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CONTENTS

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   RESULTS & DISCUSSION

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THE EFFECT OF PENSION FUNDS ON THE GROWTH OF NIGERIAN ECONOMY

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ABSTRACT

This work evaluates the effects of pension funds on the growth of Nigerian economy. Pension funds are ranked among the largest institutional investors in developed countries by assets under management. According to the Organization for Economic Cooperation and Development (OECD), pension funds assets in six of the non-emerging OECD countries amounted to $8.5 trillion in 2001. Thus the main thrust of this study is to analyze the role of pension funds as an institutional investor on emerging market for the period 1970-2010 using Nigeria as a case study. The data used in this study are time series. A stationary test was conducted to know their various levels of stationary (levels of integration). Ordinary Least Square (OLS) was later conducted based on the data derived after this test. This is because the data of the variables were stationary at both levels and at difference. During the cause of the estimation and analysis, it was discovered that the major determinants of real GDP is the physical capital of the economy. It therefore suggests that the federal government should aim at proving more capital which will increase the level of growth in the country. It was also discovered that there was an insignificant relationship between pension funds and economic growth. This could be attributed to the poor economic conditions, unstable financial sector, lack of commitments on the part of the government, high rate of corruption and lack of trust worthiness within the system which could be corrected if proper policies are put in place and been fully implemented. Investment portfolios of pension funds should also be diversified towards private and international instruments in order to reduce risk. Also, pension reforms should needs to be complemented with other reforms in the economy such as social security, labour market and financial sector in order to have an overall effect on the economy. Finally, policies should be formulated towards the integration of the defined benefits and defined contributions plan and work towards institutionalizing the multi-pillar system of the economy.

KEYWORDS
Effect, Pension Funds, Growth, Nigerian Economy.

1.0 INTRODUCTION

The term "pension funds" is a major component of retirement for individuals. They are long term investing institutions whose purpose is to accumulate assets, the income from and capital values of which are used to pay for the pensions of retired workers. Therefore, Pension funds can be categorised into defined-benefit and defined-contribution pension plan. A defined benefit pension plan promises to pay a retiree a specific income after retirement bases on final salary and the length of service, while a defined contribution pension plan does not promise any set benefit instead employees' benefit depends on the size of the contribution they made into the pension fund and returns earned on the investment.

Most developed economic system has three components of pension system which are: Firstly, state pension which aims at providing a basic retirement income for everyone and are financed from tax receipts. Pension which are financed from current revenues are referred to as Pay-As-You-Go pensions. Secondly, are the pensions arranged by the employers which are usually called occupational pension and maybe operated on a Pay-As-You-Go basis or may be funded. The funded scheme refers to the accumulation of investments which would be used to finance the pension and finally, pension funds which are financed on a voluntary basis.

In recent years, most advanced countries have experienced a rapid growth of pension funds as institutional investors, most especially pension reforms shifting the finance of retirement income from Pay-As-You-Go to funding. For all countries, the ongoing ageing of the population and financing difficulties of Pay-As-You-Go system suggest that pension reforms will become yet more common in the future leading to further growth in pension funds (Davis 2005)

The current global demographic shift towards an aging population greatly reflects a rising life expectancy and declining fertility which has led to many countries around the world to re-think about their pension system (Munnell 2004). The pension market in OECD countries has experienced a dramatic increase in pension assets. For instance, the UK pension assets were equivalent to 1156 billion in 1980 which was 21.5% of GDP, but increased to 1226.2 billion in 1980 which was about 85% of GDP (OECD 2003).

The major aim of this research is to address the impact of pension fund as an institutional investor in the financial development and trace the effect of such financial development on the economic growth and performance of Nigeria. To this end, the paper is structured into five major parts. Section one is the Introduction, section two which follows this introduction present, the literature review, section three discusses the methodology, while section four contains data presentation and analysis and section five presents the conclusion and some recommendations.

2.0 CONCEPTUAL FRAMEWORK

The growth of pension fund industry has a great implication for emerging market asset class. Considering asset under management, pension fund asset in the developed economies greatly exceeds the capitalization of external and domestic emerging markets. The domestic pension fund industry in the emerging market economies is rapidly becoming a major source of domestic financing and has the potentials to shape the future evolution of domestic markets.

