

Advisory Outlook



Micro Pensions: The New Frontier

Introduction

Governments around the world have historically been plagued with the challenge of providing financial and social support for the elderly. This has resulted in the introduction and implementation of various retirement benefit schemes which have evolved with various reforms into the global pension landscape as we know it today. Despite the success of some of these schemes, extending pension coverage to those who have worked in the informal sector has remained a herculean task. In Nigeria, coverage of pension in the informal sector is non-existent, however, the National Pension Commission is currently in the process of setting up an appropriate micro-pension structure.

What is the Informal Sector?

There is no universally accepted definition of the Informal Sector, however the International Labour Organisation (ILO) defines it to be "very small-scale units producing and distributing goods and services, and consisting largely of independent, self-employed producers in urban and rural areas of developing countries, some of which also employ family labour and/or few hired workers or apprentices; which operate with very little capital or none at all; which utilize a low level of technology and skills; which therefore operates at a low level of productivity; and which generally provides very low and irregular income and highly unstable employment to those who work in it".

The informal sector plays an important role in world economies as it creates jobs, boosts entrepreneurial activity, minimizes unemployment and underemployment, alleviates poverty and contributes to economic growth. The impact of the informal sector has been however constrained by its inaccessibility to a wide range of financial services such as micro-credit, micro-savings, micro-insurance, remittance products and micro-pensions. Moreover most informal sector workers have limited understanding and awareness of such financial services products and as a result pension coverage is usually limited to the formal labour market. Today, over 80% of the working population in Sub Saharan Africa are not covered by any pension arrangement due to general unemployment, low income, poor saving culture and pension arrangements which typically favor workers in the formal sector. This scenario becomes even more precarious when it is considered based on analysis that by 2050, the majority of retired/aged people in the world would be in Africa.

Nigeria has a large and fluid informal sector with over 59 million workers growing at a rate of 3% p.a. which makes up approximately 70% of Nigeria's total labour force while its contribution to GDP has been estimated to be 57.9% hinting at the earning power available. Nigeria has the right indices for a strong micro pension industry to thrive which include a well-developed financial services system with total assets of over N37.3 trillion, an internet and mobile penetration rate of approximately 81% - the highest in West Africa and mobile payments exceeding a total value of N381.4 billion in July 2016.

The Concept of Micro Pension

A micro pension scheme is a voluntary, defined contribution, individual account plan for the informal sector (or low income earners). It has no plan sponsor and allows for voluntary savings to be accumulated over a long period of time. Micro pension schemes are usually long term savings products or hybrids between pension schemes and savings products.

Informal sector workers do not formally retire as in the case of employees in the organized sector, however there is still a need for them to prepare for the reduction in earnings capacity that accompanies old age primarily as a result of decline in health. It is also crucial to provide a pension arrangement peculiar to their economic profile due to their low and irregular incomes.

Who should micro pension cover in Nigeria?

The informal sector in Nigeria covers three (3) key subgroups;

The semi-formal sector

The semi informal sector is primarily made up of Micro, Small and Medium Enterprises (MSME) with a steady flow of income. They are usually more financially informed than the other informal sector groups and belong to organized cooperatives and/or unions. They are mostly sole proprietors which employ more than 3 people mostly family members and/or lowly paid artisans. They would easily understand the concept of pension but may be unwilling to come under the formal contributory pension scheme or register their staff due to the cost implications. However, Employers in the informal sector which have more than 15 employees are mandated to comply with the provisions with the PRA 2014.

The organised informal sector

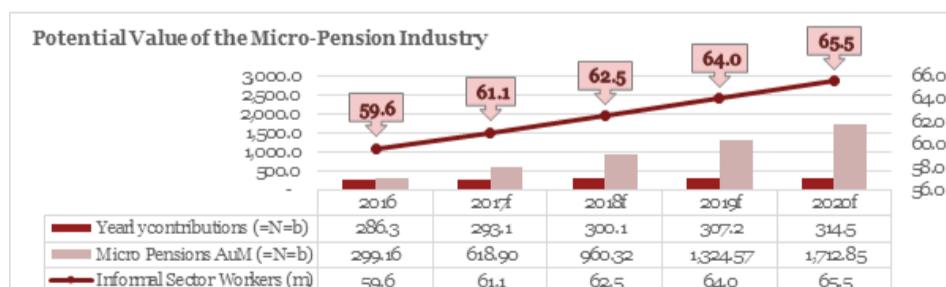
The organised informal sector just like the semi-informal belong to organised cooperatives and/or unions however they are mostly self-employed workers with relatively less stable flow of income compared to semi-informal sector workers. Their businesses generally have low start-up costs and sometimes short life-spans, however, they do require some specialist skills. These self-employed workers will understand the concept of pension but may procrastinate making contributions due to current income conditions.

The unorganised informal sector

The unorganised informal sector workers are characterised by very low and unstable income. They are generally employed by the other informal subgroups as well as the formal sector and mostly do not belong to organized cooperatives and/or unions. These workers are generally uneducated and will need sustained educational campaigns to understand the concept of pension, why it is necessary and significant handholding.

Potential Value of the Micro Pension Industry

If Nigeria's 59.6 million informal sector workers had put aside N100 weekly in 2016 as pension contributions which was invested by the pension industry at a real rate of returns of 4.5% p.a, Nigeria's micro-pension industry will be worth approximately N61.1 billion in real terms at the end of 2017 and grow to be about N1.7 trillion by 2020.



About the authors



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