September 2022, ACRR Publication Number 22 - 2

AN EVALUATION OF PENSION REFORMS IN GHANA

AFTER A DECADE OF IMPLEMENTATION OF THE NATIONAL PENSIONS ACT, 2008, (ACT 766)

BY

AFRICA CENTRE FOR RETIREMENT RESEARCH (ACRR)

SEPTEMBER 2022

SPONSORSHIP

THIS RESEARCH WAS SPONSORED BY TRADES UNION CONGRESS (GHANA) AND MONDIAAL FNV (THE NETHERLANDS) AS PART OF ACTIVITIES UNDER A JOINT TUC(GHANA)/MONDIAAL FNV PROJECT NUMBER GH0010281 (2022) TITLED:
CONSOLIDATING THE GAINS IN SOCIAL DIALOGUE

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The Africa Centre for Retirement Research (ACRR) is a non-profit policy research organization that is devoted to independent research and policy solutions. The Centre's mission is to advance the public legitimate good by providing useful inputs to the National Policy Dialogue on the subject of "Social Protection, Retirement and Pensions" through high-quality research and, through its activities aims to affect policy in a manner that translates into increased economic growth, improved social and economic wellbeing for the vulnerable and, create a well-informed public.

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The values of the Research Centre, which are built on innovation, independence, objectivity, accuracy, humility, and transparency, coupled with an experienced Advisory Board are indispensable to the mission and success of the Centre.

ABSTRACT

Pension reforms in Ghana in 2008 introduced a three-tier contributory pension system. The National Pension Act, 2008, (Act 766) was passed into Law in December 2008 but became operational in January 2010. The main objectives of the reforms were (a) To ensure enhanced retirement income security for pensioners and (b) To set up uniform rules, regulations, and standards for administration and payment of retirement benefits for both public and private sector retirees.

Having been in operation for more than a decade, there have been concerns about the impact of the reforms on Ghanaian workers and the extent to which the objectives of the reforms have been achieved. In particular, administration and adequacy of Lump Sum benefit under the fully-funded privately-managed defined contribution (Tier2) schemes have been a matter of serious concern.

This project is an evaluation of key aspects of Act 766 and primarily seeks to assess the social and economic impact of the 3-Tier pension system. The approach takes into consideration the key assessment indicators, which include, benefits adequacy, pension coverage, financial sustainability, administrative efficiency, return on investments, transparency, and fiscal impact and governance. The ultimate goal is to contribute to the achievement of the pension reform objectives in Ghana i.e., ensuring adequate retirement income security for pensioners and extending coverage to all workers. Based on the evaluation results, we concluded that, the main pension reform objectives to deliver enhanced retirement benefits to retirees, and to set up uniform rules, regulations, and standards for administration and payment of retirement benefits for retirees is assessed to be unreachable - coverage has deteriorated, most workers who are retiring under Act 766 are recording benefit shortfalls (when Lump Sum received is compared to what retiree would have received under the old PNDC Law). The degree of the shortfalls has been rated to be persistent, widespread, and significant, and the social and economic impact on the retiring population is dire. Shortfalls are largely caused by transitional issues coupled with regulatory, administrative, and legislative shortcomings. Accordingly, we have recommended that, for a sustainable and efficient pension system, and to accelerate the attainment of the reform objectives, the Parliament of Ghana and other relevant stakeholders must undertake both legislative and operational reforms by critically reviewing the activities of the pension industry (with focus on the operations of the newly introduced private occupational pension schemes). Stakeholders must explore ways of strengthening the regulation and supervision under the 3-Tier pension system. To make the Basic National Social Security Scheme more sustainable for future generations, stakeholders must examine the actuarial recommendations and commence discussion on addressing the growing financing shortfalls.

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ACKNOWLEDGMENTS

The Africa Centre for Retirement Research (ACRR) would like to thank the Trades Union Congress (TUC), Ghana, for sponsoring this important project as part of TUC(Ghana)/Mondiaal FNV Project. Special acknowledgement goes to the Secretary-General of TUC, Dr. Anthony Yaw Baah, the Director of the Labour Research and Policy Institute of TUC, Dr. Kwabena Nyarko Otoo, and Dr. Prince Asafo-Adjaye, for their invaluable intellectual contribution to this study.

The Research Centre's Advisory Board, Researchers, Policy experts, and Staff deserve praise for their patience and hard work as we put this piece together. The study benefited from the expertise and experience of Dr. Frank Odoom (former Director-General of SSNIT), who is the Advisory Board Chair of the Research Centre – his input and guidance featured prominently in the study. We appreciate you, Sir!

We would also like to thank Dr. Awal Abdul-Rahaman (Senior Lecturer and Deputy Director of UDS Business Directorate), Dr. Musah Sulemana (Head of Mathematics Department, UDS), Ms. Hilda Gyamfi Ackomah (a PhD candidate at the University of Ghana) and Mr. George Fugah (Senior Research Consultant, Marketing and Research Systems Ltd). Their intellectual contribution to this study was enormous, as we drew immensely on their respective expertise during the study.

The Africa Centre for Retirement Research acknowledges the Social Security and National Insurance Trust (SSNIT) and some Second Tier Corporate Trustees for providing the team with relevant data in the course of this exercise. We appreciate in particular, the Director-General of SSNIT, Dr. John Ofori-Tenkorang, the Chief Actuary, Mr. Joseph Poku (SSNIT), and the Actuarial Manager (SSNIT), Mrs. Evelyn Adjei.

Special thanks go to the Management of M-Cube Pensions Advisory Ltd for providing the research team with high-quality first-hand data. M-Cube's contribution to the success of this project is rated as vital.

Foreword

Old age poverty is an important measure of the health and development of a nation. Ghana has over the years used social security as a tool for the alleviation of poverty at old age.

In the recent past, Ghana witnessed a major structural pension reform which many praised as a bold attempt to improve the efficiency of the pension system and consequently improve the socio-economic wellbeing of the retiring population. The introduction of the National Pensions Act, 2008 (Act 766) was indeed necessary, considering the objectives that it was intended to achieve.

The Trades Unions Congress (TUC) is a major stakeholder in pensions and retirement issues in Ghana, and accordingly has rightly taken a keen interest in the effectiveness of the reforms and believed that a review of the reforms after over ten years of operation was in order.

The Africa Centre of Retirement Research (ACRR) is a policy research think tank with the mission to contribute to national policy dialogue on social protection, retirement, and pensions, through research. The Centre seeks to create the public legitimate good by affecting policy in a manner that translates into increased economic growth, improved standard of living, a well-informed public, and an appetite for a properly working social security regime.

Since TUC and ACRR have an intersecting interest in pension and retirement issues, it was just appropriate for TUC's request for reviewing the National Pensions Act was done by ACRR. The synergy was just right for such a review.

ACRR under the leadership of the Executive Director, Abdallah Mashud, has done a fantastic job of evaluating the performance of the 3-Tier pension system against key reform objectives and principles. In evaluating the socio-economic impact of the 3-Tier pension system, the approach takes into consideration the relevant social security assessment indicators, which include, benefits adequacy, pension coverage, administrative efficiency, and financial sustainability.

The professionalism of the researchers at ACRR is evident in the final product. The Secretary-General of the TUC, Dr. Anthony Yaw Baah's interest in securing a better pension system in Ghana has been evident in the support of the review process.

The result of the review is very telling and policymakers should consider using this comprehensive and highly informative document to kickstart the discussions on improving social security in Ghana.

After concluding that some of the reform objectives are not reachable, the following are worth considering for improvement:

- Sustainability of the Tier 1 scheme

- Effective regulation of the Tier 2 schemes by the National Pension Regulatory Authority
- Control benefit losses
- Unification of public pension schemes.

Ghana becomes the winner if the recommendations therein are discussed thoroughly by all stakeholders, including the Parliament of Ghana so that we can build consensus and implement them. This will be a major step forward as the nation strives to attain the United Nation Sustainable Development Goals on poverty, decent work and economic growth, and social and economic inequalities.

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Dr. Frank Odoom

Chairperson, Governing Council of ACRR

EXECUTIVE SUMMARY

BACKGROUND TO PENSION REFORMS IN GHANA

The concept of a multi-tier pension system was largely driven by the World Bank, based on the reason that rapidly aging populations and poorly administered public pension systems were going to impact adversely and significantly on the sustainability pension systems (World Bank, Averting the Old Age Crisis, 1994). The World Bank's pension reforms approach essentially modified the financing model by introducing complementary fully-funded, defined contribution, and privately managed schemes to an existing public pay-as-you-go (PAYG) defined benefit systems. The main goal of the multi-tier framework was to improve fiscal sustainability by increasing the role of private institutions and gradually reducing the State's responsibility to provide social security pensions.

The International Labor Organization (ILO) and the International Social Security Association (ISSA) published a report in 1995 with a critical assessment of the World Bank's 'Multi-Tier' and privatization strategy. They found that the World Bank concept, involving the privatization of pensions would cause an unacceptably high degree of risk for workers and pensioners and that the transition would impose a heavy burden on the current generation of workers. The ILO and ISSA assessments concluded that a more efficient and less disruptive approach to the provision of retirement pensions would be to focus efforts on measures to rectify design and administrative deficiencies and inequities in public schemes (through parametric reforms to public schemes rather than systemic reforms).

The Independent Evaluation Group (IEG) of the World Bank in 2006 found that, for most of the countries that adopted the multi-tier systems, investments in funded schemes remain poorly diversified, and pension coverage has not increased. Also, the objectives to increase savings towards retirement, and develop capital markets remain largely unrealized. The IEG report contained the admission that the World Bank's multi-pillar strategy was preoccupied with fiscal sustainability and tended to obscure the broader goal of pension policy, that is, to reduce poverty and improve retirement income adequacy within a fiscal constraint.

An ILO policy paper published in 2018 revealed that nearly two-thirds of the countries that had privatized pensions reversed the process leading to a return to or a strengthening of their public pension schemes. Issues that have dominated the debate with regards to social security pension privatization and its reversals have been coverage extension, return on investments, adequacy of benefits, transparency, and fiscal impact and governance. Expectations were high when pension privatization models were introduced, and countries hoped to improve the socio-economic wellbeing of workers and the overall efficiency of their pension systems. In practice, however, pension privatization did not deliver the expected results. Coverage rates decreased, and the quantum of pension benefits deteriorated and made reforms very unpopular.

In Ghana, the multi-tier pension system was introduced in 2008 by an Act of Parliament. The National Pension Act, 2008, (Act 766) was passed into Law in December 2008 but became operational in January 2010.

The main objectives of the reforms were (a) To ensure enhanced retirement income security for pensioners and (b) To set up uniform rules, regulations, and standards for the administration and payment of retirement benefits for both public and private sector retirees.

This report seeks to assess the socio-economic impact of the 3-Tier pension system on Ghanaian workers and their dependents, after eleven years since its implementation.

The assessment takes a critical look at the state of Ghana's pension system just before the reforms. The evaluation of the 3-Tier pension system takes into consideration key indicators, which include, benefits adequacy, pension coverage, return on investments, administrative efficiency, transparency, financial sustainability, and fiscal impact and governance.

IMPLEMENTATION OF THE 3-TIER PENSION SYSTEM, CHALLENGES, AND POLICY RESPONSES

Following the conversion of a single-tier pension system into a 3-tier system, major transitional challenges continue to linger. The transitional issues have adversely and significantly affected the quantum of benefits received by recent and current retirees, as well as beneficiaries of deceased workers under the new system. The main pension policy objectives are largely unrealized (the 3-tier pension system is yet to deliver the expected results - coverage and benefits adequacy have been adversely affected.

Some obvious legislative, regulatory, administrative, and transitional shortcomings have mainly undermined the efficacy of the current pension arrangement. Specifically, policy directives about the management of Tier2 contributions in the Temporary Pension Fund Account (TPFA) at the Bank of Ghana and its subsequent transfer and payment to workers and beneficiaries have not been effective. Also, there are several provisions in Act 766 that are yet to be fully implemented. Transparency and uniformity of rules and standards in the administration and payment of benefits under the private occupational pension schemes are major concerns.

There has been an expression of concern (by members of the public and industry players) about the regulator's operational and technical capacity to supervise the pension industry effectively. These factors have affected the extent to which the objectives of Act 766 have been achieved as shown in the indicators below.

IMPLEMENTATION OUTCOMES

REFORM OBJECTIVE 1: **ENHANCE RETIREMENT INCOME SECURITY TO PENSIONERS (BENEFITS ADEQUACY)**

The assessment of retirement income adequacy uses a framework that clearly defines the adequacy objectives, calculates adequacy indicators, and assesses the overall adequacy by comparing the indicators to the specific policy goals or reform targets.

The adequacy assessment indicators include determining if reforms have improved retirement and survivors' benefits (comparing to benefits under the previous law), replacement rates, minimum pension amount compared to the national poverty line, pension indexation (benefits redistribution models), the ability of benefits to meet the costs of essential services such as health care, food, accommodation, and so on.

FINDINGS

- **A significant proportion of past and current retirees under Act 766 have recorded Lump Sum shortfalls.** An estimated **61%** of those who retired in 2021 recorded Lump Sum shortfalls when compared to the 25% Lump Sum they would have received had they retired under the old PNDCL247. Similarly, **81%** of workers who retired in 2020 suffered shortfalls. The observed shortfalls are largely driven by transitional issues, inadequate interest income under the private Tier2 schemes, delay in receipt of Tier2 contributions from CAGD for public sector workers, and lack of effective monitoring of Tier2 Schemes by NPRA.

- **Despite the existence of investment policy guidelines (developed by NPRA) for Tier2 Schemes, we observed that some Tier2 Schemes are awarding returns that are lower than returns on the basic risk-free security (Government of Ghana 91-day Treasury Bill).** Inadequate investment income for members under the Tier2 Schemes continues to be the main driving factor for the observed shortfalls.
  Significant variations exist among Tier2 schemes with regards to investment performance (as measured by the spread of interest income). This indicates a lack of effective monitoring of Tier2 schemes for compliance with the NPRA investment policy guidelines. Generally, investment risks (borne by individual workers under defined contribution arrangement) have been **assessed to be high** in the current state of implementation of the Act.

- **Survivors' benefits for beneficiaries of deceased workers, to a larger extent, are not being paid under the Tier2 schemes**. An estimated **98%** of beneficiaries who received worker-death benefits from SSNIT did not receive the corresponding benefit under Tier2. This translates into over **45,000** eligible beneficiaries of about **12,000** deceased workers who died whilst in service for the period 2011 to 2021. **94%** of those who did not receive their Tier2 death benefits reported that they were not aware that they were required to apply to receive benefits from Tier2 Trustees.

The inability of beneficiaries of deceased workers to access survivors' benefits under the Tier2 schemes is caused by inadequate public knowledge of social security provisions, and cumbersome benefit processing requirements. These benefit losses have impacted significantly the economic wellbeing of survivors of deceased workers.

- **Pensions fund assets under the management of the Private Tier Schemes are increasingly outgrowing assets under the SSNIT Scheme. This trend is largely attributable to insufficient and inefficient benefits payments to beneficiaries by the private Tier2 Schemes.**
  According to the Financial Stability Review report issued by the Bank of Ghana (BoG), private pension fund assets have risen from GHS28.0 billion in December 2021 to GHS31.4 billion as at the end of June 2022. The report has attributed the relative growth and performance of private pension fund assets to increased contribution mobilization and favorable investment outcomes. Analysis of Tier2 investment performance (as measured by interest income credited to retirees) and relative coverage under Tier2 schemes does not support the view contained in the BoG Report. Refer to **Appendix 9** for trend analysis of the share of pension fund assets under the public PAYG SSNIT Scheme and the private pension schemes, for the period 2012 to 2020.
  The observation could as well be exposing the lack of balance in the weight of contribution rates (11% and 5%) assigned to the SSNIT and Private Occupational Pension Schemes respectively.

- **SSNIT Scheme's Survivors' Benefits Processing (Computing) Procedure does not Conform to Best Administrative Practices and Must be Reviewed.**
  A typical Ghanaian family takes an average of **8 to 9** months to report the death of a member to SSNIT to access survivors' benefits. After the death is reported, it takes on average, an additional **84** days to process and pay benefits. The time lag between the date of death and the date of payment is deemed significant.
  By the current mode of computing survivors' benefits, the benefit amount payable by SSNIT is determined on the date of death and NOT on the actual date of payment. The inflationary effect due to the time lag between the date of death and the date of payment is unaccounted for. As a result, beneficiaries lose a significant value of the benefits to inflation. For instance, if a member dies in 2015 and the family reports the death to SSNIT in 2020, the amount payable in 2015 is the same amount that would be paid in 2020 (without interest on the computed benefit from the date of death to the date of payment).
  This is deemed as an administrative gap that impacts significantly on the value or adequacy of the benefit, and which must be corrected.
  Best administrative practices require that the computed survivors' benefits on the date of death should be indexed to inflation up to the date of payment. Simulations have shown little variance between outcomes using the inflation index and 75% Government of Ghana 91-Treasury bill rates compounded annually.

- **Using empirical data on recent retirees, the study estimates that, on average, the SSNIT pension scheme is able to replace up to half (49.63%) of the workers' last earnings during the retirement phase.** The replacement rate compares retirees' income in retirement (initial pension amount) to income during active work (last salary).

Even though this level of replacement meets the ILO prescribed minimum standard of providing at least **40%** of pre-retirement earnings (Convention No. 102), it is insufficient to maintain a respectable standard of living for most Ghanaian retirees, considering that, the consumption or expenditure pattern is heavily skewed towards food, utility bills, cost of child education, healthcare, transportation, and other unexpected costs. The average retirement income replacement rate of **49.63%** for Ghanaian retirees does not compare favorably with the reported OECD average of **59%** for net replacement rates.

- **Minimum Pension as a Percentage of National Poverty Line**: The current minimum pension of **GHS300.00** represents 30 dollars (using the current exchange rate) per month. This minimum pension amount represents 50% of the value of the national poverty line.
  Using the SSNIT Scheme's pension payroll for December 2021, the study found that 40% of pensioners receive GHS600 or below per month. Based on the national poverty line of $2 per day, the study concludes that the benefit levels have fallen below the poverty threshold for a significant proportion of Ghanaian pensioners, and thus fail to prevent old age poverty.

- **The current method of indexing pensions impacts negatively on both retirement income adequacy and equity (redistribution to reduce inequality) and must be reviewed**. The depth of inequities in the distribution of pension wealth on the payroll illustrates that the current mode of reviewing pensions (pension indexation) has the shortcoming of widening the economic gap between the rich (high pension earners) and the poor (low pension earners), and suggests to be at variance with the social security principle of solidarity.
  In 2021, an estimated **8%** of 'rich' pensioners in the upper bound controlled nearly **30%** of the total payout on the payroll whilst an estimated **64%** of 'poor' pensioners in the lower bound controlled a lower **36%** of the purse. In 2022, an estimated **10%** of 'rich' pensioners in the upper bound control **33%** whilst **63%** of low earners in the lower bound control **34%** of the total payout. In addition, in 2021, the lowest earning pensioner received GHS300 per month whilst the highest earning pensioner received a monthly pension of **GHS129,979.51**. In 2022, the lowest earning pensioner is still receiving GHS300 whilst the highest earning pensioner is receiving **GHS142,564.97** each month. If the Trust sticks to the current mode of redistributing benefits (indexation), the highest earning pensioner, with a projected year-end average inflation of 29%, might receive a monthly pension boost of about **GHS183,908.81** in 2023. Further analysis will prove that the economic gap between the rich and the poor (inequities) increases with time, and in a period of high inflation, the standard of living of the poor (low earners) gets deteriorated and pushes them into poverty. This is at odds with the main social security principle of solidarity.

- **The cost of goods and services (measured by inflation) has risen by an average of 24.45% as at August 2022, compared to 9.13% during the same period in 2021.**
  The real value of benefits payouts to poor old-age pensioners is not able to keep pace with the spate of rising prices of goods and services (inflation). The rising cost of living has adversely and disproportionately affected the socio-economic wellbeing of low-income pensioners, as a result, maintaining a respectable standard of living (smooth consumption) is practically unachievable for low pension earners.

PENSIONS REFORM OBJECTIVE 2:

TO SET UP UNIFORM RULES, REGULATIONS, AND STANDARDS FOR ADMINISTRATION AND PAYMENT OF RETIREMENT BENEFITS FOR BOTH PUBLIC AND PRIVATE SECTOR RETIREES.

The extent to which there exist uniform rules and standards for administration and payment of retirement benefits is assessed based on pension coverage, return on investments, administrative efficiency, transparency, and financial sustainability.

1. SOCIAL SECURITY COVERAGE

How much of the labour force is covered by the pension system?
The Legal Coverage Ratio and Beneficiary Coverage Ratio are important indicators that provide information about social security coverage under a national pension system.

