



**NATIONAL PENSION COMMISSION**

# **Regulatory and Supervisory Frameworks under CPS in Nigeria**

**By**

**Chinelo Anohu-Amazu**

**Director General**

**National Pension Commission – Nigeria**

# Pension Reform in Nigeria



## ● Reform commenced in 2004

- To address myriad of challenges in the Defined Benefits Scheme
- To provide pensions to employees of many private sector institutions that did not have any form of pension arrangements
- To provide old age income to the self employed and persons working in the informal sector

## ● Reform Features

- Contributory Pension Scheme (CPS) was introduced for both Public and Private Sectors
- Established a system with uniform rules for both public and private sectors
- Set up a pension system that is sustainable and provides a stable, predictable and adequate source of retirement income in Nigeria
- Established National Pension Commission to direct and oversee the overall policy on Pension Matters in Nigeria
- Workers are now able to contribute (save) and receive their retirement benefits as and when due
- DB Scheme Streamlined for those exempted from the CPS

# Legal Framework

## ● The System

- Defined Contribution Scheme – introduced by an Act
- Employee driven based on individual Retirement Savings Account – **RSA**
- Mandatory for organisations with at least 5 employees
- **Private Sector Managed – PFA and PFC**
- Planned Withdrawal of Savings – Programmed Withdrawal or Life Annuity
- Life Insurance Cover – death in active service
- Strong Regulatory Framework

