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PUBLIC PENSION ASSET AND INVESTMENT IN HOUSING INFRASTRUCTURE: RETHINKING THE SAFETY-EQUITY NET IN NIGERIA

Onyemaechi Augustine Eke (Ph.D)[1], Paul Ndubuisi (Ph.D)[2] and
Greene Ifeanyi Eleagu (Ph.D)[3]

[1]Department of International Relations, Gregory University, Uturu, Nigeria
[2]Department of Banking & Finance, Abia State University, Uturu, Nigeria
[3]Department of Political Science, Gregory University, Uturu, Nigeria

ABSTRACT: *Infrastructure has become asset class for private investors, most notably through public pension funds but accessing the funds poses challenges. Conditions for accessing pension funds for investment include guarantee for safety of funds and equity in the distribution of investment returns by the investors. This paper is designed to test the relationships between investment in housing infrastructure and safety-equity factor in Nigeria's public pension funds management. The research design was based on ex post facto method of analysis. from primary and secondary sources of data which were drawn from legislative Acts/gazettes, guidelines, books, journals, conference, workshop and seminar papers, newspapers, statistical tables and the internet. The outcomes of this study showed that public pension funds have strong relationships with safety of funds and equity returns factor, among other key elements necessary to grow and sustain public pension contract. These findings open vista for future intellectual architecture-building in the field of pension funds administration.*

KEYWORDS: Public Pension Asset, Investment, Housing Infrastructure.

INTRODUCTION

The origin of pension arrangements have been traced to Europe by many authors, for example, Haberman (1995), Hald (1995), Gianasso (June 29, 2015), Casey (2004), Ahmed (2006), Momoh and Idomeh (2008), Odia and Okoye (2012) and Elekwa et al (2011). Pension funds represent important and influential segment of asset class and are now among the most important institutional investment in world capital markets (Klumpes and Mason, 2000). The macro-financial perspective to pension investment in infrastructure was developed by Canadian and European financial economic experts, notably the World Pension Council (WPC) of Association of Member Nominated Trustees (AMNT).

The new economic thinking and practice was driven by the 2008-2012 global recession (Firzli and Bazi, 2011: 34-37), combined with the progressive realisation that infrastructure could be an "ideal asset class" providing tangible advantages such as long duration-facilitating cash flow matching with long-term liabilities, protection against inflation and statistical diversification. Since then, public pension asset investments have gone beyond the low-risk assets such as money markets instruments, government bonds, and large-cap equities, to a lesser extent, in "alternative assets", such as real estate development, private equity and hedge funds (Inderst, 2009).

Although Nigeria is a country in economic crisis characterised by unemployment, broad decline in income, credit and output; large number of bankruptcies including sovereign debt

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defaults; as well as highly volatile currency value fluctuations, price deflation, financial crisis and bank failures, the country's viable and unexplored economic and social infrastructure projects remain waiting for government's lean treasury. Despite finance and infrastructure deficits, use of public pension asset for project finance remained a Herculean task whereas increased investment earnings from pension funds' assets through solid investment performance are one amongst employers' defined contributions and employees' defined contributions to grow and sustain the scheme.

However, with growth indices of much participants and so much money at stake in Nigeria, the public pension fund has come under scrutiny of late on how to shore up asset investment, equity in investment returns and safety of funds. How did pension schemes begin? How is public pension scheme structured, in terms of benefits, and financing? How is public pension asset pool invested, and what key principles are influential in designing the investment practices and resulting returns? What risks do participants in the defined contribution scheme of public pension funds bear?

This paper provided answers to these questions and concluded that appropriate and effective legal safety nets, investment of pension funds in the housing sector in Nigeria will shore up safety of the funds, yield equitable returns as value-addition to the Funds stakeholders, in particular and the national economy, in general.

LITERATURE REVIEW

The increasing attention towards research on pension funds administration points to the importance of this topic. The American Heritage (2005) held that pension can be defined simply as payments made to a retired person either by the government or by a former employer. Elekwa et al (2011) defined pension as a form of income that workers or their dependents receive after workers retire, become disabled or die. They argued that beneficiaries to pension include people who have had careers in private industry; national armed forces or national, state and local governments including self-employed individuals or those who established their own pension scheme where their employers did not do so.

Lemke and Lins (2010) held that pension is a fund into which a sum of money is added during an employee's employment years, and from which payments are drawn to support the person's retirement from work in the form of periodic payments. The duo posited that a pension may be a "defined benefit plan" where a fixed sum is paid regularly to a person, or a "defined contribution plan" under which a fixed sum is invested and then becomes available at retirement age. Lemke and Lins (2013) also averred, on one hand, that a defined benefit (DB) plan is a type of pension plan in which an employer/sponsor promises a specified monthly benefit on retirement that is predetermined by a formula based on the employee's earnings history, tenure of service and age, rather than depending directly on individual investment returns. On the other hand, they proffered that a defined contribution (DC) plan is a type of retirement plan in which the employer, employees or both make contributions on regular basis. Mitchell and Hustead (2001) argued that pension schemes represent long-term contracts between employers and the scheme participants who give up current salary reduction or indirectly through foregone earnings in exchange for future retirement benefits payable by the pension scheme.

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OECD (2008) asserts that pension fund also known as superannuation provides huge amounts of money for investment and are the major investors in listed and private companies for retirement income. It made a distinction between “open” and “closed,” and “public” and “private,” pension funds. On one hand, while open pension funds support at least one pension plan with no restriction on membership, closed pension funds support only pension plans that are limited to certain employees. On the other hand, a public pension fund is one that is regulated under public sector law while a private pension fund is regulated under private sector law.

The literature despite it rich depth, especially in unearthing the facts that pension funds have become asset class for private investors and are now among the most important institutional investment in world capital markets (Klumpes and Mason, 2000) as institutional long-term financial sources for driving infrastructure; and that employees form decision based on their perceptions of safety of the funds and equity in the management’s distribution of returns however left a yawning gap on the relationship between pension fund investment on housing infrastructure and safety-equity challenge in distribution of investment returns in Nigeria.

