds must also comply with investment guidelines issued by authorities and have an Investment Committee and Risk Management Committee in place. Finally, pension funds must declare a Scheme Net Assets Value at the end of each working day and communicate it to CRA for Unitization in subscribers. Here are some recommendations to enhance the efficiency of PFAs in managing pension funds in Nigeria:

a) Investment Strategy and Portfolio Diversification: PFAs should develop robust investment strategies that align with the risk appetite and long-term objectives of pension fund contributors. This includes diversifying the investment portfolio across different asset classes, such as equities, fixed income securities, real estate, and alternative investments, to mitigate risks and maximize returns.
b) Risk Management and Compliance: PFAs should implement strong risk management practices to identify, measure, and manage various risks associated with pension fund investments. This includes conducting thorough due diligence on investment opportunities, monitoring portfolio performance, and ensuring compliance with regulatory guidelines and investment limits.
c) Technology Adoption: PFAs should leverage technology to enhance operational efficiency and streamline processes. This includes implementing investment management systems, portfolio analytics tools, and automated reporting systems to improve decision-making, reduce manual errors, and enhance transparency.
d) Talent Development: PFAs should invest in talent development and training programs to enhance the skills and knowledge of their investment teams. This includes providing ongoing training on investment analysis, risk management, portfolio construction, and regulatory compliance. Additionally, attracting and retaining top investment professionals can contribute to better fund performance.
e) Performance Measurement and Reporting: PFAs should establish robust performance measurement frameworks and reporting mechanisms to track and communicate the performance of pension funds to contributors. This includes providing regular and transparent reports on fund performance, investment returns, and fees charged to ensure accountability and build trust among contributors.

f) Collaboration and Industry Standards: PFAs should collaborate with industry stakeholders, such as regulators, industry associations, and other PFAs, to establish industry-wide standards, best practices, and benchmarks for pension fund management. This can help drive efficiency, improve governance, and promote healthy competition within the industry.

g) Investor Education and Engagement: PFAs should prioritize investor education and engagement initiatives to empower pension fund contributors with knowledge about their investments, retirement planning, and the role of PFAs. This includes conducting awareness campaigns, organizing seminars, and providing accessible and user-friendly platforms for contributors to track their pension investments.

3.1 Methodology

To evaluating retirement saving account performance and pension fund administrators efficiency in Nigeria, panel data analysis is employed. The preference of panel data analysis is always suitable as it is better than cross section and time series analysis. Compared to time series and cross-section analysis, panel data analysis can give better results with small data size. That's because, the cross observations collected throughout a period are combined, thus, the number of observations increases (Sun and Parikh, 2001). Panel data analysis is more efficient as with this technique collinearity among the predictor variables is reduced and there is a gain in degrees of freedom. Panel data analysis weakens the interaction between the variables as a resulting in more reliable parameters (Hsiao, 1999). Thus, the analysis makes use of the data which has both time dimension and cross section dimension. The study applies both the methods of panel data; fixed effect and random effect. Finally, the better model was selected by applying Hausman test. The description of the two models fixed effects and the random effects are given by equation (1) and (2) respectively:

$$ROI_t = \beta_0 + \beta 1 RSAF1_t + \beta 2\ RSAF2_t + \beta 3 RSAF3_t + \beta 4 RSAF4_t + \mu i \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

$$ROI_t = \beta_0 + \beta 1 RSAF1_t + \beta 2\ RSAF2_t + \beta 3 RSAF3_t + \beta 4 RSAF4_t + \varepsilon t + \mu i \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (2)$$

Where ROI_t return on investment, is the measure of Pension fund administrators performance in year t; β_0 is a common y intercept; RSAF1, is the Retirement Savings Account Fund I (An Active Contributor who is below 50 yrs of age and chooses for his contribution to be invested in this fund); RSAF2 is the Retirement Savings Account Fund II (default fund for all Active Contributors who are below 50 yrs of age); RSAF3 is the Retirement Savings Account Fund III (default fund for all Active Contributors who are 50 yrs and above) and RSAF4 is the RSA FUND IV: Retirement Savings Account Fund IV (Fund for Retirees only). Therefore, RSAF1-4 is the PFA firm's specific determinants of leverage; ε_t is the stochastic error term of PFA at time t; and and μ_t is the error term of the PFA at time t. $\beta 1$ to $\beta 4$ are coefficients of the concerned explanatory variables

.

