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The Impact of Contributory Pension Scheme on Workers' Savings in Nigeria

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Abstract: The main objective of this study is to evaluate the impact of the contributory pension on employee savings in Nigeria 2010 using Oyo state public workers as a case study. It seeks to determine the level of awareness of the public sector workers towards Contributory Pension Scheme and the impact of Contributory Pension Scheme on workers' savings. Empirical analysis revealed a significant relationship between the level of awareness of respondents and their savings. However, there is no significant relationship between Contributory Pension Scheme and savings.

Key words: Pension scheme, savings, retirement, level, awareness, Nigeria

INTRODUCTION

The working lives of employees move continuously towards a certain direction that is from employment, to growth, to retirement. Some are fortunate to save enough money to take them through the retirement period while a majority leaves the service with little or no savings at all. A pension fund is any collective arrangement or scheme which has as one of its main objectives; the provision of retirement benefits for working persons either in the form of regular income during retirement years or as a lump sum at retirement. Pension funds are usually established by a legal document called a trust deed with the declaration that the funds would be administered in accordance with the rules spelt out in the document. Employers offer pension benefits to attract, retain and reward employees. Employees on the other hand, rely on retirement benefits as a form of financial security in their less productive years.

Beginning from Chile and some of its Latin American neighbours, a new system emerged that introduced a Contributory Pension System that is personalized to the contributor and managed by licensed private sector entities. Nigeria is the first African country to introduce a variant of the Chilean System with flavours of African peculiarities. Inherent challenges were experienced during the many years that retirement benefit schemes were implemented. These challenges necessitated many countries to take stock of these systems and on many occasions make adjustments to the underlying laws or some aspects of regulations governing the implementation of the laws. However, the adjustments were too far so many, forcing many countries to make complete paradigm shifts from the old systems. Under contributory system, the employees contribute a minimum of 7.5% of their basic salary, housing and transport allowances and 2.5% for the military. Employers shall contribute 7.5% in the case of the public sector and 12.5% in the case of the military. Employers and employees in the private sector will contribute a minimum of 7.5% each. An employer may elect to contribute on behalf of the employees such that the total contribution shall not be <15% of the basic salary, housing and transport allowances of the employees. One of the opportunities of the CPS is that participants are allowed to open individual retirement savings account where contributions are accumulated till retirement. The scheme also permits members to make voluntary contributions as an additional percentage of their salaries into their individual capitalized account. The mandatory requirement that PFAs provide regular/periodic statement of accounts to RSA holders ensures close monitoring of the accounts which could also guarantee quick report of errors and prompt correction of such errors.

Saving for retirement is a complex task and the stakes ensuring an adequate income in retirement are high. The move from Defined Benefit (DB) or a defined to Defined Contribution (DC) puts much more responsibility into the hands of the individual participants, principally in terms of how much to save and how to invest the resulting funds. There is evidence that many people struggle to deal with this greater responsibility, hence the need to access the impact of Contributory Pension Scheme on workers' savings. A number of studies (Bernheim, 1994; Gustman and Steinmeier, 2001; Papke, 2004) have actually assessed the impact of Contributory Pension Scheme on workers' consumption, workers' income but only few studies have been conducted on the impact of Contributory Pension Scheme on workers' savings. In addition, these studies were mostly undertaken and documented on the developed countries (Poterba *et al.*, 1996, 1998; Choi *et al.*, 2004). None of these studies were undertaken in Nigeria. Therefore, this study represents to the best of our knowledge the first assessment of the impact of Contributory Pension Scheme on workers' savings in Nigeria. The study also seeks to determine if the Contributory Pension Scheme is actually an improvement on the old pension scheme by focusing on public sector workers in Oyo state who are participating in the Contributory Pension Scheme the justification for this sample is to adequately measure the difference between the old pension schemes and the present.