According to Redhead (2008), he asserted that the most dominant form of institutional investment is the pension funds which are built up during the working life of the investor and can be used to finance an income during retirement .The Company in which the person works might operate it on their behalf. The company invests over time to build up a fund that is used to provide to provide a retirement income for its employee.

It is very essential to analyse the role and impact of pension funds as an institutional investment on the financial markets and the economy as a whole and also to determine whether policy actions can facilitate the improvement of cost and benefit balance.

Mixed reaction's about the sustainability of the pay-as-you-go systems has prompted government to search for alternative approach to providing retirement income rather than implementing temporary fixes such as increasing contribution rates, raising the retirement age, or cutting benefit levels. Chan-Lau (2004)

The pay-as-you-go system has been gradually replaced with the fully funded system so that retirement income would be fully financed by investing the pension plans members' contributions in financial assets. The fully funded system has been adopted to a great extent by developed countries like the United Kingdom and the United States than continental European countries.

Holzmann and Hinz (2005) opined that the financial market effect is of utmost importance given that a well developed and structured financial markets are a critical pillar of a market based economy because they facilitate and mobilize savings, allocate price risk, absorb external risk shocks which serves as a form of self insurance against volatile capital flows and also fosters good governance through market based incentives.

2.1 PENSION FUND AND ITS IMPACT ON FINANCIAL AND ECONOMIC GROWTH

This section focuses on how pension fund as an institutional investor may assist in financial and economic development. This relates to how pension fund may help improve the functioning of the financial system as well as its stability and efficiency.

Savings as been regarded as one of the keys that facilitates pension fund growth. It has been asserted that pension reforms can help accelerate the overall saving of the economy which in turns promotes economic growth by allowing higher rates of investment. Reisen and Bailliu (1997) in their studies used data from 11 countries between 1982-93 using both advanced countries and EMEs and observed that the reforms on personal saving is 8 times larger for EMEs which have more imperfect capital markets when compared to developed countries.

According to Estelle James (1996) who is the principle author of "Averting the Old Age Crisis" in his book argued that a major advantage of World Bank multi-pillar model is that national saving and personal saving could be boosted. Holzmann (1997) opined that any positive effect of pension fund growth on personal saving could be offset at the level of national saving by the impact on public finances of the costs involved in the transition to a privately funded system.

Cesaratto (2003) posed a question as to whether the growth of pension funds raises national saving, having the knowledge that governments need to finance their existing pension liabilities through debt and taxes. The public savings would decrease if the government tries to finance implicit pension debt by public debt issuance which may lead to the overall national saving to be unchanged or even fall. Schmidt-Hebbel (1999), according to his estimate, posits that 10% to 45% of the rise in Chile's national saving after the pension reform occurred could be attributed to pension reforms and the rest could be attributed to structural reforms.

Samwick (1999) in his work using a panel of countries observed that no countries except Chile witnessed an increase in gross national saving rates after pension reform towards non- PAYG system. According to Davis and Hu (2004), pension reforms which introduced elements of funding do have a have a positive impact on financial market development due to the fact that following such pension reforms, there is an improvement in the function of the financial markets.

Concentrating on emerging market economies (EMEs), pension funds can reduce the cost of capital through three channels. The first channel is that pension reforms would lead to more developed capital market which would make issuing securities cheaper. The second channel is allowing for short-term performance evaluation, the expected investment time horizon of pension is longer than that of individual and firms which in turns reduces the "term premium" (Davis and Steil 2001). Lastly, pension funds, pooling and professional management reduces equity risk premium. (Walker and Lefort 2002)

Impavido et al (2003) observed that a positive relationship exist between contractual saving assets and bond market capitalization/GDP. This suggests that a positive relationship between pension fund growth and financial development and financial development can be positively associated with economic growth. (Levine and Zervos 1998; Beck and Levine 2004) asserted that pension funds enhance economic growth through its impact on financial development.Hu (2005) showed in a panel error correction model growth that pension fund growth stimulates private bond finance, most especially in developing countries both in the short and long run.

