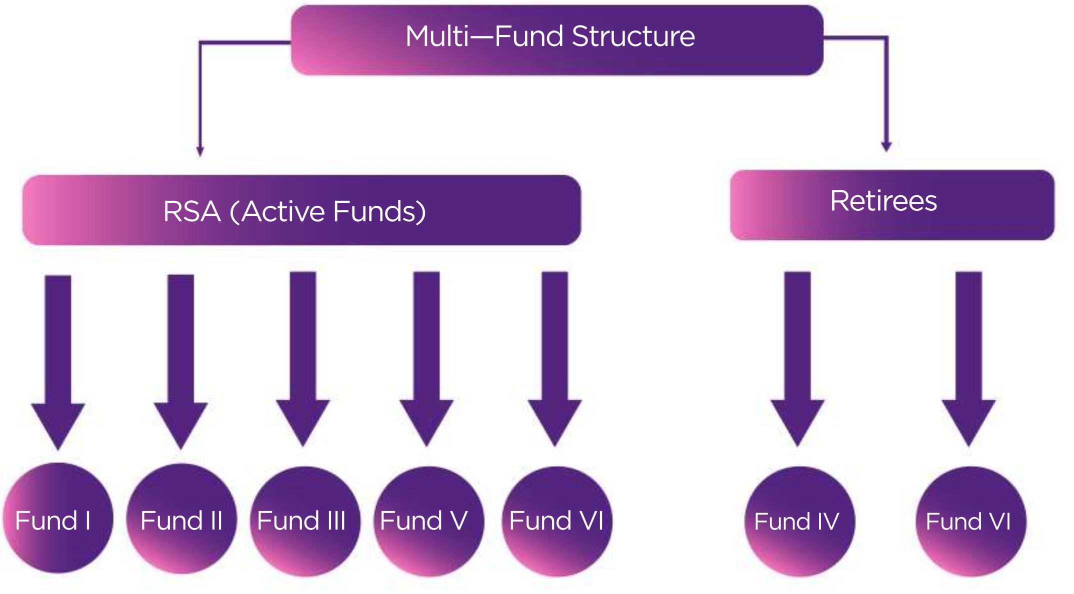
PENSIONS

The Multi-Fund Structure in Nigeria's Pension Industry: Enhancing Retirement Security Through Diversified Investment



Introduction

Since the introduction of the **Contributory Pension Scheme (CPS)** in 2004, Nigeria's pension landscape has undergone significant transformation aimed at enhancing the security, transparency, and performance of retirement savings. A major innovation under this scheme was the introduction of the Multi-Fund Structure by the **National Pension Commission (PenCom)** in 2018.

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The Multi-Fund Structure is a framework within the Contributory Pension Scheme (CPS) that categorizes Retirement Savings Account (RSA) funds into different investment funds based on the contributor's age and risk tolerance. Its goal is to align each contributor's investment strategy with their risk profile, thereby enhancing returns, promoting long-term sustainability, and improving retirement security through diversified investment portfolios.

This edition of our newsletter explores the rationale, structure, benefits, and prospects of the Multi-Fund Structure in Nigeria's pension system, highlighting its role in deepening financial inclusion and enhancing pension fund performance.

Rationale and Background

Before the Multi-Fund Structure, all Retirement Savings Account (RSA) holders' funds were pooled into a single investment portfolio, irrespective of age, investment horizon, or risk tolerance. This one-size-fits-all model failed to optimize returns or manage risks appropriately. For instance, younger contributors, who have a longer time to retirement, were not allowed to invest in higher-risk, higher-return assets, while older contributors were exposed to potentially risky assets despite needing more capital preservation.

PenCom introduced the Multi-Fund Structure through a regulatory amendment to provide a more nuanced and efficient pension management system. The reform aimed to offer age- and risk-appropriate investment options, maximize long-term returns for younger contributors, and safeguard the savings of those closer to retirement or already retired.