- The Legal Coverage Ratio: Proportion of working age population who are active contributors to the pension scheme and are potentially eligible for receipt of pension at the statutory retirement age is estimated to be **15%** as at 2021.
- Beneficiary Ratio: Proportion of all persons above the statutory pensionable age (60 years) who are receiving an old-age pension from the social security system is estimated to be **14.2%.** This shows that only **1 in 8** of older persons over the statutory retirement age (60 years) receives a monthly pension in Ghana. This does not compare favorably against an average of 23% in sub-Saharan Africa and 68% worldwide.
- The low beneficiary coverage ratio in Ghana is largely attributable to the low participation of the informal sector workers in the SSNIT pension scheme (less than 1% of informal sector workers contribute to SSNIT).
- A large proportion of the informal sector workers in Ghana are not covered under the social security system and Ghana's drive to use social security as a poverty reduction tool may be in jeopardy, and could affect the nations success in attaining the UN Sustainable Development Goals.
- **Uniformity of Coverage under Act 766 has reduced, based on the assessment of employer compliance rate concerning Tier2 contribution payment on behalf of their workers.**
  It is estimated that about **81%** of private establishments that employ 1 to 30 workers do not pay Tier2 contributions on behalf of their workers. The research, therefore, projects that over **400,000** active members, representing about **25%** of future retirees under the SSNIT Scheme face the risk of not receiving Lump Sum benefits from the mandatory Tier2 component if nothing is done about enforcement of compliance.

2. ADMINISTRATIVE AND REGULATORY EFFICIENCY

This is a multi-dimensional indicator and therefore encompasses several areas in social security administration and governance.

Adequacy of Benefits under the 3-Tier System is largely unrealized. This is partly attributable to a lack of deliberate policies and procedures (from the regulator) to control benefit losses. Public knowledge with regards to the provisions of Act 766 is very low and accounts for most of the benefit losses to beneficiaries as well as employer compliance to the rules of the scheme. Targeted programs to sensitize or educate members on the provisions of the 3-tier scheme are almost non-existent. Significant variations exist among Tier2 schemes with regards to benefit processing procedures, benefits processing durations, the structure of members' statements, and investment performance (as measured by the interest declared on individual workers' statements). There is a lack of transparency in the Tier2 benefits processing and payment procedures. Lack of transparency and member education with appropriate disclosure requirements during benefits processing is identified as a key challenge in benefits administration under the 3-tier pension system. The current basis of licensing and approving Trustees by NPRA is weak and needs to be examined. Employer contribution payment compliance under the occupational pension schemes (Tier2) has been poor. The effectiveness of the NPRA governance, supervisory, and monitoring strategies is in doubt and attributable to the inadequate technical and operational capacity of the authority. Transitional issues have not been comprehensively and exhaustively dealt with – NPRA directives concerning the management of workers' contributions in the TPFA have not been effective and resulting in significant benefit losses.

3. MEDIUM TO LONG-TERM FINANCIAL SUSTAINABILITY OF THE SSNIT PENSION SCHEME

The last two Actuarial Valuations (2014 and 2017) of the Basic National Social Security Scheme have indicated that the Trust's fund reserves will not be able to support the payment of scheduled benefits in full and on time by 2037 (in less than 15 years) if nothing is done by stakeholders. Accordingly, the valuation reports have certified that the only modification that can prevent the complete depletion of the scheme reserves and sustain the scheme for future generations is an increase in the contribution rate (from the current 11%).

The long-term sustainability of the SSNIT Scheme is doubtful because of the increasing cost of benefits. The increasing cost is largely informed by improved life expectancy (pensioners living longer) and rapidly aging population (high retirement rates), and somewhat high administrative costs. The pension reforms in 2008 also introduced a substantial financial imbalance between the scheme's assets and the corresponding liabilities, thus further questioning the future solvency of the Scheme.

Examination of the Trust's financial activities for the period 2018, 2019, and 2020 have further proved that the immediate intervention of stakeholders and parliament to increase the funding rate from the current 11% is crucial to the sustainability of the SSNIT Scheme.

4. SOME PROVISIONS UNDER ACT 766 THAT ARE YET TO BE FULLY IMPLEMENTED BY THE NPRA

Some important provisions of Act 766 that must be immediately examined and implemented by NPRA are as follows;

UNIFICATION OF PENSION SCHEMES

Section 213 of the National Pensions Act, 2008, (Act 766) mandates the National Pension Regulatory Authority (NPRA) to unify all public pension schemes in the country within five years after the commencement of the Act.

After more than a decade since its implementation, the NPRA is yet to implement the pension schemes unification provision, even though the Authority's annual reports continue to state its commitment to phase out all parallel schemes. In 2018, the pension unification committee presented a Cabinet Memo to the government for consideration and approval for implementation. A response from the Cabinet directed the NPRA to implement the pension unification provision in 2021.

Until the unification provision is fully implemented, pension schemes in Ghana remain fragmented, non-equitable, and discriminatory along the lines of contributory and non-contributory schemes.

SECTION 100 OF ACT 766: PORTABILITY/TRANSFER OF ACCRUED BENEFIT

Section 100 of Act 766 has provided for the portability or transfer of a member's accrued benefits from one occupational pension scheme to another. The NPRA has suspended the transfer of workers' accrued benefits from Gentrust to the workers' preferred Tier2 schemes. The accrued benefit comprised workers' contributions and interest for the period January 2010 to December 2013. The suspension of this provision is resulting in benefit losses and must be reviewed.

SECTION 103 OF ACT 766: USAGE OF TIER2 CONTRIBUTIONS AS COLLATERAL FOR MORTGAGE

Section 103 of Act 766 provides that a scheme may allow a member to use that member's benefit to secure a mortgage for the acquisition of a primary residence. The study has established that the NPRA is yet to develop guidelines for the full implementation of this provision.

SECTIONS 78 and 101 OF ACT 766: PROCESSING OF SURVIVORS' BENEFITS UNDER TIER2

The study found that the Second Tier Occupational Pension Schemes do not conduct investigations to establish the rightful beneficiaries and they do not apply the applicable laws (the Children Act, the Intestate Succession Act 1985 (PNDCL 111), or Court Order) in the distribution of survivors' benefits. Instead, benefits are paid strictly according to the existing nominations. The existing nomination may not be updated before the death of the worker. Thus, benefits potentially could be paid to the wrong persons and/or inaccurate proportions. The NPRA needs to issue policy guidelines and procedures for processing survivors' benefits as specified in sections 78 and 101 of Act 766.

OVERALL ASSESSMENT/CONCLUSION

This conclusion is based on a detailed analysis and comparison of measurement indicators (which are used to gain insight into the pension reforms outcomes) to the reform policy objectives. The reform objectives mainly concerned benefits adequacy and the extent to which there exist uniform rules and standards for the administration and payment of benefits (administrative efficiency and sustainability). Based on comparing the key measurement indicators to the set reform targets, the overall assessment of the extent to which the pension reform has delivered on the set goals is that the 3-tier pension system under Act 766 is yet to deliver the expected results. The financial and structural sustainability and the overall success of the 3-Tier pension system are largely in doubt.

The objective to deliver enhanced retirement benefits (benefits adequacy) under Act 766 is assessed to be unreachable, and coverage has deteriorated. A significant proportion of workers retiring under Act 766 continue to suffer shortfalls, survivors' benefits are not sufficiently and efficiently paid under Tier2 Schemes, the retirement income replacement rates are insufficient to maintain a decent standard of living for most retirees, and a significant proportion of Ghanaian retirees receive pensions that fall below the national poverty threshold, and thus fail to prevent old age poverty. The depth of inequities in the distribution of pension wealth on the payroll shows that the current mode of reviewing pensions (pension indexation) impacts negatively on both retirement income adequacy and equity and must be reviewed – it has the shortcoming of widening the economic gap between the rich (high pension earners) and the poor (low pension earners) and suggests to be at variance with the social security principle of solidarity. Most workers under the 3-tier pension system have recorded benefit shortfalls and the degree of the shortfalls has been rated to be persistent, widespread, and significant, and the social and economic impact on the retiring population is dire.

The study predicts that Lump Sum benefit shortfalls may persist longer than expected and many retirees would be denied the deserved retirement benefits if the NPRA, Policymakers, Civil Society, and all relevant stakeholders do not step in with the needed reforms to address the obvious legislative, regulatory, administrative, and implementation lapse of the current pension Act.

The objective of setting up a uniform set of rules and standards for the administration and payment of benefits under Act 766 remains largely unrealized - significant variations exist among Tier2 schemes with regard to investment performance (as measured by the interest declared on individual workers' statements), benefit processing procedures, benefits processing durations, and structure of members' statements. The lack of uniform rules and standards is resulting in significant benefit losses under the 3-Tier pension arrangement.

To improve the sustainability and efficiency of the pension system, as well as, accelerate the attainment of the reform objectives, the study has put forward some recommendations for consideration by stakeholders in the pension industry.

RECOMMENDATIONS

The pension reforms that led to the implementation of the 3-Tier pension system have failed to address the core goals of improving retirement income adequacy, social security coverage, and administrative efficiency of the pension system.

To improve the socio-economic wellbeing of retiring workers, and the general efficiency of the pension system, the Africa Centre for Retirement Research (ACRR) recommends as follows:

I. **Consider holding pension reform dialogue:** Stakeholders, which include Government, Parliament, NPRA, Trade/Worker Unions, Civil Society Organizations, etc. should consider holding a pension reform dialogue, given that the 3-Tier pension system is yet to deliver the expected results, and impacting adversely on the main pension policy objectives. Pension Reforms should focus on parametric changes and must seek to deepen stakeholder consultations through NPRA, SSNIT, and Tier2 Trustees Annual General Meetings. Stakeholders that include Government, Civil Society Organizations, Workers Unions, Research Institutions, etc. should regularly hold deliberations with regards to adequacy of retirement incomes - it helps governments to optimize retirement policies.

II. **Consider undertaking parametric and operational reforms:** Based on the performance of the existing provisions, stakeholders should consider undertaking parametric and operational reforms that target improving the twin objectives of providing adequate benefits to pensioners, and the long-term financial sustainability of the public PAYG pension scheme. The reforms must consider defining objectives for retirement income adequacy to ensure retirement income policies are targeted at achieving such clear goals. The objectives must be measured with appropriate indicators to enable policymakers assess whether the pension system is likely to meet the targeted objectives.

III. **Consider reviewing the method of adjusting pensions in payment:** The current method of indexing pensions impacts negatively on both adequacy and equity. It must be reviewed to achieve the twin objectives of minimizing the growing economic inequality between the rich and the poor (principles of solidarity), and reducing the cost of pensions, consistent with broader reforms to improve the long-term financial health of the scheme. Such a model should account for the diversity of circumstances and needs of the heterogeneous sub-groups (say, income group), and the pension system must aim to achieve the benefit adequacy objective in a broad sense.

IV. **Adequately resource and build capacity of the pension regulator:** Government, in consultation with other relevant stakeholders, must plan programs that aim to improve the operational and technical capacity of the regulator (NPRA). Effective supervision is identified as crucial to the success of a multi-tier pension system.

V. The NPRA, in collaboration with all other relevant stakeholders, should investigate and address the major transitional issues, as well as operational, administrative and legislative lapses identified in this report. In particular, the NPRA should develop and enforce uniform guidelines and procedures for use by Tier2 Schemes in the processing, administration, and payment of benefits. The NPRA in collaboration with the relevant development partners and research institutions should consider regularly assessing the retirement income adequacy objective and adjust policies where necessary.

VI. **NPRA must Develop Operational Controls to Minimize Benefit Losses to Survivors of Deceased Workers or Pensioners:** NPRA must ensure that data on worker-death benefits paid by SSNIT is used to pay the corresponding death benefits under the Tier2 schemes. In addition, NPRA, SSNIT, and stakeholders should consider indexing the computed survivors' benefits on the date of death to inflation up to the date of payment. This is in line with best social security administration practices.

VII. **NPRA should consider offloading the enforcement of employer compliance roles under Tier2 to SSNIT for a fee, to be determined by the Authority.** The strategy will improve the uniformity of coverage under the 3-Tier Pension System.

VIII. **Governments and Policymakers need to embark on the necessary parametric and legislative reforms to improve the financial health of the SSNIT Scheme.**

- In line with best practices, the Trust must 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.

IX. **Conduct Regular Actuarial Assessments on Sustainability of the Pension System**: To achieve the main pension policy objectives, stakeholders must ensure that regular actuarial reviews are carried out to ascertain the financial and operational status of schemes under all Tiers. Regular and further research is required to guide reforms and related corrective measures under the current 3-Tier pension system.

NPRA, in collaboration with other Development Partners and Civil Society Organizations, must step up public education on the provisions of the 3-Tier pension system (considering that 94% of beneficiaries were unaware of the Tier2 benefits and 67% of those who do not pay Tier2 contribution for their workers said they are unaware of Tier2).

IX **Improve Internal and External Coordination:** Coordination amongst key stakeholders (including Government, International Development Partners, Civil Society Organizations, Research Institutions, etc.) is crucial to attaining the goal of building an efficient pension system.

PART I

INTRODUCTION

- Background to Pension Reforms in Ghana
- The Assignment

1.0 BACKGROUND

Many countries have introduced structural reforms to their pension systems since the turn of the 1990s. Primarily, they have moved from a purely public defined benefit (DB) model to a defined contribution (DC) and privately managed model or a mix of the two. The concept of a multi-tier pension system was largely driven by the World Bank**,** and the model essentially modified the financing approach. The Bank's reform models introduced complementary fully-funded, defined contribution, and privately managed schemes to an existing public pay-as-you-go (PAYG) defined benefit system. The main goal of the multi-tier framework was to improve fiscal sustainability by increasing the role of private institutions and gradually reducing the State's responsibility to provide social security pensions. Most countries in Latin America, Eastern Europe, and Central Asia, under the support (technical and financial) of the World Bank, had extensive pension reforms, modifying primarily the financing model and introducing private managers in their national pension administration.

The International Labor Organization (ILO) and the International Social Security Association (ISSA) published a report in 1995 with a critical assessment of the World Bank's 'Multi-Tier' and privatization strategy. They found that the World Bank concept, involving the privatization of pensions would cause an unacceptably high degree of risk for workers and pensioners and that the transition would impose a heavy burden on the current generation of workers. The ILO and ISSA assessments concluded that a more efficient and less disruptive approach to the provision of retirement pensions would be to focus efforts on measures to rectify design and administrative deficiencies and inequities in public schemes (through parametric reforms to public schemes rather than systemic reforms).

The Independent Evaluation Group (IEG) of the World Bank in 2006 found that, for most of the countries that adopted the multi-tier systems, investments of funded schemes remain poorly diversified and pension coverage has not increased. Also, the objectives to increase savings towards retirement, and develop capital markets remain largely unrealized. The IEG report contained the admission that the World Bank's multi-pillar strategy was preoccupied with fiscal sustainability and tended to obscure the broader goal of pension policy, that is, to reduce poverty and improve retirement income adequacy within a fiscal constraint.

The ILO policy paper 17 which was published in 2018 revealed that nearly two-thirds of the countries that had privatized pensions reversed the process leading to a return to or a strengthening of their public pension schemes. Issues that have dominated the debate with regards to social security pension privatization and its reversals have been coverage extension, return on investments, adequacy of benefits, transparency, and fiscal impact and governance. Expectations were high when pension privatization models were introduced, and countries hoped to improve the socio-economic wellbeing of workers and the overall efficiency of their pension systems. In practice, however, pension privatization did not deliver the expected results. Coverage rates decreased, and the quantum of pension benefits deteriorated and made reforms very unpopular.

Due to the difficulties experienced by private DC schemes in meeting the expectations and goals of the reforms, nearly two-thirds of the countries that had privatized pensions reversed the process leading to a return to or a strengthening of their public pension schemes.

APPENDIX 1A shows examples of countries that undertook structural pension reforms by introducing partial privatization or full privatization with individual accounts (DC) between 1981 and 2018.
APPENDIX 1B shows examples of countries that recently undertook structural pension reforms to either reduce the size of private defined contribution schemes by lowering their contribution rates or abolish them (due to the failure of the private pillar system to deliver the expected goals of the reforms).

According to the ILO Social Protection Policy Paper 17, the topics that have dominated the debate with regards to social security pension privatization and its reversals have been coverage extension, return on investments, adequacy of benefits, transparency, and fiscal impact and governance. Expectations were high when introducing reforms, and countries hoped to improve both their pension systems and their overall economic performance. Coverage rates and benefit levels were expected to increase, inequality to decrease, administrative costs to decline through market competition, and governance of pension management to improve.
In practice, however, pension privatization did not deliver the expected results. Coverage rates stagnated or decreased, pension benefits deteriorated, and made reforms very unpopular.

1.1 PENSION REFORMS IN GHANA

Pension reforms in Ghana in the year 2008 introduced a three-tier contributory pension system. The National Pension Act, 2008, (Act 766) was passed into Law in December 2008 but became operational in January 2010. The main objectives of the reforms were (a) To ensure enhanced retirement income security for workers and (b) To Set up uniform rules, regulations, and standards for administration and payment of retirement benefits for both public and private sector workers.

Historically, the social security system in Ghana has gone through several reforms in terms of both forms of administration and legislation, as successive governments strived to develop an efficient pension system to improve the socio-economic wellbeing of workers. Almost all the reforms, from the Pensions Ordinance of 1946 through to the enactment of the Social Security Law, 1991 (PNDCL 247), to the passage of the National Pension Act, 2008, (Act 766) aimed to improve retirement income adequacy for workers, social security coverage, and pension system efficiency. For completeness and deepening the understanding of how Social Security in Ghana has evolved over the years, **APPENDIX 2** presents a chronological account of pension reforms in Ghana with emphasis on major provisions under the various legislations.

For the first time, and as a major milestone, the 2008 pension reforms under the National Pension Act, 2008, (Act 766) included the establishment of a multi-tier (3-tier) pension system, and a pension regulator (the National Pension Regulatory Authority).

The National Pension Regulatory Authority (NPRA) under the law is tasked to supervise all pension-related activities in Ghana and to ensure the unification of all parallel public sector pension schemes within five years after the commencement of the Act (as stated in section 213 of the National Pensions Act, 2008, (Act 766).

1.2 THE ASSIGNMENT

National Pensions Act, 2008, (Act 766), having been in operation for more than a decade, there have been concerns about the economic impact of the reforms on Ghanaian workers and the general extent to which the objectives of the reforms have been achieved. In particular, adequacy of Lump Sum benefits, returns on investments, and administration of the privately managed defined contribution (Tier2) schemes have been a matter of serious concern. Many Civil Society Organizations, Worker Unions, Research Institutions, and individuals have expressed concerns about the performance of the 3-Tier pension system.

Accordingly, the Trade Union Congress (TUC) tasked the Africa Centre for Retirement Research (ACRR) to assess the extent to which the reform objectives have been achieved and based on the findings of the evaluation, recommend pension reform options for improving pensions and retirement income security in Ghana.

The research is required to involve a detailed review of key aspects of Act 766. The study seeks to;

- Evaluate the social and economic impact of the current 3-Tier pension system on Ghanaian workers and their dependents.
- The approach takes into consideration the key assessment indicators, which include, benefits adequacy, pension coverage, financial sustainability, administrative efficiency, return on investments, transparency, and fiscal impact and governance.

1.3 METHODS AND ANALYSIS

The evaluation is based on a collection and analysis of both primary and secondary data on a wide range of variables and indicators, extensive desk reviews of policy documents including NPRA and SSNIT annual reports, SSNIT Actuarial Valuation Reports for 2011, 2014, and 2017, literature on pension reforms, and interviews with stakeholders. Conclusions were based on empirical information on pension entitlements of recent retirees, pension coverage, administrative efficiency, and actuarial-based assessment of financial sustainability.

1.4 STRUCTURE OF THE REPORT

This report has five parts. Part 1 presents an introduction that gives a historical background to the multi-tier pension reforms, as well as an account of pension reforms in Ghana and how provisions about coverage, benefits, and financing models have changed under various reforms. The introduction also includes the preamble to the research (the assignment, objectives, methodology, and data analysis). Part 2 gives a vivid description of the current three-tier pension system; the design features, objectives, implementation, challenges, and impact. A general assessment of the 3-Tier pension system (based on key indicators) and an analysis of the status quo are looked at in Part 3.

Part 4 concentrates on the Governance and Regulatory Framework of the 3-Tier Pension System, General Administration, and Policy Responses. Part 4 also takes a deeper look at some important policy issues with a focus on the private occupational pension schemes, while Part 5 presents Conclusions and Policy Recommendations (way forward).