Origin and Growth of Pension Schemes in Nigeria

Development of pension scheme in Nigeria owes its origin to Europe. Europe is associated with history’s first known pension arrangements. Duke Ernest the Pious of Gotha of Germany established the Widows’ funds in 1645 and another for teachers in 1662 (Haberman, 1995: xlviii). Various schemes of provision for ministers’ widows were then established throughout Europe at about the start of the 18th century, some based on a single premium while others were based on yearly premiums to be distributed as benefits in the same year (Hald, 1995).

Other examples were the Old Age and Disability Insurance Bill of 1889, a social legislation enacted in Germany under Otto von Bismark for those at the age of 70 years and above (Gianasso, June 29, 2015); Brehon Law in Ireland, which imposed legal responsibility on the kin group to take care of its members who were aged, blind, deaf, sick or insane. Today, Ireland has two-tiered pension benefit schemes – Pay Related Social Insurance (PRSI) and Occupational Pension; English poor law which saw the poor as merely morally degenerate and made them to perform forced labour in workhouses; Japan’s military, civil servants and private sector workers pension in 1875, 1890 and 1940, respectively (Casey, 2004). Other early entrants in pension arrangements include the United States, Australia, Canada, Netherlands, etc. These developments nurtured to growth social insurance in Europe and social security in the United States (Momoh and Idomeh, 2008).

In the European and American countries of origin, pension arrangements are referred variously as pension schemes in the United Kingdom and Ireland, superannuation plans (or super) in Australia and New Zealand, and retirement plans in the United States. There are basically two types of plan - the “defined benefit plan”: where a fixed sum is paid regularly to a person; or “defined contribution plan”: under which a fixed sum is invested and then becomes available at retirement age (Lemke and Lins, 2010). Retirement pensions are typically deferred compensation in the form of a guaranteed life annuity, thus insuring against the risk of longevity.

There has been a growing trend in diversification of pension funds assets portfolio and investment in infrastructure. For example, Canada, California and Australia are the early entrants into investment in infrastructure with as much as 40 per cent pension fund in

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infrastructure asset class. Some others, for example, North America, Europe, United Kingdom wishing to gain a degree of exposure to investment in infrastructure assets have done so indirectly through investment made in infrastructure funds managed by specialised Canadian, United States and Australian funds (*Reuters*, November 28, 2011). United States pensions, which control $16 trillion, shifted from investment in equities into bonds in the third quarter at the fastest rate since 2008. Treasurer of Ford Motors Corporation, quoted in *The Nation* (Wednesday, January 22, 2014: 38) affirmed that the increased rate was caused because companies were getting on the bandwagon. The Ford Motors Corporation is a good example of the use of pension funds to boost debt investment through bond.

Beyond the narrow view of use of pension funds to pay pension and gratuity after retirement from active service as insurance against the risk of longevity, these funds have become the most important institutional investment in world capital markets (Klumpes and Mason, 2000). Two examples of pension fund assets management by OECD (2006) and Willis Towers Watson (February 2015: 1) are more revealing of the point being made. OECD (May 2015: 1 and 3) revealed that the 5 largest countries in the OECD in terms of pension funds' asset in 2014 were the United States, the United Kingdom, Australia, Canada, and the Netherlands, altogether totalling US$21.7 trillion or more than 85% of OECD pension funds' assets with the U.S. investing 49.3% of her pension funds in shares and bonds as the main instruments for investment for higher returns. On the other hand, Willis Towers Watson (February 2015: 1) averred that the 16 largest pension markets in the world are Australia, Brazil, Canada, France, Germany, Hong Kong, Ireland, Japan, Malaysia, Mexico, Netherlands, South Africa, South Korea, Switzerland, the United Kingdom, and the United States. The countries' assets for 4-year period (2008-2009 and 2013-2014) were US$20 trillion in 2008, US$23 trillion in 2009, US$32 trillion in 2013, and US$36 trillion in 2014 making a total of 93.5% of the countries' gross domestic product (GDP). A ten-year growth figures showed that three countries (UK, 9%; Japan, 8%, and United States, 61%) made up 78% total pension assets. Global pension assets grew from about 54% of GDP in 2008 to 84% of GDP in 2014. Table 1 provides detailed facts and figures on global pension assets of 16 largest countries, for example.

Table 1: A 16-Country Global Pension Assets Figures, 2008-2014

	Total Assets 2014 (USD billion)	**% GDP in USD Billion[6]**
Australia	1,675	113.0%
Brazil[1]	268	12.0%
Canada	1,526	85.1%
France	171	5.9%
Germany[2]	520	13.6%
Hong Kong	120	41.2%
Ireland	132	53.7%
Japan[3]	2,862	60.0%
Malaysia	205	60.7%
Mexico	190	14.6%
Netherlands	1,457	165.5%
South Africa	234	68.6%
South Korea	511	35.3%
Switzerland[4]	823	121.2%
United Kingdom	3,309	116.2%
United States[5]	22,117	127.0%
Total	**36,119**	**84.4%**

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Keys:

[1]Brazil Pension Assets only include those from closed entities
[2]Only collect pension assets for company pension schemes
[3]Do not contain the unfunded benefit obligation of Corporate pensions (account receivables)
[4]Only includes total of autonomous pension funds. Do not consider insurance companies' assets of USD 139.5 billion
[5]Includes IRAs
[6]Assets/GDP ratio for the world is calculated in USD and assets were estimated as of 31 December 2014
Source: Towers Watson, Global Pension Assets Study, 2015: 5.

In Nigeria, pension scheme was begun by the British colonial administration in Nigeria. The first legislative document on pension in Nigeria was the 1951 Pension Ordinance which was enacted with retroactive effect from 1st January 1946 to provide old age income and security to British citizens, working in Nigeria upon retirement (Admad, 2006; Elekwa, Oko and Ugwu, 2011). In 1961, the National Provident Fund (NPF) scheme was established to address need of pension matters for private sector employees against loss of employment income. Pension Act No. 102 of 1979 as well as the Armed Forces Pension Act No. 103 was promulgated in 1979, eighteen years after the establishment of the NPF. The Police and other Government Agencies' Pension Scheme were enacted under Pension Act No. 75 of 1987 and followed by the Local Government Pension Edict of 1987, which established Local Government Staff Pension Board.