Structure of the Multi-Fund System

The Multi-Fund Structure segments RSA contributions into **six distinct fund categories,** each with defined asset allocation parameters and target demographics:

Fund	Target Group	Risk Profile	Equity Exposure Cap
Fund I	Voluntary/By election for Contributors < 50 years	Aggressive	Up to 75%
Fund II	Default for Contributors < 50 years	Moderate	Up to 55%
Fund III	Default for Contributors ≥ 50 years	Conservative	Up to 20%
Fund IV	Retirees	Low Risk, Capital Preservation	Up to 10%
Fund V	Personal Pension Plan Participants (Informal Sector)	Moderate	Varies
Fund VI	Non-Interest (Islamic-Compliant) Contributors	Ethical Investing	Sharia-Compliant Assets

These distinctions allow Pension Fund Administrators (PFAs) to manage risk more effectively and offer investment options that align with contributors' life stages and beliefs.

According to the National Pension Commission, these are some of the rules for switching from one Fund to another:

- Members of Fund II (49 years and below) are allowed to move to Fund I, based on a formal application. Members of Fund II who are not 50 years old shall not be allowed to move to Fund III.
- Members of Fund III (50 years and above) shall not be allowed to move to Fund I. However, members of Fund III can move to Fund II, if they so wish.
- Members of Fund IV are not allowed to move out of the Fund.
- A contributor may migrate from one fund to another a maximum of twice in a calendar year. The first transfer in a calendar year shall be at no cost to the contributor, while any subsequent transfer in the same calendar year shall be at a flat rate of ₦1,000.00.

Benefits of the Multi-Fund Structure

Even though many contributors remain unaware of their fund type or the option to switch, the multi-fund structure offers the following benefits:

- **Tailored Risk Management** - The structure ensures younger contributors benefit from long-term equity growth while older contributors enjoy capital protection. This age-based investment strategy is key to long-term pension sustainability.

- **Enhanced Returns** - Funds I and II, with their higher equity exposure, have consistently outperformed more conservative portfolios in terms of long-term returns, offering younger contributors improved retirement prospects.

- **Flexibility and Autonomy** - Contributors can request to move between fund types once a year (e.g., from Fund II to Fund I or vice versa), allowing for more active retirement planning based on individual risk preferences.

- **Financial Inclusion** - The introduction of Fund V (for informal sector workers) and Fund VI (Sharia-compliant) extends pension benefits to previously excluded groups, promoting wider participation in the pension system. Capital Market Development - The Multi-Fund model supports broader economic growth by directing pension investments into equities, bonds, and infrastructure, thus deepening Nigeria's capital markets.

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To fully realize the potential of the Multi-Fund Structure, FCMB Pensions has adopted the following steps:

- FCMB Pensions has fully deployed user-friendly platforms for contributors to monitor fund performance and switch funds easily. These platforms include our mobile applications, client portals, websites, live chats, etc.

- Conducts targeted awareness campaigns/programs on the multi-fund structure targeting RSA holders across different sectors of the economy.
- Ensures the growth of each fund, leveraging expertise in research and investment management

Conclusion

The Multi-Fund Structure is a landmark reform in Nigeria's pension industry. By offering differentiated investment strategies based on contributors' age and preferences, it enhances risk management, promotes inclusivity, and improves the overall performance of pension assets. Though challenges persist, FCMB Pensions Limited believes that with continuous policy refinement, stakeholder collaboration, and increased public engagement, the structure holds great promise for strengthening Nigeria's retirement security framework.

FCMB Pensions Limited is a duly licensed Pension Fund Administrator (PFA) by the National Pension Commission (PenCom) and has fully implemented the Multi-Fund Structure to enhance investment returns and more effectively manage contributors' risk exposure. In addition to a broad range of pension-related services, the company remains fully aligned with PenCom's strategic objectives in this regard. For further information or clarification on this initiative or any of our product offerings, please feel free to contact us via any of our service channels or visit **www.fcmbpensions.com**.