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Original Research Article

Assessment of the Financial Information Disclosures of Pension Fund Administrators in Nigeria

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Abstract

The study investigates extent of compliance of Pension Fund Administrators in Nigeria with PENCOM financial information disclosures guidelines with a view to ensuring that there is transparency and accountability in the management of the contributory pension schemes. Data were collected from both primary and secondary sources. Primary data were sourced from four hundred (400) respondents that are retirees under the contributory pension scheme through administration of questionnaire while secondary data were gathered from the annual reports of eleven (11) Pension Fund Administrators that were purposively selected based on size of fund under management and number of contributions. Primary data were analysed using descriptive statistics while secondary data were analysed using disclosure index to measure the extent of compliance. The study found that 9 out of the 11 sampled Pension Fund Administrators did not achieve 100% compliance on disclosure of financial information in their annual reports in accordance with PENCOM guidelines. Also, the channels of communication of accounting information to members of contributory pension plans in Nigeria on the performance of the fund under management of the PFAs are not meeting members' information needs. Furthermore, result showed that contributors displayed lack of knowledge of contributory pension schemes investment activities and risks. It was recommended that PENCOM should ensure compliance with the PENCOM financial reporting guidelines by the Pension Fund Administrators to enhance prudency and transparency in the management of contributory pension fund in Nigeria. Although annual reports are used by several users, yet contributors to contributory pension schemes as principals of the PFAs in agency relationship should be given more considerations in the choice of channels of communicating financial information to meet their information need and expectations.

Keywords: Financial, Information, Disclosure Index, Pension

JEL Classification Codes: *M41 M48*

1.0 INTRODUCTION

The switch from Defined Benefits (DB) pension schemes to Defined Contribution (DC) pension schemes in Nigeria through the enactment of the pension Reform Act 2004 and Subsequent amendment in 2014 necessitated the setting up of Pension Fund Administrators (PFAs) and Pension Fund Custodians (PFCs) as financial intermediaries between the Pension Fund Administrators and the ultimate beneficiaries of the pension fund. While the PFCs are to hold the pension contributions in trust for the benefits of the contributors, the PFAs are to invest the pension contribution on behalf of the contributors to earn investment income. This arrangement is however subject to potential conflicts of interest between the fund administrators and the contributors. The conflict of interest is rooted in the principal-agent relationship that arises whenever a party (Contributor) delegates decision making power on the management of an enterprise for maximising the wealth of the principal to another party (Pension Fund Administrator).

Institution of corporate governance codes and compliance with disclosure of financial information guidelines are the two solutions suggested by proponent of Agency Theory to curb the opportunistic behaviours of agents and ensure that agents align personal goals with that of the principal (Clarke, 2004; Eisenhardt, 1989; Kiyanga, 2014). In recognition of the fact that the opportunistic behaviours of agents could be curbed and agents' goals aligned with that of the principals, the National Pension Commission (PENCOM), as a government regulatory agency in the pension industry in Nigeria, developed corporate governance mechanisms and issued guidelines on financial information disclosure requirements to be strictly followed by the Pension Fund Administrators managing the pension fund to engender accountability, transparency and market discipline in the investment activities of the fund managers.

Key financial information that are relevant to contributors' post-employment benefits are investment returns, administration fees, investment management fees and net asset value per unit of the fund and other non-financial information in the guidelines that are required to be disclosed (e.g. number of contributors) which though may not affect the post-employment benefits of the contributors are germane for bringing the potential conflicts of interest embedded in the administration of contributory pension schemes under public scrutiny. The Pension Fund Administrators are meant to segregate fund under management into Retirement Savings Account (RSA) Fund and Retiree Fund. While the RSA Fund is for employees still in active service, Retiree Fund belong to retirees under the contributory scheme. The Pension Fund Administrators are meant to prepare annual reports for RSA Fund and Retiree Fund separately.

Empirical evidences revealed that pension fund managers don't disclose significant portion of costs incurred by pension schemes separately in the schemes' financial statements which results in a significant lack of transparency as to overall costs incurred annually by pension schemes (Besley & Prat, 2005; Rinaldi & Giacomel, 2008; Turner & Witte, 2008; Stewart &McNally, 2013).