MATERIALS AND METHODS

A number of studies have actually assessed the impact of Contributory Pension Scheme on workers' consumption and income but only few studies have been conducted on the impact of Contributory Pension Scheme on workers' savings. These studies were carried out on in the developed countries while studies for Nigeria are scanty.

One of the bodies of researchers examines the effect of tax deferred savings accounts on overall savings rates. Poterba *et al.* (1996, 1998) argued that tax deferred savings mechanisms like Individual Retirements Account (IRA's) and 401(k) programs lead to a net increase in savings while Gale and Scholz (1994), Engen *et al.* (1996) and Gale (1998) argued that the balances in these savings vehicles are offset by reductions in other forms of household wealth (Card and Ransom, 2007).

A second and related literature examines the quality of the information available to decision makers. Surveys show that many workers lack basic information on their public and private retirement benefits (Bernheim, 1994; Gustman and Steinmeier, 2001). Since, employee pension contributions appear as salary reductions on a worker's monthly pay stub whereas employer contributions do not, information asymmetries may explain why employee contributions appear to matter more. Given the fact that total pension contributions are reported quarterly to the employees in the sample used, it was suspected that information problems are less severe in the study than in many others.

A third body of research establishes that seemingly minor details about a defined contribution pension plan such as the default arrangements for plan participation have relatively large effects on pension savings behaviour (Choi *et al.*, 2004). In an influential study, Madrian and Shea (2001) found that a change in the default option governing 401(k) enrolment (from not enrolled to enrolled) led to an increase in plan participation (Card and Ransom, 2007).

Confirmatory evidence is presented by Choi *et al.* (2004, 2005). For example, Choi *et al.* (2004) showed that for some of these employees who would have participated in the absence of automatic enrolment, there is no effect on asset accumulation these employees opt out of the automatic enrolment defaults early on and choose the same contribution rate and asset allocation that they would have chosen without automatic enrolment. But other employees are heavily influenced by the automatic enrolment defaults. In the absence of automatic enrolment, they would have eventually enrolled and in all likelihood they would have chosen a contribution rate that equals or exceeds the match threshold and an asset allocation that contains substantial equity exposure.

If the automatic enrolment default contribution rate is below what employees would have chosen without automatic enrolment and if the default asset allocation has a much lower expected rate of return than the asset allocation that employees would have chosen on their own, the rate of asset accumulation will be much lower (in expectation) under automatic enrolment. Thus, automatic enrolment may lead some employees to participate earlier but it may also reduce the rate at which their balances grow due to both lower incremental contributions and lower expected asset returns (Card and Ransom, 2007). However, whether automatic enrolment will reduce asset accumulation for some employees depends on the nature of the automatic enrolment defaults adopted by employers.

Thaler and Benartzi (2004) document the effectiveness of contribution escalation at increasing employee savings rates. At the firm they study, employees who opted into an automatic annual 3% increase in their contribution rate saw their average contribution rate increase almost 4-fold from 3.5% of pay to 13.5% of pay, over the course of 4 years. In contrast, employees who did not elect contribution escalation saw their average contribution rate increase by much less over the same time period, from 5.3-7.5%. Interestingly, this latter group started out saving much more than those who opted into contribution escalation but the relative positions were reversed 4 years later. As might be expected given the evidence on automatic enrolment, contribution escalation is much more prevalent when combined with automatic enrolment than when participants must opt in. In firms where contribution escalation is an option but is not automatic about 25% of savings plan participants sign up; in contrast when contribution escalation is combined with automatic enrolment, only 15% of participants opt out so that 85% of participants are subject to future automatic contribution increases. The literature noted further that people with a future orientation save more than people who live for the here and now (Munnell *et al*., 2000). A popular analyst proposes that people who are content with what they have-and thus seek fewer possessions are those more likely to save for the years beyond. But how this can be of use to motivate people who live for today or those who are not content with what they have? May be advisers could promote favourable attitude formation by dislodging cultural preoccupations with the present but this would acquire house-to-house combat in a society where a focus on the present is woven into the fabric of every popular message of every public and private institution.

