August 2024, ACRR Publication Number 24 – 2

SSNIT Scheme's Financing at a 'Critical Juncture', a Cry from Within…

In November 2021, the Africa Center for Retirement Research (ACRR), after a review of the 2014 and 2017 Actuarial Valuation Reports, engaged stakeholders including the media on the dangers facing the medium to long-term financial sustainability of the SSNIT Scheme. The aim was to communicate to the stakeholders, the financial and actuarial status of the Basic National Social Security Scheme (SSNIT), as well as guide the public debate, and to show the urgency needed to restore the financing deficit of the Scheme.

The Director-General of the Trust at the time, Dr. John Ofori-Tenkorang, did not take a technical view of the publication, and chose politics over the financial well-being of over 1.9 million Ghanaian workers and more than 250 thousand pensioners and their families. The Trust rather issued a rejoinder that the scheme was financially sound and no help was needed. The period after was characterized by administrative actions that showed little commitment to addressing the deteriorating health of the scheme, as evident in the scheme's assessment indicators from 2021 to 2023.

In April 2024, JoyNews Media Channel analyzed and reported the most recently released ILO Actuarial Valuation of the Scheme covering the Trust's transactions from 2018 to 2020. Specifically, the actuarial opinion was not different from the judgments in 2014 and 2017 actuarial reports – the scheme was not financially sustainable, and reserves were set for depletion in 12 years. To the layman, the scheme is unable to pay benefits fully and on time by 2036. The basis of the stated opinion included high government indebtedness, declining worker-pensioner ratio (high retirement rates against slow growth in contributors' population), not-good investment outcomes, and cost of benefits outgrowing contribution income, and souring management expenses.

Despite all the science available to stakeholders in the valuation report, the Management of the Scheme issued a rejoinder that there was no cause for alarm, citing steady growth in contribution income, and stating that investment outcomes are good enough to support any unexpected deficit. The rejoinder also mentioned that the government was up-to-date in the payment of contributions on behalf of public sector workers. Again, politics with the pension scheme was in full play. Organized Labour, as stakeholders, was not convinced and pushed for Boardroom reforms and requesting further clarifications on the exact status of the scheme.

The recent publication of the ILO actuarial report was one of the clear instances that one would have expected the Director-General and Management of SSNIT to take advantage and call for scheme sustainability reforms through an objective, bold, honest, and transparent engagement of stakeholders. After all, the current ailing state of the scheme is not entirely blamable on the current management – the structural reforms leading to the 3-tier pension systems weakened the scheme, and changes in demography and economy have adversely impacted all public pension systems around the world (declining worker-beneficiary ratio, etc.).

Exactly three and half months after the SSNIT pushback, dispelling the reports that the scheme reserves were running out, the Director-General seems to have dropped the political cap and has navigated his way back to the main road (we applaud him) – Mr. Kofi Osafo Maafo is reported to have admitted at the Trust's Operations and Benefits conference that the scheme's financing was at a 'critical juncture'. He cited the impact of demography (cost of benefits outgrowing contribution income), the effect of the 2008 pension reforms, and late payments of contributions by the government on behalf of public sector workers, as the key culprits.

A review of social security reform trends show that many countries are discussing pension policy reforms to restore growing financing shortfalls brought upon by changes in demography and economy, coupled with lapses in pension regulation, administration, and governance.

What is the possible outlook for the next actuarial valuation report?

It is important to note that the current actuarial status as we know was as at December 2020. The next valuation report would comprise the Trust's transactions for the period 2021 to 2023. During this period, **the balance between contribution income and cost of benefits continues to fluctuate**. Cost of benefits exceeded contribution income in 2021 whilst contribution income marginally exceeded benefits in 2022 and 2023. This dynamic is alien to the scheme in large part from 1992 to 2015, as it leaves little or no income for investment. **The number of workers contributing to support a pensioner (dependency ratio) has declined speedily.** As at the end of 2004, the scheme had 16 workers contributing to support one pensioner. The number reduced to 7 in 2020 but has increased to 8 in 2023. We have witnessed a significant migration of active workers to other economies from 2021 to 2023. This will be compared against the gains in the much-publicized Self-Employed Enrolment Drive (SEED) initiative. The Management of the Trust has been praising itself and waving the raw numbers registered as opposed to the number of self-employed members who are actively and consistently paying contributions. Technically, contribution payment compliance could be very low amongst this difficult-to-cover group. On investment performance, as measured by the Real Returns on Investments (RROI), SSNIT posted a positive (+3.74%) RROI in 2021, a negative RROI (-20.28%) in 2022 and most likely would record a negative RROI in 2023, considering the high average inflation in 2023 (40%). Note that the better the RROI, the better the investment income, and the stronger the investments can support the benefits payment function of the scheme. Analysis of a ten-year trend of establishment indebtedness shows a worrying pattern and questions governments' commitments to the compliance rules. For the period 2012 to 2021, Private Establishment Indebtedness averaged 11% of total indebtedness against an average of 89% of the total owed by the government. As at 31st December 2021, **the total establishment indebtedness amounted to 9.2 billion with the government owing 97% of this debt.** Operational and Administrative cost of the scheme continues to be high especially when you compare the share of contributions used to manage the scheme. Increasing staff numbers and unstructured promotions are contributing significantly to high management costs.

