AFRICA CENTRE FOR RETIREMENT RESEARCH (ACRR)

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REQUEST BY THE FORUM FOR PUBLIC SECTOR REGISTERED PENSION SCHEMES FOR TRANSFER OF PAST CREDIT CURRENTLY MANAGED BY SSNIT TO SECOND TIER OCCUPATIONAL PENSION SCHEMES, POLICY IMPLICATIONS, AND POSSIBLE IMPACT ON THE GHANAIAN PENSIONER

BACKGROUND

This brief makes reference to a press release by the Forum for Public Sector Labor Unions on May 26, 2021 on the heading "DELAY IN THE IMPLEMENTATION OF THE CONSENT RULING BY THE NATIONAL LABOUR COMMISSION AND NEGATIVE IMPACT ON RETIREES".

The FORUM, which is made up of 12 Public Sector Registered Pension Schemes, has been very vociferous and has contributed tremendously to major administrative changes with regards to benefit computations under the Basic National Social Security Scheme (BNSSS).

The latest press release by the FORUM has threatened strike action if provisions in the agreed Terms of Settlement between the Government and the FORUM dubbed 'the consent ruling' by the National Labour Commission is not fully implemented.

The terms of settlement had to do with; (1) the transfer of past credits to the respective public sector occupational pension schemes and (2) the determination and payment of Lump Sum shortfalls to pensioners who retired in the year 2020.

The press statement further stated that "By law, all tier 2 funds should be managed by private trustees and, for that matter, all our members who have past credits with SSNIT should have their credits transferred to their respective public sector schemes, and that "as long as these funds remain with SSNIT, our beneficiaries do not benefit from long term investments. SSNIT only pays the prevailing treasury bill rates on these funds".

The Africa Centre for Retirement Research (ACRR), as a Policy Research Centre, with the mission to contribute to the National Policy Dialogue on the subject of Retirement and Pensions, has an important duty to effectively guide the social security policy debate, accurately inform the Ghanaian public and, to fairly referee some of the dissenting views among stakeholders.

The Centre's research work and opinions are guided by provisions of the Act 766 and its regulations, rigorous analysis of trends, and best practices around the world.

As a Policy Research Think tank, we are of the opinion that issues relating to management and payment of Past Credit as a component of Lump Sum benefit under the new pension system have been significantly distorted and, we deem it a duty to help guide the debate in a manner that best serve the social and economic interest of the Ghanaian Pensioner, as well as ensure the long-term sustainability of the schemes.

We have examined the arguments being advanced by the FORUM and how those demands fit into achieving the bigger twin-objectives of ensuring that retirees receive adequate retirement benefits, as well as ensuring the long term sustainability of the Basic National Social Security Scheme (BNSSS), and the role of stakeholders.

THE FORUM'S DEMANDS

The FORUM'S demands as captured in the consent ruling are as follows:

1. That, SSNIT would demonstrate the computation of Past Credit using sample data submitted by some wings of the FORUM, by indicating for each beneficiary in the sample data, the monthly contributions from date of joining the scheme to date of computation or date of retirement (whichever comes earlier).
2. That, the Past Credit shall be determined as the accumulated value of 4% of members' monthly salaries (as contributions to SSNIT) from the date of first contribution to 31st December, 2009 at an interest rate of 50% of prevailing Government of Ghana 91-day Treasury Bill (TB) rates. The Past Credit value as at 31st December, 2009 will then be accumulated at 100% of the prevailing 91-day Treasury rates compounded quarterly and cumulatively till retirement.
3. That, the quantum of Past Credit in the custody of SSNIT shall be determined, and same would be transferred to the Second Tier Occupational Pension Schemes with emphasis on the five public sector schemes.