Consider that Congress looks no further than the next election, companies plan quarter-by-quarter and public policy fixes on immediate impact.

According to Komolafe (2004), the Nigerian Pension System in general is very much fragmented, lacks an adequate overall policy, a legal and regulatory framework and an empowered coordinating body to supervise it. As stated by Adegbayi, Nigeria must avoid minor pension reforms that are repeated periodically because of political problems associated with such adjustments. Once Defined Benefits Schemes are frequently redefined, they only create uncertainty of retirement benefit. It is against this backdrop that this study seeks to evaluate the impact of the Contributory Pension Scheme on employees' savings in Nigeria with the Oyo state public workers as sample.

The research made use of analytical method because it is expected that it will bring about useful suggestion that will assist and improve the Nigerian Pension Scheme, especially the contributory part. Questionnaires were administered to Oyo state public workers who have been in service for the period of ≥5 years. The sample population also covers workers on public service level grade ≥8. This group of public workers was selected in view of the fact that they are likely going to save more than junior level workers.

The justification for this sample was because the Oyo state public service workers have witnessed the PAYG System of pension scheme and it is currently witnessing the Contributory Pension Scheme. As a result, questionnaires were administered to 200 respondents in the Oyo state public service, 187 were adequately filled and returned while 13 of the questionnaires were either not filled or returned.

Research hypothesis

Null hypothesis (H_0): There is no significant relationship between the Contributory Pension Scheme and the worker's savings.

Alternate hypothesis (H_1): There is a significant relationship between the Contributory Pension Scheme and the worker's savings.

Null hypothesis (H_0): There is no significant relationship between the level of awareness of respondents and their savings.

Alternate hypothesis (H_1): There is a significant relationship between the level of awareness of respondents and their savings.

RESULTS AND DISCUSSION

Section A of the questionnaire asks questions on the respondents' bio data. Out of 187 questionnaires returned, 80 respondents fall within the age of 3-40 which gives 42.8%, 76 respondents fall within the age of 4-50 which gives 40.6%, 30 respondents fall within the age of 5-60 which gives 16% (Table 1). Out of 187 questionnaires returned, 89 respondents are female which gives 47.6% while 98 respondents are male which gives 52.4% (Table 2). In terms of the years spent in the public service, 26 respondents have only worked for >5 years but <10 years which give 13.9%, 48 respondents have been in service for >10 years but <20 years which give 25.7%, 63 respondents have been in service for 20 years 33.7% and 50 respondents have been in service for >20 years which give 26.7% (Table 3). With respect to income, 86 respondents earn <N400,000 annum^{-1} which gives 46%, 40 respondents earn <N500,000 anum^{-1} which

Table 1: Age of respondents

Valid (years)	Frequency	Percentage
31-40	80	42.80
41-50	76	40.60
51-60	30	16.00
No response	1	0.50
Total	187	100.00

Table 2: Gender of respondents

Valid	Frequency	Percentage
Female	89	47.6
Male	98	52.4
Total	187	100.0

Table 3: Years spent in the service

Valid (years)	Frequency	Percentage
>5	26	13.9
>10	48	25.7
20	63	33.7
>20	50	26.7
Total	187	100.0

Table 4: Income anum^{-1}

Valid	Frequency	Percentage
<N 400,000	86	46.00
<N 500,000	40	21.40
<N 600,000	25	13.40
>N 600,000	22	11.80
No response	14	7.50
Total	187	100.00

Table 5: Marital status

Valid	Frequency	Percentage
Maried	178	95.20
No response	9	4.80
Total	187	100.00

Table 6: Family size

Valid	Frequency	Percentage
<4	64	34.20
<6	68	36.40
>6	17	9.10
No response	38	20.30
Total	187	100.00

Table 7: Are you aware of any pension scheme?

