

Equity Investment Restrictions and Pension Replacement Rates in Nigeria: A Ruin-Risk Analysis

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Abstract : Pension funds are pooled assets which are established to provide income for retirees. The funds are usually regulated to check excessive risk taking by fund managers. In Nigeria, the current defined contribution (DC) pension scheme appears to contain some overly stringent restrictions which might be hampering its successful implementation. Notable among these restrictions is the 25 percent maximum limit on investment in ordinary shares of quoted companies. This paper examines the extent to which these restrictions affect pension replacement rates at retirement. The study made use of both simulated and historical asset return distributions using mean-variance, regression analysis and ruin-risk analyses, the study found that the current equity investment restriction policy in Nigeria reduces replacement rates at retirement.

Keywords : equity investment, replacement rates, restrictions, ruin-risk

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