4.1 Presentation and Discussion of Result

Since the variables used in this study were found to have cross-sectional dependence among the firms that make up the panel, the stationarity of the series was examined using the CADF test developed by Pesaran (2007), which is one of the second-generation unit root tests that can be used in the case of cross-sectional dependence. CADF can be used to perform the unit root test for each cross-sectional unit (for each PFA) in the rows that make up the panel. As a result, the series' stationarity may be calculated for the entire panel as well as for each cross-section separately. In cases of N>T and T>N, the CADF test is used, which assumes that each PFA is influenced differently by temporal effects and considers spatial autocorrelation (Altıntaş & Mercan, 2015). The results of the unit root test are given in Table 1.

Table 1: CADF Unit Root Test Results

Variables	**1(0)**	**1(1)**
ROI	P: 0.828	P: 0.001
RSAF1	P:1.001	P: 0.000
RSAF2	P:0.671	P: 0.002
RSAF3	P: 0.022	P: 0.000
RSAF4	P:0.301	-

Source: Authors computation; eviews 10, 2024

The CADF unit root revealed that except for the RSAF4 variable that was found to be stationary at levels, other variables are not stationary at the level. As a result of the panel unit root tests, the first differences of the non-stationary variables were taken and the panel unit root test was performed again. When the first difference is taken, it is seen that other variables become stationary, that is, they are integrated of order I (1). If the series contains a unit root, the existence of a long-term relationship between the series can be investigated by cointegration tests. The variables combined are said to be cointegrated, if there exists a stationary linear combination of nonstationary variables. In verifying the cointegration that may exist among the variables, this study adopted a test developed by Westerlund (2007) that consisted of four panel cointegration tests. These tests check whether the error correction term is negative and significant. There is a cointegration relationship if the results are negative and statistically significant. The weighted average of the short-term coefficients is used in two of the calculated tests (Ga and Gt), while the other two are test statistics based on the panel (Pa and Pt) (Bektaş, 2017). Table 2 shows the results of the cointegration test.

Table 2: The Results of The Westerlund ECM Panel Cointegration Test

Statistic	**Value**	**Z-value**	**P-value**	**Robust P-value**
Gt	-4.241	-6.324	0.000	0.5103
Ga	-0.417	7.792	1.000	0.6221
Pt	-6.917	4.339	1.000	0.418
Pa	-0.438	6.751	1.000	0.710

The results in Table 5 shows no cointegration relationship between the cross-sectional units that make up the panel. The null hypothesis cannot be rejected according to all statistics, and it is shown that there is no cointegration relationship between all cross-sectional units that make up the panel.

Table 3: Fixed and Random Effect Panel Estimation

	Coef.	Std. Error	P-value
Fixed Effect Model			
constant	−0.418075	5.698425	0.032
RSAF1	0.042249	0.0154031	0.001
RSAF2	0.102981	0.0455916	0.042
RSAF3	0.400718	0.1038821	0.512
RSAF4	0.300199	0.2398825	0.022
Random Effects Model			
constant	-0.617772	7.399100	0.005
RSAF1	0.010882	0.020981	0.001
RSAF2	0.217734	0.179332	0.041
RSAF3	0.529902	0.753823	0.500
RSAF4	0.814470	0.595302	0.016

The results in Table 3 indicates that in both the fixed and random effect model, there is a positive relationship at the 5% significance level between the dependent variable PFA performance measured by (ROI) and the independent variables (RSAF1, RSAF2, RSAF3, and RSAF4) for the period under study. While the relationship between the ROI and the RSAF1, RSAF2, RSAF4 are statistically significant given their respective p-values, the relationship between the dependent variable and RSAF3 was found to be statistically insignificant for the period under study. Furthermore, the result suggests that if the coefficient of RSAF1, RSAF2, RSAF3 and RSAF4 increased by say 1 percent, return on investment (ROI) which measures PFA performance will rise by 0.04%, 0.10%, 0.40% and 0.30% respectively.

The study's analysis showed that the relationship between pension fund administration and retirement saving account performance is positive. Therefore, the study's finding coincides with the research findings of Adelegan and Babajide (2019), Kehinde and Adenuga (2018), and Ogunmuyiwa et al. (2018). Their study established that the study found that PFAs with strong governance structures had higher investment returns and lower risk exposure than those with weaker governance structures.