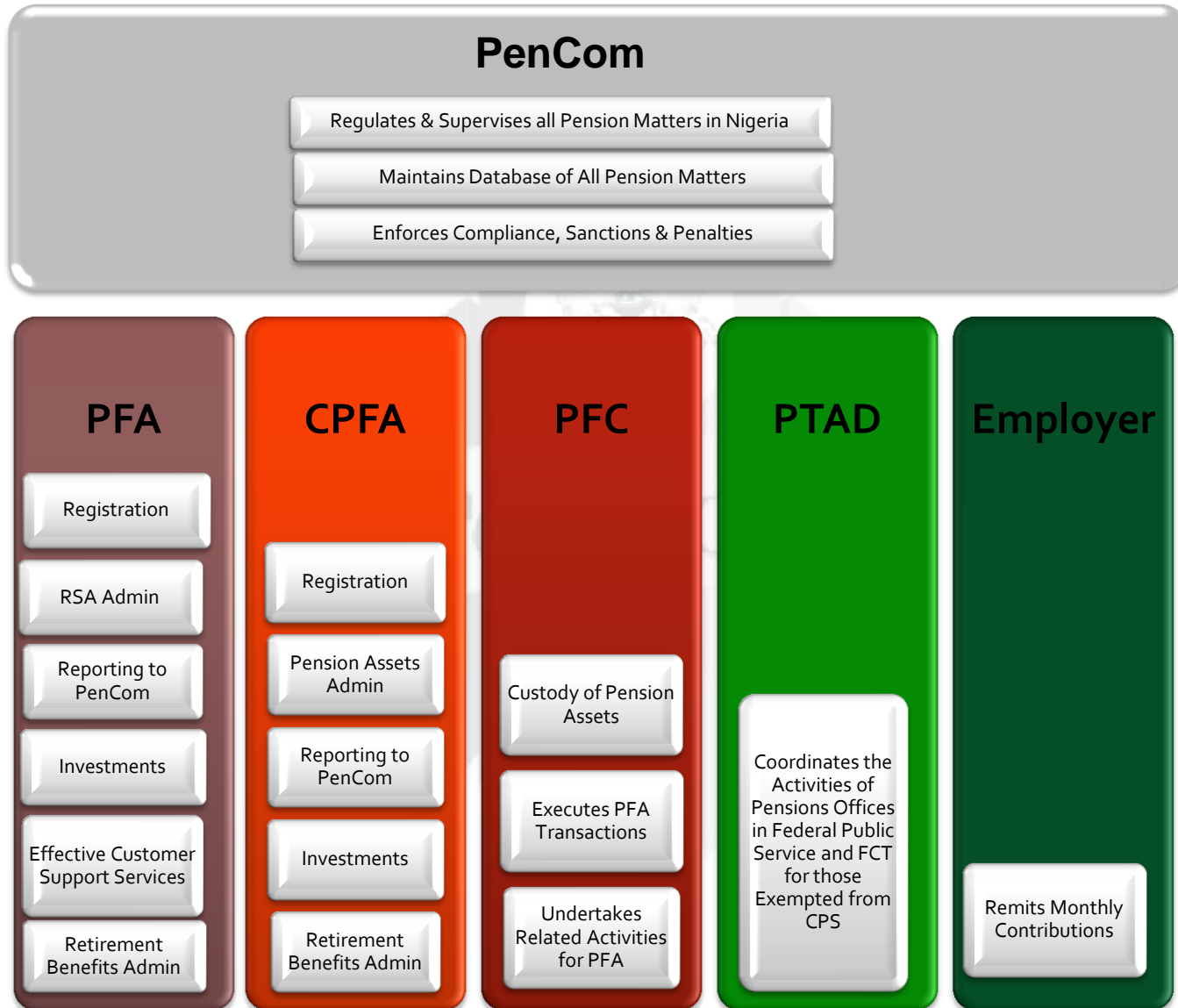
## ● The Operators

- The Business of a PFA is to **administer** and **manage** RSAs
- PFC holds Pension Funds and Assets **on Trust**
- Separation of PFA/PFC, Conditional licence & Directors' undertakings

## ● The Regulator

- All regulations guided by international best practices
- Supervisory approach though licensing, monitoring, analyses, correction, intervention & communication
- Focus on ***Integrity and Professional Credentials of Owners & Management*** so as to limit Agency & Systemic Risks

# Institutional Framework



# Regulatory and Supervisory Philosophies

## ● Regulatory Philosophy

- Regulation is rule-based & limits oriented
- Consultative in rule making
- Continuously challenging and refining practices to remain effective & efficient
- Balance the burden and benefits of regulations