Pension fund is also likely to accelerate qualitative developments in financial market which may further be beneficial to economic growth by promoting better resource allocation. One qualitative improvement is financial improvement, which EMEs may include equities per se, junior markets, securitisation, corporate bonds, CDs, derivative markets and indexed instrument. (Tsetsekos and Varangis 1997).

It has been said that pension fund has the tendency to improve corporate governance. Clark and Hebb (2003) identified four drivers which pension funds' corporate engagement which they see as for shadowing the so called "Fifth Stage of Capitalism". The first driver is the widespread use of indexation technique in the pension fund industry. The second driver is the increasing demand by owner for a more transparency and accountability. The third driver is the pension fund pressure to undertake socially responsible investing (SRI) and lastly, the pressure to humanize capital with social, moral and political objectives extend pension funds' simple concern for rate of return.

A survey carried out by Schleifer and Vishny (1997) shows that the development of equity markets and their dominance by pension funds would not just have an implication on corporate finance with lower debt equity ratios but also for corporate governance, thereby implying a greater degree of control by capital markets and pension funds.

There has been a well documentation of the positive impact of pension fund activism on corporate performance at the firm level but the empirical work was largely focused on the United States. Davis (2002) expressed dissatisfaction by arguing that complementary studies at the macro level are needed in the effects of governance initiatives from institutions may go wider than the target firm to the whole economy.

2.2 PENSION FUNDS IN EMERGING MARKETS

The United Kingdom and United States pension fund does not view emerging markets as a separate asset class or an alternative investment opportunity; instead they view emerging market asset class as one smaller subcomponent of all the continuum of traditional investment opportunities. Also pension funds in the United Kingdom who invest in emerging market fixed income securities use relative weight in global bond indices such as Citigroup's World Government Bond Index (WGBI), as an asset allocation guideline.

Low interest rate and dismal stock performance experienced in the European countries and the United States during the past few years has partly prompted the interest in emerging markets (Bloomberg 2003). The introduction of innovative investment vehicles such as principle protected notes and hybrid fixed income mandates have helped in facilitating investment opportunities in emerging markets. Collateralized Debt Obligation (CDOs) backed by emerging market securities have also enjoyed increased popularity recently (Humphries 2002)

It is been said that hedge funds also offer another investment vehicle for pension funds interested in increasing their exposure to emerging market. However there are some challenges to increase hedge fund allocations. The absence of transparency in hedge funds' investment strategies makes selecting a hedge fund difficult. Moreover, the size of most hedge funds is too small for the pension fund industries need (The Economist, July 3, 2003)

In Latin America and Eastern Europe, pay-as-you-go security systems are being gradually substituted by funded, defined-contribution pension system. Generally, pension funds systems is compulsory for young people entering the work force, and optional for workers already covered by the pay-as-you-go system. However, incentives have been provided by the government to help easily facilitate the transfer from the old system to the new system.

As a result of these reforms, there has been a rapid growth of pension under management in the pension fund industry. For instance, Chile pension assets grew to almost 60 percent of GDP in 2003 compared to the early 1980s. Also, Bolivia's pension assets now amounts to 30 percent of GDP after it introduced pension reforms six years ago.

Reisen (2000) opined that by removing the government from the savings for retirement process, pension reforms has contributed to increasing the saving rate, accelerating the growth of institutionally managed asset, and creating a strong domestic investor base which has helped improved the development of securities market. In Latin America and Eastern Europe, the growth of pension asset has outpaced the growth of securities market. This situation poses a significant challenge for pension funds that must deal with portfolio risk concentrated in a few corporate names and government securities.

2.3 PENSION FUNDS IN NIGERIA

The issue of pension funds in Nigeria has become one of the thorniest issues facing the country today with millions of retired Nigerian people living in abject poverty and are been neglected as a result of the country's pension system (Osakwe 2004).