PART II

THE THREE-TIER PENSION SYSTEM:

DESCRIPTION OF THE LEGAL FRAMEWORK, DESIGN FEATURES, OBJECTIVES, IMPLEMENTATION, CHALLENGES, AND IMPACT

2.0 THE THREE-TIER PENSION SYSTEM: OBJECTIVES, DESIGN AND LEGAL FRAMEWORK, IMPLEMENTATION, IMPACT AND SUSTAINABILITY

2.1 DESIGN AND LEGAL FRAMEWORK (DESCRIPTION) OF THE 3-TIER PENSION SYSTEM

The Scheme under the Social Security and National Insurance Trust was established by the Social Security Law 1991 (PNDCL 247) and reviewed under the National Pensions Act, 2008, (Act 766).

The key highlight of the pension reforms in 2008 was the introduction of the three-tier pension system and the establishment of the National Pension Regulatory Authority (NPRA) whose mandate is to regulate and supervise all pension-related activities in Ghana.

Under Act 766, a three-tier social security scheme was established with effect from 1st January 2010.

Table 1 presents snapshots of the reformed pension system which is structured as follows:

Table 1: Brief description of the three-tier pension system

First tier	Second tier	Third tier
• The SSNIT manages the first tier, described as Basic National Social Security Scheme (BNSSS) • A mandatory defined-benefit pension scheme. • First Tier under SSNIT is responsible for payment of monthly pension to members upon retirement or invalidity or Lump Sum to survivors in the event of death in employment. • Participation is mandatory for all persons in formal active employment. Workers in the informal sector may also register and contribute voluntarily as members of the scheme.	• A mandatory, fully funded, and privately-managed occupational or work-related pension scheme. • The Second-tier component is managed by NPRA licensed Corporate Trustees. • The second-tier is a defined contribution scheme, mainly responsible for payment of lump-sum benefits to members upon retirement or invalidity, or unemployment or, to survivors in the event of death of a worker before retirement.	• A voluntary, privately managed, provident fund and personal pension system. • Members may be granted limited access to their fund balances through withdrawals before retirement while they remain in the service of the employer, subject to the established Scheme's Rules and Regulations. • This is on a defined contribution basis and is tax-exempt up to some level.

2.2 LEGAL FRAMEWORK OF THE PENSION REFORMS

APPENDIX 3 highlights the legislative changes (provisions) under the Old PNDCL 247 and the New Pension Act (Act 766) and the more recent Act 883 (amendment to Act 766).

The figure 1 below shows the Graphical Structure of the Three-Tier Pension System of Ghana

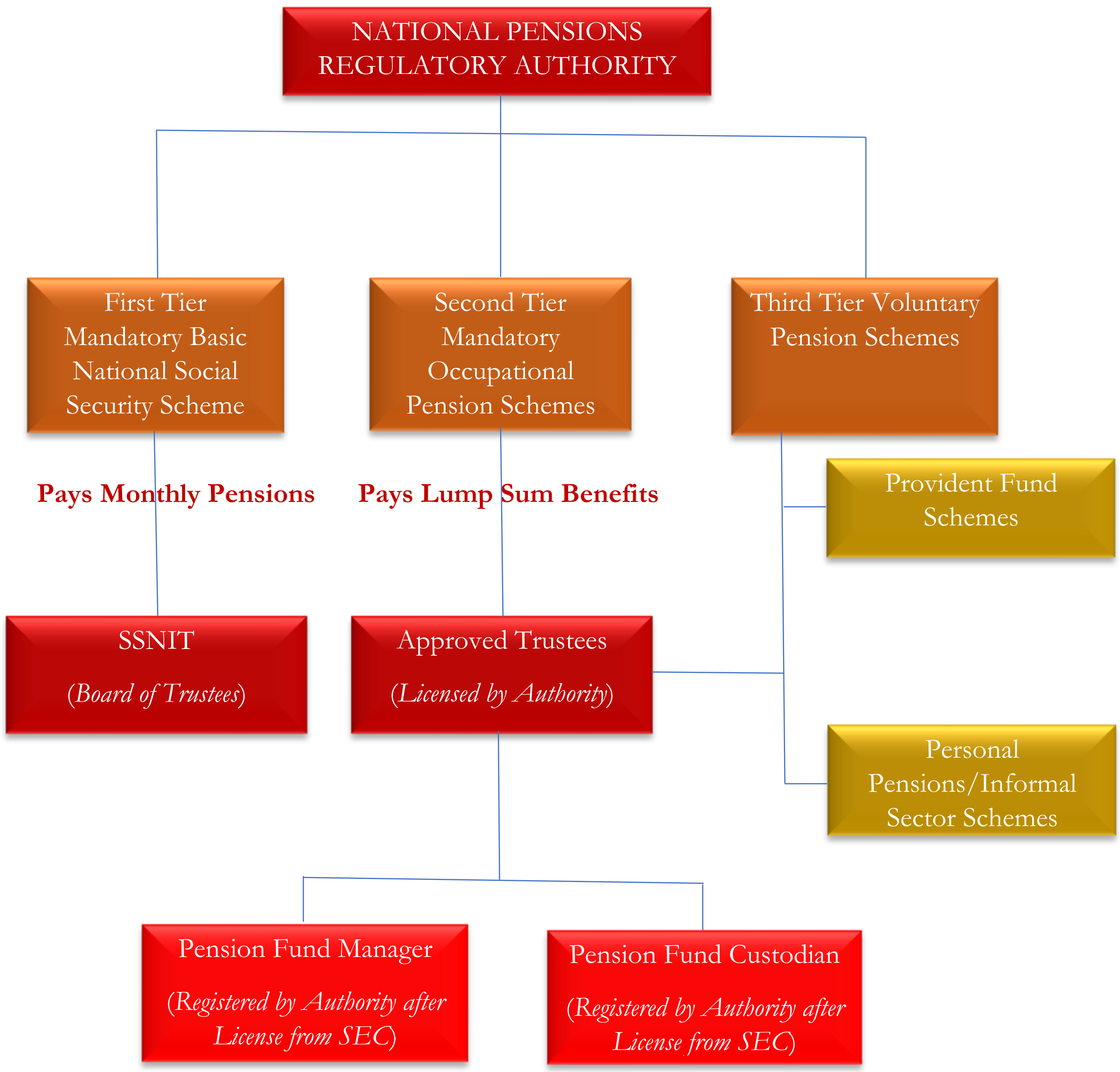

Figure 1: Graphical structure of the 3-tier pension system of Ghana

2.3 IMPLEMENTATION OF THE 3-TIER PENSION SYSTEM, CHALLENGES, AND EFFECTS

Act 766 was passed into law in December 2008 but it became operational in January 2010. The 3-tier pension system, by design, aimed to deliver superior benefits to workers (as compared to benefits under the old PNDCL 247). Following the conversion of a single-tier pension system into a 3-tier system, transitional challenges continue to linger, after more than a decade since its implementation. The transitional issues coupled with regulatory, administrative, and legislative shortcomings have largely affected the quantum of benefits received by past and current retirees under the current system.

The major transitional issues that have adversely and significantly affected the quantum of benefits received by past and current retirees, as well as beneficiaries of deceased workers include the following;

(1) **Lodgment of workers' Tier2 contributions in the Temporary Pension Fund Account (TPFA) at the Bank of Ghana, and its subsequent transfer and payment to workers and beneficiaries:** Public sector workers who retired in 2020 and part of 2021 received 80% of their benefits in the TPFA. For the period the funds were deposited at the Bank of Ghana, beneficiaries of workers who died in service (2010-2018) did not receive their deserved survivors' benefits under the second tier. Public Sector workers who retired voluntarily (reduced pension) between 2015-2018 did not also receive their Tier2 Lump Sum.

(2) **Payment of death benefits to beneficiaries of deceased workers by Tier2 Schemes for the period 2011 to 2021:** An estimated **98%** of beneficiaries who received worker-death benefits from SSNIT did not receive the corresponding benefit under Tier2.
This translates into over **45,000** eligible beneficiaries of about **12,000** deceased workers who died whilst in service for the period 2011 to 2021.
94% of those who did not receive their Tier2 death benefits reported that they were not aware that they were required to apply to receive benefits from Tier2 Trustees. This has led to significant benefit losses to survivors of deceased workers.

(3) **The Amendment to Act 766 (National Pension Amendment Act, 2014 – Act 883):** Benefits payment role for members affected by Act 883 has been split between SSNIT and Gentrust/NPRA. An estimated amount of over **GHS469,966,386.89** meant for the benefits payment to workers who were affected by Act 883 is with Gentrust. A significant number of these members have retired without receiving those benefits. This has led to significant benefits losses to retiring workers.

(4) **NPRA directive concerning members who joined the scheme after age 45 and above**: Benefits payment role for this group has been split between SSNIT and Gentrust/NPRA. This leads to benefits losses to retiring workers.

(5) Members who have differences in Date of Birth between Employer and SSNIT: Some public sector workers have retired without receiving any form of Lump Sum due to differences in their dates of birth between Employer and SSNIT.

(6) Portability (transfer) of accrued benefits: Workers who have changed jobs (except for workers under the five public sector schemes) are unable to transfer their contributions to the current employer. Also, workers are unable to transfer their TPFA benefit (contributions from January 2010 to December 2013 and investment income) to their preferred Trustees. This is because the NPRA has suspended the transfer of funds from the Temporary Pension Fund Accounts (TPFA) to private Trustees. The suspension of contribution portability provision has led to most workers' Tier2 benefits being split between multiple schemes. The TPFA is currently managed by Gentrust which has offices only in Accra, Kumasi, Sunyani, and Takwa. Pensioners and beneficiaries of deceased workers in other locations of Ghana generally have considerable challenges accessing their benefits from the TPFA. Consequently, many workers have retired without receiving the TPFA component (contributions from January 2010 to December 2013 and investment income) of the benefits. They are practically unaware that their TPFA benefits are lodged with Gentrust and must be applied for.

Transitional issues have largely accounted for inadequate benefits and in some cases total benefit losses to beneficiaries under the 3-Tier pension system. The NPRA and stakeholders should review and investigate the major transitional issues identified in this report, that have resulted in significant benefit losses to retirees and beneficiaries of deceased workers.

PART III

IMPACT ASSESSMENT OF THE THREE-TIER PENSION SYSTEM

3.0 IMPACT ASSESSMENT OF PENSION REFORMS

This study evaluates the impact of the pension reforms with a focus on the main pension policy objectives. This includes improving retirement income adequacy (ensuring benefits paid are at an appropriate monetary level), coverage (financial coverage to reach all older persons in need), and financial sustainability (the ability of the pension system to cover current and future costs of social security).

The two main reform objectives were (a) To ensure enhanced retirement income security for pensioners and (b) To set up uniform rules, regulations, and standards for the administration and payment of retirement benefits for both public and private sector retirees.

The assessment of retirement income adequacy uses a framework that clearly defines the adequacy objectives, calculates adequacy indicators, and assesses the overall adequacy by comparing the indicators to the specific policy goals or reform targets.

The extent to which there exist uniform rules and standards for administration and payment of retirement benefits is assessed based on pension coverage, return on investments, administrative efficiency, transparency, and financial sustainability.

The conclusions are based on a detailed analysis and comparison of measurement indicators (which are used to gain insight into the pension reforms outcomes) to pension reform objectives.

PENSIONS REFORM OBJECTIVE 1:

3.1 ENHANCE RETIREMENT INCOME SECURITY TO PENSIONERS (BENEFITS ADEQUACY)

The assessment of benefits adequacy in this context is based on several indicators which include determining if reforms have improved retirement and survivors' benefits, replacement rates, minimum pension in comparison to the national poverty line, pension indexation (benefits redistribution models), the ability of benefits to meet the costs of essential services such as health care, food, accommodation, and so on.

3.1.1 COMPARATIVE ANALYSIS OF BENEFITS PROVISIONS UNDER PNDCL 247 AND ACT 766 (BENEFIT SHORTFALLS)

The broader adequacy objective in this context was to achieve an improvement in retirement benefits (compared to what retirees received under the old PNDCL 247). The study therefore computed and compared the actual Lump Sums pensioners received under the current pension provisions to the 25% Lump Sum they would have received if they had retired under the old pension law.

(1) A significant proportion of past and current retirees under Act 766 has recorded shortfalls in Lump Sum benefits. Overall, **61%** of those who retired in 2021 recorded Lump Sum shortfalls when compared to the 25% Lump Sum (LS) they would have received had they retired under the old PNDCL247. Similarly, **81%** of workers who retired in 2020 suffered shortfalls.
Table 2 shows the estimation of shortfalls in 2021 as compared to the previous year (2020). The Table also shows the composition of Past Credit, Worker 5% Contributions, and Investment Interest to the total lump sum received by retired workers;

Table 2: Comparative Analysis of Shortfalls and composition of total Lump Sum received.

Indicator	2020	2021	Variance	Remarks
Overall % of Workers with Shortfalls	81%	61%	(20%)	Overall shortfalls have reduced (positive indication)
% of Public Sector Workers with Shortfalls	90%	67%	(23%)	Public Sector workers shortfalls have reduced (positive indication)
% of Private Sector Workers with Shortfalls	64%	40%	(24%)	Private Sector workers shortfalls have reduced (positive indication)
% of PC to Total Tier2 LS	41%	33%	(8%)	
% of 5% Contributions to Total Tier2 LS	32%	32%	0%	
% of Investment Income to Total Tier2 LS	27%	35%	8%	Investment income (interest) has improved for 2021 retirees
Average % Shortfall (Amount)	23%	18%	(5%)	

Table 3 shows that an estimated **61%** of the 2021 retirees experienced Lump Sum Shortfall, whilst **39%** were better-off under Act 766.

Further statistical tests of the hypothesis (using the Wilcoxon signed-rank test) revealed that the shortfalls were widespread and significant.

Table 3: Overall Lump Sum Shortfall Status

Category	Public Sector	Private Sector	Total	Overall Proportion (%)
Shortfall	230	39	269	**61%**
No Shortfall	113	58	171	**39%**
Total	**343**	**97**	**440**	**100%**

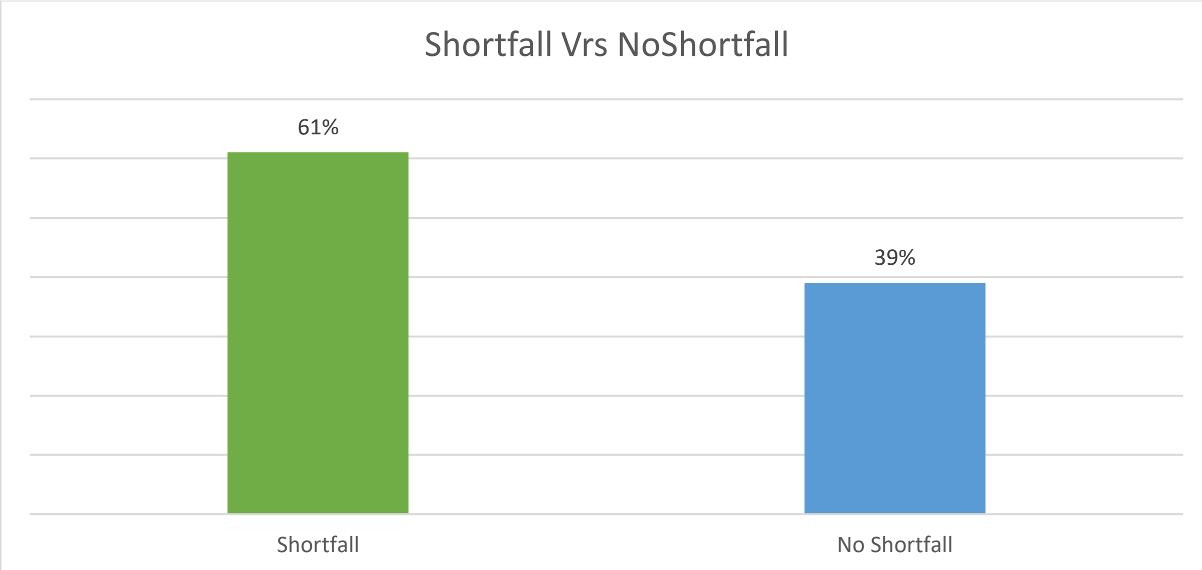

Figure 2: Shortfall against No Shortfall

Table 4 shows the distribution of the lump Sum shortfall by sector;

Table 4: Distribution of Lump Sum Shortfall by Sector

Shortfall by Sector	**Public Sector**	**Private Sector**
Shortfall	67%	40%
No Shortfall	33%	60%
Total	**100%**	**100%**

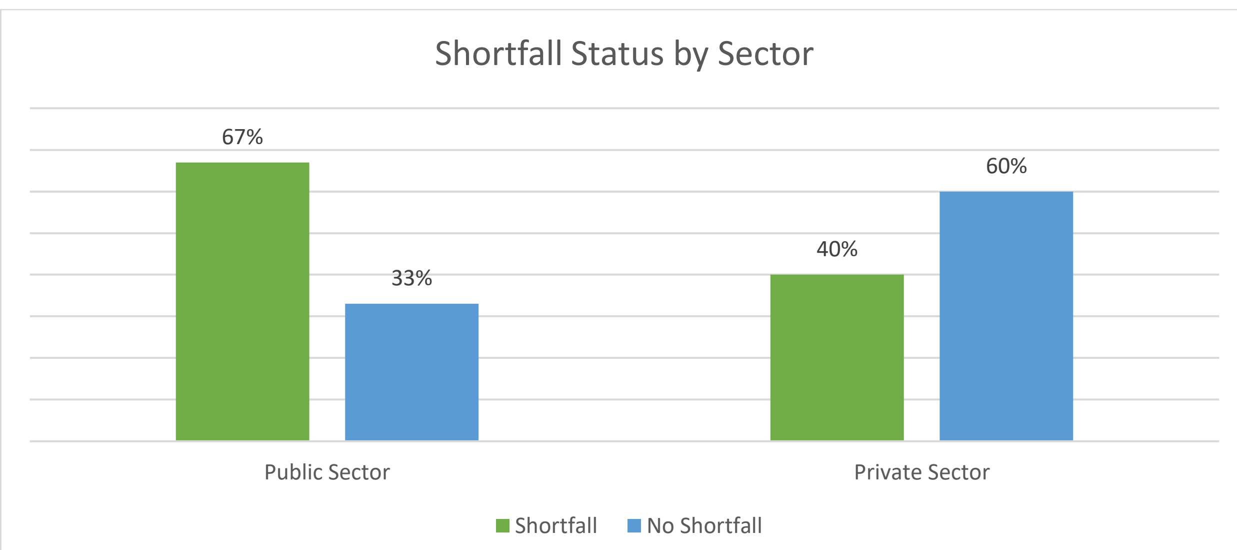

Figure 3: Shortfall Status by Sector

(2) The observed shortfalls are largely driven by inadequate investment income (interest) declared for members under the Tier2 schemes. Evidently, the number of retirees with shortfalls is reduced by 29% when their contributions are accumulated at the risk-free Government of Ghana 91-day Treasury Bill rates compounded annually.

(3) The research predicts that Lump Sum benefit Shortfalls under Act 766 may persist longer than expected if the NPRA does not consider reviewing its monitoring mechanism. Generally, in defined contribution schemes, outcomes (investment interest income) are determined by the efficiency of the processes used and the effectiveness of the monitoring mechanism.