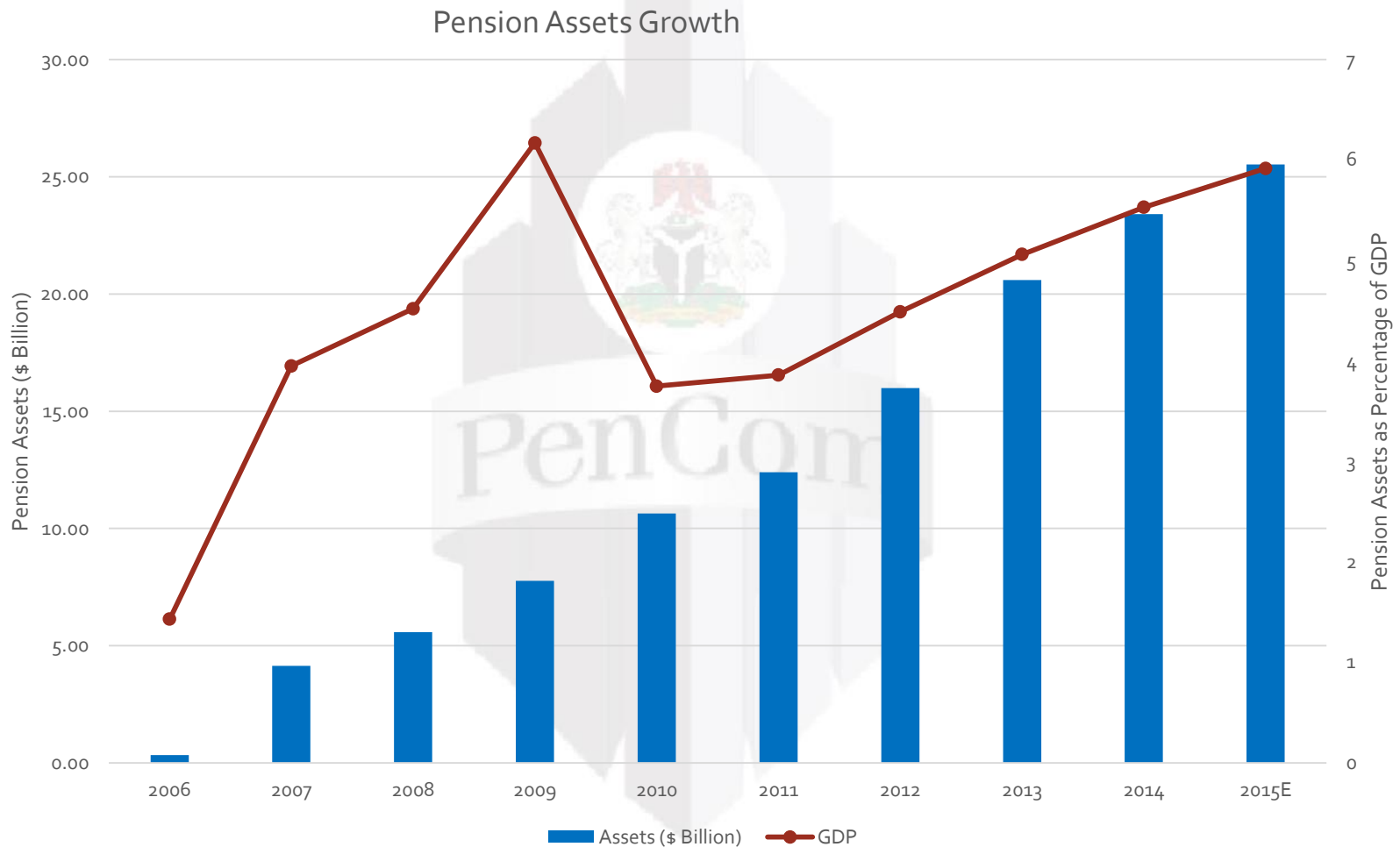
## ● Supervisory Philosophy

- Board & Management of licensed entities have the ultimate responsibility for their institutions
- Market forces allowed to promote competition in the industry
- Promote effective risk management & best practices
- Supervision is proactive & risk-based
- Extensive disclosure requirements

# Implementing the CPS - Updates

- Initially licensed 26 PFAs, 7 CPFAs and 5 PFCs
  - Presently reduced to 21 PFAs, 7 CPFAs and 4 PFCs due to mergers and acquisitions
- Number of registered contributors was 6.7 million as at August 2015
  - This represents about 7.1% of total working population in Nigeria and 3.8% of total population
- 26 States of the Federation had adopted the scheme and are at different stages of implementation while the remaining 10 States are at bill stage
- At least 200,000 private sector employers of labour are implementing the CPS
- Over 130,224 had retired under the Scheme as at June 2015 and are currently receiving pensions as and when due
- Total pension fund assets had grown to over N5 trillion (\$25.25 Billion) as at August, 2015
  - Average monthly contributions of N30 billion (\$152.25 million)
  - The assets were equivalent to 5.84% of the Nigerian rebased GDP
- 60% of the total pension fund assets belongs to the private sector