Based on the above analysis of the financial and demographic changes during the period 2021-2023, the recommended contribution rate necessary to absorb the rising cost of benefits and administrative expenditure (PAYG rate) will rise substantially and most likely will draw the reserve's depletion year earlier than 2036 when the next valuation report is published.

Analysis of the Proposals so far and Policy Recommendation

Following the discussions on restoring the financial integrity of the SSNIT Scheme, the most popular policy suggestions so far have been to increase the normal retirement age beyond 60 years, and to include allowances in determining workers' social security contributions. Based on critical analysis of data and the provisions, both proposals cannot and will not help address the problem facing the most important pillar of the pension structure but will rather pile up more benefits payment pressure. By nature, these routes will strengthen the private tier2 and tier3 occupational pension schemes, and most importantly, will adversely affect the socioeconomic well-being of retiring workers.

Firstly, the calls to increase the statutory retirement age with the reason that Ghanaian pensioners are living longer than expected and hence exerting intense financial pressure on the pension system is inconsistent with the reality. In considering proposals on increasing the statutory retirement age of a national pension system, the key thing is to compare the country's life expectancy to the pensionable age. Life expectancy in Ghana is low (65 years as of 2024) against a statutory retirement age of 60 years. This shows that lifespan in retirement is low (5 years average) and benefits are expected to be paid within shorter retirement periods. The life expectancy agrees with the mortality experience of the SSNIT Scheme (most pensioners die within 3-5 years after retirement). Hence, the notion that Ghanaians pensioners live longer is flawed. Note that the widely reported improvement in life expectancy is not evenly distributed across all segments of the population, countries, or regions. Considering the mortality dynamics and the formula for computing survivors' benefits under the SSNIT Scheme, increasing the retirement age beyond 60 will have serious financial implications - the scheme will pay even more in Lump Sums to survivors as opposed to pensions to live members. Such a move will deepen the financial troubles of the scheme and might accelerate the depletion of fund reserves.

Secondly, the calls for consolidating basic salaries with allowances in social security payments will have a similar effect of exacerbating the pressure on the SSNIT scheme whilst strengthening private defined-contribution schemes. Allowances amongst most public sector workers could range as high as 50% to 67% of the basic salary and could be more amongst private sector workers. This policy will lead to more workers exceeding the maximum insurable earnings and could lead to challenges in regulating salary hikes near retirement. For consideration of allowance to be incorporated in contributions, the cap on insurable earnings should be considered.

Way Forward/Recommendations

To improve the financial integrity of the SSNIT scheme for future generations, the following needs to be considered;

- Implement the key recommendation of the Actuarial Valuation Report concerning increasing the SSNIT Scheme's funding rate from the current 11% to the recommended rate. From a policy perspective, the technical team at SSNIT needs to examine the scheme's demographic and economic risk profile and submit a paper to the Parliament of Ghana for consideration. Management also needs to begin to engage all relevant stakeholders including the Employers Association and Organized Labour, on how to implement the recommendations of the Actuarial Report.
- In line with best practices and transparency, a provision is needed to mandate the Director-General of SSNIT to present a summarized actuarial status of the scheme to the Parliament of Ghana after the triennial Actuarial Valuation Report is presented to the Board of Trustees. The report must detail demographic and economic changes that have impacted the financing risk of the scheme and how the risks can be shared and treated.
- Stakeholders must strengthen the system's regulation and consider broadly examining the operations of the Trust. They must also instill control measures to ensure that Director-Generals' of the scheme apply the basic principles of scheme administration and governance - schemes should be managed in a sound and transparent manner, with administrative costs as low as practicable and a strong role for the social partners. Public confidence in social security systems is a key factor for their success. For confidence to exist, good governance is essential.

Now that the voices from within are admitting to the problem and its magnitude, it simply shows the urgency of now and possibly the right way to ensure that current and future retirees live their lives with dignity and equality whilst guaranteeing their future income security. There is little time to continue to kick the can down the road and the above modest recommendations are a good place to start.

Author: Abdallah Mashud (with support from the ACRR Team)
Email: execdirector@acr-research.org