(4) The study conducted a survey to assess retirement preparedness and expectations of future retirees whose ages ranged from 54 to 59. The survey included 320 respondents or workers in both the public and private sectors. The key finding from the survey was that about 61% of Ghanaian workers pause with concern when issues of retirement surface. Out of those who express worries about retirement, 53% have indicated their concerns are based on the experience of past retirees (inadequate benefits). See figure below;

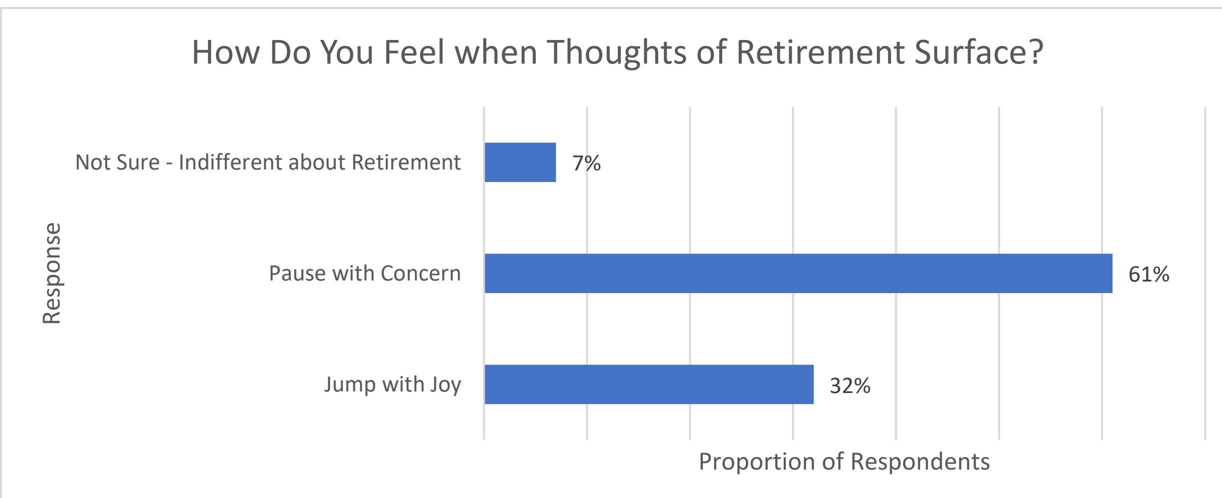

Figure 4: Assessing Workers feeling about Retirement

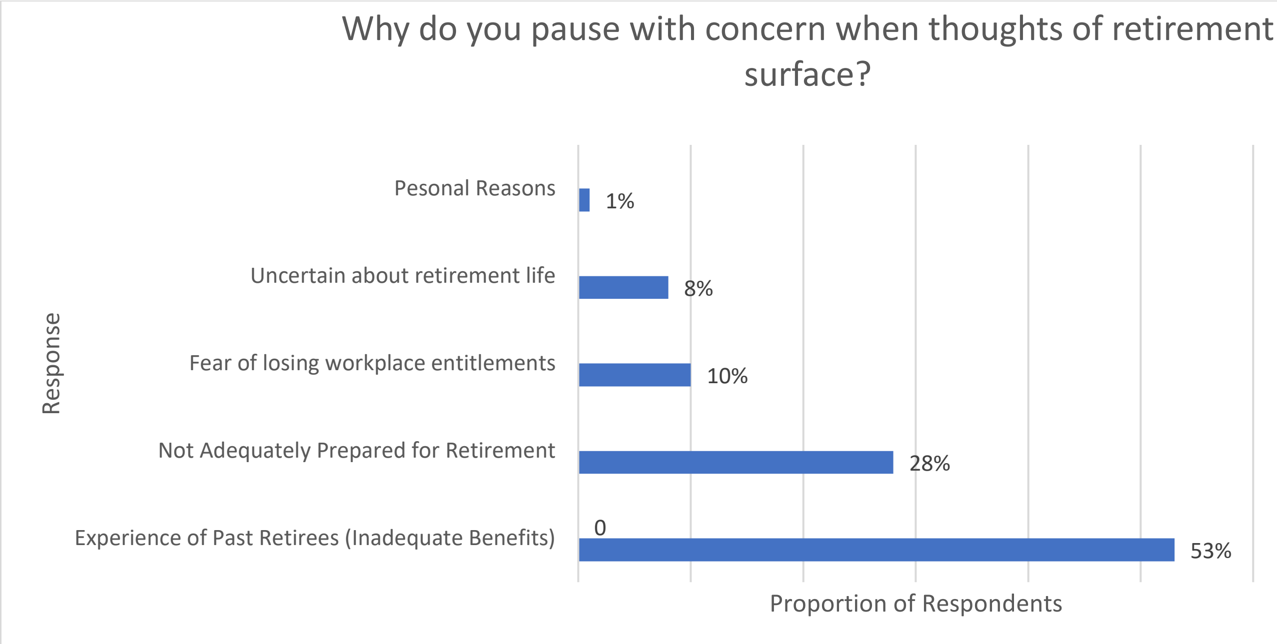

Figure 5: Reasons for concerns about retirement

3.1.2 ADEQUACY OF SURVIVORS' BENEFITS

Under the old PNDCL 247, beneficiaries of deceased workers or pensioners were required to apply to only SSNIT for payment of survivors' benefits. However, under the 3-Tier pension system, beneficiaries of deceased workers are required to apply to SSNIT, and Corporate Trustees for benefits under Tier1 and Tier2 respectively.

Survivors' benefits for beneficiaries of deceased workers under Tier 2 schemes, to a larger extent, are not being paid – an estimated **98%** of beneficiaries who received worker-death benefits from SSNIT (Tier1) did not receive the corresponding benefit under Tier2.

This translates into over **45,000** eligible beneficiaries of about **12,000** deceased workers who died whilst in service for the period 2011 to 2021. **94%** of those who did not receive their Tier2 death benefits reported that they were not aware that they were required to apply to receive benefits from Tier2 Trustees.

The inability of beneficiaries of deceased workers to access survivors' benefits under the Tier2 schemes is caused by inadequate public knowledge of social security provisions and cumbersome benefit processing requirements. These benefit losses have impacted significantly the economic wellbeing of survivors of deceased workers.

3.1.3 RETIREMENT INCOME REPLACEMENT RATES

One of the most important indicators that can provide information about retirement income adequacy is the retirement income replacement rate. This indicator compares income in retirement to income before retirement.

The standard replacement rate, in essence, is the percentage of pre-retirement income that an individual needs to smooth consumption (utility), as they move from working life to retirement. The indicator is useful for assessing the objective of maintaining individuals' living standards in retirement relative to working life.

$$\text{Replacement Rate} = \frac{\text{Retirement income}}{\text{Pre−retirement income}}$$

In determining the replacement rate for retirees in Ghana, the study used final earnings as the pre-retirement income (on the basis that individuals with a stable career might wish to replace the earnings they enjoyed immediately before retirement), and monthly pension payouts as the numerator, considering that most pensioners rely on the social security transfers as their main source of livelihood.

Using empirical data of recent retirees, the study estimates that, on average, the pension scheme is able to replace up to half (49.63%) of the workers' last earnings during the retirement phase. Even though this level of replacement meets the ILO prescribed minimum standard of providing at least **40%** of pre-retirement earnings (Convention No. 102), it is insufficient to maintain a respectable standard of living for most retirees. The ability to maintain the working period level of consumption is cut down by half considering that, for most Ghanaian retirees, the consumption or expenditure pattern is heavily skewed towards food, utility bills, cost of child education, healthcare, transportation, and other unexpected costs.

The average retirement income replacement rate of **49.63%** for Ghanaian retirees does not compare favorably with the reported OECD average of **59%** for net replacement rates of mandatory schemes (OECD 2019 Pension Outlook Report). The replacement rates in Ghana could go down further if workers' allowances during employment is added to the pre-retirement incomes, and this partly explains why Ghanaian retirees have difficulty adjusting to life in retirement. According to Ghana's living standard survey (GLSS 5), there is increasing poverty among the aged population, and many pensioners find the amount paid to them inadequate or insufficient to maintain a healthy and decent life (as prescribed in ILO Convention No. 102). It is generally recommended social security systems should target minimum replacement rates that vary according to earning status, with low-income workers receiving higher replacement rates.

3.1.4 MINIMUM PENSION AS A PERCENTAGE OF NATIONAL POVERTY LINE

The International Labour Organization's (ILO) recommendations have emphasized the need for social security legislation to set minimum subsistence standards (which includes minimum old age pension) to ensure a dignified standard of living for poor pensioners.

Both the Social Security Law, 1991, (PNDCL 247) and the National Pension Act, 2008, Act 766 have provided for the payment of minimum pension to poor pensioners (poverty relief). A trend analysis of the minimum pension shows that the indicator had consistently increased each year since 2000, and in some cases doubled (2013 and 2014).

For the period 2016 to 2021, the minimum pension grew by only 9% whilst the minimum salary of active contributors increased by 47.75% within the period. The value of the minimum pension has remained at GH¢300.00 for four successive years (2019, 2020, 2021, and 2022).

The minimum pension of GHS300.00 represents 30 dollars (using the current exchange rate) per month. This pension amount represents 50% of the value of the national poverty line.
Using the SSNIT Scheme's pension payroll for December 2021, the study found that 40% of pensioners receive GHS600 or below per month. Based on the national poverty line of $2 per day, the study concludes that the benefit levels have fallen below the poverty threshold for a significant proportion of Ghanaian pensioners, and thus fail to prevent old age poverty.

If the level of benefits provided by social protection systems is insufficient in terms of minimum living standards, or are not deliberately designed to protect the poor, the efforts to minimize the social and economic inequalities between the rich and the poor and to reduce old age poverty will be jeopardized.

3.1.5 PENSION INDEXATION (ADEQUACY AND EQUITY)

An important consideration of the adequacy of pensions is their ability to retain their purchasing power and real value over time. Unless the quantum of pension income is adjusted or indexed, the standard of living of pensioners will deteriorate and they may be subsequently pushed into poverty. Best practices, therefore, require that the real value of the initially established monthly income at retirement is preserved for the lifetime of the retiree.

Pension indexation is therefore a policy for upward review of pensions in payment as a means of preserving the purchasing power of pensioners. The basis of pension indexation varies from country to country and the basis is usually grounded in legislation. The choice of an indexation method could impact significantly the distribution and level of pensions for members, and consequently expenditure on pensions.

Many countries around the world are undertaking reforms (mostly changes in the pension indexation formula) that are tailored to provide adequate benefits for low-income earners (poor pensioners). The United Kingdom, Slovakia, Azerbaijan, Czech Republic, Honduras, Spain, Republic of Korea, Belarus, China, Georgia, Ireland, Mauritius, Namibia, Nicaragua, Panama, Philippines, Portugal, Russian Federation, Seychelles, and Turkey are a few of many countries that have introduced reforms to improve benefits adequacy and to minimize economic inequalities between the rich and the poor.

Best practices require that the benefits in payment are adjusted periodically in line with the general level of earnings and/or cost of living or a mix of the two, and must be done through a transparent procedure established by national laws, regulations or practice.

The SSNIT Scheme reviews pensions in payment annually by applying a 'fixed rate' for each pensioner (equal to the average of annual price inflation for the previous year) and a 'flat amount' as a redistribution factor.

The Table below shows the distribution of pension payment amounts on the SSNIT pension payroll for the years 2021 and 2022.

Distribution of pension wealth amongst the 'rich' and the 'poor'

Year	**High earning Pensioners (rich)**		**Low earning Pensioners (poor)**		**Rich**	**Poor**
	Proportion of pensioners	*Share of total payment*	*Proportion of pensioners*	*Share of total payment*	*Highest monthly pension (GHS)*	*Lowest monthly pension (GHS)*
2021	8%	30%	64%	36%	129,979.51	300.00
2022	10%	33%	63%	34%	142,564.97	300.00
2023 (projected)	-	-	-	-	183,908.81	330.00

Data Source: SSNIT Pension Payroll

- The Table above shows that an estimated **8%** of 'rich' pensioners in the upper bound control nearly **30%** of the total payout on the payroll whilst an estimated **64%** of 'poor' pensioners in the lower bound control a lower **36%** of the purse. In 2022, **10%** of 'rich' pensioners in the upper bound control **33%** whilst **63%** of low earners in the lower bound control **34%** of the total payout.

- In 2021, the lowest earning pensioner received GHS300 per month whilst the highest earning pensioner received a monthly pension of **GHS129,979.51**. In 2022, the lowest earning pensioner is still receiving GHS300 whilst the highest earning pensioner is receiving **GHS142,564.97** each month. If the Trust sticks to the current indexation model, the highest earning pensioner, with a projected year-end average inflation of 29%, might receive a monthly pension boost of about **GHS183,908.81** in 2023. Further analysis will prove that the economic gap between the rich and the poor (inequities) increases with time, and in a period of high inflation, the standard of living of the poor (low earners) gets deteriorated and pushes them into poverty.

- The depth of inequities in the distribution of pension wealth on the payroll illustrates that the current mode of reviewing pensions (pension indexation) has the shortcoming of widening the economic gap between the rich (high pension earners) and the poor (low pension earners), and suggests to be at variance with the social security principle of solidarity.

- **The current method of indexing pensions impacts negatively on both retirement income adequacy and equity (redistribution to reduce inequality) and must be reviewed to achieve the twin objectives of minimizing the economic inequality between the rich and the poor (principles of solidarity), and reducing the cost of pensions, consistent with broader reforms to improve the long-term financial health of the scheme.**

3.1.6 VALUE OF BENEFITS PAYOUTS COMPARED TO INFLATION

Price inflation is the main policy variable used to review pensions, ostensibly to restore the purchasing power lost by pensioners in the previous year. The pensioners who were on the Social Security Payroll as at 31st December 2021 received a cost-of-living-adjustment (COLA) of a fixed rate of 9.68% in January. But inflation has raced far ahead of that number this year hitting 33.9% in August.

The recent global economic challenges which have led to fierce rising prices of goods and services (inflation) have eroded pensioners' purchasing power of pension payouts in 2022. The cost of goods and services (measured by inflation) has risen by an average of **24.45%** as at August 2022 as compared to **9.13%** during the same period in 2021.

Many unexpected factors (economic and demographic) which are not considered in the inflation measurement process have significant effects on the daily expenditures of retirees. Such factors are forcing a significant disparity between the real value of pension payouts and the pace of inflation. COVID-19, for instance, introduced new expenditures on the budget of pensioners due to increased hospital visitation.

Inflation is not a constant - it affects different people in different ways and to different extents (depending on factors such as location and income etc.). The real value of benefits payouts to poor old-age pensioners is not able to keep pace with the spate of rising prices of goods and services (inflation). The rising cost of living has adversely and disproportionately affected the socio-economic wellbeing of low-income pensioners, as a result, maintaining a respectable standard of living (smooth consumption) is practically unachievable. For this reason, **the Trust and policymakers should consider a benefit redistribution model that accounts for the diversity of circumstances and needs of the heterogeneous sub-groups (say, income group), and the pension system must aim to achieve the benefit adequacy objective in a broad sense.**

In general, pension reforms and policymakers must consider defining objectives for retirement income adequacy to ensure retirement income policies are targeted at achieving such clear goals.

PENSIONS REFORM OBJECTIVE 2:

3.2 TO SET UP UNIFORM RULES, REGULATIONS, AND STANDARDS FOR ADMINISTRATION AND PAYMENT OF RETIREMENT BENEFITS FOR BOTH PUBLIC AND PRIVATE SECTOR RETIREES.

3.2.1 ASSESSMENT OF INVESTMENT PERFORMANCE OF TIER 2 OCCUPATIONAL PENSION SCHEMES

The most important risk borne by individual members of defined contribution schemes is investment risk, especially if no form of guarantee is given by the pension fund manager (as in the case of Ghana). The rate of returns on investments (interest) is the primary determinant of the accumulated balance at retirement. If this return is too low, individual workers may end up retiring with too small a balance for an adequate retirement income.

As required by sections 175 to 178 of Act 766, the NPRA has developed and issued investment policy guidelines for use by Tier2 and Tier3 Schemes. The main purpose of these guidelines is to enable Trustees or Pension Fund Managers to obtain safe and fair returns for contributors at minimal investment risk, as well as allow for diversification of investment portfolios.

The study tries to assess the effectiveness and impact of the NPRA Investment Policy Guidelines as shown by the investment performance of Tier2 schemes. We compared the actual total interest declared for individual workers by Trustees (for contributions received at various dates) to the total interest worker would have earned assuming he invested those contributions on the basic risk-free (91-day Government of Ghana Treasury Bill rates) compounded annually.

(1) Despite the existence of the investment policy guidelines (developed by NPRA) for Tier2 Schemes, we observed that some Tier2 schemes are awarding returns that are lower than what the worker would have received under the basic risk-free security (Government of Ghana 91-day Treasury Bill). Table 5 compares the investment performance of sampled Tier2 Schemes to yield rates of risk-free Government of Ghana 91-day Treasury Bill rates compounded annually.

Table 5: Comparative Analysis of Interest declared by Trustees against risk-free GOG 91-day T-Bills

Scheme Name	Sector	Performance	Remarks
Public Sector Scheme 1	Public	15%	15% above 91-day T-Bill Rate
Public Sector Scheme 2	Public	(34%)	34% below 91-day T-Bill Rate
Public Sector Scheme 3	Public	(31%)	31% below 91-day T-Bill Rate
Private Sector Scheme 1	Private	14%	14% above 91-day T-Bill Rate
Private Sector Scheme 2	Private	15%	15% above 91-day T-Bill Rate
Private Sector Scheme 3	Private	(36%)	36% below 91-day T-Bill Rate
Private Sector Scheme 4	Private	14%	14% above 91-day T-Bill Rate
Private Sector Scheme 5	Private	4%	4% above 91-day T-Bill Rate

(2) Another factor that significantly impacts accumulated balances (retirement lump sum benefits) under a defined contribution arrangement is the contribution receipt date. **Delay in payment of Tier2 contributions by the Controller and Accountant General's Department (CAGD) for public sector workers is affecting the investment income for workers.**
The study has observed that for public sector schemes, the time lag between when salaries are paid for any month and the contribution receipt date (as captured on member's statements) is at least 3 months. This is at variance with Section 96 of Act 766, which stipulates that an employer shall remit a mandatory contribution of five percent to approved trustees of occupational pension schemes **within fourteen days** from the end of each month.

The delays in submission of contribution data and payment by CAGD are leading to benefits losses. Delays result in public sector workers receiving benefits that do not include contributions that were paid later by the CAGD. This factor also accounts for the recorded high rate of shortfalls among public sector workers.

(3) Accurate crediting of investment income on workers' statements is a major concern and is characterized with inconsistencies. We observed that some Tier2 schemes reduced interest income on members' statements without any justification.

(4) The level of investment income (interest) performance has largely informed the member status (Shortfalls or No-shortfall) in the respective schemes. Accordingly, operational and investment risks (borne by individual workers) have been **assessed to be high** under the current state of implementation of the Act.

(5) The proportion of retirees who experience shortfalls under Act 766 will significantly reduce if the investment function and accurate reporting of accrued interest by Tier2 schemes are monitored to yield the desired returns for members.

KEY MESSAGE
The performance of the schemes' actual interest income (declared on members' statements) as compared to the yields of the basic risk-free 91-day Government of Ghana Treasury Bill rates is worrying, given the objective of the Investment Policy Guidelines.
This finding proves that investment risk, accurate reporting, and crediting of accrued interest by Tier2 Occupational Pension Schemes should be a major focus of the National Pension Regulatory Authority.

The NPRA should, as a first step, assess the effectiveness of its Investment Policy Guidelines by confirming the findings that the Tier2 Occupational Pension Schemes and Fund Managers are not performing any better than the basic risk-free GOG Treasury Bills.

The ACRR assessment for retirees in 2020 indicated that the Lump Sum shortfalls were largely informed by inadequate investment income declared by Second Tier Trustees. The investment income has improved for retirees in 2021 as it comprised 35% of the total Lump Sum as compared to 27% for retirees in 2020. See the figure below;

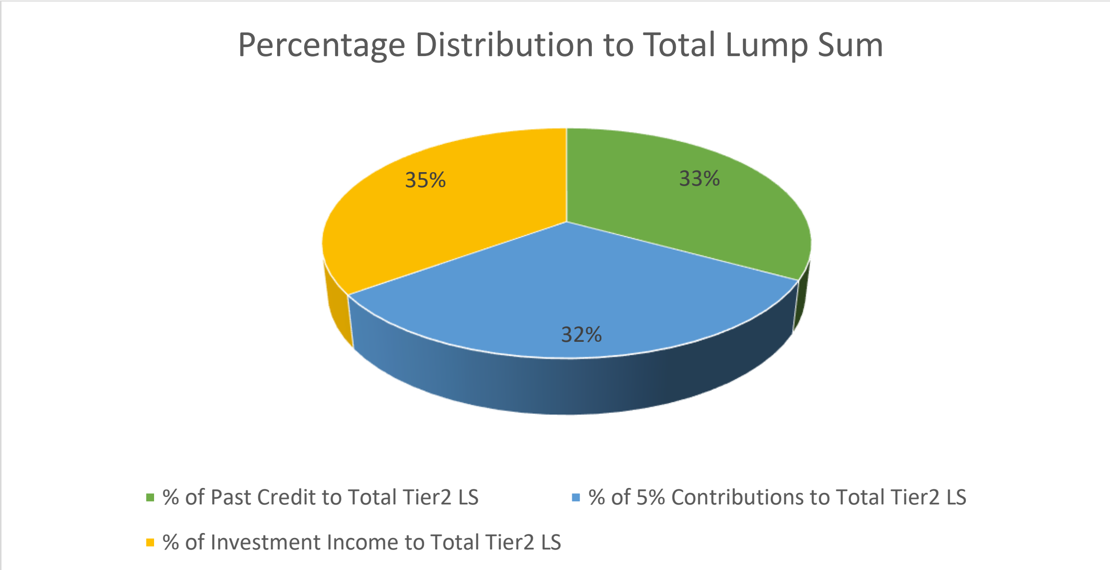

Figure 6: Percentage distribution of PC, Member's contribution and Investment Income to actual Lump Sum received.

3.2.2 SOCIAL SECURITY COVERAGE

How much of the labour force is covered by the pension system?

One of the cardinal indicators used to assess the performance of national pension systems against established principles is the extent of coverage. Coverage simply measures how much of the labour force is covered by the pension system. According to the 2019 OECD Pension Outlook Report, most recent pension reform policies around the world are designed to encourage member participation in social security schemes.