The study, therefore, seeks to determine the extent of compliance of the Pension Fund Administrators in Nigeria with the guidelines on disclosure of financial information issued by PENCOM to fund beneficiaries.

In addition to the introductory section, section 2 reviews relevant literature from developed and developing countries including Nigeria. Section 3 presents the methodology. Section 4 focuses on the estimation of results and discussing of findings, while section 5 concludes the paper.

2. LITERATURE REVIEW

The adoption of contributory pension schemes in Nigeria has placed ethical and moral obligations on all the financial intermediaries involved in the investment and management of pension fund to prudently manage the fund and fully disclosure financial information on the management of the fund to enhance transparency (Stewart &Yermo, 2008). The investment annual rate of returns, price of the fund and cost involved in the management of pension fund are relevant information to the fund contributors. Empirical literatures in this area in Nigeria have been few since the commencement of Pension Reforms.

Paul (2000) examined competing proprietary and political cost arguments for incentives facing managers of different types of Australian and UK pension fund, to voluntary disclose of pension liability information in annual reports sent to their participants. Study was conducted on the voluntary reporting practices of a sample of 119 Australian and 100 UK pension funds, using variables which prior research suggests affects their financial valuation and performance. The empirical results support predictions that managerial discretionary disclosure carries proprietary cost implications for Australian defined benefit pension funds, as proxies by their investment risk and funding ratio, and political cost implications for Australian defined contribution and UK defined benefit pension funds, as proxies by their size.

Rinaldi and Giacomel (2008) studied the framework of information to be disclosed to members of contributory pension plans among twenty-one (21) member countries through survey. The study examined a broad spectrum of information to be provided to members of contributory pensions plan ranging from investment policies, investment performance, costs and fees of pension funds management, content of annual reports and contributions of members. The study revealed that while some of the member countries have sound practices to disclose information to contributors, others do not have the framework to disclose detailed information to the contributors. The study developed a conceptual framework on information to be disclosed to members of DC plans.

Amos (2011) investigated the determinants of pension governance in Kenya and recommended measures that could strengthen it. The sample of 362 pension plans in Kenya are taken and primary data are obtained through the administration of structured questionnaire. Statistical tests are conducted by use of Pearson correlations, regressions, and Analyses of Variance (ANOVA). Empirical results showed that pension governance is influenced by pension regulations, leadership, and membership age. The number of members and the classification of pension plans into either defined benefits or defined contributions plan do not have significant influence on how the pension fund are governed. Odia and Okoye (2012) investigated the comparison between the old and new scheme of pensions reform in Nigeria. In the study, the pension reforms act of 2004 brought into limelight the new pension scheme in Nigeria which is a defined contributory scheme unlike the old scheme which was largely defined benefits. Although the new scheme is being adjudged to be better than the old scheme in that it is expected to help remedy the deficiencies and inadequacies prevalent in the old scheme, it is advocated that only proper coordination, supervision and regulation of the pension industry in Nigeria will make it to happen.

In the work of Broeders, Oord, and Rijsbergen (2016), a segmentation of investment costs across asset classes of scale economies in pension fund investments was carried out in Netherlands. The study used a unique data set of 225 Dutch occupational pension funds with a total of 928 billion euro of assets under management and provide a comprehensive cross-sectional analysis of the relation between investment costs and pension fund size. The dataset is free from self-reporting biases and decomposes investment costs for 6 asset classes in management costs and performance fees. It was found that a pension fund that has 10 times more assets under management on average reports 7.67 basis points lower annual investment costs. Economies of scale differ per asset class. Their study found significant economies of scale in fixed income, equity and commodity portfolios, but not in real estate investments, private equity and hedge funds. Also, it was found that large pension funds pay significantly higher performance fees for equity, private equity and hedge fund investment

Mindaugas and Arturas (2016) examined the pension fund participants and fund managing company shareholder relations in Lithuania second pillar pension funds. Results achieved by the pension fund depended on how well they are managed or more specifically on whether all decisions taken by the management were in favour of the fund participants. The goal of the paper was to examine how to harmonize interests of second pillar pension fund participants and fund managing company shareholders. An interview with executives of all pension funds managing companies was performed twice – in 2011 and 2016. The responses of the executives allowed conclusions to be made about possible conflict of interest in pension fund management and measures taken by the companies and the State to minimize the risk. A survey of 507 pension fund participants was performed to obtain information on participants' attitude and expectations. Even though most of participants are dissatisfied with the pension fund performance results, they would not agree to allocate additional resources to hire more competent managers. To protect the interests of pension fund participants the stability of the pension accumulation system must be ensured. Also, it is important to promote mutual confidence of all interested parties, to provide participants with easily understandable information, reflecting real performance results.