In 1993, the National Social Insurance Trust Fund (NSITF) Scheme was established by Decree No. 73 of 1993 to replace defunct NPT Scheme with effect from 1st July 1994. From the 1951 Pension Ordinance, through the Nigeria Social Insurance Trust Fund to Pension Reform Act 2014 that repealed PRA 2004, Nigeria's pension scheme had undergone many changes, more significant among them, is the change from old defined benefit (DB) scheme to defined contribution (DC) scheme under PRA 2004. A comparison of the two schemes illustrates the major differences as presented in Table 2.

Table 2: Major Differences between the Defined Benefit and Defined Contributory Pension Schemes in Nigeria

Characteristics	Old Scheme	New Scheme
1. Type	Largely defined benefits	Defined contribution
2. Funding	Mostly unfunded and pay as you go (PAYG)	Contributory and fully funded
3. Membership	Voluntary in private sector	Mandatory for all employees in private and public sectors except pensioners and those with 3 years to retire
4. Pension portability	Not portable	Personalised and very portable
5. Management	Largely state and management union	Private sector and individual choice
6. Retirement benefit	Discriminatory	Uniform application
7. Supervision	Fragmented and unregulated (SEC, NAICOM, and JTB)	Strictly regulated by PenCom
8. Pension liability	Implicit and not transparent	Explicit through retirement bond and capped

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9. Tax exemption	Limited	Contribution and retirement benefits
10. Insurance policy	Voluntary and mostly in private sector	*(i)* Mandatory for all employers; and *(ii)* Three-times the employees emolument
11. Dismissal from service	No pension benefits	Full pension rights
12. Collateral for loan	Benefits could be used as collateral	Benefits cannot be used as collateral
13. Deductions from benefits	Benefits can be subjected to deductions especially employees in any financial obligations in the employ	Contents of RSA can be used for payment of retirement benefits only
14. Claiming retirement benefits	Cumbersome	Straightforward
15. Minimum service year	Generally 5 years for gratuity and 10 years for pensions	Month of employment for all benefits subject to minimum age
16. Gratuity	Provided to those qualified	Provided for lump sum withdrawal
17. Risk management	No provision	Adequate provision

Source: Admad, M.K. (2008).

As can be gleaned from table 2, it can be asserted that from the 1951 Pension Ordinance, through the Nigeria Social Insurance Trust Fund to Pension Reform Act 2014, Nigeria's pension scheme had witnessed many changes. However, the PRA 2014 changed the fragmented and unregulated supervision by Securities and Exchange Commission (SEC), National Insurance Commission (NAICOM), and Joint Tax Board (JTB) with uniform and fully regulated scheme under the Nigeria Pension Commission (PenCom). PenCom is the only supervisory agency with perpetual succession and a common seal which may be sued in its corporate name and by extension, enjoys prerogative power to govern and regulate the administration of uniform contributory pension scheme (CPS) for both the public and private sectors' employees in Nigeria by formulating, directing and overseeing the overall policy on pension matters concerning standards, rules, regulations as well as licensing, sanctioning, capacity-building and institutional strengthening of Pension Fund Administrators (PFAs) and Pension Fund Custodians (PFCs) for effective and efficient management of the pension funds.

Structure of Public Pension Scheme in Nigeria

First pension arrangement in Nigeria was the DB scheme, which was a Pay-As-You-Go (PAYG) scheme, sponsored solely through government's budgetary provisions and managed by multiple and uncoordinated administrations. Under the scheme, final entitlements were based on length of service and terminal emolument of the worker. Regrettably, the DB scheme failed because on grounds of:

(a) becoming great burden on government;

ISSN: 2052-6350(Print) ISSN: 2052-6369(Online)

(b) that Government could no longer cope with payments pensions and gratuities of workers that resulted to backlog of ₦2.56 trillion Federal Government of Nigeria obligation as at December 2005;

(c) no plan put in place to drive the scheme;

(d) uncoordinated administration;

(e) inadequate funding and inability to effectively implement budgets;

(f) diversion of allocated funds and outright fraud irregularities;

(g) bloated payroll caused by dubious merging of service of ineligible pensioners for the purpose of computing retirement benefits;

In 2004, Pension Reform Act (PRA) 2004 and PRA 2014, which repealed the former, were both enacted, introducing a defined contribution scheme to replace the old DB scheme. The underlying objectives were, among others, to:

(a) ensure that all workers in public service receive retirement benefits as at when due;

(b) assist individuals to save in order to cater for livelihood during old age;

(c) establish a uniform method of administering payments of retirement benefits in public and private sector;

(d) empower employees to have control over their Retirement Savings Account (RSA);

(e) promote labour mobility and minimise incentives for early retirement;

(f) ensure transparency and effective management of pension funds; and

(g) promote wider coverage of pension scheme in Nigeria, among others (Federal Republic of Nigeria, 2014: A33).

The new DC scheme under PRA 2004 was jointly funded by employer and employee at equal rate of 7.5% each of the monthly emolument of the employee.

However, ten years later, Pension Reform Act 2014 repealed the 2004 Act. Although Federal Republic of Nigeria (2006:48) stated unequivocally, in Public Service Rule (PSR) No. 020807, that "All officers shall participate in the Contributory Pension Scheme as provided for in Pension Reform Act 2004", PRA 2014, in Part II, Sections 3 and 4, reiterated the position of the PSR and increased the rates relating to monthly emoluments to:

(a) a minimum of ten per cent by the employer; and

(b) a minimum of eight per cent by the employee.