Social Security coverage is an important measure used to determine the efficiency of a national pension system. In particular, low coverage of formal pension systems may lead to widespread old-age poverty. For this reason, pension systems routinely measure and report on coverage to identify gaps and ensure that every member of society is covered.

The key indicators used to assess the coverage of a national pension system are the legal coverage ratio, contributor ratio, and beneficiary ratio.

FINDINGS AND DISCUSSION

(1) Table 6 below shows statistics on the size of the labour force, the actual number employed, the number of contributors to the main pension scheme (out of the total population), and the share of employment by sector, at various time points;

Table 6: Share of Employment in Formal and Informal Economy in Ghana

Census Year	2010	2015	2021
Total population	24,658,823	27,669,000	30,832,019
Labor Force	10,876,470	13,712,631	11,541,355
Employed	10,233,412	9,270,939	9,990,237
Active Contributors	900,322	1,242,385	1,700,000
Share of employment by sector (Informal/Formal Sector)	**89%/11%**	**90%/10%**	**78%/22%**

Source: GSS Census Reports, 2010, 2015 and 2021.

Table 6 illustrates that a larger part of employees can be found in the informal economy. Despite the large size of the informal sector, participation (membership) amongst informal sector workers in the main pension scheme is low - less than 1% of informal sector workers contribute to SSNIT. This low participation of the informal sector workers in the SSNIT Scheme has largely informed the low proportion of older persons above statutory pensionable age receiving monthly pensions (beneficiary coverage ratio) in Ghana as shown in Table 7 below**.**

Table 7: Measures of Social security (pension) coverage in Ghana

Year	2010	2015	2021
Legal coverage: proportion of working age population who are active contributors to the pension scheme and are potentially eligible for receipt of pension at statutory retirement age (%)	8%	9%	15%
Beneficiary ratio - ratio of persons above statutory pensionable age receiving an old-age pension to the of persons' above statutory pensionable age.	-	7.32%	14.2%

(2) **Coverage in this context refers to eligibility for receipt of consistent and stable old-age pension and other related benefits as prescribed under the Basic National Social Security Scheme.** For ease of illustration and understanding, the study categorized the workforce and the findings in Table 8;

Table 8: Social Security Coverage by Worker Category

Worker Group	Description	Findings
Informal Sector Workers/Self-Employed Workers	This refers to persons who operate their own economic enterprises or engage independently in a profession or trade. The informal sector class works under circumstances, which, to the largest extent, are not controlled, regulated, or standardized by state institutions.	• The informal sector supplies 80% to 90% of the workforce in Ghana • Less than 1% of informal sector workers contribute to SSNIT. • Only 1 out of 8 (14.2%) persons of statutory retirement age receive a pension in Ghana. • The 14.2% does not compare favorably against an average of 23% in sub-Saharan Africa and 68% worldwide. • The low beneficiary coverage ratio in Ghana is largely attributable to the low participation of the informal sector workers in the SSNIT pension scheme. • The proportion of the working age population (15-60) who are covered stands at 15%. • To use social security as a poverty reduction tool, stakeholders including Civil Society Organizations and the media should support the SSNIT Informal-Sector-Focus initiative that was launched in March 2022. This will help Ghana in its drive to attain the UN Sustainable Development Goals.

Workers Covered Under BNSSS but Not Under the Mandatory Tier2 Schemes.	This refers to persons on behalf of whom contributions (13.5% of workers' basic salaries) are remitted to SSNIT but the corresponding 5% is not remitted to mandatory Tier2 Corporate Trustees by Employers (as required by section 3 of Act 766).	• Uniformity of coverage has reduced under Act 766, based on the assessment of employer compliance rate concerning Tier2 contribution payment on behalf of their workers. • The study estimates that about **81%** of private small to medium-scale establishments do not pay second-tier contributions on behalf of their workers. • 67% of those who do not pay Tier2 contributions for their workers said they are unaware of Tier2. • Over **400,000** workers, representing about 25% of future retirees under the SSNIT Scheme may not receive a Lump Sum upon retirement. • To forestall cases of future retirees not receiving Lump Sum benefits payments under Tier2, the NPRA should consider offloading the compliance enforcement role under Tier2 to SSNIT for a fee to be determined by the Authority. • The NPRA reports on coverage (2016-2020), which seems to suggest that coverage under the mandatory Tier2 Schemes is at the same level or better than member coverage under the mandatory Tier1 (SSNIT) scheme is inaccurate, and misleading. Refer to **APPENDIX 6** for statistics that shows reporting discrepancies in coverage, as reported by the NPRA.
Formal Sector Workers not Covered under the BNSSS	This refers to persons who work in formal establishments (mostly private) but are not registered under social security and paid for by employers.	• There is a significant number of private-formal sector workers who are not registered and covered by the SSNIT Scheme. • Comparing the number of employed workers in Ghana (by the 2021 PHC) to the number of active contributors under the SSNIT shows that an estimated **26%** of formal sector workers (largely in private establishments) are not covered by the SSNIT Scheme. **Table 9 below refers** • The deficit of uncovered formal-sector workers is largely driven by the non-compliance of private formal employers. • This illustrates the gaps in implementing and enforcing the existing statutory frameworks and the Scheme's compliance enforcement strategy.

Table 9: Share of Formal Employed Workers contributing to the SSNIT Scheme in Ghana

Census Year	Formal workforce (Public and Private) (million)	Active Contributors (million)	Variance (million)	Proportion of Formal workforce covered (%)
2017 Ghana Living Standard Survey	2.57	1.44	**1.13**	**56%**
2021 Population and Housing Census	2.29	1.7	**0.59**	**74%**

Source: GSS Census Reports (2017 and 2021), SSNIT Annual Reports

3.2.3 ASSESSMENT OF THE ADMINISTRATIVE AND REGULATORY EFFICIENCY

The efficiency assessment of a pension system is multidimensional. It is based on the extent to which the system delivers adequate benefits to members, financial and structural sustainability of the system, how much of the labour force is covered by the pension system, cost of running the pension system (collecting contributions, paying benefits, managing investments), the existence and compliance to uniform rules, processes and standards for the administration of the schemes. Other assessment indicators include the benefits processing durations, to what extent the pension system contributes to fiscal sustainability, and the effectiveness of reporting to stakeholders.

The National Pension Regulatory Authority must formulate and enforce policies to protect the interest of members under the occupational defined contribution pension schemes (where individual members bear investment risk, administrative risk, and consequences of operational failures). The effectiveness of the NPRA supervisory and monitoring strategies is doubtful as shown in most of the assessment indicators in Table 10.

Table 10: Measurement of governance and administrative efficiency of the pension system

ASSESSMENT INDICATOR	NARRATION	REMARKS
Social Security Coverage	**Uniformity of Coverage Has Reduced:** Employer contribution payment for workers under the mandatory Tier2 has been poor. As a result, many workers are likely not to receive Lump Sum benefits in the future when they retire.	• An estimated **81%** of private small to medium-scale establishments do not pay Tier2 contributions for their workers. • Public education on the provisions of the 3-tier system is inefficient.
Efficiency of Benefits Payment	**Adequacy of Benefits under the 3-Tier System is Largely Unrealized.** • This is partly attributable to benefit losses due to regulatory, monitoring, and administrative lapses. • Public knowledge with regards to the provisions of Act 766 is affecting benefits adequacy. • Targeted programs to sensitize or educate members on the provisions of the 3-tier scheme are almost non-existent. • Directives concerning transitional issues have not been effective.	• Over **98%** of beneficiaries of deceased workers did not receive benefits under the Tier2 arrangement as required. • **94%** of beneficiaries who did not receive the death benefit indicated that they were not aware of the Tier2 benefit. **Refer to figure 9.**
Uniform Rules and Standards for Administration and Payment of Benefits	**Uniformity of Rules and Standards for Administration and Payment of Benefits is Non-existent.** Significant variations exist among Tier2 schemes with regards to benefit processing procedures, benefits processing durations, the structure of members' statements, and investment performance (as measured by the interest declared on individual workers' statements).	The NPRA has not developed and issued standard guidelines to Tier2 schemes with regard to; • Benefit processing procedures • Benefits processing durations • Structure of members' Tier2 statements • Minimum investment performance.

ASSESSMENT INDICATOR	NARRATION	REMARKS
Transparency in Benefits Administration	• **There is a lack of transparency in the Tier2 benefits processing and payment procedures.** • The NPRA has the important role of ensuring that Trustees provide information to members and beneficiaries in a manner that is comprehensive, accurate, comparable, and timely (as required by best practices). • Lack of transparency and member education with appropriate disclosure requirements during benefits processing is identified as a key challenge in benefits administration under the 3-tier pension system.	Over **90%** of respondents reported that they received their retirement benefits without having access to the Tier2 statement or any form of education on how the benefits were determined. **(OECD has standard guidelines on transparency under DC schemes).**
Sustainability	• Considering the efficiency with which contributions are collected and credited on members' statements, benefits are paid, and the level of returns on workers' contributions, sustainability of the Private Tier2 component, as measured by these indicators is in doubt • The current basis of licensing and approving Trustees by NPRA is weak and needs to be examined. The rate at which pension schemes are delicensed by NPRA is indicative of the weaknesses in the Trustees' licensing and approval procedures. • The risk of operational failures (which members must bear) has been assessed to be high.	
Effectiveness of Transitional Directives	Refer to **Appendix 7** for details of some major transitional issues that have led to significant benefit losses under the 3-Tier pension system.	There are serious challenges with the manner that Gentrust is managing workers Tier2 TPFA contributions. That needs to be reviewed.

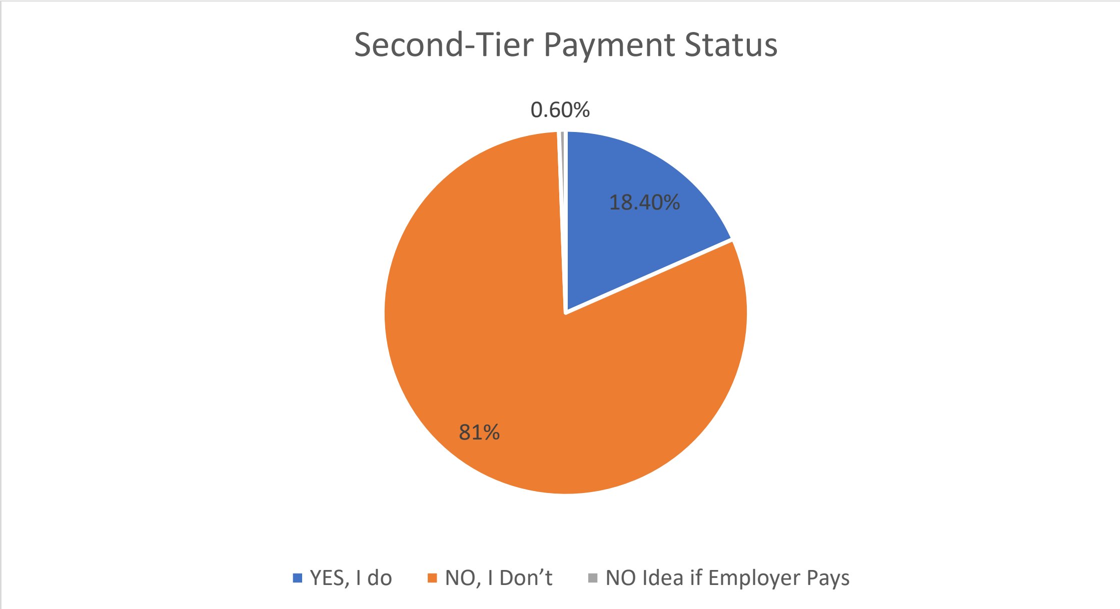

Fig 7: Employer Tier 2 payment Status

- **98% of the beneficiaries of deceased workers did not receive benefits under Tier2 (as required).**

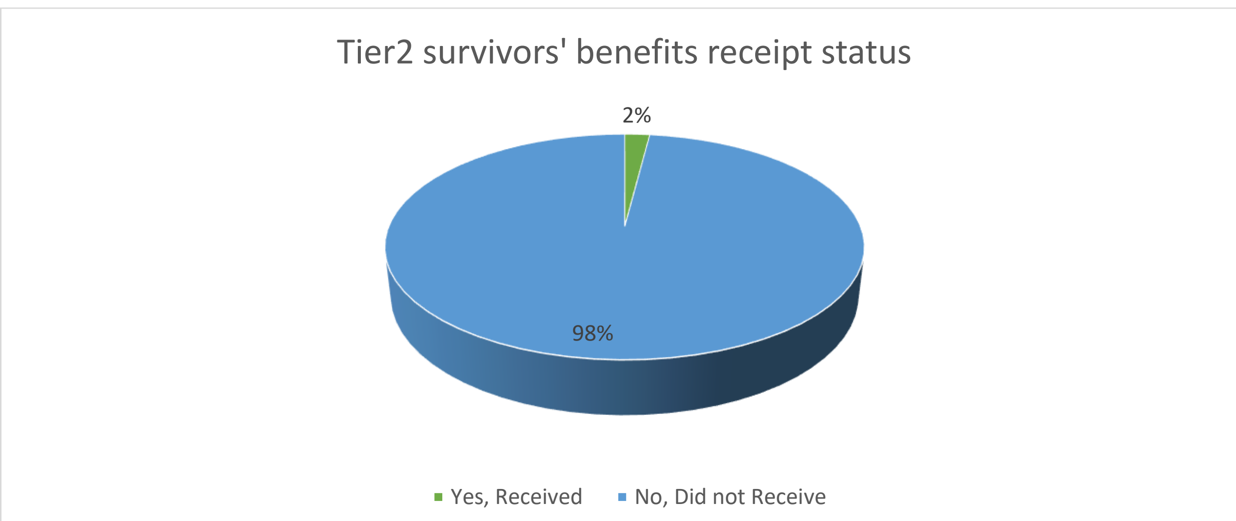

Figure 8: Tier2 survivors benefits receipt status

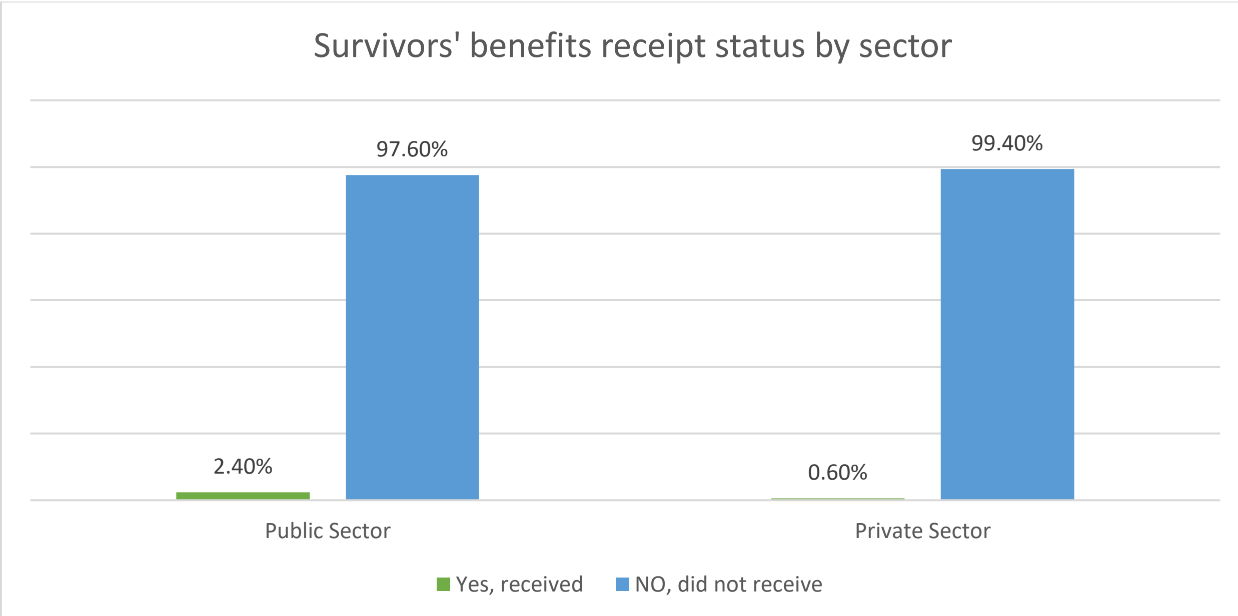

Figure 9: Survivors' benefits receipt status by sector

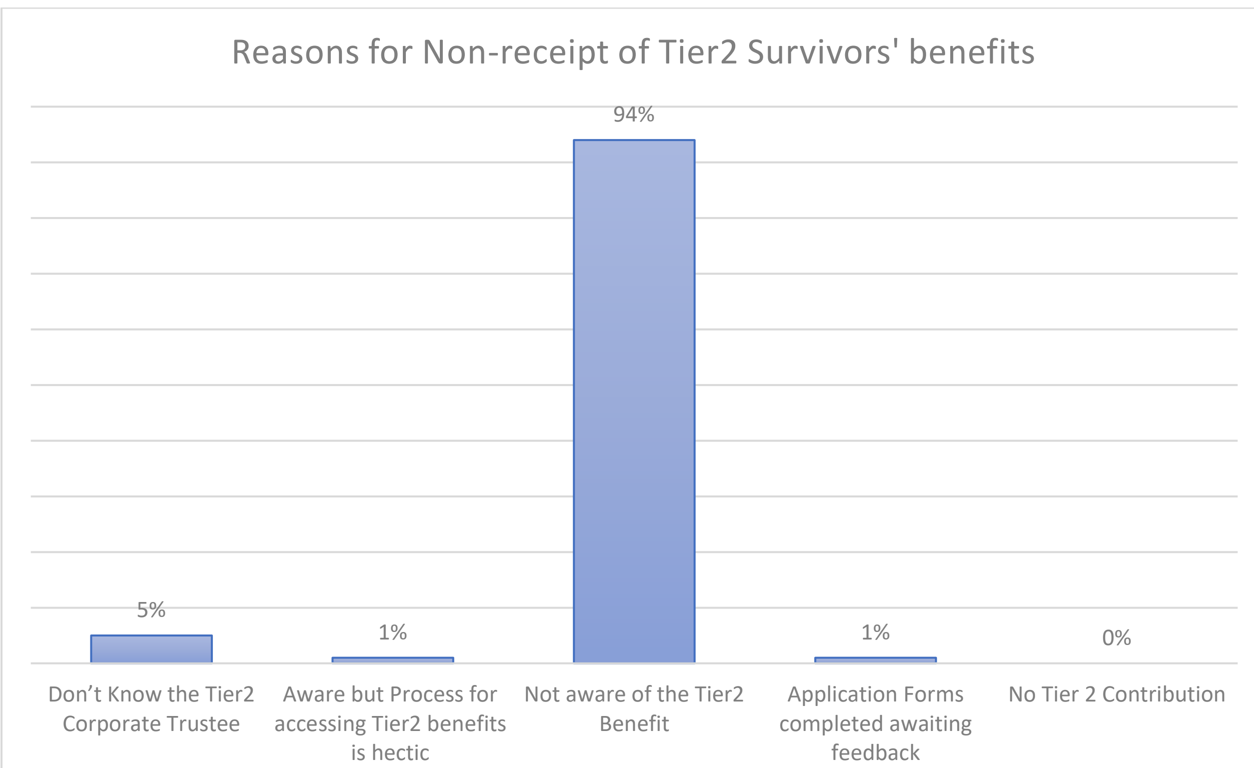

Figure 10: Reasons for non-receipt of Tier2 survivors' benefits

3.2.4 LONG-TERM FINANCIAL SUSTAINABILITY OF THE SSNIT PENSION SCHEME, AND IMPACT OF REFORMS

The rights of older persons to social security and to an adequate standard of living to support their health and wellbeing are clearly laid down in the major international human rights instruments. Formal pension systems are important means of reducing poverty among the aged.

In recent years, however, pension reforms and the long-term financial sustainability of the pension systems have become crucial matters. In many countries, the real challenge concerns how to maintain a good balance between financial sustainability and pension benefits adequacy (financing public pension systems). This is primarily due to changes in demography and the economy. A rapidly aging population, improved life expectancy, declining fertility rates, high inflation regimes, and somewhat high administrative costs have been the main drivers of the rising cost of schemes. This has prompted most governments and policymakers around the world to embark on the necessary parametric and legislative reforms to prevent a collapse of the public pension systems.

The Case of the Basic National Social Security Scheme in Ghana

Social security proves to be the primary source of income for many Ghanaian retirees and their dependents. Many people of all ages have some connection to the program, including over 230,000 Old-age and Invalidity Pensioners, and 1.79 million covered workers.