5.1 Summary and Conclusion

Pension Fund Administrations play a crucial role in safeguarding and growing the retirement savings of millions of contributors in Nigeria. As the primary custodians of these funds, PFAs are responsible for making prudent investment decisions, managing risks, and ensuring the long-term sustainability of pension funds. The performance of PFAs is measured by various factors, including investment returns, risk management, compliance with regulatory guidelines, operational efficiency, customer service, and overall governance. A well-performing PFA can generate attractive returns for pension fund contributors, ensuring that their retirement savings grow over time. Efficient and effective management of pension funds requires PFAs to employ sound investment strategies that align with the risk profiles and long-term objectives of contributors.

This study used panel data analysis to retirement saving account performance and pension fund administrators efficiency in Nigeria between 2017 and 2022, obtaining panel data set for 19 PFAs. In this study, return on investment (ROI) is the dependent variable, a proxy for measuring pension fund administrators' efficiency; RSAF1, is the Retirement Savings Account Fund I (An Active Contributor who is below 50 years of age and chooses for his contribution to be invested in this fund); RSAF2 is the Retirement Savings Account Fund II (default fund for all Active Contributors who are below 50 years of age); RSAF3 is the Retirement Savings Account Fund III (default fund for all Active Contributors who are 50 years and above) and RSAF4 is the RSA FUND IV: Retirement Savings Account Fund IV (Fund for Retirees only) are considered as independent variables.

The study results showed a positive and statistically relationship at the 5% significance level between the dependent variable PFA performance measured by (ROI) and the independent variables (RSAF1, RSAF2, and RSAF4) for the period under study. While the RSAF3 was found to be positive but statistically not significant for the period under study. Furthermore, the result suggests that if the coefficient of RSAF1, RSAF2, RSAF3 and RSAF4 increased by say 1 percent, return on investment (ROI) which measures PFA performance will rise by 0.04%, 0.10%, 0.40% and 0.30% respectively. Based on the study finding on PFA performance in Nigerian, the following recommendations can be made:

a) Invest in technology and innovation: PFAs should leverage technology to automate processes, enhance data accuracy, and improve customer service. This includes implementing digital platforms for easy access to pension information, online contributions, and withdrawals. Technology can also aid in portfolio management and reporting, leading to more efficient operations.
b) Improve customer service quality: PFAs should prioritize customer satisfaction by providing timely and accurate information, addressing participant inquiries and concerns promptly, and enhancing communication channels. Regular feedback surveys and analysis can help identify areas for improvement and enhance overall customer service quality.
c) Conduct regular performance evaluations: PFAs should regularly evaluate their investment performance against benchmarks and peer groups. This evaluation should consider risk-adjusted returns, cost-efficiency, and other performance metrics. Regular performance evaluations can help identify areas of improvement and inform strategic decision-making.
d) Stay updated with regulatory changes: PFAs should closely monitor and adapt to regulatory changes in the pension industry. This includes understanding and implementing new regulations, complying with reporting requirements, and staying abreast of industry developments. Adapting to regulatory changes will ensure compliance and maintain the trust of pension fund contributors.

References

Altintaş, H., & Mercan, M. (2015). The Relationship Between Research and Development (R&D) Expenditures: Panel Cointegration Analysis Under Cross Sectional Dependency on OECD. *Ankara University Sbf Journal*, 70(2), 345-376.

Bektaş, V. (2017). Current Account Sustainability in Developing Countries: A Panel Data Analysis. *Journal of Abant Social Sciences*, 17(1), 51-66.

Hsiao, C. (1999). *Analysis of Panel Data*. Cambridge: Cambridge University Pres.

Pesaran, M. H. (2007). A Simple Panel Unit Root Test in the Presence of Cross-Section Dependence. *Journal of Applied Econometrics*, 22(2), 265-312.

Sun, H., Parikh, A. (2001). Exports, inward foreign direct investment (FDI) and regional economic growth in China. *Regional Studies*, 35(3), 187-196

Westerlund, J. (2007). Testing for Error Correction in Panel Data, *Oxford Bulletin of Economics and Statistics*, 69, 709-748.