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Nigeria's New Micro-pension Scheme

It is an interesting time in the Nigerian Pension industry with the recent launch of the micro-pension plan by the Presidency. Nigerians anticipate a seamless and effective implementation of the scheme, with high hopes that it will bring the informal sector into the pension scheme to cater for their needs at old age, with an overall aim of improving financial inclusion.

Barely ten percent of the paid workforce across developing countries is in formal, salaried employment and is covered by occupational pension and retirement saving programs. The remaining 1.2 billion self-employed non-salaried workers across Africa, Asia and Latin America are however excluded from such arrangements. In Nigeria, only 10.5 % of the workforce are formally employed and covered by the Contributory Pension Scheme[1] (CPS) of the National Pension Commission (PenCom). As a result of mass-scale pension exclusion, rapid life expectancy improvements, negligible life-time savings and a breakdown of the traditional joint family system, most of these workers face the grim prospect of living the last two decades of their lives in extreme poverty. Without an urgent and effective policy, regulatory and business response to broad-based pension exclusion, poverty among these future elderly persons will emerge as the dominant cause of increased global poverty.

Women are an especially vulnerable excluded segment as they enjoy a higher life expectancy than men but are disadvantaged due to lower incomes in comparable occupations, a shorter working life and a frequently interrupted working tenure on account to childbirth and other family responsibilities. For most of the excluded citizens therefore, and equally for the Governments concerned, a vital issue is the management of the longevity risk with the cessation of earnings in old age. It is not surprising therefore that Governments of several countries, including India, Rwanda, Nigeria, Kenya, Ghana, Papua New Guinea, South Africa and Uganda are contemplating or implementing secure, affordable and inclusive micro-pension schemes targeting their large excluded informal sector workforce.

As is the case in most other nations across Africa and Asia, Nigeria traditionally had a 'Pay as You Go' (PYGO) pension program, mainly for its government workers. This PYGO scheme imposed significant risks and challenges on beneficiaries including delays or non-payment of entitlements as well as misappropriation of pension funds. To address these fiscal and governance challenges, Nigeria embarked on pension reforms in 2004 with The Pension Reform Act, 2004 (PRA 2004)[2] and introduced the Contributory Pension Scheme. The PRA 2004 also paved the way for the establishment of PenCom as a statutory body for the regulation and supervision of Nigeria's pension sector and to ensure effective administration of pension matters in Nigeria. The PRA 2004 made it compulsory for both public and private sector employers and employees to contribute towards employee retirement benefits. Monthly pension contributions were required to be remitted into each employee's Retirement Savings Account (RSA) managed by a PenCom regulated Pension Fund Administrator (PFA). The PRA 2004 was followed by the Pension Reform Act, 2014 (PRA 2014)[3] that sought to address important residual governance gaps, especially related to the Defined Benefit Pension Schemes, in the 2004 legislation. The 2014 Pension Reform Act also expanded the scope of participation in the contributory pension scheme and increased the scale of penalties and sanctions to non-compliant employers. Section 2(3) of the PRA 2014 specifically entitled employees of organisations with less than three employees as well as self-employed persons to voluntarily participate in the Contributory Pension Scheme to accumulate savings for their old age.

Over the years, mandatory coverage of the Contributory Pension Scheme under PenCom's supervision has grown to about 7.9 million[4] formal sector subscribers and the scheme has achieved a long-term

[1] https://www.efina.org.ng/wp-content/uploads/2019/01/A2F-2018-Key-Findings-11_01_19.pdf
[2] https://www.pencom.gov.ng/wp-content/uploads/2017/04/Nigeria_PensionReformAct2004.pdf
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retirement savings corpus of roughly N8.6 trillion. Despite this impressive progress, the 44.3 million self-employed non-salaried workers, including farmers, artisans, self-employed professionals, street vendors, domestic help and workers in Micro, Small and Medium Enterprises (MSMEs) continue to be excluded from the CPS and hence continue to face a significant longevity risk.

The need for urgent policy and regulatory intervention on bridging Nigeria's pension coverage gap is also evident from Nigeria's demographic trends. With a life expectancy of nearly 15 years at age 60, Nigeria's elderly population is estimated to nearly triple to 30 million (from around 12 million today) by 2030. A largely young excluded workforce and a rapidly growing population of the elderly presents the Government of Nigeria with both a challenge and an opportunity. Without an urgent and effective policy, regulatory and business response aimed at achieving comprehensive pension coverage, poverty among Nigeria's future elderly could increase overall poverty levels and lead to several decades of fiscal and social stress. For example, a tax funded old age pension of even $1 per day paid to the roughly 30 million elderly by 2030 could impose a fiscal cost of over US$ 11 billion per year.