Valid	Frequency	Percentage
Yes	162	86.60
No	23	12.30
Missing and no response	2	1.10
Total	187	100.00

Table 8: Are you involved in any pension

Valid	Frequency	Percentage
Yes	104	55.60
No	78	41.70
No response	5	2.70
Total	187	100.00

Table 9: Do you know the precentage of your income that goes for pension?

Valid	Frequency	Percentage
Yes	90	48.10
No	89	47.60
No response	8	4.30
Total	187	100.00

Table 10: Are you aware of your employers?

Valid	Frequency	Percentage
Yes	53	28.30
No	124	66.30
No response	10	5.30
Total	187	100.00

Table 11: Does your pension fund administrator feed you on your account with them?

Valid	Frequency	Percentage
Yes	65	34.80
No	114	61.00
No response	8	4.30
Total	187	100.00

gives 21.4%, 25 respondents earn <N600,000 anum^{-1} which gives 13.4% and 22 respondents earn >N600,000 anum^{-1} which gives 46% (Table 4). Out of 187 questionnaires returned, 178 respondents are married which gives 95.2% while 9 respondents are singles which gives 4.8% (Table 5). On family size, 64 respondents have a family size of <4 which gives 34.2%, 68 respondents have a family size of <6 which gives 36.4% while 17 respondents have a family size which is >6 which gives 9.1% and 38 respondents did not respond to the question which gives 38.3%. Since, it is not in my objective to determine how family size affects savings in Contributory Pension Scheme, the number of respondents that did not respond is going to have little or no impact on the analysis (Table 6). Respondents were asked if they are aware of any pension scheme and out of 187 respondents, 162 respondents said they are aware while 23 respondents said they are not aware (Table 7).

In addition, 104 respondents are involved in pension scheme while 78 respondents are not involved (Table 8). A question was also asked to know if respondents are aware of the percentage of their income that goes for their pension.

About 90 said yes while 89 said no. This shows some of the respondents are not aware of what percentage of their income that goes into their pension (Table 9). On whether the respondents are aware of the employer's contribution to your 53 of the respondents answered yes while 124 respondents answered no. With this response, it is obvious that there is communication conflict in most organizations, especially the civil service (Table 10). On whether the pension fund administrator regularly gave a feedback to respondents on their account with them, 65 of the respondents answered yes while 114 of the respondents answered no. With this response, it is obvious that the various Pension Fund Administrators (PFAs) seems not to be giving enough feedback on their services to their clients (Table 11). Thereafter, the study proceeded with questions to know the level of respondents' agreement to issues on Contributory Pension Scheme and savings.

By way of illustration, 95 respondents (50.8%) agreed that they are only participating in the pension scheme because it is compulsory. This is to show that if this category is given alternatives, they would not participate in the scheme.

About 65 respondents (34.8%) are of contrary opinion. That is they disagreed on the fact that they are participating in the scheme because it is compulsory. This means they are participating in the scheme on their own volition and 20 respondents (10.7%) are undecided that is they are not certain on the reason why they participate in the scheme or not (Table 12). On whether the pension scheme serves as an incentive to save, 134 respondents (71.7%) agreed that the pension scheme is an incentive to save, 22 respondents (11.8%) did not agree that the pension scheme is an incentive to save while

Table 12: I am only participating in the scheme because it is compulsory

Valid	Frequency	Percentage
Strongly agreed	45	24.1
Agreed	50	26.7
Undecided	20	10.7
Disagreed	37	19.8
Strongly disagreed	28	15.0
No response	7	3.7
Total	187	100.0

Table 13: My choice pension scheme serves as an incentive to save

Valid	Frequency	Percentage
Strongly agreed	49	26.2
Agreed	85	45.5
Undecided	24	12.8
Disagreed	14	7.5
Strongly disagreed	8	4.3
No response	7	3.7
Total	187	100.0