Several authors have considered disclosure of costs by large and small pension fund managers and assigned positive economies of scale to large pension managers in view of the large fund under their custody (Xiaohong & Ronald, 2011 and Njeru, Murage & Fasomi, 2015). Some authors also developed framework for disclosure of financial information to fund beneficiaries (Bateman, 2001 and Rinaldi & Giacomel, 2008). This study however, focused on the extent of compliance with financial information disclosure guidelines issued by PENCOM and the effectiveness of channels of communication of the financial information to contributors as bearer of investment risk in contributory pension schemes.

3.0 RESEARCH METHODS

The study employed both primary data and secondary data to achieve the objective of the study. Primary data were gathered from the administration of questionnaire to four hundred (400) retirees under the contributory schemes. The population of the study were 21 PFAs licensed by PENCOM and 174,844 Retirees under the defined contributory pension scheme in Nigeria (PENCOM, 2016).

The sample size of 400 respondents was scientifically determined using the Yamane (1967) approach:

$$n = \frac{N}{1 + N(e)^2}$$

Where n= sample size required, N = number of people in the sample, e = allowable error at 5%

$$\text{Therefore } n = \frac{174{,}844}{1 + 174{,}844(0.05)2} = 400$$

Secondary data were gathered from the annual reports of eleven (11) pension fund administrators that were purposively selected based on the size of the fund under management and number of the contributors being managed. The 11 PFAs purposively selected have 70% of the total contributory pension fund in Nigeria under their management and 82% of the total number of contributors. Both the primary data and secondary data were analysed using descriptive statistics and content analysis of the annual reports of the pension fund administrators using the disclosure index constructed on basis of providing financial information to members of the contributory pension schemes, as one of the users of financial statements. Cooke (1989) and Gray, McSweeney, and Shaw (1984) outlined information needs of major users of financial information which may overlap and different from one group to another, nevertheless the contributors are the major user considered in this study.

The study adopted the Buzby (1975) and Stanga (1976) determination of disclosure index and formalised by Cooke (1989a, 1989b) as follows:

Disclosure index = Actual disclosure/Total possible disclosure

$$= \sum_{i=1}^{m} di \; / \; \sum_{i=1}^{n} di$$

Where d= 1 if the d_i is disclosed and 0 if item d_i is not disclosed, m = number of items disclosed and n= maximum number of disclosure items possible. The index is a ratio comparing actual level of disclosure and the possible level.

4. 0. RESULTS AND DISCUSSION

Content Analysis of RSA and Retiree Funds Annual Reports.

Pension fund administrators (PFAs) in Nigeria are expected to comply with PENCOM guidelines on disclosure of information on the performance of the pension fund asset portfolio to contributors. This information is expected to provide guidance to contributors on effective management of their pension fund. Table 1 presents the disclosure indexes of the PFAs which were obtained from the content analysis of the annual reports of RSA and Retiree funds for the year 2013.

Table 1: List of sampled PFAs showing disclosure indexes for 2013

Pension Fund Administrators (PFA)	Disclosure index
Stanbic IBTC Pension Managers	0.75
Trustfund	0.75
ARM	0.75
LeadwayPensure	0.75
Legacy	0.45
AIICO	0.50
NLPC	1.00
FUG Pensions	0.50
Sigma Pension	1.00
PAL	0.50
Premium Pensions	0.75

Table 1 shows the disclosure indexes of the sampled PFAs and the extent of their compliance with the disclosure requirements of PENCOM. Those with one (1.00) disclosure indexes have 100% compliance with the disclosure guidelines of PENCOM on relevant information that needs to be disclosed to members of the contributory schemes and those with less than one (1.00) record varying degrees of compliance. The extent of compliance by the PFAs is moderate as only NLPC and Sigma Pension are the pension managers that comply fully with the financial information disclosure requirements in 2013 while 9 of the PFAs could not fully disclose relevant information to contributors of defined contributory pension schemes.