# Implementing the CPS – Pension Asset Growth

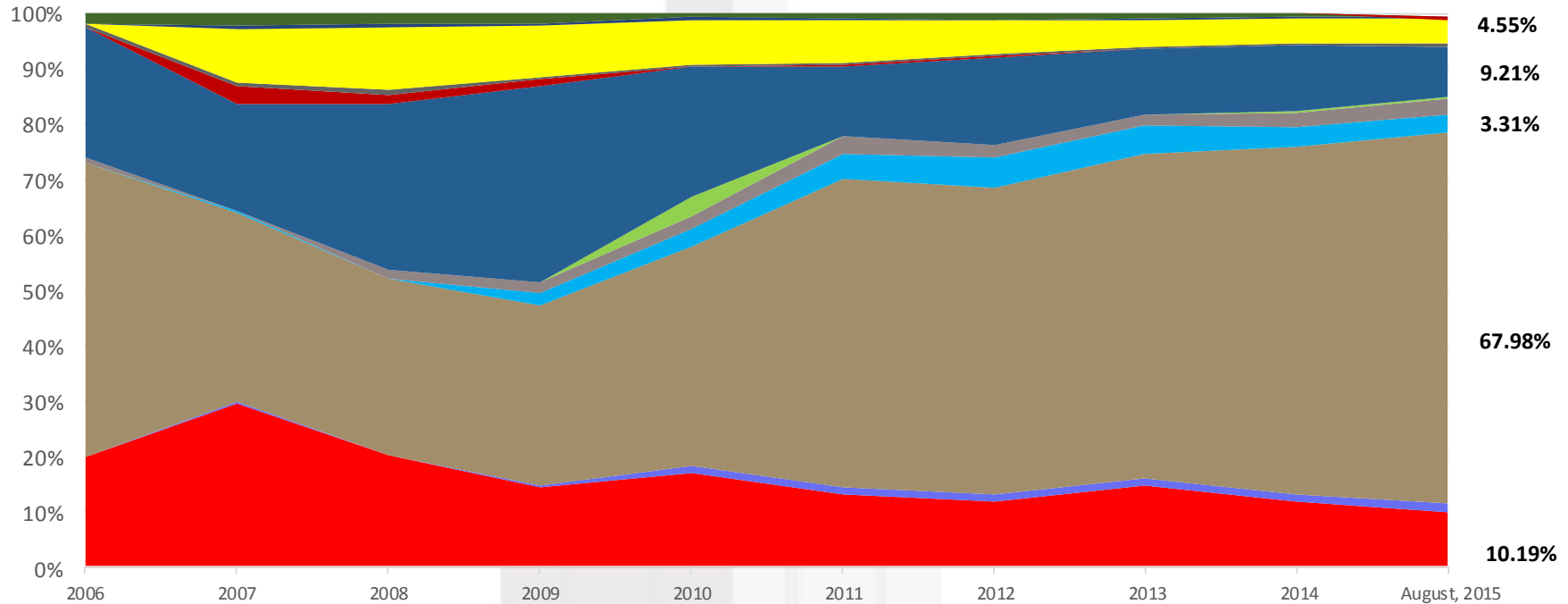


The dip in the proportion of Pension Assets to GDP in 2010 reflected the rebasing of Nigeria's GDP

# Implementing the CPS – Pension Fund Portfolio Spread



## Pension Industry Investment Portfolio: 2006 – August:2015



- DOMESTIC ORDINARY SHARES
- FOREIGN ORDINARY SHARES
- FGN SECURITIES
- STATE GOVT. SECURITIES
- CORPORATE DEBT SECURITIES
- SUPRA-NATIONAL BONDS
- LOCAL MONEY MARKET SECURITIES
- FOREIGN MONEY MARKET SECURITIES
- OPEN/CLOSE-END FUNDS
- REAL ESTATE PROPERTIES
- PRIVATE EQUITY FUNDS
- INFRASTRUCTURE FUNDS
- CASH & OTHER ASSETS



# Issues that Pension Reform Act, 2014 was meant to Address

- Coverage
  - Limited to Public Sector (FGN & FCT) and Private Sector organizations with at least 5 employees
  - Informal Sector – not covered, but can participate voluntarily
  - Non-mandatory to States and Local Governments
- Compliance with CPS
  - Lack of comprehensive database of employers of labour to enforce compliance by the Private Sector particularly the Small and Medium Scale Enterprises (SMEs)
  - Many employers view employer's portion of the contribution as additional operational cost
- Long waiting period to access RSA balances in case of lost of job – up to six months
- Provision was made for Minimum Pension Guarantee, but no provision for funding
- Limited Quality Investment Outlets
  - Mostly short term investments instruments
  - Many good companies not listed on the Stock Exchange
  - Dearth of instruments to facilitate implementation of initiatives for national development
- Insufficient/Obsolete Punitive Measures to Curb Infractions
- No provision for fund guarantee/bridging shortfall due to financial losses
- Investment income was not tax exempt
- Agitations for improved rate of contribution by employers of labour