The new defined contributory pension scheme in the public sector is fully funded through a combination of employer contributions, employee contributions, and investment returns. Every pensioner after 2007 comes under the DC scheme and is under obligation to open RSA with a Pension Fund Administrator of choice into which his/her monthly contribution of a defined minimum, for instance, 8% of the employee and 10% of the employer of total emoluments is credited. An employee's RSA is an account into which all contributions and returns on

ISSN: 2052-6350(Print) ISSN: 2052-6369(Online)

investment are credited and managed. The PRA 2004 was repealed by PRA 2014 because of undercutting the beneficiaries' interests along safety-equity nexus in the management of pension fund.

Public Pension Asset Investment and Housing Infrastructure in Nigeria

Public pension asset pool is still large and growing in Nigeria. With the progressive growth in pension assets by 25 per cent annually since 2005 which is expected to raise ₦38 trillion in 2024 **(***The Nation* Monday 24 November 2014:29**),** the critical challenge is how to build capability and capacity to manage such enlarged pool of pension assets by the administrators and trustees - PFAs and PFCs - in investments that gives positive real returns for overall value-addition to the national GDP as well as assets contributors. As acknowledged by Nike James in *The Nation (*Monday, November 24, 2014: 29), PRA 2014, Part XII, Section 86 states that subject to guidelines issued by the Commission, pension funds and assets shall be invested in any of the following:

(a) bonds, bills and other securities issued or guaranteed by the FG and the CBN;

(b) bonds, bills and other securities issued or guaranteed by the States and Local Governments;

(c) bonds, debentures and redeemable preference shares and other debt instruments issued by corporate entities and listed on a stock Exchange registered under the Investments and Securities Act;

(d) ordinary shares of public limited companies listed on a securities exchange registered under the Investments and Securities Act;

(e) bank deposits and bank securities;

(f) investment certificates of closed-end investment fund or hybrid investment funds listed on a securities exchange registered under the Investments and Securities Act with good track records of earning;

(g) units sold by open-end investment funds or specialist open-end investment funds registered under the Investments and Securities Act;

(h) real estate development investments; or

(i) specialist investment funds and such other financial instruments as the Commission may, from time to time, approve.

Consciously, in Part XII, Section 86 (*h*), real estate development is an asset class under investment for investors who qualify with technical and professional competencies in the pension funds industry and who met the regulatory guidelines of PenCom to access pension funds for that purpose.

Although it has been argued that part of the factors that led to the failure of the old DB scheme was the absence of a well-structured plan to drive the operation of the scheme, the elaborate principles drawn by the Acts, regulatory guidelines and other relevant enactments for the new DC scheme have shown that there is a lacuna on democratic principles guiding investment

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decisions by members of the trustee to ensure safety of funds and equity in investment returns through effective mechanism for transparency and accountability.

With about 60 million workforce population, pension funds constitute the largest and secure source of long-term capital to supplement government's budgetary provisions to fix the economy and infrastructure deficits in Nigeria, especially reducing the 17 million housing deficit to address housing needs of the low- and medium-income segments who constitute the vast majority of the Nigerian population, *ceteris paribus*. Thus, there is the need for proper synergy between the PFAs and financial markets operators to deliver the risk-managed structures and products to commit pension fund assets to long-term capital needs.

Federal Government of Nigeria established the Federal Mortgage Bank of Nigeria (FMBN) in 1956 with the mandate to provide housing for the teeming population of the country. The mandate gave the FMBN pivotal role to provide robust mortgage finance system for assistance to desiring clientele. The role include promoting the growth of primary mortgage institutions to serve the need of clients, through mobilisation of domestic and offshore funds into the housing sector, linking the capital market with the housing industry, establishing and operating viable secondary mortgage market to support the primary mortgage market and collecting and administering the National Housing Fund (NHF) in accordance with the provisions of the NHF Act, the FMBH Act (Lucas, 2014:50).

Sadly, FMBN became a mortgage lender without fund due largely to lack of recapitalisation and proper corporate governance from the management stakeholders, that is, the Federal government of Nigeria (FGN), Central Bank of Nigeria (CBN), and National Social Insurance Trust Fund (NSITF) that have the legal obligation to provide the bank's share capital of ₦5 billion in the ratio of 50:30:20, respectively. However, while the FGN fulfils its financial obligation to the Bank, the CBN and NSITF delay if at all they pay up their share capital.

The FHA, since its establishment in 1973 up until 2006, built only 30,000 housing units nationwide (Akeju, 2007: 1) accounting for an average of far less than 1,000 units only per annum thus led to huge housing deficit of 17 million units. The objective to invest pension fund assets is to create access to housing loans for workers by diversifying the fund through the housing industry and bridging the lingering housing deficit in Nigeria. National President, Real Estate Developers Association of Nigeria (REDAN), Ugochukwu Chime and Executive Director, Policy and Corporate Strategy, Nigeria Mortgage Refinance Company (NMRC) Chika Akporji, in *National Mirror* (Tuesday, February 9, 2016: 25), explained that the idea of investing pension fund assets for returns to workers is timely and beneficial. Chime explained:

> We have always advocated a linkage and synergy between the NHF [National Housing Fund] and Pensions Fund to ensure that the trillions of naira in the Pension Fund are brought to bear on the welfare of the worker at a time that welfare will make meaning to them now not on retirement when the purchasing power of that money would have depreciated very alarmingly.