Annual reports of RSA fund and Retiree fund were not timely published by the PFAs and hosted on their websites and this was connected to the reason for analysing the content of 2013 RSA and Retiree funds annual reports rather than 2015.

Analyses of Respondents' Responses in Administered Questionnaire

Table 2 presents the result of responses from the retirees on the extent of PFAs compliance with information disclosure requirements of PENCOM.

Table 2: Retirees' Responses on Extent of PFAs Compliance with the PENCOM Financial Information Disclosure Requirements.

S/N	Statement	Strongly Agree (%)	Agree (%)	Not Aware (%)	Disagree (%)	Strongly Disagree	Pooled Results	
							Mean	Standard Deviation
1	Contributors Retirement Savings Account (RSA) monthly/quarterly statements are received by e-mail or hand delivered mail consistently for the last 5 years.	79 (21.9)	165 (45.8)	25 (6.9)	68 (18.9)	23 (6.4)	3.58	1.203
2	Retirement Savings Account (RSA) Contributors receive notification of administration charges on their RSA accounts every month in the last one year.	36 (10.0)	101 (28.1)	93 (25.8)	108 (30.0)	22 (6.1)	3.06	1.107

3	RSA and Retiree contributors receive information on annual rate of returns on the Pension Funds of their chosen PFA every year consistently in the last five years.	55 (15.3)	109 (30.3)	100 (27.8)	72 (20.0)	24 (6.7)	3.28	1.144
4	Daily price per unit of my holdings in my chosen PFA is disclosed to me monthly and at the end of the year through my statement of account.	68 (18.9)	132 (36.7)	64 (17.8)	66 (18.3)	30 (8.3)	3.39	1.220
5	I am aware of daily valuation of my pension fund assets to reflect the daily current market price of my holdings.	45 (12.5)	83 (23.1)	149 (41.4)	56 (15.6)	27 (7.5)	3.18	1.076
Mean and Standard Deviation index							3.30	1.15

Highly considered mean>3.0

The Retirement Savings Account (RSA) statement of accounts were expected to be dispatched by the PFAs to their contributors monthly/quarterly either by hand or e-mail. Sixty -eight percent (68%) of the respondents agreed respectively that they received monthly statements of their contributions. Seven (7%) of the respondents were not aware of the receipt of monthly statement while twenty-five percent (25%) disagreed on the receipt of monthly statement of their Retirement Savings Accounts. The mean value of the receipt of monthly statement of accounts by contributors is 3.5 while the standard deviation is 1.203. This implies that significant number of the contributors receive their monthly/quarterly statement of accounts. To achieve a perfect mean, PFAs will need to step up statement delivery process through email as 77% of the contributors have functional email based on the data analysed on personal information of the respondents.

Administration charges and asset-based fees on monthly pension contributions have negative consequences on the post-employment benefits of the contributors in the long run as it will reduce the amount of benefits accruable to contributors at retirement hence these charges are expected to be disclosed to members in accordance to PENCOM guidelines to curb conflict of interest involved in the management of pension fund by the Pension Fund Administrators. Though thirty-eight percent (38%) of the respondents agreed that they get notification of these charges, thirty-six percent (36%) disagreed while twenty-six percent (26%) of the respondents were not aware of charges on their monthly pension contribution.

A review of the monthly statement of RSA accounts revealed that the actual investment management fees are not stated but rather stated as percentage of contributor's RSA account balance as follows: PFA (1.6% per annum), PFC (0.4% per annum), and PENCOM (0.25% per annum). Transparency in the charges taken by PFAs on contributors' personal pension account will enhance confidence in the contributory pension schemes.