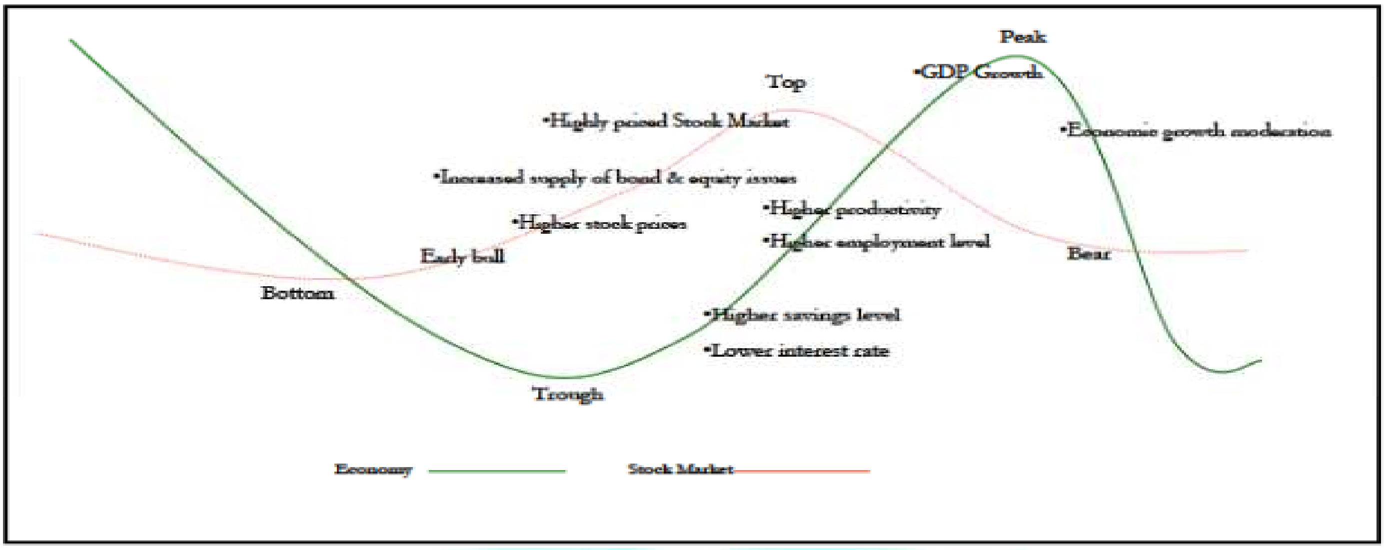
Due to the fact that the highest number of the labour force within the formal sector of the economy is been employed by the Federal Government of Nigeria, the government has increasingly witnessed challenges in meeting its obligations to its workers both serving and retired.

According to Ihonvbere (2004), who was the Special Adviser to the President on Policy and Programmes Monitoring, asserted that despite efforts being made by the Federal Government to mop the pension backlog, it still owes about =N=2 trillion (naira) to its workers. He also estimated the monthly pension bill of the Nigerian Railway to be at =N=250 million (naira) with a monthly wage bill of =N=210 million (naira).
In December 2005, the director-General of the newly established National Pension Commission estimated the Federal Government's pension liability at =N=2.56 trillion, out of which the retired federal ministry and parastatals workers where been owed =N= 2 trillion, while the accumulated pension arrears for military, police and paramilitary retirees was estimated at =N= 56 billion.
This has been the major reason why many pensioners for an unending queue at various designated centres, with the sole aim of collecting their pension payment which sometimes results to report of deaths on long queues which could be attributed to exhaustions and other related causes.

