



CONTRIBUTORY PENSION AS A PANACEA FOR ECONOMIC DEVELOPMENT: THE NIGERIAN EXPERIENCE

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Abstract

The Contributory Pension Scheme (CPS) in Nigeria represents a major reform aimed at addressing the inefficiencies of the erstwhile Defined Benefit Scheme. This study examines CPS as a strategic tool for economic development, focusing on its contributions to capital formation, financial market development, savings mobilization, and social security. Using descriptive and analytical approaches and drawing on existing literature, the study finds that CPS has significantly enhanced long-term fund availability and contributed to economic growth in Nigeria. However, challenges such as limited coverage, compliance issues, and investment constraints persist. The study concludes that while CPS is not a complete solution, it remains a critical driver of sustainable economic development in Nigeria.

Keywords: *Contributory Pension Scheme, Economic Development, Capital Formation, Nigeria, Pension Reform*

1. Introduction

Pension systems play a crucial role in economic development by ensuring income security for retirees while mobilizing long-term funds for investment (World Bank, 1994). In Nigeria, the pension system underwent a major transformation with the introduction of the Contributory Pension Scheme (CPS) under the Pension Reform Act 2004, later amended in 2014 (PenCom, 2014).

Prior to this reform, Nigeria operated a Defined Benefit Scheme characterized by poor administration, corruption, and unsustainable liabilities (Orifowomo, 2006). The CPS was designed to address these challenges by introducing a fully funded system based on individual Retirement Savings Accounts (RSAs), jointly financed by employers and employees, and regulated by the National Pension Commission (PenCom) (Ahmad, 2008). This paper examines whether the CPS can be considered a panacea for economic development in Nigeria.

2. Literature Review

Theoretical frameworks such as the life-cycle hypothesis posit that individuals save during their working years to finance retirement, thereby contributing to national savings and capital accumulation (Modigliani & Brumberg, 1954).

Empirical studies indicate that pension funds promote:

Capital market development
Financial deepening
Economic growth
For instance, Davis (1995) argues that pension funds enhance financial market efficiency and provide long-term capital for investment. Similarly, Impavido, Musalem, and Tressel (2003) found that contractual savings institutions, including pension funds, positively influence economic growth.

In the Nigerian context, studies show that CPS has improved pension fund accumulation and contributed to GDP growth (Fapohunda, 2013; Sule & Ezugwu, 2009). However, challenges such as low coverage and weak compliance persist (Ijeoma & Nwifo, 2015).

3. Methodology

This study adopts a descriptive and analytical research design, relying on secondary data from:

National Pension Commission (PenCom) reports
Pension Fund Operators Association of Nigeria (PenOp) publications
Peer-reviewed journal articles
The study analyzes trends in pension asset growth and evaluates their impact on economic development indicators.

4. Overview of the Contributory Pension Scheme in Nigeria

The CPS is a mandatory savings scheme requiring contributions from both employers and employees. The minimum contribution rate is 18% of monthly emoluments (PenCom, 2014).

Key features include:

Individual Retirement Savings Accounts (RSAs)

Pension Fund Administrators (PFAs)

Pension Fund Custodians (PFCs)

Regulatory oversight by PenCom

The scheme ensures transparency, accountability, and sustainability in pension management (Ahmad, 2008).

5. CPS and Economic Development in Nigeria

Capital Formation

The CPS has significantly increased pension assets, exceeding ₦20 trillion in recent years (PenCom, 2023). These funds provide long-term capital for investment in government securities, infrastructure, and private sector projects. This supports the argument that pension funds are critical for capital accumulation and economic growth (Davis, 1995).

Financial Market Development

Pension funds have strengthened Nigeria's financial system by increasing liquidity and promoting institutional investment (Impavido et al., 2003).

They also support the development of bond and equity markets, reducing dependence on short-term financing.

Promotion of Savings Culture

The mandatory nature of CPS has improved national savings rates, aligning with the life-cycle savings theory (Modigliani & Brumberg, 1954). This contributes to financial stability and economic resilience.

Employment Generation

Investment of pension funds in infrastructure and industry stimulates job creation and economic diversification (Sule & Ezugwu, 2009).

Poverty Reduction and Social Security

The CPS ensures steady retirement income, reducing old-age poverty and enhancing welfare (Fapohunda, 2013). This aligns with global findings that pension systems improve social security outcomes (World Bank, 1994).

6. Challenges of the CPS in Nigeria

Limited Coverage

A significant proportion of Nigeria's informal sector remains excluded from the scheme (Ijeoma & Nwufu, 2015).

Compliance Issues

Non-remittance of pension contributions by some employers undermines the system's effectiveness (Sule & Ezugwu, 2009).

Investment Constraints

Regulatory limitations restrict diversification of pension fund investments.

Public Trust Deficit

Historical mismanagement of pension funds continues to affect public confidence (Orifowomo, 2006).

7. Policy Implications and Recommendations

To enhance CPS effectiveness:

Expand coverage through micro pension schemes
Strengthen enforcement of compliance
Diversify investment outlets
Improve financial literacy
Enhance transparency and governance
These measures will maximize the developmental impact of CPS.

8. Conclusion

The Contributory Pension Scheme has significantly contributed to Nigeria's economic development by mobilizing long-term funds, promoting savings, and enhancing financial market stability. While not a complete panacea, it remains a vital instrument for sustainable growth and social protection.

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