The investment performance of the pension fund assets is expected to be disclosed to members in annual reports, websites and monthly bulletins of the PFAs. Members conversant with pension fund are aware that performance of the fund in respect of returns either increases or decreases their post-employment benefits. Hence, one area of interest is the annual rate of returns of their PFAs which are meant to be disclosed to members by the PFAs. The result of the field survey as depicted in Table 2 revealed that forty-five percent (45%) of the respondent agreed that they received information from the PFAs on the annual rate of returns consecutively for five (5) years while twenty-eight percent are not aware of rate of returns on their pension contributions. Besides, twenty-seven percent (27%) disagreed. The results are mixed and 28% of the respondents that were not aware of any returns on their monthly pension contribution agreed with the recommendations of Ojonugwa, Isaiah, and Longinus (2013) that enlightenment of the members of contributory pension schemes is a critical key to the success of the scheme.

PENCOM requirements that PFAs are expected to disclose their daily current price per unit of their members' holdings is to ensure that the appraisal of the performance of the PFAs could be measured in terms of growth in the Net Asset Value (NAV) per unit of the pension fund asset portfolios under the management of the PFAs. This is a relevant information to members on choosing a preferred PFA. The result of the field survey in Table 2 revealed that fifty-six percent (55%) agreed that their PFAs disclose information on daily price per unit of their holding to them. Eighteen percent (18%) of the respondents were not aware of this information while twenty-seven percent (27%) of the respondents disagreed.

The Daily price per unit of holdings of fund under management is like the daily share prices of quoted firms on the Nigeria Stock Exchange. 45% of the respondents expressed negative opinion about the disclosure of this information. Besides, thirty-six percent (36%) of the respondents agreed that they were aware of the daily valuation of the pension fund assets by their PFAs, forty-one percent

(41%) were not aware of daily valuation and twenty-four (24%) disagreed. The results revealed that majority of the contributors are not enlightening about the investment activities of their PFAs. The mean index on the extent of compliance with PENCOM guidelines on the disclosure of information by the PFAs is 3.30 while the standard deviation is 1.15. This means that the extent of compliance by the PFAs to financial information disclosure to members of the contributory pension scheme is moderate

Communication Channels of Disclosure of Information to Contributory pension schemes members.

PENCOM guidelines on the disclosure of financial information to members specified that annual reports of the PFAs should be published in two (2) widely read newspapers in Nigeria, be displayed in the branch offices of the PFAs across the States of the federation and hosted on the websites of the PFAs.

Table 3: Retirees' Responses on Communication Channels of Disclosure of Financial Information to Contributors.

S/N	Statement	Strongly Agree (%)	Agree (%)	Not Aware (%)	Disagree (%)	Strongly Disagree (%)	Pooled Result	
							Mean	Standard Deviation
1	Annual reports on the performance of pension RSA and Retiree fund are available and display in the branch office of my chosen PFA.	49 (13.6)	104 (28.9)	136 (37.8)	48 (13.3)	23 (6.4)	3.30	1.066
2	Audited annual reports of the PFAs and the RSA Fund including Retiree Fund are published in two widely circulated newspapers annually.	37 (10.3)	82 (22.8)	162 (45.0)	58(16.1)	20(5.6)	3.16	1.001
3	RSA Fund and Retiree Fund	55	99	128	55	23	3.30	1.099

	holders have access to the audited annual reports of the PFAs' RSA and Retiree Funds on their websites or through hard copies.	(15.3)	27.5)	(35.6)	(15.3)	(6.4)		
4	Annual rate of returns on the pension funds are hosted on the website of the PFAs including 3 years rolling average.	29 (8.1)	91 (25.3)	162 (45.0)	61 (16.9)	17 (4.7)	3.15	0.956
Mean and Standard deviation index							3.34	0.100

Source: Field Survey (2017)

Annual reports with relevant information to members of the contributory pension scheme are expected to be displayed in the branch offices of the PFAs throughout the country. Table 3 revealed that forty-three percent (43%) of the respondents agreed that annual reports of PFAs are available and display in the branch offices of the PFAs, while thirty-eight percent (38%) were not aware, nineteen percent (19%) disagreed. The results indicated that the display of the annual reports at branch offices of the PFAs is not achieving the intended purpose as 38% of the respondents were not aware of display of annual reports at the branch offices of the PFA and 19% disagreed to the display of such information to members.