2.4 PENSION REFORMS AND ITS ROLE ON THE NIGERIAN ECONOMY

The pension reform has created a platform for the Nigerian Federal Government to realise other reform programs necessary to facilitate economic growth. Without long term funds, there would not be a significant development in the much needed sectors of the economy such as power, ports, education, telecommunication, social and infrastructural development as well as other sectors that require reforms in order to accelerate economic growth.
The main aim of the proposed pension reform is to improve the standard of living of workers after they retire from work. The effects of the reform will affect the economy gradually by increasing the liquidity when the contribution takes off. An increased level of liquidity gives financial institutions the ability to invest in long term investment in expectation of a higher return. Moreover, an increase in the rate of savings will lead to low interest which would boost organisations in the real sector of the economy as they would have access to cheaper rates and for a longer period of time.
As a result of compulsory savings into Retirement Saving Accounts (RSAs), long term funds would be generated which would be invested in compliance with the law and regulations issued by the commission.
In the short term, the regulation identified the necessity for rapid development of the capital market through creating quality investment outlets for various asset class to absorb these long term funds which is been accumulated for the first time in the history of Nigeria.
The medium term is concerned with the liberalization of the investment regime for pension fund assets in correlation with development in the local financial market. It is also expected that the reform would positively have an impact on the activities and performance of the bonds markets.

GRAPH 1



The above graph shows the medium term effect of pension reform on the Nigerian economy and capital market.
The importance of the emerging markets can only be imagined given the new savings which was accumulated in the 24 months to July 2006 of about =N=150 billion (approx USD1.2 billion) while existing occupational funds being transferred to the new scheme approximates =N= 600 billion (USD 4.6 billion).
In the 7th month of October, 1.4 million members have registered out of the targeted 6 million workers in the formal organized work sector of the economy. It has been estimated that the monthly contributions have been conservatively put at =N=6 billion. As a matter of fact, there is no doubt that in the nearest future, pension fund asset will no doubt represent a significant portion of the country's Gross Domestic Product and pension fund operators would become a major institutional investor which would have a great influence on the financial market and the economy as a whole.

3.0 METHODOLOGY

3.1 MODEL SPECIFICATION

Following the model adopted by Mankiw, Romer and Weil (1992), it is necessary to start from the early form of production function. This can be written as
$$Y = f(K, L) \quad (6)$$
The Cobb-Douglas production function is widely used in several economic literatures. Equation (6) can therefore be analyzed as
$$Q = AK^{\beta}L^{1-\beta} \quad (7)$$
Where Q is the output, A is the technology, K is the capital stock and L is the labour force in the economy. Generally, the production function of Cobb-Douglass as shown in equation (7) can be modified slightly so as to facilitate the analysis of the role of pension funds as an investor in the Nigerian economy. In other to achieve this, the inclusion of some control variables was estimated in the model. Roemer (1989) and Lucas (1988) argued that stock market as well as financial intermediation helps to improve economic growth by improving the productivity of investment and increasing the rate of investment. Atje and Jovanovic (1993) provided a model where financial markets have a greater effect on economic growth than financial intermediation by banks. This is because it was assumed that stock market is more able to develop venture capital than technical progress than the banks.
To examine the role of pension funds in the economic growth of Nigeria, this study uses physical capital, labour force and four control variables which can be viewed as important factors in the Nigerian economy during the analyzed period. Hence, this suggests that a general empirical model of pension funds on the economic growth of Nigeria from equation (7) can be put as
$$RGDP = f(L, K, PFA, INF) \quad (8)$$
Where:

RGDP	=	Real Gross Domestic Product
L	=	Labour Force
K:	=	Capital Stock
PFA	=	Pension Fund Asset
INF	=	Infrastructural Development

If we assume that the functional relationship represented by equation (8) above is a non-linear one, then we have:

$InGDP = \alpha_0 + \alpha_1 InL + \alpha_2 InK + \alpha_3 InPFA + \alpha_4 InINF + U_t$ (9)

The notation *In* denotes the natural logarithm of variables and U_t is the stochastic disturbance term.

The data used in this study are time series. A stationary test was conducted to know their various levels of stationary (levels of integration). Ordinary Least Square (OLS) was later conducted based on the data derived after this test. This is because the data of the variables were stationary at both levels and at difference. Therefore, the presentation and interpretation of results will be divided into major parts. Section 4.2 shows the stationary analysis.

This section estimates the relationship between pension funds and economic growth and finds out the impact of labour, capital and other control variable such as technological development which is proxied with the level of infrastructural development in the Nigerian economy from 1970-2010. To achieve this purpose, the model specified in the previous chapter was estimated using the Augmented Dickey-Fuller (ADF) to test for the unit root of the variables, the granger causality test and the OLS regression. The model estimated is given by.