Previously, the Nigerian government put up efforts through several policy steps to boost housing policy, including:

(a) establishment of Mortgage Refinance Company to make availability of mortgage loans easier, thus resulted in

ISSN: 2052-6350(Print) ISSN: 2052-6369(Online)

(b) financial aid of $300 million from World Bank at 0.7 per cent interest as part of the overall Global Infrastructure Facility of the World Bank Group to help bridge infrastructure gaps in low and middle income countries such as Nigeria and other developing economies (*Daily Trust*, Monday, October 28, 2013: 34; *The Nation*, Wednesday, October 15, 2014: 38);

(c) evolving new legal framework to enhance low-risk mortgage system for wider inclusiveness: Olisa Agbakoba and Mustafa Chike-Obi proffered that the realisation of house for all in Nigeria requires legal policy frameworks that encourage banks to give mortgage loans to individuals with the guarantee that government bears about 80 per cent of the mortgage sum in the event of a default, while the banks and insurance companies bear 10 per cent each (*The Nation,* Tuesday, November 25, 2014: 39);

(d) adoption of alternative building technologies – Nigeria's Minister of Lands, Housing and Urban Development, Akon Eyakenyi (2014: 48) copiously stated *inter alia*:

> .... enhanced access to affordable housing in the building of strong healthy and equitable societies will stimulate ingenious strategies and innovative solutions for ensuring housing delivery not only at the right scale and cost but also with the right methods that can be harnessed in individual countries. Nigerian government developed national housing and urban development policies for the realisation of the strategic national imperatives to deliver housing at the right scale, cost and methods. These policies were consolidated with a 30-year Roadmap for the housing and urban development sector in order to address all the ramifications of challenges facing the sector. The challenges, for example, include inadequate finance for mass housing delivery, low capital base of primary and secondary mortgage banks, inaccessibility to land with secure titles, improper balance between the use of conventional method for housing construction and new technologies, etc.

Eyakenyi maintained that Nigeria had addressed the demand side of paucity of fund with recapitalisation of the primary mortgage institutions (PMIs), i.e., banks and the establishment of Nigeria Mortgage Refinance Company (NMRC) while efforts are being intensified to address the supply side through the provision of a window for construction finance. The key to delivering on a massive scale to reduce the national housing deficit is the adoption of alternative building technologies, hence our present efforts in facilitating a private sector-led delivery of mass housing process through various on-going new housing development schemes across the country.

In practice, Nigeria's Federal Housing Authority (FHA) is using ingenious strategies and innovative solutions for ensuring housing delivery at the right scale, cost and methods for ministries, departments, and agencies of government in Nigeria under the canopy of Public-Public Partnership housing delivery model, for example, in Lagos, Calabar, Yenagoa, Kaduna, Makurdi, Owerri, Awka, and Gombe. However, these efforts have not solved the housing deficit in Nigeria due largely to the supply side of low capital base. In the Nigerian unstable economic situation, prospectors are almost certain of the steady dwindling economic trend to predict depreciation of purchasing power of the retirement savings assets. For instance, employees who joined service in 1982 when naira exchanged for about $2 retired in 2017 after mandatory 35-year service when ₦500 exchanged for $1.

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Against these backgrounds, President of Chartered Institute of Stockbrokers (CIS), Albert Okumagba, reported in *Daily Sun* (Tuesday, March 10, 2015: 56) called on Nigerian government to invest pension funds in infrastructure to revitalise Nigerian capital market, shake off investors' apathy and boost confidence. He stated that Nigeria needs to "deploy the existing huge savings in pension funds to develop the economy and the capital market through investment in infrastructure."

The Minister for Power, Works and Housing, Babatunde Fashola, in *National Mirror* (Tuesday, February 9, 2016: 24-25) cashed in on the policy advice that investing ₦5 trillion realised for pension fund administration to provide critical infrastructure, such as housing, road, power, refineries, petrochemicals, etc., instead of on bonds and other money market instruments, could get huge returns to the pension industry. The calls became germane in the face of increased housing deficit, paucity of funds, and epileptic services by intervention agencies of the Nigerian government such as Federal Housing Authority (FHA) and Federal Mortgage Bank of Nigeria (FMBN). Again, Federal Government of Nigeria' (2014) included real estate development investments in *Official Gazette,* Vol. 101, No. 64, Part XII, Section 86 (*h*) within the scope of pension funds' assets investment portfolio.

However, despite the prospects of pensions fund investment in asset portfolios for returns there is increasing public debate on safety-equity nexus of the exercise.

Rethinking the Safety-Returns Debate in Nigeria

The old pension scheme in Nigeria collapsed for failure of safety of the funds, security of retirement benefits, and sustainability of the scheme. These factors that accounted for the failure of the old scheme necessitated the rethinking and regulatory changes to eliminate the flaws (PenCom, 2007). Instructively, the World Pension Council, in its fifth annual forum held in December 2015, lends credence to the fact that political and regulatory instability were part of the management challenges in public pension defined contribution schemes (*Pension Insight*, 12 January, 2016: 1). The change from employer-funded DB scheme to automatically registered employer-employee DC scheme whereby bearing the investment risks also shifted from employer to employee (United States Census Bureau, n.d.: 1) raised the safety-returns debate. This debate led to the amended PRA 2014 to govern and regulate the administration of uniform CPS for both the public and private sectors' employees in Nigeria with unique a feature.

The unique feature in PRA 2014 is separation of custody from management. The object of the separation is to enthrone supervision as safeguards corporate governance mechanism to guarantee safety of the CPS through transparency and accountability. Some of the mechanisms include investing equity in federal government securities, mortgage refinancing, strong legal and institutional framework, separation of custody from administration of pension assets, meticulous investment limits and risks rating requirement, as well as segregation of pension funds from assets of operators and daily monitoring of investment of pension funds (*The Oracle Today*, 8 March 2017: 31).

Director-General of PenCom, Chinelo Anohu-Amazu referred to these mechanisms as ring-fencing (March 9, 2016: 1; *The Nation*, Monday, November 24, 2014: 28-29) and as reported in *The Nation* (Monday, 24 November 2014: 28-29), stated:

> Whereas the Pension Fund Administrators (PFAs) manage the pension funds, they do not have access to same as custody is vested in the Pension Fund Custodians (PFCs) and the Commission ensures that both parties [PFAs and PFCs] adhere strictly to regulations governing the pension fund.... The ring fencing of pension fund assets and regulatory non-interference has resulted in the consistent growth in a large pool of pension assets.... The reform has also engendered a regime of regular payment of benefits to all employees who retired under the scheme since 2007 without any delays as was the practice in the old system. Since inception, 111,210 retired employees have received payouts of over ₦268 billion. Also, through an enhanced compliance regime, 6.26 million contributors have so far registered in the CPS.