The sustainability of the SSNIT Scheme (both short-term and long-term) has come under threat. The last three Actuarial Valuations of the Scheme (in 2011, 2014, and 2017) have shown that the cost of benefits is increasing due to improved life expectancy (pensioners living longer) a rapidly aging population (high retirement rates), and somewhat high administrative cost. In addition, the pension reform in 2008 has further introduced a substantial financial imbalance between the scheme's assets and the corresponding liabilities. The reform made specific legislative changes that reduced income to the SSNIT Scheme (26.7% on each contributor), increased the cost of benefits payments (through an increase in the pension guarantee period from 12 to 15 years), and reduced the minimum contribution period for pension (from 240 to 180 months). It is estimated that more than 80 percent of active members aged 55 and above have accrued the minimum number of contribution years required to obtain an old-age pension under the new scheme (15 years). The large majority of SSNIT members are therefore entitled to receive a pension at retirement.

Evidently, an actuarial assessment in 2017 indicated that the Trust's fund reserves are set to deplete by 2037. That is, in less than 15 years, the Trust's fund reserves will not be able to support the payment of scheduled benefits in full and on time if nothing is done by stakeholders.

KEY MESSAGES

(1) The break-even contribution rate (contribution rates required to balance contribution income and expenditure) has been increasing over the projection period in all the valuations.

Table 11 below shows the recommended contribution rates and the funding gaps as contained in the respective Actuarial Valuation Reports.

Table 11: Actuarial Projections in respective valuation reports

Valuation Year	Current contribution rate	Recommended contribution rate	Funding Gap
2011	11%	16.2%	5.2%
2014	11%	19.20%	8.20%
2017	11%	22.4%	11.40%
2020	11%	Predicted to increase beyond 22.4%.	Projected to increase further

The increments in the recommended contribution rates are largely driven by the increasing cost of benefits due to increasing retirement rates and reported improvement in pensioner longevity.

Table 12 illustrates the aging phenomenon of scheme membership as measured by the dependency ratio. The dependency ratio shows the number of workers contributing into the system to support each pensioner. The ratio has decreased from 9 workers per pensioner to 7 within the period 2011 to 2020. The Table also shows that the number of pensioners grows more rapidly when compared to the growth rate of the contributor population.

Table 12: Analysis of Contributor/Pensioner Growth Rates

DEMOGRPHIC INDICATOR	VALUATION REGIME			
Valuation Year	*2011*	*2014*	*2017*	*2020*
Contributor-Beneficiary Ratio (Dependency Ratio)	9:1	8:1	8:1	7:1
Growth Rate (Contributor/Pensioner)	14%:27%	23%:26%	21%:33%	13%:20%

The increment in retirement rates (rapid aging) and reported improvement in life expectancy of pensioners have largely informed significant increment in cost of benefits year-on-year as shown in Table 13 below;

Table 13: Trend Analysis of cost of benefits in respective valuation periods

	Valuation Period			
Item type	**Amount (GHC Billion) 2009-2011**	**Amount (GHC Billion) 2012-2014**	**Amount (GHC Billion) 2015-2017**	**Amount (GHC Billion) 2018-2020**
Total cost of benefits	0.91	2.08	5.18	8.74
Increment (%)	-	129%	149%	68%

(2) Reserves Exhaustion Period

The level of the Trust's fund reserves measures the scheme's ability to pay benefits to current and future retirees. The rate of growth in the reserve generally follows the development of the income/expenditure dynamics in each valuation period.

Table 14 shows the Actuarial Projections and important dates as contained in the respective Actuarial Valuation Reports.

Table 14: Reserve exhaustion date in respective valuation reports

Valuation Year	Reserve Depletion Year	Years available to restore financial balance or avoid fund depletion
2014	2042	28
2017	2037	20
2020	Predicted to come earlier than 2037	Predicted to further decrease

Note that in pension administration, the longer stakeholders wait to fix scheme financial imbalances, the more significant the parametric reforms that are required to re-establish the equilibrium.

Actuarial Opinion

Actuarial valuation reports are summarized into what is termed as the 'Actuarial Opinion' which is a statement (based on the results) certifying whether the scheme is financially sustainable over a specified period into the future (projection period).

The last two Actuarial Valuation Reports of SSNIT carried the same opinion in similar wording as follows:

"Based on the results of this valuation, we hereby certify that the SSNIT scheme is not financially sustainable over the period covered by the projections in this report. This means that in considering applicable financing rules and the future demographic and economic environment in which it will operate, the current assets of the SSNIT scheme, together with future contributions, will not be sufficient to pay all future benefits and administrative and operational expenses over the period covered by the projections in this report".

Based on income-expenditure analysis among other factors, both valuation regimes in 2014 and 2017 have stated that **"This actuarial valuation clearly demonstrates that an increase in the contribution rate is necessary to make the scheme more sustainable for future generations and that it should be planned now".**

(3) LIKELY OUTLOOK OF THE NEXT ACTUARIAL VALUATION REPORT

The next Actuarial Valuation report will be based on data for the period January 2018 to December 2020. The Trust's financial activities for the period 2018, 2019, and 2020 have further proved that the immediate intervention of stakeholders and Parliament to increase the funding rate from the current 11% is crucial to the sustainability of the SSNIT Scheme.

The COVID-19 pandemic led to a considerable reduction in active contributors (due to pandemic-specific job losses), and the implementation of the new interest rate policy with regards to the computation and payment of Past Credit took effect in the year 2020. This has increased the scheme's outgo and is impacting significantly on the reserves. Thirdly, the Trust has recorded negative real returns on its investments (RROI) for three consecutive years. That is (-2.96%) in 2018, (-0.99%) in 2019 and (-0.32%) in the year 2020 **(refer to Appendix 8 for details)**. In addition, there have been increased retirement rates across all ages from 55 to 60. The rate of growth of the pensioner population continues to outstrip the corresponding growth rate of contributors (20% and 13% respectively). As evident, the dependency ratio dropped further from 8 contributors per pensioner in 2019 to 7 in 2020. Administrative cost continues to be high despite its improvement during the period 2018 to 2020. Indebtedness to the Trust continues to rise rapidly - total indebtedness to the Trust doubled to 4.22 billion in 2019 with the government owing 95% of the total debt. Delays in the payment of contributions by government have been cited in the actuarial valuation reports as significantly impacting the scheme's investible funds, and hence its long-term financial sustainability.

Based on the analysis of the financial and demographic changes during the period 2018-2020 and its expected impact on the reserves, the recommended contribution rate necessary to absorb the rising cost of benefits and administrative expenditure (Pay-As-You-Go rate) will rise substantially and most likely will draw the reserves' depletion year earlier than 2037.

WHAT IS THE REQUIRED ACTION AND TIMEFRAME?

The pension system in Ghana is run on a multi-pillar (3-Tier) pension system. This study has revealed a significant financing shortfall of the SSNIT Scheme, as well as major legislative, regulatory, administrative, structural, and implementation shortcomings under the private Tier2 schemes.

The sustainability of the first-tier concerns addressing social security financing shortfalls by increasing the contribution rate in the short-term to avoid complete depletion of the Scheme reserves and to make the scheme more sustainable for future generations. The process of addressing the solvency concerns of the SSNIT Scheme will likely involve a strong political will, long stakeholder engagements, and intense debate in Parliament.

There are obvious issues about the mode of administration and supervision of the private schemes. Assessment of the performance of Tier2 schemes shows that the attainment of the main objectives of Act 766 is far from reach – the relevance of the reforms is hence doubtful.

For a sustainable pension system, it is time that the Parliament of Ghana and other relevant stakeholders examine actuarial recommendations and commence discussion on addressing financing shortfalls of the Basic National Social Security Scheme. Parliament and stakeholders also need to take a critical review of the operations of the private schemes and institute reforms to improve the socio-economic wellbeing of pensioners.

PART IV

SUPERVISION AND ADMINISTRATION OF SOCIAL SECURITY UNDER THE 3-TIER PENSION SYSTEM

SOME IMPORTANT POLICY ISSUES

4.0 SUPERVISION AND REGULATORY FRAMEWORK OF THE PENSION SYSTEM

This section highlights some important policy issues that demand greater attention from the supervisory authority (NPRA), policymakers, and all relevant stakeholders. It is important to note that effective supervision of a multi-tier pension system is critical to meeting its objectives.

4.1 IS THE BASIS OF LICENSING CORPORATE TRUSTEES STRONG ENOUGH?

The most important fact to note about the Tier2 defined contribution scheme is that the individual members generally bear the risks which are inherent in the plan. Such risks include investment risk, operational failures, administrative risk, etc. For this reason, the focus of the pension regulator must be on making sure that the worker is protected from these risks and that the scheme is managed efficiently and in the best interest of the contributor.

The long-term existence and sustainability of second-tier pension schemes are critical to the financial security of workers. All registered Corporate Trustees, Fund Managers, and Custodians who fail to meet the operational requirements of NPRA are delicensed and therefore stopped from operating or the regulator finds them unfit to operate.

In 2015, there were 50 registered Master Trust Schemes and 95 registered Employer-Sponsored Occupational Pension Schemes. As at the end of 2020, the number of schemes deemed fit to operate had reduced to 43 and 72 respectively.
Table 15 shows the rate at which newly registered Occupational Pension Schemes and Fund Managers fall off;

Table 15: Status of Newly Registered Schemes and Fund Managers (2014-2018)

Service Provider	Number of newly registered (2014-2018)	Number of newly registered in good standing as at 2020	Survival Rate
Tier2 Pension Schemes	12	6	50%
Pension Fund Managers	43	13	30%
Pension Assets Custodians	6	5	83%

The rate at which private Tier2 Schemes (Master Trust and Employer-Sponsor Schemes) cease operations (operational failures) need to be examined.
The rate of delicensing of pension schemes is demonstrating the weaknesses in the licensing and approval procedures. If the necessary closure or takeover and reconciliation procedures are not ensured by the regulator before delicensing, the workers may be exposed to potentially, high risks (which the member bears in DC arrangements).

4.2 IS THE PROCEDURE USED IN PROCESSING SURVIVORS' BENEFITS BY TIER2 SCHEMES ACCURATE?

Sections 73 and 81 of the National Pension (Act 766) have the relevant provisions about how survivors' benefits should be processed under the Basic National Social Security Scheme.

The important steps in processing survivors' benefits include the following;

(1) Confirmation of the reported death
(2) Conducting the necessary investigation to establish the rightful beneficiaries (including dependents who may not be nominated)
(3) Determining which benefit distribution law is applicable apart from the original beneficiary nomination (the Children Act, the Intestate Succession Act 1985 (PNDCL 111) or Court order).

Apart from the original beneficiary nomination**,** there are three (3) applicable laws in the distribution of survivors' benefits **(Intestate Succession Law, Children Act, and Court Order).**
Section 101 (5) of the National Pension (Act 766) has the relevant provisions about how survivors' benefits should be processed under the Second Tier Occupational Pension Schemes.
This section is not as detailed as stated under the Basic National Social Security Scheme (SSNIT), and thus presents a legislative gap (lacuna).

The research found as follows;

(1) Some Second Tier Occupational Pension Schemes do not conduct investigations to establish the rightful beneficiaries and they do not apply the applicable laws (the Children Act, the Intestate Succession Act 1985 (PNDCL 111), or Court Order) in the distribution of survivors' benefits. Instead, benefits are paid strictly according to the existing nominations. The existing nomination may not be updated before the death of the worker. Thus, benefits potentially could be paid to the wrong persons and/or inaccurate proportions.

(2) Most Corporate Trustees do not have nomination records of their members. They rely on individual beneficiaries' SSNIT Payment Advice, which does not provide the required information on all beneficiaries of a given deceased worker for accurate distribution of the Lump Sum benefits. Survivors' benefits are generally not processed in line with regulations of the Act

The NPRA should develop survivors' benefits processing guidelines for adoption by Corporate Trustees. These guidelines must include the important steps of death confirmation, investigating to establish the rightful beneficiaries (including dependents who may not be nominated), and applying the right laws in the distribution of benefits (e.g., the Children Act). Such guidelines will also help Trustees avert the risk of financial losses, reputational risk, legal risk, regulatory risk, etc.

4.3 HOW CAN THE SSNIT'S MODE OF COMPUTING SURVIVORS' BENEFITS BE IMPROVED?

To minimize the financial impact of death on surviving beneficiaries in the event of the death of a dependent, there is the need for stakeholders to rethink how survivors' benefits are treated (processed) by the SSNIT.
By the current mode of computing survivors' benefits, the benefit amount payable by SSNIT is determined on the date of death and NOT the actual date of payment.

The inflationary effect from the date of death to the date of payment is unaccounted for (i.e. no interest is paid as a result of the delays, which has been estimated to be significant). **This is deemed as an administrative gap that impacts significantly on the economic wellbeing of survivors that must be corrected.**

The death of a worker or a pensioner that is not immediately reported should be treated as a case of 'incurred-but-not-reported' by SSNIT. If death is not reported for the benefits to be paid, the asset (unsettled amount) continues to build interest. As long as the claim remains unsettled or unpaid (even though the obligation to pay benefits has been established upon the occurrence of the contingency), the asset (unsettled amount) continues to build interest.

The study has revealed that;

- A typical Ghanaian family takes 266 days (8 to 9 months on average) to report a death to SSNIT to receive survivors' benefits.
- After the death is reported, it takes on average, an additional 84 days to process and pay benefits. The time lag between the date of death and the date of payment is deemed significant.
- A significant proportion (55%) of beneficiaries receive survivors' benefits after one year of occurrence of death due to delayed reporting and benefits processing lag. An estimated 16% receive benefits 3 years after the occurrence of death.
- As a result of the time lag between the date of death and the date of payment, beneficiaries (mostly widows and children) lose a significant value of the benefits to inflation.

Simulations have shown little variance between outcomes using the inflation index and 75% Government of Ghana 91-Treasury bill rates compounded annually. The computed benefit amount on the date of death may therefore be accumulated up to the date of payment at a rate to be prescribed by the NPRA or 75% of prevailing GOG 91-T-Bill rates compounded annually.

Appendix 4 has details of SSNIT's mode of Computing Survivors' Benefits compared to how they should be treated (based on best social security practices).

Appendix 5 has a detailed analysis of survivors' benefits losses to inflation (inflation-indexed benefits against actual benefits paid) for deaths that occurred from 2005 to 2020 and were paid within 2015 to 2020.

Table 16 below shows summary estimates of the degree of survivors' benefit losses to inflation as a result of delayed reporting and processing lag;

Table 16: Estimates of quantum of benefits losses to inflation for deaths from 2005 to 2020 that were paid between 2015 and 2020

Average Years of Delay (YOD-YOP)	Number of beneficiaries involved in the sample	Estimated Proportion of benefits lost to inflation
1	6,670	14%
2	2,574	30%
3	768	49%
4	349	69%
5	286	90%
6	134	111%
7	126	138%
8	344	170%
9	242	221%
10	129	248%
11+	155	346%
Total	**11,777**	***

*YOD = Year of Death *YOP = Year of Payment

4.4 AS REQUIRED BY ACT 766, ARE THERE UNIFORM RULES AND STANDARDS FOR PROCESSING AND PAYMENT OF BENEFITS BY PRIVATE TIER2 SCHEMES?

The research aimed to assess the uniformity of rules, regulations, standards, and procedures for the administration and payment of benefits under the 3-tier pension system with particular emphasis on the newly introduced defined-contribution components (second-tier occupational pension schemes).

Significant variations exist among Tier2 schemes with regards to investment performance (as measured by the interest declared on individual workers' statements), benefit processing procedures, benefits processing durations, and structure of members' statements.

4.5 HOW DO BENEFITS PROCESSING DURATIONS DIFFER UNDER THE VARIOUS TIERS, AND THE UNDERLYING CAUSES?

The main Key Result Areas in the Benefits Administration are Accuracy, and Promptness in processing and paying benefits.

Table 17 gives the average duration it takes pensioners and beneficiaries of deceased workers to access benefits (i.e., from the date of application for benefits);

Table 17: Benefits Processing Duration under Tier1 and Tier2

Benefit Type	Average duration for Payment of Benefits (Days)	
	SSNIT	***TIER 2***
Retirement Benefit (live worker)	14	92
Survivors' Benefits (beneficiaries)	84	244

The benefit processing duration varies significantly from one Trustee to the other. Processing durations are relatively higher among public sector schemes. The predominant reason is that the Trustee must wait for 4 to 6 months to receive all outstanding contributions from the Controller and Accountant General's Department before benefits could be processed for payment.

In the case of survivors' benefits, the seemingly high benefit processing duration under occupational pension schemes is due to rather bureaucratic and over-stretched benefits processing procedures and the many documents required. Evidently, a significant proportion (38%) of the sampled beneficiaries who were aware of the Tier2 benefits but did not receive them indicated that the process was cumbersome.

The Scheme is an income-replacement scheme and timely receipt of benefits after retirement is critical to the economic wellbeing of the worker. There is therefore the need to establish uniform rules with regards to acceptable processing durations within which benefits claims must be processed and paid to beneficiaries.

4.6 IS THE PROVISION ON PORTABILITY OF MEMBERS' CONTRIBUTIONS EFFECTIVELY IMPLEMENTED, AND WHAT ARE THE EFFECTS?

Section 100 of the National Pension Act provides for the portability (transfer) of a member's accrued benefits from one occupational pension scheme to another. The member may elect to transfer his/her benefits to another registered scheme if he/she changes an employer or ceases to be an employee of the current scheme.

In addition, where the accrued benefits of a member of a scheme are to be transferred, the approved trustees of the respective schemes and employers shall comply with requirements concerning the transfer of the benefits, in accordance with the regulations of the Act.

4.6.1 STATUS OF MEMBERS' ABILITY TO TRANSFER ACCRUED BENEFITS

The National Pensions Regulatory Authority issued a directive suspending the transfer of funds from the Temporary Pension Fund Accounts (TPFA) to private Trustees. The TPFA is currently managed by Gentrust. Gentrust has offices only in Accra, Kumasi, Sunyani, and Takwa. Pensioners and beneficiaries of deceased workers in other locations of Ghana generally have considerable challenges accessing their benefits from the TPFA. The directive is also reported to be affecting the operations of most private Corporate Trustees, and thus remains a major concern since workers who have changed jobs are unable to transfer their contributions to their current employer.

The directive by the NPRA with regards to the suspension of contribution portability provision has led to most workers' (public and private) Tier2 benefits split between multiple schemes. This potentially leads to benefit losses and prolonged periods within which to access retirement benefits.

The NPRA should consider reviewing the directive and ensure that section 100 of Act 766 is fully implemented.

4.7 POLICY GUIDELINES ON USING TIER2 CONTRIBUTIONS TO SECURE MORTGAGE

A considerable proportion of Ghanaian workers begin to plan to own accommodation within the last 10 years of their working life (M-Cube Pensions Advisory survey data). Literature reviews have highlighted that workers need to own houses as retirement draws near, and that home ownership contributes significantly to worker satisfaction on retirement.

Section 103 (2) of the National Pension Act, 2008, (Act 766) provides that a scheme may allow a member to use that member's benefit to secure a mortgage for the acquisition of a primary residence.

Data from M-Cube Pensions Advisory has shown that most workers would have used the option to secure a mortgage for a primary residence using their Tier2 contributions as collateral.

It is reported that the NPRA is yet to develop guidelines on this provision for adoption by Tier2 Trustees.

The NPRA should develop guidelines to enable workers to use their Tier2 contributions as collateral to secure a mortgage. The guidelines will help facilitate the speedy implementation and adoption by Corporate Trustees. A suitable primary residence for retired workers is key to their overall wellbeing in retirement.

4.8 UNIFICATION OF PENSION SCHEMES

The National Pensions Act, 2008, (Act 766) mandates the National Pension Regulatory Authority (NPRA) to unify all pension schemes in the country within five years after the commencement of the Act.

Section 213 of the National Pensions Act, 2008, (Act 766) provides that upon the Act coming into force, all existing parallel schemes in the public sector such as the colonial CAP 30, Ghana Universities Staff Superannuation Scheme, and all Security Services among others shall be unified under the three-tier scheme within five years, except that of Armed Forces. The unification is to ensure that everyone in the formal sector comes under the three-tier pension plan.

After more than a decade since its implementation, the NPRA is yet to implement the pension schemes unification provision, even though the Authority's annual reports continue to state its commitment to phase out all parallel schemes.

In 2018, the pension unification committee presented a Cabinet Memo to the government for consideration and approval for implementation. A response from the Cabinet directed the NPRA to implement the pension unification provision in 2021.

Until the unification provision is fully implemented, pension schemes in Ghana remain fragmented, non-equitable, and discriminatory along the lines of contributory and non-contributory schemes. The unification of the CAP30 and other related public schemes under the 3-tier pension system will bring equity or reduce disparities in pension benefits, improve the long-term sustainability of the pension schemes (given that every worker will contribute towards their retirement), as well as reduce drawdowns from the consolidated fund to settle pension payments.