Table 14: The Contributory Pension Scheme is actually an improvement on the old

Valid	Frequency	Percentage
Strongly agreed	42	22.5
Agreed	73	39.0
Undecided	33	17.6
Disagreed	14	7.5
Strongly disagreed	15	8.0
No response	10	5.3
Total	187	100.0

Table 15: I prefer to save outside any pension scheme

Valid	Frequency	Percentage
Strongly agreed	29	15.50
Agreed	72	38.50
Undecided	33	17.60
Disagreed	35	18.70
Strongly disagreed	11	5.90
No response	7	3.70
Total	187	100.00

Table 16: Have you ever tried to calculate how much you need to save for retirement

Valid	Frequency	Percentage
Yes I have done this on my own	23	12.30
Yes with the help of an advisor	15	8.00
Yes using an online resources/the internet	2	1.10
Yes but I was unable to work it out	21	11.20
No I have no tried this	123	65.80
No response	3	1.60
Total	187	100.00

Table 17: What percentage of your income do you think you should be saving for retirement?

Valid	Frequency	Percentage
>5%	36	19.30
5-9%	33	17.60
10-14%	48	25.70
>15	17	9.10
I do not know	51	27.30
No response	2	1.10
Total	187	100.00

14 respondents (10.7) are undecided. That is they are not certain whether the scheme is an incentive to save or not (Table 13). In addition, 115 respondents (61.5%) agreed that the Contributory Pension Scheme is an improvement on the old pension scheme, 29 respondents (11.8%) did not agree that the Contributory Pension Scheme is an improvement on the old pension scheme while 33 respondents (17.6%) are undecided that is they are not able to say whether the scheme is an improvement on the old pension scheme or not (Table 14). Furthermore, 101 respondents (54%) preferred to save outside the Contributory Pension Scheme. This only supports the fact that majority of the respondents are participating in the scheme because it is compulsory. About 46 (24.6%) did not prefer to save outside the Contributory Pension Scheme while 33 respondents (17.6) are not certain whether they prefer to save outside the scheme or not (Table 15).

The respondents were asked to calculate how much they need to save for retirement. About 23 (12.3%) of the respondents answered yes they have done it on their own; 15 respondents (8%) answered yes because they have done it with the help of an adviser, 2 respondents (1.1%) answered yes because they did it using the internet, 21 respondents (11.2%) answered yes because they have made attempt but were unable to work it out while 123 respondents (65.8) answered no because they have never tried to calculate how much they need to save for retirement. These responses show that most public servants are not even thinking of retirement, hence they do not bother to calculate how much they will need for retirement (Table 16). On the percentage of the income that respondents think, they should be saving for retirement, 36 respondents (19.3%) noted that up to 5% of their income should be saved, 33 respondents (17.6%) noted between 5 and 9%, 48 (25.7%) said between 10 and 14% of their income should be saved, 17 respondents (9.1%) said they think they should save >15% while 51 respondents (27.3) said they do not know what percentage of their income they should be saving for retirement (Table 17).

As a result, the study probed the respondents on what they think about level of their savings (whether they are saving too much, too little or accurately) arising from the pension scheme. Out of 187 respondents, 9 respondents (4.8%) noted that they are saving too much, 48 respondents (25.7%) noted that they are saving accurately, 43 respondents (23%) noted they are saving too little and 82 respondents (43.8%) noted they that they are not certain about their level of savings (Table 18). In addition, respondents were asked the main barriers to their saving enough part of their income. In this case,

Table 18: What is your level of income that is being saved?

Valid	Frequency	Percentage
You are saving too much	9	4.80
You are saving the correct amount	48	25.70
You are saving too little	43	23.00
You do not know if you are saving enough	82	43.80
No response	5	2.70
Total	187	100.00

Table 19: What is the main barrier to you saving enough?