# Reform Initiatives

- Pension Reform Act, 2014 was enacted to address the implementation challenges
  - Repealed PRA, 2004
  - Operational from 1st July, 2014

## ● Coverage

- Coverage expanded to States & Local Government Informal sector
  - Private organizations with less than 3 employees
  - Self employed persons
- Persons exempted from the Scheme may make voluntary contribution
- AES & CPFA now closed for new employees

## ● Compliance

- Employers to open Transitional Retirement Savings Account (TRSA) on behalf of employees that fail to open RSA within 3 months of assumption of duty
- Empowerment of PenCom on its role to supervise States & LGs
- Strengthened Sanctions and penalties
- Issuance of Compliance Certificate
- Incentives
  - Apply a portion of RSA balance for equity participation in residential mortgage
- Supplementary efforts
  - Engagement of pension contributions recovery agents
  - Recovered contributions include interest penalty

# Reform Initiatives

## ● Transparency & Accountability

- Conflict of interest issues now strictly sanctioned
- The Board reports directly to the President of the Federal Republic of Nigeria
- Board of the Commission now includes Trade Union Congress, Nigeria Stock Exchange and National Insurance Commission
- Enhances the protection of pension fund assets
- Issued a comprehensive regime of sanctions and penalties to operators

## ● Pension Fund Investments

- Retains offshore investment
  - Allowed, but still subject to the approval of Mr. President
- Maintains investible instruments
  - Investment in infrastructure through bonds and funds
  - Real Estate Development (including Housing)
  - Real sector financing through Corporate Debts
  - Alternative Assets (including Private Equity)
- Continuous industry wide capacity building to meet manpower needs

# Reform Initiatives

- Contribution ratio reviewed
  - Minimum contribution rate: 18% of monthly emolument
  - Power to bargain contribution ratio with employer
  - Only income earned on voluntary contributions are subject to tax
- Pension fund investment income now tax exempt
- Employer may make additional benefits payment
- Benefits Administration
  - Some Public Sector Employees eligible to full terminal benefits
  - Access 25% balance of RSA after 4 months without employment
- Introduced Pension Protection Fund
  - To be funded by:
    - Annual Subvention of 1% of monthly wage of FGN employees
    - Annual Levy on PenCom and Pension Operators
    - Income from investment of the fund
  - Utilization of PPF:
    - Funding of Minimum Pension Guarantee (MPG)
    - Compensation for shortfall or financial losses from investment activities
    - Any other eligible purpose

# Reform Initiatives – Micro Pension Plan



- Framework has been concluded to bring the informal sector on board through the Micro Pension Plan
- The Micro Pension Plan is expected to extend coverage of the Contributory Pension Scheme to the self-employed and the persons working in organisations with less than 3 employees
- The aim is to reduce old age poverty through the provision of old age income plans to all Nigerians
- The target is to extend coverage to a total of 20 million Nigerians by 2019 and 30 million by 2024
- Already collaborating with various stakeholders:
  - Commenced sensitisation of Trade Unions across the country
  - Building awareness across the value chain
    - Talking to IT Solution providers, mobile money operators, etc
    - Aiming to develop appropriate solutions with the right value proposition and service delivery operating model

# Impact of the CPS on the Nigerian Economy

- The CPS has facilitated the development of:
  - Corporate bond market
  - Insurance market
    - Group Life Insurance
    - Life Annuities
  - Alternative asset classes
    - Currently promoting co-investing from the diaspora
  - Mortgage market
    - Nigeria Mortgage Refinancing Company's N50 billion bond
    - PRA 2014 provides for a portion of the pension funds in an RSA to be utilized as equity contribution for payment of residential mortgage
    - Guidelines have been exposed to stakeholders for inputs prior to issuance
  - Corporate governance in companies where pension funds have been invested
  - Facilitated the establishment of additional qualified Rating Agencies



**Thank you.**