

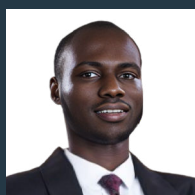
Pension Revolution 2.0: Securing Nigeria's Financial Future

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Introduction

A fundamental concern for most people after years of hard work is the fear of outliving their savings. A pension addresses this by providing a structured way to save during working years, ensuring financial



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support when employment earnings cease.

The importance of a robust pension system in Nigeria cannot be overstated. It provides crucial financial

security to retirees, significantly reduces the risk of poverty among the elderly, and, by extension, promotes overall economic growth and stability.

Historical Overview: The Path to Reform

Nigeria's pension system has evolved significantly since the Pension Ordinance of 1951 (retroactive to 1946). The major turning point, however, came with the Pension Reform Act (PRA) of 2004.



The Pre-2004 Crisis

Before the PRA 2004, the system was plagued by severe challenges. The Public Service relied on an unfunded Defined Benefits Scheme (a "pay-as-you-go" model) that was dependent on unreliable government budgets.

- » **Public Sector Failure:** The scheme was highly susceptible to budget cuts, resulting in insufficient and delayed disbursements. By 2003, pension liabilities to public sector retirees had increased ballooned to over ₦2 trillion—an amount exceeding the entire national budget for that year. This led to the heartbreaking scenes of elderly individuals enduring long queues, often for months, to access their entitlements.
- » **Private Sector Shortcomings:** The private sector also faced significant challenges, as many employees were not enrolled in pension schemes, and a large number of existing schemes were either unfunded or weakened by widespread mismanagement and malpractice.



The 2004 and 2014 Reforms

The crisis prompted the Federal Government under President Olusegun Obasanjo to initiate a comprehensive reform.

- » **Pension Reform Act (PRA) of 2004:** This landmark legislation repealed earlier laws and introduced the Contributory Pension Scheme (CPS). This required mandatory contributions from both employers and employees into individual Retirement Savings Accounts (RSAs). It also established key institutions, such as, the National Pension Commission (PenCom), Pension Fund Administrators (PFAs), and Pension Fund Custodians (PFCs).
- » **Pension Reform Act (PRA) of 2014:** A decade later, a second major reform was built on the CPS foundation. The PRA 2014 broadened the scheme's scope, raised the minimum contribution rates (to at least 8% for employees and 10% for employers), and strengthened PenCom's supervisory powers. Despite the progress, certain challenges, from slow inclusion in the informal sector to fluctuating service quality, persisted. These lingering issues highlighted the need for a further, more aggressive overhaul.

Pension Revolution 2.0: The Vision



To address these lingering challenges, PenCom has introduced Pension Revolution 2.0, a new wave of reforms designed to strengthen governance, expand inclusion, and secure the financial future of Nigerian retirees.

Regarded as the most significant development since the 2004 reforms, this initiative promises dignity for retirees, greater inclusiveness for all Nigerian workers, and strengthened resilience for the national economy.

Objectives of the Reform

The reform represents a bold step forward, focusing on:

- 1. Dignity for Retirees:** Ensuring a comfortable retirement through health insurance and a minimum pension floor.
- 2. Optimised Investment:** Delivering sustainable long-term returns while safeguarding contributors’ funds.
- 3. Expanded Inclusion:** Reaching every Nigerian, particularly those in the vast informal economy.
- 4. Technological Leap:** Harnessing innovation to democratise access and improve service delivery.
- 5. National Development:** Unlocking pension assets as a dependable source of financing for critical infrastructure and economic growth.

Key Pillars of the Reform

01

Strengthening Operators’ Resilience (Minimum Capital Requirements)

PenCom’s new guidelines, issued on September 26, 2025, revise the minimum capital requirements for PFAs and PFCs. This review aligns Nigeria’s pension sector with global best practices by linking capital requirements to the assets managed, ensuring operators have capital proportional to their risk exposure.

Operator Category	New Capital Threshold	Key Change	Expected Impact
PFAs (Category B)	₦20 billion	Increased from ₦5 billion.	Strengthens financial stability and service capacity.
PFAs (Category A)	₦20bn + 1% of (AUM – ₦500bn)	Tiered requirement based on Assets Under Management (AUM).	Ensures capital adequacy is proportionate to risk exposure.
PFCs	₦25 billion + 0.1% of Assets Under Custody (AUC)	Increased from the 2004 threshold of ₦2 billion.	Reinforces the security of custodian institutions.