Valid	Frequency	Percentage
Do not earn enough	82	43.9
Have other financial priorities	45	24.1
Plan to save more in future	23	12.3
Do not trust pensions/lack of interest	13	7.0
Financial matters	12	6.4
Others	7	3.7
No response	5	2.7
Total	187	100.0

Table 20: Level of awareness of respondents and thier savings

Parameters	Level of awareness toward Contributory Pension Scheme
Chi-square	104.438
df	1.000
p-value	0.000

Table 21: Correlation between Contributory Pension Scheme and savings

	t-test for equality of means		
Parameter	t	df	p-value
Equal variances assumed			
Variation between Contributory Pension Scheme and saving	0.933	358	0.351

82 respondents (43.9%) noted they are not saving enough because they are not earning enough, 45 respondents (24.1%) noted that they are not saving enough because they have other financial responsibilities, 23 respondents (12.3%) revealed they are not saving enough because they plan to save more in future, 13 (7%) noted they are not saving enough because they do not trust the pension scheme, 12 respondents (6.4%) noted they are not saving enough because they lack interest in financial matters and 7 (3.7%) said they are not saving enough as a result of reasons other than the ones listed (Table 19). Since, the correlation between the level of awareness of respondents and their savings is <0.05 that is 0.000; hence the relationship between the two variables is significant therefore, we accept H_1 which says there is a significant relationship between the level of awareness of respondents and their savings and reject the null hypothesis that there is no significant relationship between the level of awareness of respondents and their savings (Table 20).

In addition, the correlation between the level of awareness of respondents and their savings is >0.05 that is 0.351 (Table 21). Hence, the relationship between the two variables is insignificant. Researcher therefore, accept H_0 which says there is no significant relationship between Contributory Pension Scheme and savings and reject H_1 which says there is a significant relationship between Contributory Pension Scheme and savings.

CONCLUSION

The main objective of this study is to evaluate the impact of the contributory pension on employee savings in Nigeria using Oyo state public servants as case study. Researchers found that there is a significant relationship between the level of awareness of respondents and their savings and that there is no significant relationship between Contributory Pension Scheme and savings. Most people are of the opinion that saving for retirement is a gamble. Workers do not easily buy the idea of payoffs in the distant future. The promise of pleasure tomorrow means pain today. This is a hard sell. Setting aside even a few nairas each month is most painful when the need for cash is greatest when one is raising children, buying a home, paying for education. A pleasant and secure retirement is a daydream when the mortgage comes due and the kids need braces. Also, people find it difficult to entrust their future in the hands of the pension fund administrators and there is no immediate tangible reward for those saving towards retirement.

RECOMMENDATIONS

In this direction, researchers make the following recommendations:

- Both the government and the pension fund administrators are saddled with the responsibility of educating the public, especially the civil servants on Contributory Pension Scheme as most people are only participating in the scheme without much knowledge and this is actually telling on their savings
- Pension fund administrators are hereby advised to always alert their clients about statement of account as this may also encourage them in saving more and trusting them better
- The civil service at the federal and state level must ensure effective implementation, compliance and application of the elements of the new Contributory Pension Scheme that will enhance employee retirement benefits
- The National Pension Commission must encourage compliance with the act and ensure uniformity of application among firms, especially civil service in Nigeria

- Stakeholders must develop activities and strategies geared towards optimum investments that will enhance net worth and profitability of firms
- The Commission should intensify effort at ensuring timely remittance of benefits to the Retirement Savings Accounts (RSA) by firms, employers and employees. Conducive and enabling environment must be created by the government for smooth implementation, compliance and application of the scheme by firms and other players in pension administration

In summary, the Contributory Pension Scheme is a dawn for pension fund management in Nigeria with obvious benefits for employers, employees, government and society as a whole. Today, we have a remarkable piece of legislation, a transparent, consultative and responsive regulatory framework and regulator and a rapidly increasing industry that is attracting significant investments and positively affecting the society. This research study encountered some limitations such as getting access to the respondents. In addition, the respondents were reluctant giving certain information since, they were not sure of the confidentiality of their responses.

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