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Inferences from the PENSION Remittance Data

What the pension data could be saying about employment in Nigeria

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Data Source

Data was downloaded from the website of National Pension Commission (PENCOM). Access to same data can be achieved following this route: visit www.pencom.gov.ng >> Compliance Certificates >> List of organisations issued compliance certificates >> List of organizations issued pension clearance certificates in 2024.

What is PENSION remittance all about?

The pension act of 2004 brought about compulsory contributory pension remittance by both employers of labour and their employees into an account referred to as the Retirement Savings Account (RSA). Since then, the law that brought about this contributory scheme has witnessed some reviews. Top reviews are:

- 8% of employee's monthly emolument (monthly total emolument is not expected to be lesser than a combination of basic salary, housing and transport allowance)
- 10% additional contribution from the employer of the employee using same explanation provided above
- Adherence is compulsory for employers of labour with a minimum of three (3) staff
- Introduction of the RSA Multi-Fund Structure

So, from the PENCOR report, the schema below paints a lagging picture of adherence



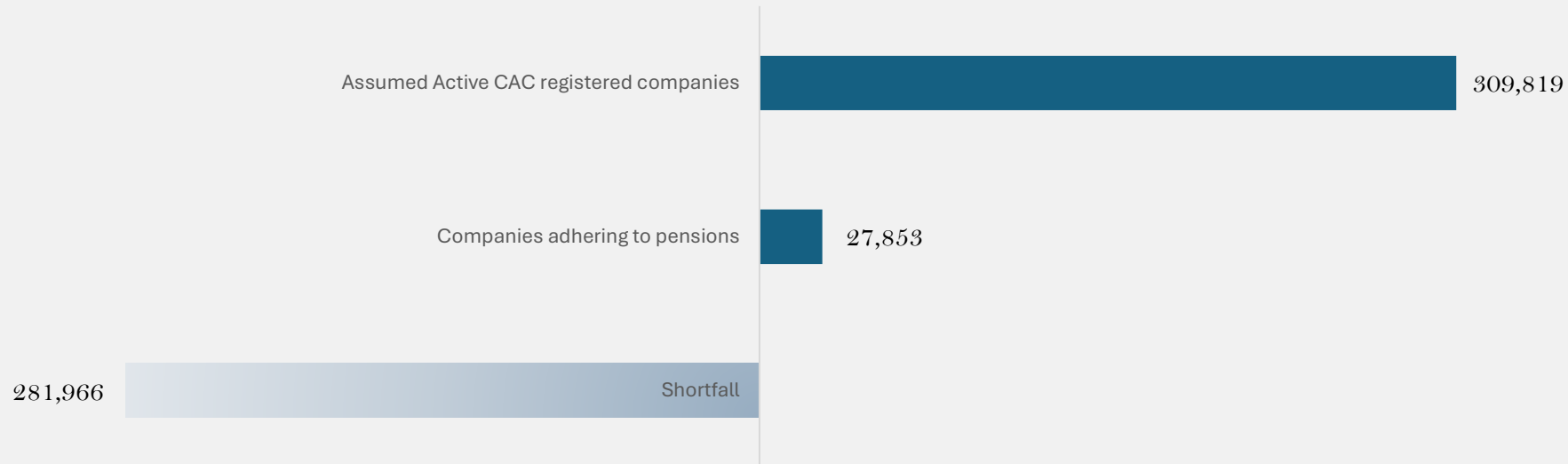
From a registered pool of over three million* entities with the Corporate Affairs Commission (CAC), it is safe to assume that only 0.01% are actively in business and have above 3 headcounts if we go by the assumption that companies that remit pension to PENCOR are the only active private companies in Nigeria. This would not be a fair assumption. As such, the following questions beg for answers:

Does it mean that we have fewer responsible business entities in Nigeria? Or is it a hyperbole that the Nigerian business space boast of large number of registered business entities that are not actively in business? Or is it that the average Nigerian business is registered to operate outside of the formal sector due to the absence of incentives to fully key into the formal sector?