STATUS AND ANALYSIS OF THE FORUM'S DEMANDS

The Policy Research Centre's checks revealed that SSNIT has complied fully with items (1) and (2) above. In particular, we took steps to compute the Past Credit (PC) Lump Sum benefits based on the old accumulation rate (75% of prevailing 91-day Treasury bill rates compounded annually) and the newly agreed rate (accumulated PC balance as at 31st December, 2009 compounded quarterly using the full 91-day Treasury bill rates from January 2010) for a sample of pensioners who retired in 2020 and 2021 under the Act 766. We can confirm that each member in the sample reported having received PC difference after the first payment. To this end, we can confirm to the general Ghanaian public and, all relevant stakeholders in the pension industry that there are no compliance issues with regards to the implementation of the new PC formula as was directed by the Minister for Employment and Labor Relations and contained in the consent ruling.

We can also confirm that SSNIT, the administrator of the Basic National Social Security Scheme (BNSSS) has paid PC difference in excess of One Hundred and Eleven Million Ghana Cedis (GH¢111 Million) as at the end of February 2021, due to the change in interest rate used in the computation of PC.

TRANSFER OF PAST CREDIT TO PUBLIC SECTOR OCCUPATIONAL PENSION SCHEMES

The third demand of the FORUM, over which the current threat of strike action is based, has to do with the call for SSNIT to transfer Past Credit in its custody to the Second Tier Occupational Pension Schemes.

The latest press release by the FORUM signed by its Chairman, Dr. Isaac Bampoe Addo, argued that 'most affected pensioners are moaning over their outstanding pension earnings that are likely to occur if the consent ruling were to be used in its totality to calculate pensions for retirees'.

It is critical to examine the legitimacy of the FORUM'S demand for the transfer of PC from SSNIT to the Second Tier Occupational Pension Schemes on the grounds that;

(1) Beneficiaries do not benefit from long term investments as long as these funds (PC) remain with SSNIT, since SSNIT only pays the prevailing Treasury bill rates on these funds.

(2) Pensioners are 'crying for their outstanding pension earnings' due to SSNIT's continuous management of the PC.

ANALYSIS OF THE FORUM'S DEMAND, IMPLICATIONS, AND POLICY RESPONSES

Just for context, the PC simply refers to 4% of salaries of members' who joined and contributed to the SSNIT scheme before 1st January, 2010 (the effective date for the implementation of the Act 766), and which is compounded quarterly at the full 91-day treasury bill rate from 1st January, 2010, and paid to the member as Lump Sum upon retirement. The 4% represents the difference between 17.5% and 13.5% (contribution rates to SSNIT under the old and the new laws respectively).

Firstly, section 94(1d) of the Act 766 stipulates that: *on the commencement of this Act, Accrued or past service or past credits earned by every contributor to whom the new scheme applies in respect of the 25% lump sum benefit shall have the lump sum determined by a formula agreed between the Pension Reform Implementation Committee and the Trust based on actuarial assessment.*

The Lump Sum in this case refers to the PC. The provisions left the formula for determination or rate of accumulation of the PC open, but indicates that the PC should be determined by a formula agreed between the Pension Reform Implementation Committee and the Trust (SSNIT) based on actuarial assessment. In all scenarios of interpretation, the Act has specified who is responsible for the management of the PC!

Secondly, Second Tier Occupational Pension Schemes, with effect from January 2010, are responsible for the management of 5% of contributors' salaries and not 4%. Whilst the point that the Trust used its resources to collect those contributions may be secondary for obvious reasons, the point should be made that the precipitating cause of the 4% was reduction in contribution rate to the Trust from 17.5% to 13.5% by Act 766.

Thirdly, the FORUM'S argument that pensioners are 'crying for their outstanding pension earnings' may be true but that is not attributable to SSNIT's management of the PC.

ACCR publication in November last year confirmed that a significant proportion of workers who retired under Act 766 suffered major Lump Sum shortfalls with public sector workers being the most affected (i.e. 90% of public sector retirees had shortfalls). The shortfalls are attributable to inadequate interest income from the second tier fund managers, and part payment made to all public sector retirees under the directive of the National Pension Regulatory Authority (NPRA) dated, March 2020. It is worthy to mention that the SSNIT PC under the revised interest rate was the dominant source of the Lump Sum received by pensioners in 2020. Evidently, the investment performance of second tier fund managers has fallen short of the basic risk-free government of Ghana 91-day Treasury bill rates when compared. This can be verified by the FORUM!