The new pension scheme requires that pension funds are privately managed by licensed PFAs who open RSAs for employees, invest and manage the pension funds in a manner as the PenCom may from time to time prescribe. The investment portfolios include 71 per cent of ₦6 trillion equity in federal government securities, ₦50 billion mortgage refinancing, etc (*The Oracle Today*, 8 March 2017: 31). PFAs maintain books of accounts on all transactions relating to the funds they manage, provide regular information to the employees or beneficiaries, and pay retirement benefits to employees in accordance with the provisions of the PRA 2014 as amended. Before it is issued with an operating license, the PFAs must be a limited liability company whose sole object is the management of pension funds. To discourage frivolous applications and to ensure credibility, such companies must have paid up share capital of ₦1,000,000,000 and demonstrate professional capacity to manage pension funds and administer retirement benefits. PFAs are growing and competitive in Nigeria. There are 21 licensed PFAs by the PenCom. They include:

1. AIICO Pension Managers Limited
2. APT Pension Fund Managers Limited
3. ARM Pension Managers Limited
4. AXA Pensions Limited
5. CrusaderSterling Pensions Limited
6. Fidelity Pension Managers
7. First Guarantee Pension Limited
8. Future Unity Glanvils Pensions Limited
9. Investment One Pension Managers Limited
10. IEI-Anchor Pension Managers Limited
11. IGI Pension Fund Managers Limited
12. Leadway Pensure PFA Limited
13. Legacy Pension Managers Limited
14. NLPC Pension Fund Administrators Limited
15. NPF Pension Limited
16. OAK Pensions Limited
17. Pensions Alliance Limited

ISSN: 2052-6350(Print) ISSN: 2052-6369(Online)

18. Premium Pension Limited
19. Sigma Pensions Limited
20. Stanbic IBTC Pension Managers Limited
21. Trustfund Pensions Plc

It is for the same reason to discourage frivolous applications and ensure credibility in the custodial role of pension fund assets that Nigeria's PenCom mandatorily required licensed financial institutions that have minimum net worth of ₦5,000,000,000 and a total balance sheet of not below ₦25,000,000,000 as registered PFCs. The PFCs are listed as follow:

1. Diamond Pension Custodians Limited
2. First Pensions Custodian limited
3. UBA Pensions Custodian Limited
4. Zenith Pensions Custodian Limited

Part of the credibility requirement of a stakeholder of a Custodial is the statutory obligation to guarantee the pension fund assets held by it. The *Guidelines for the Operations of Pensions Fund Custodians*, sections 9, sub-sections (6-7) (National Pension Commission, n.d.: 15) and *Guidelines for the Operations of Pension Fund Administrators*, sections 8, sub-sections (4.9-4.10) (National Pension Commission, n.d.: 21) provided that the PFC shall accept liability for its Agents and Sub-Agents; and shall make good losses which a PFA suffers due to its negligence, respectively. These provisions are cardinal to ensuring accountability of the PFAs and PFCs on the pension fund assets in payments of retirement benefits, and management of investment of the pension fund assets in business.

On another spectrum, Licensed Closed Pension Fund Administrators include

1. Chevron Closed PFA Limited
2. Nestle Nigeria Trust Limited
3. Nigerian Agip CPFA Limited
4. Progress Trust CPFA Limited
5. Shell Nig. Closed Pension Fund Administrators Limited
6. Total (E & P) Nigeria CPFA Limited
7. UNICO CPFA Limited

Although the Guidelines for the operations of the PFAs and PFCs provide that a PFA is at liberty to appoint a PFC to warehouse contributions from its [PFA] clients, their operational relationship is tied to a contractual agreement made between them in terms of charges/fees, method and time of payments, etc., for a PFC services of delivering copies of notices, proxies, financial reports on contributions, stakeholder communications, etc.

With pension funds assets in the custody of the PFCs, the custodians execute transactions and undertake activities relating to the administration of pension fund investments upon instruction by the PFAs on whose behalf the PFCs hold pension fund assets on trust for its clients.

ISSN: 2052-6350(Print) ISSN: 2052-6369(Online)

Basically, as it were, DC schemes have the PFC as private third-party taking custody of the funds and assets of individual accounts on the order of PFA, who appointed him. The RSA is similar to a Bank Account except that the employer is not allowed to withdraw from it until after retirement. At retirement, a beneficiary is allowed to withdraw 50% of his total contribution, while the balance of 50% is spread for monthly pension for discriminatory periods of 15 years and 18 years for men and women, respectively.

The legal strictures that constitute part of safety-net regimes of PenCom-regulator to ensure security of benefits, sustainability, equity, flexibility, transparency, accountability, uniformity, and pragmatism in pension fund administration in Nigeria include the following:

(a) penalties against unethical practices and diversion of pension funds;

(b) investment windows and thresholds for PFAs;

(c) tax exempt status for pension fund investment income;

(d) 25% retirement savings account (RSA) withdrawal ceiling as equity contribution towards payment of a residential mortgage;

(e) pension protection fund as a hedge for the funding of minimum pension guarantee;

(f) pool of funds to provide eligible retiree with a minimum monthly pension;

(g) investment must be through infrastructure bond of infrastructure fund and contracts must be awarded to concessionaire with good track records;

(h) bonds issued to finance infrastructure projects shall have robust credit enhancements including guarantees by the Federal Government or eligible bank/development finance institutions or multilateral development finance organisations (MDFOs) and a maturity date that precedes the expiration of the concession;

(i) award of contracts must follow the due process requirements set out in Infrastructure Concession and Regulatory Commission (ICRC) Act and any other regulation made pursuant thereto and certified by the ICRC and approved by the Federal Executive Council (FEC);

(j) projects business plans and financial projections must indicate that they are viable as well as economically and financially rewarding for investment by pension funds;

(k) bonds issued should have a feasible and enforceable redemption procedures in the event of project suspension, cancellation or, in the regulated sectors, when changes in regulatory or policy decisions make the project to differ significantly from its original financial projections;

(l) well-publicised investment objectives and strategy as well as disclosures of pricing of underlying assets, including any other necessary information;

(m) all annual financial statements must be audited by reputable firms of chartered accountants and the infrastructure fund shall have satisfactory predated liquidity/exit routes as IPO, sale to other PE Funds, Trade Sale, Sale to a strategic investor, etc;

ISSN: 2052-6350(Print) ISSN: 2052-6369(Online)

(n) funds shall be managed by experienced fund managers, vested in infrastructure financing and registered with the Securities and Exchange Commission (SEC) as fund managers;

(o) prior to investment and during the tenor of investment in any infrastructure fund, PFAs are to ensure that the advisory board has responsibility over audit functions regarding the evaluation of projects prior to investment; transactions with parties related to the infrastructure fund manager and strategies concerning divesture of investments.