In particular, the increasing cost of funding the CAP30 pension scheme (where members do not contribute and benefits are funded from the Consolidated Fund) and the variation in benefits computation methods under the SSNIT and CAP30 schemes must be major considerations for the unification effort. The respective benefit provisions and funding models under the CAP30 and SSNIT Schemes are the main factors driving the observed inequities under the two schemes.

PART IV

CONCLUSION AND RECOMMENDATIONS

5.0 OVERALL ASSESSMENT/CONCLUSION

This conclusion is based on a detailed analysis and comparison of measurement indicators (which are used to gain insight into the pension reforms outcomes) to the reform policy objectives. The reform objectives under the 3-Tier pension system (Act 766) mainly concerned benefits adequacy and the extent to which there exist uniform rules and standards for the administration and payment of benefits (administrative efficiency and sustainability). Based on comparing the key measurement indicators to the set reform targets, the overall assessment of the extent to which the pension reform has delivered on the set goals is the 3-tier pension system under Act 766 is yet to deliver the expected results. The financial and structural sustainability and the overall success of the 3-Tier pension system are largely in doubt.

Following the conversion of a single-tier pension system into a 3-tier system, and after eleven (11) years since the implementation of Act 766, transitional challenges continue to linger. The transitional issues coupled with regulatory, administrative, and legislative shortcomings have largely affected the quantum of benefits received by past and current retirees, as well as beneficiaries of deceased workers under the new system.

The objective to deliver enhanced retirement benefits (benefits adequacy) under Act 766 is assessed to be unreachable, and coverage has deteriorated. A significant proportion of workers retiring under Act 766 continue to suffer shortfalls, survivors' benefits are not sufficiently and efficiently paid under Tier2 Schemes, some Tier2 Trustees and Fund Managers are awarding interest incomes that fall below the basic risk-free Government of Ghana 91-day Treasury Bill rates, the retirement income replacement rates are insufficient to maintain a decent standard of living for most retirees, and a significant proportion of Ghanaian retirees receive pensions that fall below the national poverty threshold, and thus fail to prevent old age poverty. The depth of inequities in the distribution of pension wealth on the payroll shows that the current mode of reviewing pensions (pension indexation) impacts negatively on both retirement income adequacy and equity and must be reviewed – it has the shortcoming of widening the economic gap between the rich (high pension earners) and the poor (low pension earners) and suggests to be at variance with the social security principle of solidarity. Most workers under the 3-tier pension system have recorded benefit shortfalls and the degree of the shortfalls has been rated to be persistent, widespread, and significant, and the social and economic impact on the retiring population is dire.

The study predicts that Lump Sum benefit shortfalls may persist longer than expected and many retirees would be denied the deserved retirement benefits if the NPRA, Policymakers, Civil Society, and all relevant stakeholders do not step in with the needed reforms to address the obvious legislative, regulatory, administrative, and implementation lapse of the current pension Act.

The objective of setting up a uniform set of rules and standards for the administration and payment of benefits under Act 766 remains largely unrealized - significant variations exist among Tier2 schemes with regard to investment performance (as measured by the interest declared on individual workers' statements), benefit processing procedures, benefits processing durations, and structure of members' statements. The lack of uniform rules and standards is resulting in significant benefit losses under the 3-Tier pension arrangement.

To improve the sustainability and efficiency of the overall pension system, as well as, accelerate the attainment of the reform objectives, the study has put forward some recommendations for consideration by stakeholders in the pension industry. We believe that the task of building a robust and efficient pension system in Ghana cannot be achieved by a single entity but will take a collective genuine effort by all relevant stakeholders including Civil Society Organizations and the Media.

All efforts should be geared towards making the reform that gave rise to the 3-tier pension system worthwhile, and central in this are the NPRA and Parliament of Ghana.
In the meantime, available evidence shows that the new 3-Tier pension system is yet to deliver the expected results to the Ghanaian worker, attributable largely to legislative, regulatory, administrative, and implementation lapses.

5.1 RECOMMENDATIONS

HOW CAN STAKEHOLDERS ADDRESS THE BENEFITS INADEQUACY CHALLENGE?

1. TRANSITIONAL ISSUES (IMPLEMENTATION OUTCOMES)

The NPRA and stakeholders should review and investigate the major transitional issues identified in this report, that have resulted in significant benefit losses to retirees and beneficiaries of deceased workers. The transitional issues relate to;

(a) General management of funds in the Temporary Pension Fund Accounts (TPFA) by Gentrust.

(b) Payment of death benefits to beneficiaries of deceased workers by Tier2 Schemes for the period 2012 to 2021.

The NPRA must put measures in place to control benefit losses under the 3-Tier pension system. In particular, the NPRA and stakeholders should ensure that

- beneficiaries of all deceased workers (from 2011 to 2021) receive their benefits (including the TPFA benefits from Gentrust).
- Data on worker-death benefits paid by SSNIT is used to pay the corresponding death benefits under the Tier2 schemes.
- Public education on the benefits provisions of the scheme and transparency during benefit processing must be stepped up – lack of member education and appropriate disclosure requirement are resulting in significant benefit losses to pensioners and beneficiaries.

The NPRA should consider dealing comprehensively with transitional issues relating to;

- **Transfer and payment of Tier2 Lump Sum refunds to members who were affected by the Amendment Act (Act 883) but who opted to receive benefits under Act 766.** For this group, the benefits payment role has been split between SSNIT and Gentrust/NPRA and hence resulting in benefit losses. The NPRA and stakeholders should ensure that the benefit payment role is centralized at SSNIT.
- **Benefits payment to workers who registered and contributed to the scheme after age 45 and above.** For this group, the benefits payment role has been split between SSNIT and Gentrust/NPRA. To control benefit losses, and for a prompt and accurate receipt of benefits by these group, the NPRA and stakeholders should ensure that the benefits administration role for this category of members is centralized at SSNIT.
- **Non-receipt of Lump Sum benefits by retired workers who had differences in their dates of birth between SSNIT and Employer.** The NPRA and the Controller and Accountant Generals' Department should ensure that the benefits of all the affected public sector workers are calculated and paid. Their Tier2 contributions from 2010 could be accumulated at an agreed interest rate and paid to the beneficiaries.
- **Portability (transfer) of accrued benefits.** NPRA should consider reviewing the suspension of portability of contributions to enable workers who have changed jobs to transfer their TPFA contributions from Gentrust to their preferred Trustees. The full implementation of section 100 of Act 766 will engender the needed uniformity and help control benefits losses.

2. IMPROVING REGULATORY, ADMINISTRATIVE AND GOVERNANCE STRATEGIES

- **Consider holding pension reform dialogue:** Stakeholders, which include Government, Parliament, NPRA, Trade/Worker Unions, Civil Society Organizations, etc. should consider holding a pension reform dialogue, given that the 3-Tier pension system is yet to deliver the expected results, and impacting adversely on the main pension policy objectives. Pension Reforms should focus on parametric changes and must seek to deepen stakeholder consultations through NPRA, SSNIT, and Tier2 Trustees Annual General Meetings. Stakeholders that include Government, Civil Society Organizations, Workers Unions, Research Institutions, etc. should regularly hold deliberations with regards to adequacy of retirement incomes - it helps governments to optimize retirement policies.

- **Consider undertaking parametric and operational reforms:** Based on the performance of the existing provisions, stakeholders should consider undertaking parametric and operational reforms that target improving the twin objectives of providing adequate benefits to pensioners, and the long-term financial sustainability of the public PAYG pension scheme. The reforms must consider defining objectives for retirement income adequacy to ensure retirement income policies are targeted at achieving such clear goals. The objectives must be measured with appropriate indicators to enable policymakers assess whether the pension system is likely to meet the targeted objectives.

- **Consider reviewing the method of adjusting pensions in payment:** The current method of indexing pensions impacts negatively on both adequacy and equity. It must be reviewed to achieve the twin objectives of minimizing the growing economic inequality between the rich and the poor (principles of solidarity), and reducing the cost of pensions, consistent with broader reforms to improve the long-term financial health of the scheme. Such a model should account for the diversity of circumstances and needs of the heterogeneous sub-groups (say, income group), and the pension system must aim to achieve the benefit adequacy objective in a broad sense.

3. IMPROVING BENEFITS ADEQUACY THROUGH OPERATIONAL POLICY REFORMS

To control benefit losses, and eliminate the persistent Lump Sum benefits shortfalls under Act 766, we recommend as follows;

(a) The National Pensions Regulatory Authority (NPRA), Policymakers, Civil Society Organizations, and all relevant stakeholders should begin to discuss and implement deliberate measures to respond to the observed Lump Sum Shortfalls under the new pension system.

(b) Given the finding that most Tier2 schemes are not providing the desired investment outcomes, even when compared with the basic risk-free Government of Ghana securities, the Government of Ghana and stakeholders should consider amending the law to include minimum investment performance guarantees for Fund Managers. Guarantees are effective ways to control investment risk that contributors must bear. Investment guarantees policies introduced in Switzerland, Romania, Belgium, Holland, etc. have injected the desired outcomes into defined contribution schemes in those economies.

(c) Government should consider providing a 'Top-up' payment for pensioners who contributed for at least 240 months at the point of retirement and have recorded shortfalls as defined in this study.

(d) The NPRA should use a system-based approach (technology) in its monitoring to ensure that interest incomes that are credited on statements reflect the actual investment performance of the private Tier2 schemes.

(e) For equity, stakeholders should ensure that the CAGD and Trustees for public sector schemes comply fully with section 96 of the Act, which prescribes the time for submission and payment of Tier2 contributions to Trustees.

(f) The NPRA should assess the effectiveness of their investment policy guidelines since the established evidence has shown that the recorded Lump Sum shortfalls are largely driven by inadequate investment income declared by Tier2 Trustees.

(g) The NPRA and stakeholders of the pension industry should put measures in place to recognize or even license the operations of pension advisory firms. Most workers, for lack adequate understanding of the social security provisions under the 3-tier system, risk losing substantial benefits if they do not find help from pension advisory firms.

WHAT IS THE RECOMMENDED APPROACH TO PROCESSING SURVIVORS' LUMP SUM BENEFITS UNDER THE SSNIT SCHEME?

To improve the socio-economic wellbeing of beneficiaries (mostly widows and children) as well as encourage best social security administration practices, we recommend that the computed survivors' benefits on the date of death should be indexed to inflation up to the date of payment.

Simulations have shown little variance between outcomes using the inflation index and 75% Government of Ghana 91-Treasury bill rates compounded annually. The computed benefit amount on the date of death may therefore be accumulated up to the date of payment at a rate to be prescribed by the NPRA or 75% of prevailing GOG 91-T-Bill rates compounded annually.

SSNIT is also encouraged to incorporate IBNR estimates during actuarial valuations. A lack of IBNR estimates in the valuation model will introduce an asset-liability mismatch.

Appendix 4 has details of SSNIT's mode of Computing Survivors' Benefits compared to how it should be treated (based on best social security practices)

4. HOW CAN SOCIAL SECURITY COVERAGE BE IMPROVED

(a) Uniformity of coverage has reduced under Act 766, based on the assessment of employer compliance rate concerning Tier2 contribution payment on behalf of their workers.

Considering the operational strength of the NPRA, effective enforcement of compliance of Tier2 contribution payment seems practically impossible. To forestall cases of future retirees not receiving deserved Lump Sum payments under Tier2, the NPRA should consider reviewing the compliance enforcement strategy on employers with regards to payment of Tier2 contributions, as prescribed under sections 64 and 105 of the Act. Specifically, the Authority may consider offloading the prosecutorial role under the Tier2 to SSNIT for a fee to be determined by the Authority.

(b) To use social security as a poverty reduction tool, stakeholders including Civil Society Organizations and the media should support the SSNIT Informal-Sector-Focus initiative that was launched in March 2022. This will help Ghana in its drive to attain the UN Sustainable Development Goals.

(c) considering the finding that an estimated **26%** of formal sector workers (largely in private establishments) are not covered by the SSNIT Scheme, SSNIT should consider reviewing its compliance enforcement strategies to cover this deficit.

5. LONG-TERM FINANCIAL SUSTAINABILITY OF THE SSNIT SCHEME

To improve the long-term financial sustainability of the Basic National Social Security Scheme;

(a) The Governments, Parliament of Ghana, Policymakers, and all relevant stakeholders need to commence discussion on undertaking the necessary parametric and legislative reforms to prevent the complete depletion of the fund reserves and to sustain the SSNIT scheme for future generations.

(b) There is the need to specify an automatic rule for the determination of the actuarial equilibrium of the scheme to guide future contribution rate increases subject to specified funding objectives. The rule may be incorporated as an amendment to Act 766.

(c) In line with best practices, the Trust must 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. This will avert politically shielding the real financial state of the scheme from the relevant stakeholders (until it is too late). This provision may be incorporated as an amendment to Act 766.

(d) The Trust and stakeholders should examine the performance of SSNIT investments, considering that the scheme recorded negative real returns on its investments for 3 consecutive years (2018, 2019, and 2020). The administrative costs of the Trust should be controlled by the NPRA.

6. UNIFORMITY OF RULES, REGULATIONS, AND STANDARDS FOR THE ADMINISTRATION AND PAYMENT OF BENEFITS

Given the importance of uniformity of rules and standards in efficient administration and payment of benefits;

(a) The NPRA should develop and enforce uniform guidelines and procedures for use by Tier2 Schemes in the processing, administration, and payment of benefits.

(b) The NPRA should establish standard benefit processing durations for each benefit type for use by Corporate Trustees. Benefits processing duration is an important key results area in pension administration and must be monitored.

(c) The NPRA and stakeholders should consider tightening the procedures for licensing and approving Tier2 Schemes. Effective supervision of the Tier2 schemes is critical to attaining the core objectives of the 3-tier pension system. The NPRA's ability to effectively monitor private pension schemes in Ghana could be significantly undermined if the proliferation of Trustees and private pension schemes are not controlled.

(d) In the best interest of workers, NPRA should consider encouraging and converting Employer Sponsored Schemes that lack the capacity and relevant expertise to operate to join the well-established Master Trust Occupational Pension Schemes.

(e) To promote transparency, the NPRA should develop and implement a uniform contribution statement structure for all Tier2 Schemes. Members' ability to understand and verify the accuracy of contribution statements promotes the transparency and information disclosure requirement under defined contribution arrangements.

(f) The NPRA should develop survivors' benefits processing guidelines for adoption by Corporate Trustees. These guidelines must include the important steps of death confirmation, investigating to establish the rightful beneficiaries (including dependents who may not be nominated), and applying the right laws in the distribution of benefits (e.g., the Children Act). Such guidelines will also help Trustees avert the risk of financial losses, reputational risk, legal risk, and regulatory risk.

(g) The NPRA should develop guidelines to enable workers to use their Tier2 contributions as collateral to secure a mortgage for a primary residence. The guidelines will help facilitate the speedy implementation and adoption by Corporate Trustees. A suitable primary residence for retired workers is key to their overall wellbeing in retirement.

7. CONDUCT FURTHER RESEARCH AND REGULAR ACTUARIAL ASSESSMENT ON BOTH PUBLIC AND PRIVATE PENSION SCHEMES

To achieve the main pension policy objectives (i.e., improving retirement income adequacy, extending coverage to all, and generally reducing poverty), stakeholders must conduct further research to guide reforms and related corrective measures.

Stakeholders must also ensure that regular actuarial reviews are carried out to ascertain the financial and operational status of schemes under all Tiers. Regular and further research is required to guide reforms and related corrective measures under the current 3-Tier pension system.

8. **ADEQUATELY RESOURCE AND BUILD OPERATIONAL AND TECHNICAL CAPACITY OF THE PENSION REGULATOR**

Government, in consultation with other relevant stakeholders, must plan programs that aim to improve the operational and technical capacity of the regulator (NPRA). Effective supervision is identified as crucial to the success of a multi-tier pension system.

APPENDICES

APPENDIX 1A: Example of Countries that introduced pension privatization concept into their national pension system during the period 1981 and 2018

Main Features	Full privatization	Partial privatization
Description	This involves replacing the public Pay As You Go (PAYG) system by a privately managed pension system, based on fully-funded individual accounts and defined contributions (DC).	This involves the introduction of a complementary fully-funded individual accounts component in a larger system, resulting in several pension schemes, some public (with DB, PAYG and public administration features) and others privately managed (with DC, fully-funded individual accounts). The weight of the pillars can significantly differ among countries.
Example of Countries	Chile (1981), Bolivia (1997), Mexico (1997), El Salvador (1998), Kazakhstan (1998), Nicaragua (2000), Dominican Republic (2003), Nigeria (2004)	Argentina (1994), Uruguay (1996), Hungary (1998), Poland (1999), Costa Rica (2001), Latvia (2001), Bulgaria (2002), Croatia (1999), Estonia (2002), the Russian Federation (2002), Lithuania (2004), Romania (2004), Slovakia (2005), Macedonia (2006), Ghana (2010)

Source: Mesa-Lago, 2004; Mesa-Lago and Hohnerlein, 2002; Obermann T.P. 2005; Orenstein M. A. 2008; Grishchenko, 2014.

APPENDIX 1B: Examples of countries that undertook structural pension reforms leading to lowering Private Tier Contribution rates or totally abolish the private Tier

Country	Reform strategy
Venezuela (2000), Ecuador (2002), and Nicaragua (2005),	Pension privatizations were repealed and considered unconstitutional.
Argentina (2008)	The government closed the individual accounts and transferred the funds to the public PAYG system
Hungary (2011)	Government officially nationalized private pension assets and eliminated the second private tier.
Bolivia (2009)	A constitutional ban on social security privatization was passed, closing the individual accounts system for new entrants;
Russian Federation (2012)	Contributions to private tier schemes were diverted to public social insurance scheme.
Poland (2014)	All individual accounts were transferred back to the social insurance PAYG system
Czech Republic (2016)	The new government ended the private tier schemes
Bulgaria (2007)	Contribution increase in the individual account pillar was cancelled
Estonia (2009)	The government suspended its contribution of **4 per cent** to the second individual accounts tier.
Latvia (2009)	The contribution rate to private tier scheme was reduced from **8% to 2%.**
Lithuania (2009)	The contribution rate to individual accounts tier was reduced from **5.5% to 1.5%.**
Romania (2009	The government reduced and froze contribution rates to the second individual account tier
Macedonia (2011)	the contribution rate to mandatory individual accounts was cut from **7.42% to 5.25%**
Croatia (2011)	The contribution rate to the mandatory individual accounts tier was decreased from **10% to 5%**
Slovakia (2012)	The contribution rate to the individual accounts tier was cut from **9% to 4%**
Kazakhstan (2013)	Individual private tier accounts were transferred to the Unified Pension Fund administered by the Government as a defined contribution scheme.

APPENDIX 2: Chronology of Social Security Legislations in Ghana (1946-2008)

For the purpose of completeness and deepening the understanding of how Social Security in Ghana has evolved over the years, we examined the major provisions under the various legislations from the start (dating back to 1946) through to the enactment of PNDC Law 247 to the passage of the current National Pension Act, 2008 (Act 766).

LEGISLATION	YEAR	MAIN PROVISIONS	REMARKS
Pension Ordinance of 1946 (CAP 30)	1946	Established for only selected officers in the public service which comprised pensionable officers in the Civil Service and the Armed Forces.	This scheme applied and still applies to some selected public sector workers. The scheme by design was non-contributory, discriminatory and had effects on national budget - funded by taxes. Benefits formula was frequently manipulated for superior benefits by senior civil servants who operated the scheme as there was no actuarial basis for the scheme.
Parliamentary ACT 279	1965	• Exempted members of the Armed Forces, workers in Police and Prison Services, foreign workers in diplomatic missions and senior members in research institutions. • Participation was Optional for establishment that employed less than 5 workers.	Jointly administered by the Ministry of Finance and SIC. The benefit was a lump sum.
NRCD 127	November 1972	• Operated as a provident fund under which • Lump Sum benefits were paid to beneficiaries upon retirement. • The provident fund also covered contingencies including invalidity, survivors', unemployment, and emigration benefits.	This Decree was an Amendment to Act 279. It established SSNIT as an independent corporate body to administer a universal Social Security in Ghana
Pension and Social Security Amendment Decree 1975 (SMCD 8)	1975	• The Amendment provided the opportunity for public to decide the option they preferred - join SSNIT or stay with CAP 30	The SMCD 8 was such that once the option was exercised, member was not allowed to change it.