On the other hand, collaborative and well-coordinated actions on pension inclusion could have an equally significant impact on the ability of everyday citizens to lead a financially secure and dignified retirement. For example, if a citizen aged 20 years begins saving even US$10 per month in real terms, and her savings achieve a real return of 4% (net of inflation), she could accumulate around US$30,000 (at 2019 prices) by age 60. With this corpus, she could achieve a 5 percent inflation indexed pension of US$200 per month for 20 years at 2019 prices[5].

Similarly, if only one million informal sector citizens voluntarily opened micro-pension accounts over the next 5 years and saved $50 per month for their old age, the government could achieve aggregate long-term savings of US$ 2.25 billion by year 5 and an Assets Under Management (AUM) of over US$7.5 billion by year 10 – even if voluntary pension coverage stopped growing beyond the one million subscribers by year five.

By establishing a secure, convenient and affordable micro-pension program based on individual contributions and by encouraging thrift and self-help by the over 40 million presently excluded workers, the Nigerian Government and PenCom could effectively help mitigate the longevity risk of most of its present young citizens. In doing so, Nigeria would simultaneously achieve a huge pool of new, long-term household savings that could in turn fuel economic growth, employment and infrastructure development.

The EFInA Access to Financial Services in Nigeria (A2F) 2018 Survey reveals valuable data for profiling and sizing the demand for voluntary micro-pensions and insurance among excluded informal sector individuals including women (50.1% of the total population). With a median age of 17.9 and nearly 60% of the workforce aged less than 35, this is clearly an opportune time for PenCom to actively pursue its pension coverage expansion agenda.

The EFInA A2F 2018 Survey also reveals that most Nigerian adults under the age of 55 currently plan to either rely on their children (33%), personal savings (33%) or money from farming/non-farming businesses (18%) to achieve financial security in their old age. Some thirteen percent of the respondents however did not have any stated strategy to escape poverty in old age. The Survey further reveals that while nearly 55 million adults save regularly, most of them tend to save mainly for emergencies. This is not surprising given that insurance penetration in Nigeria is less than 2 percent, thus most of the population is therefore clearly saving to pay for a range of insurable lifecycle risks and emergencies.

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[5] Simulations done using the pinBox Pension Policy Toolkit; https://toolkit.pinboxsolutions.com

The EFInA A2F 2018 Survey also provides useful data on the status of financial inclusion in Nigeria, including trends in access and utilisation of banking and formal financial institutions by the population. For example, nearly 40 million individuals, 60% of whom are less than 35 years old, are already using banks and formal financial institutions while mobile phone penetration in Nigeria has increased to nearly 70 percent. The use of mobile money services is showing a slight improvement with nearly 3.3 million individuals using mobile money for remittances, bill payments and talk-time top-ups. Data from the EFInA A2F 2018 Survey also provides valuable information on the demographic, income and occupational characteristics of Nigeria's paid workforce. Although absolute incomes and hence affordability for voluntary pension contributions is modest, as is the case across the developing world, nearly 35 percent of the paid workforce earn between N15,000 and N35,000 a month while 18.5 percent earn more than N35,000 a month.

Early feedback from target subscribers and pension sector stakeholders in Nigeria, including PFAs suggest some important challenges which include: Low public awareness and negative perceptions about pension products; Potentially high front-end capital investments in technology by PFAs in establishing efficient micro-pension administration and delivery platforms; Absence of incentives for voluntary participation and persistency; Potentially low irregular contributions and Commercial viability challenges with the micro-pension business.

Nevertheless, given the size of the excluded workforce; the large latent demand for retirement and insurance products; the ongoing increase in access and utilisation of formal financial inclusion infrastructure; a deep regulatory and policy commitment to pension inclusion and the potential business/fiscal upside of a broad-based pension sector, Nigeria is well placed to achieve meaningful micro-pension coverage in the near future.

Therefore, EFInA remains committed to supporting the National Pension Commission in ensuring the success of the recently launched scheme. As the industry implements the new initiative, EFInA will record status updates that will help improve uptake of micro-pension as well as make some policy recommendations that will promote an enabling environment for the growth of the Pension sector in Nigeria.

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