$InGDP = \alpha_0 + \alpha_1 InL + \alpha_2 InK + \alpha_3 InP + \alpha_4 InIFR + U_t$ (10)

Where: $\alpha_1>0,\ \alpha_2>0,\ \alpha_3>0,\ \alpha_4>0$

However, stationary of time series can be checked by finding out if the time series contains a unit root. The Augmented Dickey Fuller was suitable for this purpose. However in practice, most economic time series data are non- stationary Gujarati (1995). To ascertain the validity of our estimation result, we first tested the underlying assumption of stationary of time series data.

4.0 DATA PRESENTATION AND ANALYSIS

TABLE 4.1: AUGUMENTED DICKEY FULLER RESULTS OF EQUATION ONE

Series	Augmented Dickey Fuller with constant	Augmented Dickey Fuller with constant and trends	Order of integration
InGDP	-0.861081	-1.460700	I(1)
InP	-3.098670**	6.471870*	I(0)
InL	-3.418831**	-2.971259	I(0)
InK	-0.784119	-1.591069	I(1)
InINF	-2.051853	-3.112691	I(1)

* and ** indicate significance at 1% and 5% levels respectively

As an introductory step to analyze the results of equation (1), it is important to differentiate between correlation that arises from a trend and the other associated with an underlying causal relationship. To achieve this, the series were tested for non stationary by using the ADF Dickey & Fuller (1981) unit root test with constant and deterministic trend. Table 4.1 shows the results of the estimated equation using the ADF unit root test. This was shown above.

In seeking to estimate the variables, we found the first difference of all the variables reflecting those which were stationary in levels I(0) and at order one I(1). The data thus generated was used in estimating our model. A summary of the results is featured in the tables in the next section.

4.1 RESULTS AND DISCUSSIONS

The result under this study shows the role of pension funds as an institutional investor on the Nigerian economy. The model specifications were estimated with relevant time series data for a period under this study. To analyze this objective, the ordinary least square estimate was used. This specifies economic growth as a function of labour, capital, pension funds and infrastructural development. The result is shown below in Table 4.2.

TABLE 4.2: ORDINARY LEAST SQUARE (OLS) ESTIMATION RESULT OF EQUATION 1

The Independent Variable is LOG (GDP)			
Explanatory Variables	Coefficients	Standard Error	T- Values (Probability)
Constant (C)	7.919486	0.120927	0.662508(0.5122)
LOG(L)	-0.326838	0.312617	-1.045489(0.3034)
LOG(K)	0.435226	0.046261	9.407987*(0.0000)
LOG(P)	0.014338	0.015487	0.925866(0.3612)
LOG(IFR)	0.080115	0.120927	0.662508(0.5122)
R^2	0.811393		
Adjusted R^2	0.788531		
F	35.49169		
D-W	1.311074		

* and ** indicates significance at 1% and 5% levels respectively

The regression result obtained in Table 4.2 shows the role of pension funds as an institutional investor on economic growth in Nigeria. In Table 4.2, it can be concluded that all the variables conforms to the predicted signs in the previous chapter except labour force of the country. The R^2 value of 0.811393 shows that the explanatory variables accounted for 81% systematic variation in GDP of the Nigerian economy over the period of 1970 – 2010.

The F-statistic, which is a diagnostic statistic, is a measure of overall significance of the regression equation. The estimated model indicates that F =35.49169, and the probability value of this statistic shows that the regression is significant at 1% level. It was also discovered from the table that the Durbin Watson statistic is also very low which means that the result has the problem of serial correlation. The implication of this problem is that the regression result cannot be relied upon for making any policy inference about the role of pension funds on economic growth in Nigeria. To eliminate the problem of autocorrelation, the Cochrane Orcutt method was adopted and the model was re-estimated. Table 4.3 below shows the final regression result obtained using the data for the period 1970-2010.