*Premium Times | March 27, 2019

could it be that freelancing is more pronounced in Nigeria as against what we know?

With over 3 million registered entities, it should be safe to assume that 10% of these businesses are active. This presents a figure of 309,819. From this figure, 27,853 companies adhere to the provisions of pension in Nigeria. An outstanding of 281,966 companies are yet to key into the contributory pension scheme.



Can it be said that of these companies that are yet to key into the pension scheme, that they carry no headcount under the contract of service? Is it that they all engage less than three members of staff and as such are not expected to practice pension contribution? Or we have a large pool of Nigerians who work as freelancers/self-employment or contract for service; and as such pension does not arise? Or is it that a sizeable number of Nigerian workers are still not familiar with the whole concept of RSA? Or is it that the compulsory aspect of pension is not so compulsory in the scheme of things as it partakes to non-participating companies?

88% of companies remitting pensions employ between 2 & 3 headcounts

A total of 24,425 companies accounts for 20% of the individuals with retirement savings account. In remittance to the pension purse, these employers and their employees contribute a total of ₦3,816,490,655.80 being 3% of the total sum remitted. This data presents two scenarios which are either, these companies are not competitive in their pay or have decided as part of their compensation strategy to see to a higher monthly net take home for their staff by adjusting the weight distribution of the computation elements for pension.



From the chart above, of all the companies with headcounts ranging between 2-3, the lowest remittance is a far distance from the highest remittance of over a hundred million naira. 24,317 of these companies remit below a million naira. This shows that companies within this classification carries the most headcount but contributes the least to the pension fund. What implication does this present to the pension fund into the future without considerable improvement?

3 companies with a headcount of 3 personnel contributed over hundred million naira each to the fund.

Cumulative contribution from these three companies as presented in the table below sums up to ₦309,400,133.72.

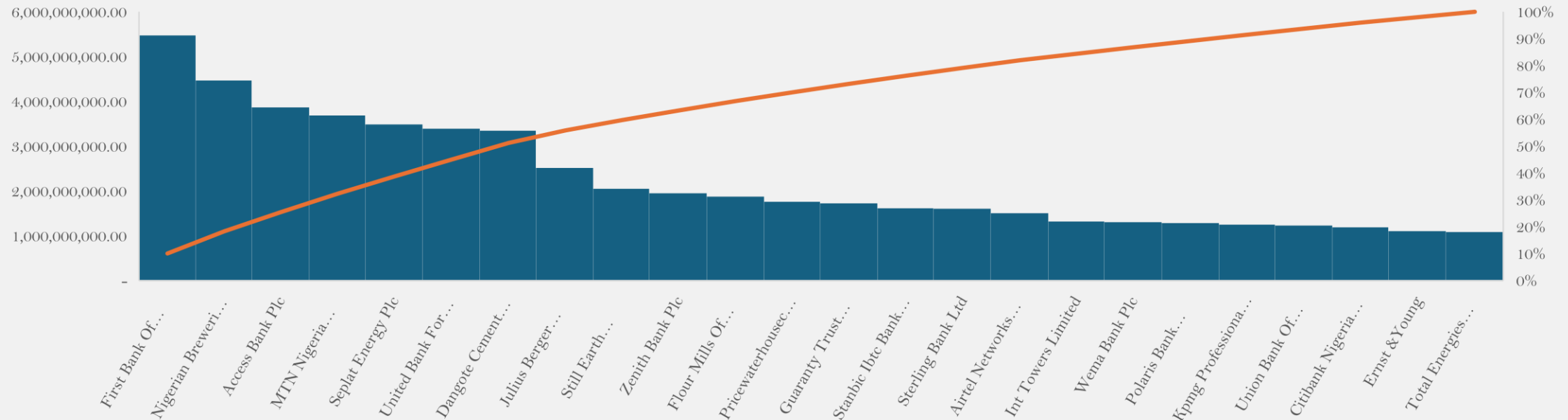
Companies	Headcount	Remittance
Aa Rano Nigeria Limited	3	₦101,299,684.04
Actis West Africa Income Manager Limited	3	₦103,515,272.19
Afrikdelta Marine Limited	3	₦104,585,177.49

However, from a desk review of these entities, it begs the question whether there was an error with the number of headcount reported for each of the three companies or bulk of the personnel of these companies are outsourced.