Operators now have 15 months, until December 31, 2026, to comply with these new thresholds, a move expected to strengthen the sector’s resilience against macroeconomic shocks. PenCom will then conduct biennial reviews of operators’ capital adequacy, with any shortfalls to be corrected within 90 days.

02 Optimising Investment Performance
With pension funds exceeding ₦22.86 trillion as of early 2025, the reform aims to enhance returns while prioritising risk management and contributor safety. The revised Regulation on the Investment of Pension Fund Assets introduces key updates to diversify portfolios and support national economic growth.

Investment Area	Pre-2025 Framework	Revised Regulation (2025)
Asset Diversity	Focus on traditional bonds and equities	Added Foreign/foreign-currency denominated instruments (Eurobonds, Global Depository Receipts), Commodity-Backed Instruments (gold receipts), and expanded non-interest compliant instruments (Sukuk).
Infrastructure/ Real Estate	Tighter limits and requirements	Higher thresholds and clearer rules for investments in Infrastructure Bonds/Sukuk and REITs (Real Estate Investment Trusts).
Risk Management	Limited explicit tools	Explicitly permitted Exchange-Traded Derivatives (for hedging) and introduced a formal framework for Securities Lending and Repurchase Agreements (Repos).
Regulatory Compliance	General CBN/SEC rules	Specific requirements for government securities will be determined as defined by CBN and SEC regulations.

The new rules prioritise a more diversified, risk-adjusted portfolio, aiming to deliver sustainable returns that better outpace inflation.

03 Expanding Inclusion (Personal Pension Plan & FCY Contributions)
→ **Personal Pension Plan (PPP)**
The new Personal Pension Plan (PPP) replaces the previous Micro Pension Plan (MPP), creating a more flexible structure to bring the informal sector, self-employed, and voluntary contributors under the pension net.

Reform Area	MPP (Old)	PPP (New)	Expected Impact
Scope	Targeted mainly at the informal sector.	Expands to include formal sector employees making Voluntary Contributions (VCs).	Integrates VCs into the more flexible PPP structure.

Liquidity Split	Varies, often less flexible.	50% Contingent Account (short-term withdrawal) and 50% Retirement Account (preserved).	Balances savings discipline with contributors' need for short-term liquidity (withdrawals up to twice per quarter).
Investment Options	Single or limited fund options.	Choice between Fund 5A (Conservative) and Fund 5B (Growth).	Empowers contributors with informed investment choices.



Foreign Currency (FCY) Pension Contributions

This landmark policy expands the CPS to include Nigerians earning or living abroad and those paid in foreign currency.

- » **Eligibility:** Nigerians working abroad and eligible workers in Nigeria earning in foreign currency.
- » **Currency:** Contributions must be made in USD.
- » **Fund Access:** Contributions are split: 60% is a contingent portion available for interim withdrawal, while 40% is reserved for withdrawal only upon retirement as a pension.
- » **Fund Management:** Establishment of Foreign Currency Dollar Fund (FCDF) as a dedicated portfolio.
- » **AML/CFT Reporting:** The policy introduces specific NFIU reporting for foreign currency (FCY) contributions above US\$10,000.

These inclusion reforms use flexibility (PPP’s liquidity split) and global connectivity (FCY funds) to attract a wider pool of contributors, especially the diaspora.



Enhancing Governance and Protection

The Revised Guideline on Corporate Governance for Licensed Pension Fund Operators (LPFOs) introduces far-reaching reforms to promote transparency, accountability, and ethical leadership across the industry.

Governance Change	Key Pillar	Detail
Board Structure	Independence & Diversity	Mandatory minimum of 30% independent directors or three Independent Non-Executive Directors (INEDs), whichever is higher.