TABLE 4.3: ORDINARY LEAST SQUARE (OLS) RESULT OF EQUATION 2 USING COCHRANE ORCUTT ESTIMATION METHOD

The Independent Variable is LOG(GDP)			
Explanatory Variables	Coefficients	Standard Error	T- Values (Probability)
Constant (C)	7.440237	1.917275	3.880630*(0.0006)
LOG(L)	-0.307821	0.348810	-0.882490(0.3848)
LOG(K)	0.430276	0.062105	6.928194*(0.0000)
LOG(P)	0.003139	0.013933	0.225271(0.8233)
LOG(IFR)	0.120977	0.142705	0.847742(0.4035)
AR(1)	0.418340	0.185859	2.250842**(0.0321)
AR(2)	-0.176277	0.198412	-0.888439(0.3816)
R^2	0.831056		
Adjusted R^2	0.796102		
F	23.15120		
D-W	2.020571		

* and ** indicates significance at 1% and 5% levels respectively.

The table indicates that our regression is of a good fit with R-square of more than 83.1 percent. The Durbin Watson statistic of 2.020571 also revealed that the regression is free from the problem of autocorrelation.

After the correction has been made it is therefore necessary to analyze the impact of pension funds as an institutional investor on economic growth in Nigeria. We examine whether the coefficient of pension funds P and economic growth proxied by Gross Domestic Product GDP in Table 4.3 has the right sign and is statistically significant at the 5 percent level. It can be seen that there exist a positive relationship between pension funds and GDP in Nigeria but has not been significant in this study. However the result of this study supported that of Holzmann (1997) who found out that a positive relationship exist between pension funds and economic growth. This means that pension funds does not play a crucial role in the Nigerian economy. This conforms to the a priori expectation of a positive coefficient. Several studies have revealed similar result. The overall implication is that pension funds in the economy have a positive effect on the economy.

Technological development which is proxied by infrastructural development (IFR) has a positive and insignificant relationship to GDP. This result is expected to have a positive relationship with the dependent variable and has been so in this study. Also, infrastructural development does not affect the economic growth of the country. This is attributed to lack of implementation of macroeconomic policies and high level of corruption.

This regression result mirrors the fact that there is a positive and insignificant relationship between the labour force and economic growth in Nigeria. Increased labour force improves the quality of the total output of a country and promotes labour productivity, which is a vital factor for growth. This result conformed to the a priori expectations stated earlier.

Lastly, the level of physical capital in the economy has a positive and significant relationship to economic growth. This follows the expected sign and therefore conforming the predictions earlier made. It can be suggested that increase in physical capital leads to increase in growth in the economy.

5.0 CONCLUSION

For a country to attain the desired level of growth and development there is the need for adequate Labour force, physical capital, infrastructural development and pension funds policy which in turn, depends on the level of growth in the economy. The importance of the listed variables lies in the fact that it enhances greater rate of growth of real GDP.

Despite the fact that all the independent variables are essential for growth and development, the situation in Nigeria is such that the low level of labour force has led to negative real GDP growth and decline in per capital GDP and other unpleasant macroeconomic developments in the Nigerian economy. Recently, there has been the view that pension funds could be used to augment economic growth and therefore boost development. To empirically test this view, this study investigated the role of pension funds as an institutional investor and its impact on the economic growth in Nigeria. The study concluded that pension funds, though positively related to real gross domestic product was statistically insignificant. The study also revealed that the most important variable affecting the level of growth in the Nigerian economy is the physical capital of the economy.

6.0 RECOMMENDATIONS

It's going to take some few years before pension reforms can be fully implemented and achieved. Stemming from the findings of this study, some key policy issue arises. The recommended that the federal government should aim at proving more capital which will increase the level of growth in the country. It was also discovered that there was an insignificant relationship between pension funds and economic growth. This could be attributed to the poor economic conditions, unstable financial sector, lack of commitments on the part of the government, high rate of corruption and lack of trust worthiness within the system which could be corrected if proper policies are put in place and been fully implemented. Investment portfolios of pension funds should also be diversified towards private and international instruments in order to reduce risk. Also, pension reforms should needs to be complemented with other reforms in the economy such as social security, labour market and financial sector in order to have an overall effect on the economy. Finally, policies should be formulated towards the integration of the defined benefits and defined contributions plan and work towards institutionalizing the multi-pillar system of the economy.

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