Regardless, with such remittance, it is a positive reflection on the compensation by the company to its employees. Working with an assumption of 40% being attributable to Basic, Housing and Transport, it can be concluded that the gross salary to these pool of nine employees from three companies amounts to ₦4,297,224,079.44.

Recommendation to entities where outsourcing of personnel is practiced, such entities should ensure that pension computation is a critical component of the pay structure, and such contributions are being remitted into the appropriate retirement saving accounts.

0.1% of the total companies adhering to the remittance of pension remit over a billion naira each.

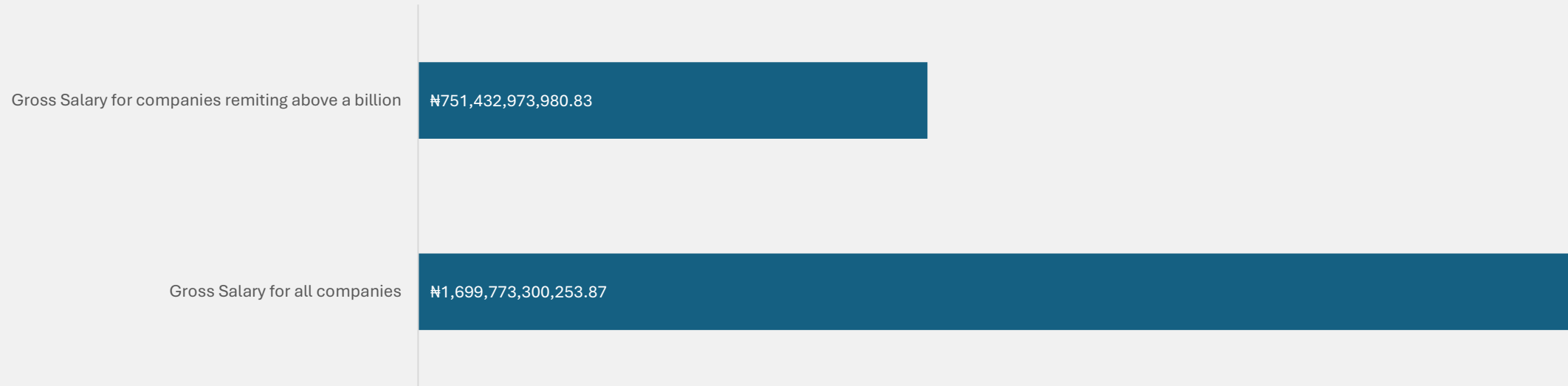


These 24 companies remit 44% of the total remittance of ₦122,383,677,618.25. These companies account for 22% of the 357,873 staff headcount of the 27,853 companies that have decided to participate in the pension scheme. Suffice to mention that these companies' continual existence as a going concern should be protected and encouraged for more growth.

11 of these companies are from the banking sector, 3 from telecommunications, 1 from building materials, 3 from professional services, 2 from FMCG, 2 from construction and 2 from oil & gas.