Analysis of responses on communicating accounting information on financial/investment performance of the PFAs through publication of annual reports in two (2) widely circulated news paper annually as required by PENCOM guidelines reveals that thirty-three percent (33%) of the respondents agreed to the awareness of such publications. Besides, forty-five percent (45%) were not aware and twenty-two percent (22%) disagreed. Publication of annual reports in widely circulated newspapers is not meeting members' information need as majority of the respondents were not aware of such publications.

PFAs websites is another channel of communicating financial information to members of the contributory pension plans. The results of the analysis of the respondents revealed that majority of the respondents, 67%, were not aware of hosting of the annual reports on the websites and disagreed to the hosting. The three channels of communication of accounting information to members of contributory pension plans in Nigeria on the performance of the fund under management of the PFAs are not meeting members' information needs.

Although annual reports are used by several users, yet contributors to contributory pension schemes as principals of the PFAs in agency relationship should be given more considerations in the choice of channels of communicating financial information to meet their information needs and expectations. Besides, there is low financial literacy of the pension fund management activities by the contributors and this is consistent with the documented evidence of low financial literacy in developing countries in the study of (Miller, Godfrey, Levesque & Stark, 2009).

Table 4: Percentage Distribution of Retirees Respondents on their Satisfaction with the Present Level of Disclosure of Financial Information.

S/N	Statement	Strongly Agree (%)	Agree (%)	Undecided (%)	Disagree (%)	Strongly Disagree (%)	Pooled Result	
							Mean	Standard Deviation
1	I am satisfied with the level of PFAs financial reporting disclosures as all information about the performance of the pension fund is readily available.	52 (14.4)	132 (36.7)	3 (9.7)	98 (27.2)	44 (12.2)	3.14	1.300

Source: Field Survey (2017).

Table 4 shows the responses of the respondents on their level of satisfaction with the level of information disclosure by the PFAs. Fifty-one percent (51%) of the respondents agreed that they were satisfied, forty percent (40%) disagreed that they were satisfied and nine percent (9%) of the respondents were undecided. Though 51% of the respondents are satisfied with the level of information disclosures by the PFAs, yet 49% are taken to be dissatisfied. Pension fund financial information is potentially value-relevant to the fund participants (Cramer &Neyhart, 1980). The potential and existing contributors can use the financial performance information to make decisions on planning their retirement and preferred administrators. There is therefore the need for more disclosure of relevant information to the members of contributory pension plans by the (PFAs) through communication channels that would meet the need of the contributors.

5. 0. CONCLUSION AND RECOMMENDATION

Nine (9) out of the eleven (11) sampled Pension Fund Administrators are not achieving hundred percent (100%) compliance with the disclosure of financial information in compliance with PENCOM guidelines. The implication of this is that monitoring of compliance with financial information disclosure is weak. Besides, contributors displayed lack of knowledge of contributory pension schemes investment activities and risks. Finally, the channels of communicating financial information to the contributors are not meeting the information needs of the contributors.

Disclosure of financial information to contributors of defined contributory pension scheme in line with PENCOM financial disclosure guidelines should be enforced by PENCOM and Financial Reporting Council of Nigeria (FRCN) also PENCOM should mandate the PFA to include the annual rate of returns, 3-years rolling average rate of return, monthly Net Asset price per unit of RSA Fund, administration charges and investment management fees on RSA Fund, in the monthly statement of account to be dispatched to members on monthly, quarterly and annually basis as publication of annual reports in newspapers and on websites is not serving the purpose intended for contributors as a formidable group of users of pension fund financial information. Besides, last ten (10) years' annual reports of the PFAs including RSA and Retiree Fund annual reports to the most current financial year should be hosted on PFAs and PENCOM websites. This becomes necessary because some of the PFAs host their latest annual reports of one year only which does not allow comparative analysis of the financial performance of the operators in the industry.

Members' education on contributory pension schemes and investment management activities should be the prerogative of the PFAs. The PFAs should provide financial education to both old and newly acquired members for a period of two (2) years after acquisition of the members through monthly bulletin publications, seminars and workshops by the PFAs. The study further recommends that, the education authorities in Nigeria should ensure that pensions and investment courses are emphasise in the curriculum of undergraduate in all the Nigeria Universities and Polytechnics. This will prepare them to make future investment decisions about their post-employment benefits.

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