CHAPTER ONE

INTRODUCTION

1.1Background to the Study

Many countries around the globe including Nigeria have experienced rapid establishment and growth of pension funds. The growth of these institutions is one development that countries have given considerable attention because of the sensitivity of the transactions involved in pension funds. Pension funds act as an important stimulus to capital markets in most countries where they exist through financial intermediation. They tend to complement, and hence stimulate development of capital markets, while acting as substitutes for banks. Their growth is also the consequence of a number of non-financial and demand-side features (Davis, 2000).
The need for better managed pension funds in many countries was necessitated by the growing population which in many cases translated to high rate of employment around the world. Also, most countries are experiencing increasing longevity in life expectancy and reduced fertility rates that seem to threaten the sustainability of the traditional pay-as-you-go pension systems. The pension contributions from the working population will not be sufficient to support the elderly. In response, countries are increasingly shifting their pension systems toward partial or full funding. In addition to the main purpose of coping with demographic pressures and unsustainable fiscal positions, other motivations for countries to reform their pension systems often include the hope that funded pensions will contribute to economic development by promoting national savings and capital market development (Meng & Pfau, 2010).

It is only natural for the state to make provision for the welfare of the aged especially as they engage most of their active, useful and youthful stage in life to the service of the nation state. The need to cater for the well-being of retirees after disengagement from their occupations

informed the basis of a gradual contribution that are accumulated and provided in lump-sum to the retired so as to sustain life to the end. In this regards, government has imposed pension laws to assist employees and the economy at large. The dual contributions of the concerned parties which are made on monthly basis accumulates to a huge sum of money that can be invested for future use, fruitful yields and also the growth of the economy. Thus specialized professionals are engaged to manage these funds through specialized institutions that are basically concerned with retirement related savings.

Pension funds perform diverse activities that are beneficial to both individuals and the economy at large. For instance, the funds induce capital and financial market development through their substituting and complementary roles with other financial institutions, specifically commercial and investment banks. As competing intermediaries for household savings and corporate financing (Impavido, Musalem, & Tressel, 2002), pension funds foster competition and may improve the efficiency of the loan and primary securities markets. This results in a lower spread between lending rates and deposit rates, and lower costs to access capital markets. On the other hand, Davis (2005) argues that pension funds may complement banks by purchasing long-term debt securities or investing in long-term bank deposits. Other potential impacts from the growth of pension funds include an inducement toward financial innovation, improvement in financial regulations and corporate governance, modernization in the infrastructure of securities markets, and an overall improvement in financial market efficiency and transparency (Davis, 2005). Such impacts should ultimately spur higher long-term economic growth.

EFFECT OF FIRM CHARACTERISTICS ON THE FINANCIAL PERFORMANCE OF PENSION FUNDS ADMINISTRATORS IN NIGERIA

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