PNDC Law 247	1992	• Operated as a pension fund under which • Monthly pension benefits are paid to beneficiaries upon retirement at age 55 or above. • Covered contingencies that includes old-age and invalidity pensions, Old-age Lump Sum, survivors' Lump Sum.	The PNDC Law 247 was the legislation that converted the SSNIT Scheme which operated as a provident fund to a real pension scheme.
ACT 766	2008	• A 3-tier pension system that operates as a defined-benefit pension scheme under which • Monthly pension benefits are paid to beneficiaries upon retirement at age 55 or above. Covered contingencies that include old-age and invalidity pensions, Old-age Lump Sum, survivors' Lump Sum and Emigration benefit.	The National Pension Act, 2008 (Act 766) introduced for the first time, private players in pension administration in Ghana. It also intended to unify all parallel pension schemes in Ghana as was provided in section 213 of the Act 766.
ACT 883 (Amendment to Act 766)	2014	• Challenges associated with the Implementation of the Act 766 led to Amendment of the Act 766 which gave rise to the Act 883. • The amendment of the National Pensions Act, 2008, (Act 766) by Act 883 reduced the age exemption of membership of Act 766 for existing contributors to the SSNIT Scheme from 55 years and above to 50 years and above with effect from 1st January, 2010. • All members born in 1955-1959 were earlier classified under Act 766. The Act 883 effectively changed or reduced the age exemption limit to 50 years as at 1st January 2010 and hence reclassified them under the old law (PNDCL 247). • Members born between 1955 and 1959 who could not meet the 240 months contributory period condition were given the option to come under Act 766 where the minimum contribution period for pension is 180 months.	Further Actuarial studies revealed that members who were born between January 1955 and December 1959 and thus were classified under the new Act would not be able to accumulate substantial contributions under the second-tier arrangement to guarantee them superior lump Sum benefit, and so the ACT 883 came to fill that gap.

APPENDIX 3: Summary of the Three Stages of Reforms (1991-2015)

Parameter	**PNDCL 247** (Before 2010)	**Act 766** (From 1st January 2010 to 31st December 2014)	**Act 883** (From 1st January 2015 to present)
Contribution rate	Employee - 5% Employer - 12.5% (Total - 17.5%) Disbursement: NHIS - 2.5% SSNIT - 15%	Employee - 5.5% Employer - 13% (Total - 18.5%) Disbursement: NHIS - 2.5% Occupational schemes -5% SSNIT - 11%	Employee - 5.5% Employers - 13% (Total - 18.5%) Disbursement: NHIS - 2.5% Occupational schemes -5% SSNIT - 11%
Old-age benefit formula	Pension Right (PR) = 50% for 240 months plus 1.5% for each year of contribution in excess of 240 months. BTYAS - Best three years average salary. Formula = PR * BTYAS	Pension Right (PR) = 37.5% for 180 months plus 1.125% for each year of contribution in excess of 180 months. BTYAS - Best three years average salary. Formula = PR * BTYAS	Pension Right (PR) = 37.5% for 180 months plus 1.125% for each year of contribution in excess of 180 months. BTYAS - Best three years average salary. Formula = PR * BTYAS
Minimum contributory period (months)	240	240(2010), 228(2011), 216(2012), 204(2013), 192(2014) and 180 months from the year 2015.	180
Benefits covered	Old age pension, Invalidity pension, Survivors benefit, Old-age Lump Sum	Old age pension, Invalidity pension, Survivors benefit, Old- age Lump Sum	Old age pension, Invalidity pension, Survivors benefit, Old-age Lump Sum, Emigration benefit

Annuity Period	Pension guaranteed for 12 years from age 60, i.e., up to age 72	Pension guaranteed for 15 years from age 60, i.e., up to age 75	Pension guaranteed for 15 years from age 60, i.e., up to age 75
Parameter	**PNDCL 247** (Before 2010)	**Act 766** (From 1 January 2010 to 31 December 2014)	**Act 883** (From 1 January 2015 to present)
Lump Sum	SSNIT responsible for payment of 25% of 12 years guaranteed pension (computed at present value).	Corporate Trustees and Fund Managers are responsible for payment of Lump Sums upon members retirement or death (financed by 5% of members' monthly basic salaries).	Corporate Trustees and Fund Managers are responsible for payment of Lump Sums upon members retirement or death (financed by 5% of members' monthly basic salaries).
Age limit in 2010 for being exempt to Act 766 or 883	-	55	50

Appendix 4: SSNIT's Basis of Computing Survivors' Benefits against proposed mode of treatment

How survivors' benefits are processed and paid	Proposed mode of treatment	Justification
In all cases of survivors' benefits, the benefit amount payable by SSNIT is about the date of death (incurred date) and NOT the actual date of payment. The "incurred date" is the date on which a claim is deemed to have occurred. In this case, the incurred date is the DOD. By the SSNIT mode of treatment of survivors' benefits, the time lag (the period between the date of death and the date on which the claim payment is made) is unaccounted for. This time can be broken into two parts: (i) the time between the incurred date and the date upon which death is reported for consideration by the Trust and (ii) the time between the date of reporting of death and the claim payment date. Example: For a worker or a pensioner who died in June 2014 (incurred date), and whose death is reported by the family in June 2021 (7 years after death), the survivors' benefit amount that was payable in 2014 is the same as they would receive in 2021 (without interest).	(1) The total benefits payable to the surviving beneficiaries should be determined on the date of payment (DOP) and not the date of death or date of reporting of death. (2) The total survivors' benefits amount payable should comprise the computed benefits as at the date of death and accrued interest (inflation-indexed or interest rate to be determined by stakeholders) from the date of death to the date of payment. **The random sample considered shows that it takes an average of 266 days for a family to report the death to SSNIT and a further 84 days on average to process and pay survivors' benefits.**	(1) Social security is insurance. The death of a worker or a pensioner that is not immediately reported should be treated as a case of 'incurred-but-not-reported (IBNR)'. IBNR provides for claims or contingencies that have occurred but have not yet been reported to the scheme administrator. IBNR is most often associated with delayed reporting and processing lag. It is important to note and consider the period in which claims were incurred (DOD) and the period in which they were paid (DOP). The current model of treatment suggests that SSNIT expects benefits to be paid on the same date the death has occurred – this is not realistic! (2) It is important to also note that as long as the claim remains unsettled or unpaid (even though the obligation to pay benefits has been established upon the occurrence of the contingency), the asset (unsettled amount) continues to build interest. (3) Once the contingency (death) has occurred (reported or not), the scheme has incurred the cost, and the final cost is based on the DOP and not when the cost was incurred. (4) It is therefore not a coincidence that in estimating reserves for IBNR cases, all the approaches have considered claim incurred and payment dates.

APPENDIX 5: ANALYSIS OF SURVIVORS' BENEFITS LOSSES TO INFLATION (INFLATION-INDEXED BENEFITS AGAINST ACTUAL BENEFITS PAID) FOR DEATHS THAT OCCURRED WITHIN 2005 TO 2020 AND WERE PAID WITHIN 2015 TO 2020.

* YOD = Year of Death, YOP = Year of Payment

PERIOD (YOD-YOP)	NUMBER OF BENEFICIARIES	AVERAGE YEARS DELAYED	ACTUAL BENEFIT PAID	INFLATION-INDEXED BENEFITS	BENEFITS LOST TO INFLATION	AVG. %AGE BENEFIT LOST
2005-2016	8	9	7,821.00	31,268.92	23,447.92	300%
2005-2017	55	12	75,461.88	344,752.53	269,290.65	357%
2005-2018	1	13	2,689.37	13,496.79	10,807.42	402%
2006-2015	3	9	3,393.42	10,336.40	6,942.98	205%
2006-2016	15	10	10,920.34	39,090.17	28,169.83	258%
2006-2017	54	11	73,165.89	299,270.06	226,104.17	309%
2006-2018	2	12	2,895.71	13,011.15	10,115.44	349%
2006-2020	7	14	7,493.96	40,225.19	32,731.23	437%
2007-2015	11	8	3,770.46	10,372.82	6,602.36	175%
2007-2016	44	9	51,933.05	167,898.12	115,965.07	223%
2007-2017	102	10	183,900.30	679,381.38	495,481.08	269%
2007-2018	3	11	6,773.37	27,487.55	20,714.18	306%
2007-2020	8	13	17,228.63	83,523.39	66,294.76	385%
2008-2016	34	8	45,023.77	124,984.08	79,960.31	178%
2008-2017	155	9	232,004.91	735,934.55	503,929.64	217%
2008-2018	7	10	14,412.43	50,220.30	35,807.87	248%
2008-2020	10	12	14,226.97	59,221.67	44,994.70	316%
2009-2015	4	6	6,086.31	12,051.75	5,965.44	98%
2009-2016	34	7	76,622.06	178,299.14	101,677.08	133%
2009-2017	287	8	585,074.64	1,555,735.98	970,661.34	166%
2009-2018	19	9	75,591.85	220,800.30	145,208.45	192%
2009-2020	15	11	33,135.75	115,623.90	82,488.15	249%
2010-2015	17	5	26,426.18	47,230.22	20,804.04	79%
2010-2016	9	6	39,198.14	82,328.56	43,130.42	110%

2010-2017	54	7	120,379.52	288,912.86	168,533.34	140%
2010-2018	1	8	188.52	497.02	308.50	164%
PERIOD (YOD-YOP)	**NUMBER OF BENEFICIARIES**	**AVERAGE YEARS DELAYED**	**ACTUAL BENEFIT PAID**	**INFLATION-INDEXED BENEFITS**	**BENEFITS LOST TO INFLATION**	**AVG. %AGE BENEFIT LOST**
2010-2020	5	10	21,622.49	68,099.85	46,477.36	215%
2011-2015	18	4	16,259.79	26,722.75	10,462.96	64%
2011-2016	35	5	113,727.83	219,677.61	105,949.78	93%
2011-2017	89	6	179,381.71	395,937.27	216,555.56	121%
2011-2018	6	7	3,344.50	8,109.23	4,764.73	142%
2011-2020	13	9	25,864.83	74,917.63	49,052.80	190%
2012-2015	35	3	178,707.27	269,156.19	90,448.92	51%
2012-2016	42	4	87,575.55	155,004.57	67,429.02	77%
2012-2017	124	5	311,833.19	630,685.93	318,852.74	102%
2012-2018	8	6	18,397.11	40,873.37	22,476.26	122%
2012-2020	11	8	56,823.85	150,816.08	93,992.23	165%
2013-2015	38	2	185,796.08	251,252.84	65,456.76	35%
2013-2016	45	3	265,115.00	421,316.24	156,201.24	59%
2013-2017	98	4	305,913.60	555,522.78	249,609.18	82%
2013-2018	8	5	21,622.70	43,133.34	21,510.64	99%
2013-2020	32	7	114,524.96	272,916.27	158,391.31	138%
2014-2015	124	1	1,639,531.00	1,920,438.30	280,907.30	17%
2014-2016	151	2	967,987.83	1,332,446.76	364,458.93	38%
2014-2017	303	3	1,838,827.55	2,892,345.41	1,053,517.86	57%
2014-2018	21	4	89,135.16	154,013.31	64,878.15	73%
2014-2020	24	6	121,011.62	249,782.73	128,771.11	106%
2015-2016	492	1	4,960,743.86	5,829,700.83	868,956.97	18%
2015-2017	1263	2	11,825,036.87	15,879,292.72	4,054,255.85	34%
2015-2018	105	3	753,948.12	1,112,168.35	358,220.23	48%
2015-2020	102	5	462,315.30	814,691.34	352,376.04	76%
2016-2017	3284	1	37,047,904.20	42,334,343.75	5,286,439.55	14%

2016-2018	224	2	1,731,230.00	2,173,122.79	441,892.79	26%
2016-2020	170	4	1,482,138.65	2,222,512.46	740,373.81	50%
PERIOD (YOD-YOP)	**NUMBER OF BENEFICIARIES**	**AVERAGE YEARS DELAYED**	**ACTUAL BENEFIT PAID**	**INFLATION-INDEXED BENEFITS**	**BENEFITS LOST TO INFLATION**	**AVG. %AGE BENEFIT LOST**
2017-2018	271	1	2,448,067.44	2,689,202.08	241,134.64	10%
2017-2020	280	3	1,868,195.40	2,451,593.62	583,398.22	31%
2018-2020	898	2	9,348,324.87	11,167,601.79	1,819,276.92	19%
2019-2020	2499	1	29,744,809.52	32,696,981.06	2,952,171.54	10%

APPENDIX 6: REPORTING DISCREPANCIES ON SOCIAL COVERAGE UNDER THE MANDATORY TIER1 AND TIER2 SCHEMES

YEAR	REPORTED NUMBER OF ACTIVE EMPLOYERS UNDER SSNIT	REPORTED NUMBER OF ACTIVE EMPLOYERS UNDER THE PRIVATE TIER2 SCHEMES	VARIANCE	REPORTED NUMBER OF ACTIVE WORKERS UNDER SSNIT	REPORTED NUMBER OF ACTIVE WORKERS UNDER THE PRIVATE TIER2 SCHEMES	VARIANCE
2012	40,664	1,889	(38,755)	1,051,429		-
2013	42,946	2,375	(40,571)	1,120,512	219,697	(900,815)
2014	44,941	9,132	(35,809)	1,189,168	800,000	(389,168)
2015	51,237	10,610	(40,627)	1,242,385	1,210,619	(31,766)
2016	57,925	17,719	(40,206)	1,310,610	1,380,137	69,527
2017	58,745	20,876	(37,869)	1,315,499	1,302,233	(13,266)
2018	67,206	31,489	(35,717)	1,533,942	1,674,000	140,058
2019	68,000	70,000	2,000	1,625,253	1,750,000	124,747
2020	62,472	**N/A**		1,633,505	2,107,322	473,817

The Table above suggests that despite SSNIT having more establishment with relatively better compliance enforcement structures, employer compliance under Tier2 schemes is higher than that under SSNIT. The figures, as contained in the NPRA Reports, are at variance with the real status of coverage under Tier2 schemes. The size of the variances also emphasizes on the quantum of employers who are not covered under the mandatory Tier2 Schemes.

APPENDIX 7: Some Transitional Issues have resulted in Significant Benefit Losses to Workers

Following the conversion from a single-tier to a 3-tier pension system, the following are among the major transitional issues that have impacted on the adequacy of benefits for retirees and beneficiaries of deceased workers;

Transitional Issue	Narration	Effect/recommendation
Lodgement of Tier2 contributions at Bank of Ghana	Following the implementation of the Act 766 in 2010, the second -tier operators needed time to set up fully to receive the designated 5% contributions meant for the second tier. As a transitional measure, a Temporary Pension Fund Account (TPFA) was set up at the Bank of Ghana to receive workers' mandatory 5% Tier2 contributions from January 2010, pending the licensing of Trustees and the registration of the relevant 2nd Tier Occupational Pension Schemes.	For the period the funds were deposited at the Bank of Ghana; • beneficiaries of workers who died in service (2010-2018) did not receive their deserved survivors' benefits under the second-tier. • Most workers who retired voluntarily (reduced pension) did not also received their Tier2 Lump Sum.
Transfer of Funds in TPFA to Trustees and Payment to Workers and Beneficiaries. **Management and Payment of funds in the TPFA have not been comprehensively and exhaustively dealt with. This is leading to significant benefit losses.**	The Funds in the TPFA was managed by NPRA for the period 2010 to 2018. The total TPFA funds of **GHS 1,945,428,035.00** as at December 2018, is currently being managed by General Trust Company Limited (Gentrust) under the Sankofa Master Trust Occupational Pension Scheme and, Public Sector Workers Employees' Pension Scheme, both administered by General Trust Company Limited.	• Except for workers under the five public sector schemes, all other workers (public and private) have their retirement Lump Sum benefit split between the Employee's current Corporate Trustee (regular contributions) and Gentrust (TPFA). • Many workers have retired without receiving the TPFA component of the benefits. They are practically unaware that their TPFA contributions (from January 2010 to December 2013) and investment income are lodged with Gentrust and must be applied for. Others who are aware of TPFA component of the benefit have difficulty accessing the benefit because Gentrust has offices only in Accra, Kumasi, Sunyani, and Takwa.

Transitional Issue	Narration	Effect/recommendation
Payment of Survivors Benefits by Tier2 Trustees	An estimated 98% of eligible beneficiaries did not receive survivors benefits from second-tier Corporate Trustees. 94% of them was simply not aware that they were required to apply to receive benefits from Tier2 Trustees. Others complained of cumbersome benefits processing procedures under the Tier arrangement.	• Benefits losses to beneficiaries To improve the socio-economic wellbeing of beneficiaries of deceased workers under the 3-tier pension system; • NPRA, Stakeholders and Civil Society need to step up public education on the benefits provisions of the scheme. • NPRA should ensure that data on worker-death benefits paid by SSNIT is used to ensure that beneficiaries receive the corresponding death benefits under the private Tier2 schemes.
Workers Affected by the National Amendment Act (Act 883)	Following the implementation of Act 883, the NPRA directed Private Trustees to refund only 80% of the Tier2 contributions and, accrued interest in respect of members who opted for Act 766 to SSNIT for payment upon retirement. The directive indicated that the remaining 20% should be retained by Trustees and payable to members only upon retirement. The directive split the benefit payment role between SSNIT and Tier2 Trustees (largely Gentrust)	• Benefits payment role for members affected by Act 883 has been split between SSNIT and Gentrust/NPRA. This is resulting in benefit losses. • Most of the Act 883 Members who opted to receive benefits under Act 766 are not aware that 20% of their benefits were retained by Trustees. For public sector workers, such funds are with Gentrust. • An estimated amount of over **GHS469,966,386.89** meant for benefits payment to workers who were affected by Act 883 is with Gentrust. A significant number of these members have retired without receiving those benefits. This has led to significant benefits losses to retiring workers.

Transitional Issue	Narration	Effect/recommendation
Workers Who Joined and Contributed to the Scheme After Age 45	Section 59 of the National Pension Act, 2008, (Act 766) states that the maximum age at which a person may join the social security scheme is forty-five (45) years. Some workers aged 45 years and above were, however, erroneously registered and enrolled unto the scheme. In Compliance with Section 59 of the Act, the NPRA issued a directive with regards to the registration of new members who are 45 years and above on the SSNIT Scheme. This category of workers is split into three (3) categories, depending on where to receive benefits upon retirement.	Benefits payment role for members in this category is split between SSNIT and Gentrust/NPRA. This is resulting in benefit losses. • Available evidence has shown that workers who registered and contributed to the scheme after age 45 and above are mostly frustrated with verbal directives with regards to whether their benefits are with SSNIT or Gentrust/NPRA. • Largely, non-Controller public sector workers and private sector workers who joined the scheme at age 45+ have their retirement entitlements with Gentrust whilst public sector workers on Controller and Accountant General's payroll have their benefits with SSNIT. • Most members in this category are less educated, they experience prolonged durations in accessing their benefits and a significant proportion of them (without help from Pension Advisory Companies) end up losing the retirement benefit which are retained by Trustees. • For smooth and prompt receipt of benefits by members who joined the scheme at age 45 years and above, the NPRA and stakeholders should ensure that benefit administration for this category of members is centralized at SSNIT.
Workers with Differences in their Date of Birth Between SSNIT and Employer	Differences in Date of Birth (DOB) between SSNIT and Employer lead to wrongful scheme categorization of members (PNDCL 247 or Act 766). ACRR research has estimated that **25%** of members of the SSNIT Scheme have differences in Date of Birth between Employer and SSNIT.	This has denied a significant number of pensioners their Lump Sum benefits.

APPENDIX 8: Trend Analysis of 9-Year Investment Performance of the SSNIT Scheme

Valuation Regime	Year	Real Returns on Investments
Actuarial Valuation covering January 2012 to December 2014	2012	10.67
	2013	15.97
	2014	16.81
Actuarial Valuation covering January 2015 to December 2017	2015	4.02
	2016	(5.93)
	2017	9.22
Next Actuarial Valuation Period will cover January 2018 to December 2020	2018	(2.96)
	2019	(0.99)
	2020	(0.32)

APPENDIX 9: Share of Pension Fund Assets Under Management of SSNIT and Private Pension Schemes

YEAR	FUND ASSETS UNDER MANAGEMENT OF PRIVATE SCHEMES (Billions)	FUND ASSETS UNDER SSNIT SCHEME (Billions)	TOTAL PENSION FUND ASSETS (Billions)	SHARE OF FUND ASSETS UNDER MANAGEMENT OF PRIVATE SCHEMES (%)	SHARE OF PENSION ASSETS UNDER SSNIT (%)	VARIANCE (%)
2012	0.81	4.28	5.09	16%	84%	(68%)
2013	1.34	5.56	6.91	19%	81%	(61%)
2014	2.58	7.43	10.01	26%	74%	(48%)
2015	4.67	8.81	13.48	35%	65%	(31%)
2016	6.79	8.89	15.68	43%	57%	(13%)
2017	11.02	9.80	20.82	53%	47%	6%
2018	13.00	9.20	22.20	59%	41%	17%
2019	17.40	8.90	26.30	66%	34%	32%
2020	22.00	11.30	33.30	66%	34%	32%

The gap (pension fund assets under management between private pensions schemes and SSNIT keeps growing partly because benefits are not sufficiently and efficiently paid under the private occupational pension schemes.

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