More so, it is crucial to add that various Acts, Pension Reform Acts, 2004, 2014, ICRC Act, PenCom's guidelines and regulations, including Regulation on Investment and Pension Fund Assets 2012 and its 2015 version enlarged investment scope for pension funds assets and modified the straight-jacket DC funding system from single-tiered employer-employees funding to 4-layered multi-tiered employer-employees' funding system to democratise choice of risk tolerance and ensure equity through risk-driven investment returns in Nigeria. Table 3 illustrates the categories of the multi-tiered defined contribution pension scheme funding.

Table 3: **Multi-tiered Defined Contribution Pension Scheme Funding for Nigeria**

S/No.	Category of Fund	Contributors	Investment Threshold
1.	Fund 1	Age not 50 and above	This is for contributors who choose more aggressive investments (possibly higher risk and higher returns). Contributors are allowed to invest a maximum of 15% in corporate bonds and a maximum of 60% in Federal Government of Nigeria (FGN) and Central Bank of Nigeria (CBN) securities including infrastructure bonds. This Fund invests a maximum of 10% in infrastructure funds.
2.	Fund 2	Age 49 and below	Fund 2 is allowed to invest a maximum of 20% in corporate bonds and 70% on FGN and CBN securities, including infrastructure funds. This Fund is allowed a maximum investment of 5% in infrastructure funds.
3.	Fund 3	Age 50 and above	Fund 3 (unlike in Fund 1 and Fund 2) do not have a maximum threshold for investment in infrastructure. This means that Fund 3 has no obligation to invest in infrastructure. Fund 3 may, however, invest in infrastructure by way of corporate bonds and FGN and CBN securities that are targeted at infrastructure. The maximum limits for Fund 3 are 20% in corporate bonds and 80% in FGN and CBN securities.
4.	Fund 4	RSA Retirees	Fund 4 (unlike in Fund 1 and Fund 2) do not have a maximum threshold for investment in infrastructure. This means that Fund 4 has no obligation to invest in infrastructure. Fund 4 may, however, invest in infrastructure by way of corporate bonds and FGN and CBN securities that are targeted at infrastructure. The maximum limits for Fund 4 are 10% in corporate bonds and 80% in FGN and CBN securities.

Source: Financial Nigeria (2016)

Table 3 shows that the allowable investment in bonds followed a pattern that seeks to ensure equity and maintain a greater permissible investment threshold and limits. On the equity criterion, it was provided that an employee who has less than five years cannot invest and take as much risk as would another with 30 years old. Again, on safety, it provided higher thresholds

ISSN: 2052-6350(Print) ISSN: 2052-6369(Online)

for investments in bonds which are secured by FGN and CBN, as opposed to corporate bonds and infrastructure funds (*Financial Nigeria*, April 8, 2016: 1).

In 2011, for example, investment of pension funds assets showed a pattern of predominance in low-risk debt securities, of which FGN securities accounted for 55.79%, money market instruments accounted for 12.82%, while sub-national and corporate bonds accounted for 4.5% and 3.07, respectively. Total equities, for the year were 14.43% while real estate investments, cash and other investments, accounted for a dismal 9.39% simply because the regulations and guidelines promote low-risk investments to ensure safety.

More so, the service providers are compelled by regulation to carry out defined but inter-connected critical functions to drive the success of the pension scheme. By virtue of Part V, Section 19 of PRA 2014, Governing Board was established for PenCom. The Board is made of a group size of 15 members, composed of a part-time Chairman, Director-General of PenCom, four full-time Commissioners of PenCom, and nine representatives of government agencies, trade unions, and employers. In this tripartite Board, only the Chairman, the Director-General, and the Commissioners, each representing each of the six geopolitical zones of Nigeria, are to be appointed by the President subject to the confirmation by the Senate. The Board is trustee to the asset pool management. The Board appointed by politicians with limited discretion determines investment policies of public pension fund monopoly to invest in certain ways including, many times, being coerced to use pension fund as a convenient and cheap way to finance government deficits.

It is against such practices that the OECD (2006: 6-7) called for written statements of agreements between stakeholders to enhance accountability, flexibility and transparency in the management of pension assets investments. Critical to the position of OECD is the need for all parties to agree on strategic asset investment benchmark as a common vital measuring rod of the results of the returns to its members, which is the ultimate objective of the investment process. Thus, Nigerian PenCom' guidelines cited in Onuoha (May 25, 2015:1), provide that:

(i) projects to be funded from pension fund shall have a total value of 15% of pension fund assets under management and another 5% of total value of pension fund assets making a cumulative total value of 20% that can be drawn through infrastructure funds;

(ii) the infrastructure project shall be awarded to a concessionaire with good track record through an open and transparent bidding process requirements set out in Infrastructure Concession and Regulatory Commission Act (ICRC Act) and any regulation made pursuant thereto and certified by the ICRC and approved by the Federal Executive Council (FEC);

(iii) the project business plans and financial projections shall indicate that they are viable as well as economically and financially rewarding for investment by pension funds;

(iv) the bonds or Sukuks issued to finance the infrastructure project shall have robust credit enhancements including guarantees by the Federal Government of eligible banks/development finance institutions or multilateral development finance organisations (MDFOs) and a maturity date that precedes the expiration of the concession;