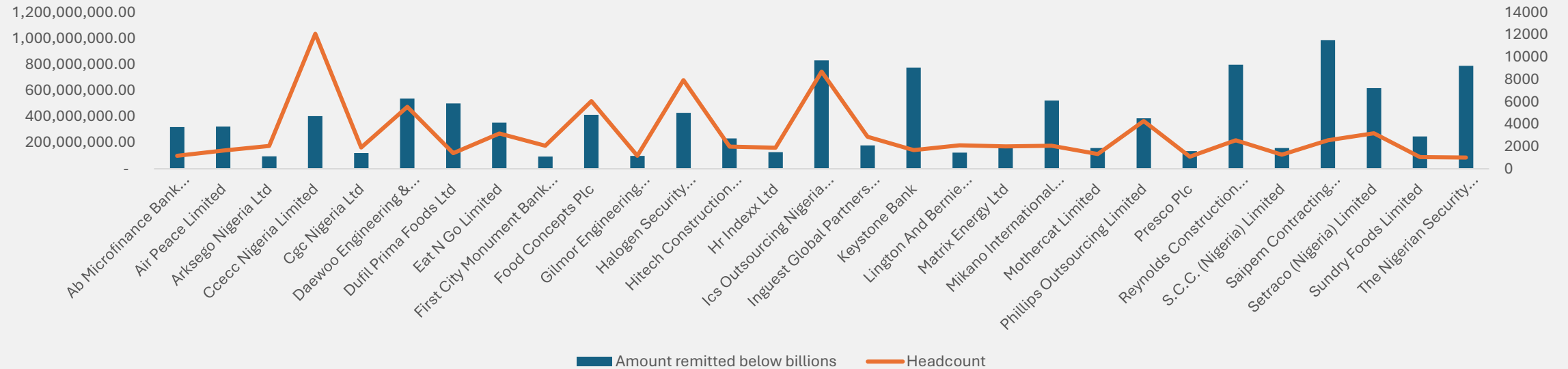
An outlier from this critical classification of companies is a construction company with a recorded headcount of 40 personnel in a group where the average headcount is over 3000.

In respect to the companies remitting over a billion, using the assumption of 40% of pay being BHT, a total of ₦751,432,973,980.83 can be said to be the gross wage bill.



The graph above further establishes the need for government to ensure ease of doing business through the provision of critical infrastructure that tends to take a large chunk of OPEX. With this sorted, business are more likely to pay more to their staff, expand operations and engage more hands. The highest employers among these classifications of companies are Dangote Cement and Julius Berger Nigeria while First Bank of Nigeria and Nigerian Breweries Plc remits the highest pension of over five billion and over four billion, respectively.

In the same light, 0.1% of the companies with over a thousand headcounts remit below a billion naira



This graph presents interesting scenarios. It can be maintained that some companies adopt a compensation strategy that ensures that members of staff take home a huge portion of their salary as against structuring pay such that a sizeable percentage goes into pension. It could also be the case that pay requires significant improvement for the sake of competitiveness. For the former, it is advisable that the demography and the talent strategy be considered in distributing the contributory portions of pay to pension computation. Is your workforce tilted more to a generation that is particular about their imminent retirement or those that are just starting their career and are more concerned about what money can get for them in the immediate?

Suffice to also mention that at 100% implementation of health cover for staff, 1,789,370 of Nigerians will enjoy one form of health insurance.

The current HMO practice is the staff, spouse and four children under the age of 18. For a fact, 100% of the 27,853 companies cannot be said to maintain HMO cover. However, with 100% of the companies remitting over a billion naira enrolling their staff with a Health Management Organisation, then 399,315 Nigerians will enjoy one form of health insurance. It is expected that with the eventual commencement of NHIA across the country, millions of Nigerians will enjoy basic health cover.

Questions to ponder

What is the average sum in the RSA accounts of employees working with the 27,853 companies analysed in this report? What is their chance of securing a decent mortgagee with 25% of the fund?

What percentage of active companies in Nigeria are yet to adhere to the contributory pension scheme? What percentage are deducting but not remitting? Is the figure likely to be higher than those currently remitting?

What are the incentives from government to businesses that have chosen to be a responsible corporate entity? Will this help bring more entities into the pension scheme?

Is PENCOM able to make use of PAYE tax remittance data to get more companies into the scheme?

Insights.

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