

## Low Level of Pension Penetration in Nigeria

Pension penetration can be measured by the ratio of the number of registered workers on the Retirement Savings Account (RSA) to the working population or the ratio of pension assets to the Gross Domestic Product (GDP). **Nigeria has a low level of pension penetration compared with most countries despite the growth in the pension assets in the last six years.** The ratio of the total pension assets in Nigeria to the GDP stood at 6% in December 2016 compared to South Africa and Kenya which stood at 52% and 14% respectively.

Based on the data from the National Bureau of Statistics (NBS) and the National Pension Commission (PenCom), the number of registered workers on the RSA as at December 2016 stood at 7,348,028 out of a total working population of 69,470,901 representing a 10.58% pension penetration level. The pension assets, however, grew consistently from N2.45trillion in December 2011 to N6.16trillion as at December 2016, representing a Compounded Annual Growth Rate (CAGR) of 20.24%. **While Nigeria recorded one of the fastest growing pension assets among some selected countries between 2011 and 2015, its pension penetration level was one of the lowest.**

**According to the NBS, the reason for the low level of pension penetration in Nigeria is the high percentage of Nigeria's working population operating in the informal sector of the economy.** Micro businesses in Nigeria account for over 90% of the Micro, Small and Medium Scale Enterprises (MSMEs). The data from the NBS also shows that the private sector accounted for 54.43% of the total number of registered workers on the RSA as at Q1 2017. The Federal Government of Nigeria accounted for 25.21% while State Governments accounted for 20.36%.

**PenCom and the Nigerian government have taken some decisions to address the low level of pension penetration in Nigeria.** The New Pension Reform Act 2014 (PRA 2014) repealed the PRA 2004. The PRA 2014 expanded the coverage of the pension scheme to the self-employed and other informal sector operators not covered in the repealed Act. PenCom is of the opinion that these categories of workers constitute the larger percentage of the working population.

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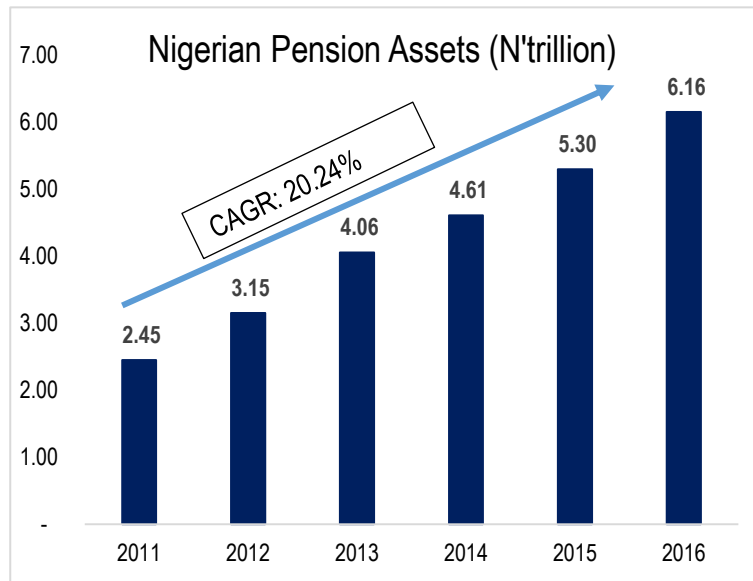
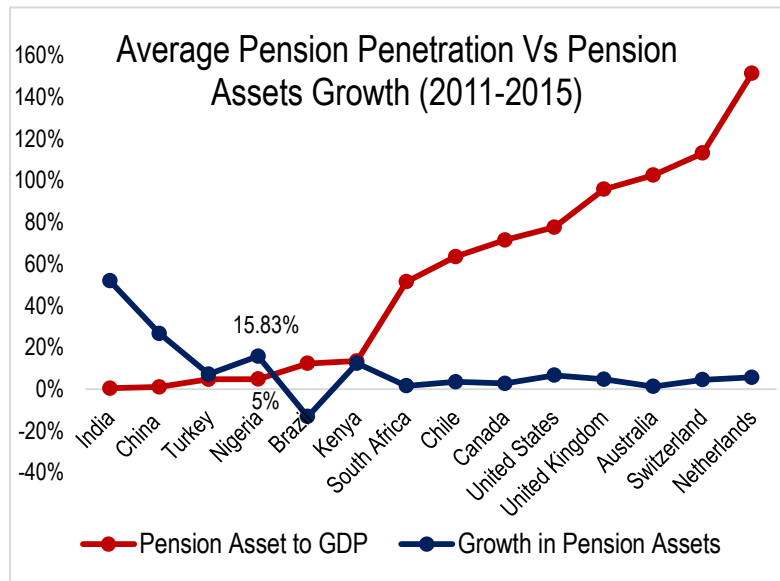
*PenCom and pension industry operators established the MPP initiative to address the informal sector of the economy.*

In order to achieve the pension industry's strategic objective of covering 30% of the working population in Nigeria under the Contributory Pension Scheme (CPS) by the end of 2024, all efforts should be made to extend coverage to these segments of the Nigerian economy. It added that there is the need to provide a pension plan that will meet their peculiarities. **Thus, the PenCom and pension industry operators established the Micro Pension Plan (MPP) initiative to address this class of people. In implementing this initiative, the informal sector was segmented into three broad categories which are: the low income earners, the high income earners and the Small and Medium Enterprises (SMEs).**

Operators will target each of these groups with appropriate pension products and sensitization programmes that meet their peculiarities. **PenCom is also working to create the Pension Protection Fund (PPF) to further strengthen the implementation of the pension administration in Nigeria.** The PRA 2014 stipulates stricter punishment for any operator that misappropriates any pension assets in Nigeria. **PenCom is also developing a structure to allow pension assets invest in the priority sectors of the Nigerian economy while still maintaining the safety of the assets.** It has increased allocation to infrastructure related funds and expects operators in the financial market to develop acceptable instruments to attract the growing pension assets.

**With all these initiatives, the industry is better structured, stronger and better positioned to grow and contribute to national development. The state governments across the country and the informal private sector need to increase their participation in the pension scheme.** The FGN needs to continually implement policies that will encourage more job creation so that more people will enter the pension scheme while the pension industry operators should develop appropriate technology to capture the unserved segments of the market.

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Source: Organization for Economic Cooperation and Development (OECD)

Source: National Pension Commission (PenCom)

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