(v) there shall be a feasible and enforceable redemption procedure in the event of project suspension, cancellation or, in the case of regulated sectors, when changes in regulatory

ISSN: 2052-6350(Print) ISSN: 2052-6369(Online)

or policy decisions make the project to differ significantly from its original financial projections;

(vi) there shall be a well publicised investment objectives and strategy as well as disclosures of pricing of underlying assets, including any other necessary information;

(vii) all annual financial statements shall be audited by reputable firms of chartered accountants and the infrastructure fund shall have satisfactory pre-defined liquidity/exit routes such as IPO, sale to other PE Funds, Trade Sale, sale to a strategic investor, etc;

(viii) the fund shall be managed by experienced fund managers, vested in infrastructure financing and registered with the Securities and Exchange Commission (SEC) as fund managers;

(ix) minimum of 60% of the infrastructure fund shall be invested in projects within Nigeria and where an infrastructure fund does not have development finance institutions or MDFO as co-investors but the fund manager has a minimum investment manager rating of BBB issued by a rating company registered or recognised by SEC, the fund manager shall retain a minimum investment of 3% of the infrastructure fund;

(x) where the infrastructure fund has development finance institutions or MDFOs as co-investors, the fund manager shall retain a minimum of 1% of the infrastructure fund and the fund shall have an advisory board with independent representatives of institutional investors being in majority; and

(xi) prior to investment ad during the tenor of investment in any infrastructure fund, PFAs are to ensure that the advisory board has responsibility over audit functions regarding the evaluation of projects prior to investment, transactions with parties related to the infrastructure fund manager and strategies concerning divesture of investments in which the private equity fund has interests.

Despite the spirited efforts to shore safety-nets in pensions fund management in Nigeria for assets' growth, profitability and sustainability, the World Pensions Council reveals that trustees of public pension schemes are saddled with accountability, but without powers to set agenda for their fund managers' engagement with the companies in which they invest. The Council blamed flaws on political and regulatory instability and, therefore, introduced voting regulatory guidelines aimed at strengthening the mechanisms of transparency, effective control, and accountability by trustees, especially under automatically-registered work-based hybrid employer-employee defined contribution pension schemes (Weeks, 2016: 7).

SUMMARY, FINDINGS, POLICY RECOMMENDATIONS AND CONCLUSION

Since the introduction of pension scheme in Nigeria, many changes had been brought in with the aim to reposition pension fund administration in Nigeria so that it will compare favourably with its global peers in delivering quality services. Major changes in pension industry in Nigeria include transition from defined benefits (DB) scheme which was funded from government annual budgetary provisions to defined contribution (DC) scheme in line with global economic liberalisation and democratisation of policy decisions to make workers owners and key players and which was funded by contributions of employers and employees at

ISSN: 2052-6350(Print) ISSN: 2052-6369(Online)

approved minimum rates of 7.5% each under PRA 2004 and 10% and 8%, respectively under PRA 2014. The aims for the changes were to achieve key elements of uniformity between private sector and public sector schemes; safety of funds; security of benefits; equity in distribution of investment returns; sustainability of scheme; flexibility through inclusive partnership with professional pension funds investment managers; transparency under due process requirements; accountability under sanctions regimes; and pragmatism under liberal economic and democratic principles.

The foregoing constitute key elements and principles embedded in various Acts and regulatory guidelines are laudable legal safety nets to ensure safety of funds, security of benefits and equity in the distribution of investment returns among other primary elements. Understandably, since defined benefit as well as defined contribution schemes are funded typically through a combination of employer contributions, employee contributions, and investment returns (United States Census Bureau, n.d., 1). It is doubtful that there is a better option to grow the Funds and maximise investment returns without diversifying the investment portfolios of pension fund assets to also investing the funds in higher yielding sectors as demonstrated in the housing sector of the Nigerian economy. The institutionalisation of legal safety nets through the legislative Acts, regulations and guidelines did not translate to effective enforcement, thus resulting to the safety-returns debate in the first place, and its associated lack of confidence and low coverage in the scheme.

Findings - Challenges against Pension Fund Administration in Nigeria

Major Challenges in Pensions asset management include:

(a) fear of inequitable distribution of investment returns;

(b) increase in registration from mere 10% contributors in the CPS of about 60 million work force;

(c) absence of transparency and accountability for workers to key into the programme, through advocacy, stakeholders summits, etc.,

(d) absence of a well structured programme of action including agreements between workers and PFAs, PFAs and PFCs on operational templates for investment and rate of returns;

(e) enthroning enabling policy environment for private sector participation to ensure competitiveness and flexibility in pension fund management;

(f) stringent conditions attached to qualification to access of National Housing Fund by contributors;

(g) undercapitalisation of FMBN and absence of policy framework for government, banking and insurance sectors to guarantee mortgage default at ratio by worker-clients;

(h) rekindling the trust of workers in the programme - already the workers are disturbed over the alarm raised by the National Pension Commission that it was battling to recover whooping ₦9.6 billion unaccounted for by PFAs and PFCs in 2013 (*Daily Trust,* Monday, October 28: 29)

ISSN: 2052-6350(Print) ISSN: 2052-6369(Online)

Policy Recommendations for the Way Forward

(i) pension fund should be managed with high standard of care, transparency, accountability in accordance with legislation to shore trust and promote safety and the needs of all stakeholders in the Retirement Plan;

(ii) government should shore up enabling environment for increased participation through pragmatic legal strictures against erring public officers who breach the rule on transparency and accountability;

(iii) leadership to the Pension Committee and workers should be provided to work out a highly regarded Retirement Plan that provides a reasonable rate of return on investments and a stable funding rate for the workers with an acceptable degree of risks;

(iv) there should be made compulsory stipulated periodic stakeholders' meetings to evaluate the programme.

It can, therefore, be concluded that there are significant relationships between pension funds' management and low registration, insecurity of funds and inequitable returns from investment. If more stringent policy-steps are formulated and faithfully implemented to address the identified challenges pension fund will unleash its potentials for value-addition in addressing Nigeria's housing and other infrastructure deficits in a depressed economy.

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