Tenure Limits	Preventing Dominance	MD/CEO and Executive Directors limited to 10 years; Non-Executive Directors to 15 years.
Mandatory Committees	Robust Oversight	Requires four key committees (Audit, Risk, Nomination, and Investment Strategy), each chaired by an Independent Director.
Strengthened Controls	Dual Accountability	Compliance Officer now reports to both the Managing Director and PenCom. Internal audit functions can no longer be outsourced.
Appointments	Fit and Proper	Stricter criteria for Board/Senior Management, including checks for professional misconduct, bankruptcy, or involvement in Anti-Money Laundering (AML) or terrorist financing activities.
Protection	Stakeholder Safety	Compulsory whistleblowing mechanism to protect employees and stakeholders who report misconduct.

By embedding stricter governance rules, PenCom is ensuring the integrity, competence, and accountability of the individuals entrusted with managing contributors' lifetime savings.

05

Dignity in Retirement

The reform introduces two critical safeguards to address the financial vulnerability of retirees:

- » **Health Insurance Benefits:** In line with President Tinubu's directive, PenCom will pilot free health insurance coverage for low-income retirees. This crucial step aims to reduce out-of-pocket expenses, which often consume 20-30% of a retiree's pension, thus preventing medical costs from causing poverty.
- » **Minimum Pension Guarantee:** The reform seeks to guarantee a minimum level of retirement income for those under the CPS, safeguarding them from falling below the poverty line. This directly addresses the concerns raised by retirees who, in some heartbreaking cases, were receiving as little as ₦20,000 monthly.

06

Appointments to Board and Senior Management

The revised guidelines outline stringent eligibility and procedural requirements for LPFO appointments, ensuring that only individuals of proven competence and character oversee pension assets.

- » **General Criteria:** Nominees must pass a "Fit and Proper Persons' Due Diligence" check by relevant agencies. Individuals with records of bankruptcy, fraud, professional misconduct, or involvement in Anti-Money Laundering (AML) or terrorist financing are deemed unsuitable.
- » **Conflict of Interest:** To prevent dominance, no more than two members of the same family are permitted to serve on an LPFO's Board simultaneously. Furthermore, no two family members can concurrently hold the positions of MD/CEO, Board Chairman, or Executive Director.
- » **Investment Expertise:** The Head of the Investment Department must have a minimum of ten years of relevant experience and demonstrable experience managing a portfolio valued between ₦50 billion and ₦100 billion.
- » **Vacancies and Redeployment:** LPFOs must notify PenCom at least two months prior to the exit of an MD/CEO, ED, or HOD. Redeployment of the Compliance Officer or Head of Investment Department requires prior approval from the Commission.

07

Securities Lending and Repurchase Transactions (Repos)

PenCom has issued a new circular outlining the framework for Securities Lending and Repurchase (Repo) Transactions by PFAs. This move aims to enhance portfolio returns and market stability under a standardised, risk-controlled framework.

- » **Permissible Transactions:** PFAs can use high-quality, liquid instruments like FGN Bonds, Treasury Bills, Supranational Bonds, and SEC-listed Equities. Repos must be backed by highly liquid, investment-grade government or supranational securities.
- » **Risk Mitigation:** Participation is limited to licensed, investment-grade banks, clearing houses, and central counterparties. Aggregate exposure to a single counterparty cannot exceed 25% of total lending exposure.
- » **Collateral Requirements:** Collateral must be marked-to-market daily, segregated by the PFC, and be free of encumbrances. Equities are explicitly prohibited as collateral for pension fund repo transactions.
- » **Oversight and Reporting:** PFAs are restricted from lending more than 30% of their holdings in any single security. They must submit quarterly reports to PenCom detailing all transactions, exposure limits, and income earned. Revenue accrues to the pension fund, net of agent fees.

Conclusion

Pension Revolution 2.0 marks a turning point in Nigeria's pension landscape. By embedding stronger governance, promoting financial inclusion, and enabling innovation in investment, the reform positions Nigeria's pension industry for sustainable growth. However, effective implementation, continuous supervision, and collaboration among all stakeholders, from PFAs and PFCs to retirees and the informal sector, will be critical to realising its full potential. The ultimate goal is to ensure a secure and dignified retirement for every Nigerian.

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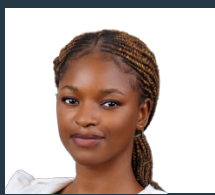
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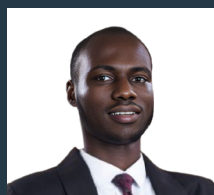
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