Fourthly, PC in the custody of SSNIT is only due when the individual retires or exits the scheme legally.

ACRR as a policy research think tank, with unalloyed interest in the economic wellbeing of the Ghanaian pensioner, will encourage the leadership of the FORUM to let reality and research-based facts guide their activities. It is instructive that we learn from countries with advanced social security programs such as New Zealand, Netherlands, Denmark, Finland etc. The era of Organized Bodies having their ways through arm-twisting and engaging in slam-bang confrontations with other stakeholders has long being replaced with strategies informed by data and peaceful engagements. We seriously disagree with the FORUM'S position that the PC should be transferred to the underperforming Public Sector Occupational Pension schemes and we are determined to independently referee dissenting views by informing government, and all stakeholders including Organized Bodies the implications, and to protect, using alternative means, the interest of the Ghanaian pensioner.

Fifthly, the National Pension Act, 2008 (Act766) changed the social security system from a purely defined benefits structure to a hybrid benefits system (partly defined benefit and partly defined contribution). These two scheme types are designed to work together to contribute to national economic growth, and most importantly deliver superior benefits to contributors upon retirement.

The Basic National Social Security Scheme (BNSSS) in the last 3 years has seen tremendous implementation of Labor-informed administrative changes, without any known actuarial valuation, that have led to payment of supplementary benefits to pensioners and survivors' of deceased members. Notably, interest rate for the PC was changed from 75% of GOG 91-day Treasury bill rates annually to 100% of GOG 91-day Treasury bill rates compounded quarterly. In addition, the Trust, in conjunction with the National Pensions Regulatory Authority (NPRA) and Organised Labour, revised the discounting rate for computing 25% Lump Sum from 10% to 4.73%.
The revised discount rate effectively increased the 25% Lump Sum to members who retired under PNDCL 247 since June 1, 2019 by approximately 31%.
The Social Security Administration, due to these changes, has paid supplementary benefits in excess of GH¢111 Million in Past Credit Difference and GH¢92 Million in 25% Lump Sum Difference totalling GH¢203 Million as at February 2021.

These changes have aggravated the solvency concerns of the SSNIT scheme, and all must be concerned. We are at a point where we need to commence discussion on the long-term sustainability of the Basic National Social Security Scheme and, in line with best practices, leadership of Labor Unions have major roles to play.

The case of SSNIT and the public can be likened to a father who has failed to inform his extravagant child that his financial position has weakened, and therefore he should slow down on his demands. Rather he tries to hide the true state of his financial situation by continuously doling out – it is just a matter of time and the reality will take effect!

The last two Actuarial Valuation Reports of the Scheme (2014 and 2017) have indicated sustainability concerns due to changing economic and demographic variables, as well as unfavorable Real Returns on Investments of pension assets. This could even get worse as we anticipate the economic effects of COVID-19 to feature prominently in the next Actuarial Valuation Report.

It is time that government, as the sole guarantor of the scheme, showed commitment by setting up a Technical Committees responsible for reviewing and implementing the recommendations of the External Actuarial Valuation Reports. The Director General of SSNIT must also publish synopsis of the Actuarial Valuation Reports of the Pension Scheme (as a public entity) to make long-term cost of the benefit system transparent.

RECOMMENDATION

(1) On the evidence of what we know, it will not be prudent or best serve the interest of the government, the contributors, and pensioners to have the Past Credit transferred from SSNIT to the Second Tier Occupational Pension Schemes (be it public or private).

(2) *Section 53 (1) of the Act 766 stipulates that; The Trust shall obtain actuarial valuations from an external actuary at intervals of not more than one year or, if obtained for the intervening years, at intervals of not more than three years.*

The Ministry of Finance in conjunction with the Ministry of Employment and Labor Relations should set up a Technical Committee (as a matter of routine) to review and implement Actuarial Valuation recommendations (even it means a pension reform). The committee should include representatives of Unionized Bodies who have relevant backgrounds and knowledge for constructive inputs and appreciation of the status of the Basic National Social Security Scheme.

(3) There is evidence that the Audit Service audits SSNIT activities for the past few years and their recommendations are making the desired impact and deserves the needed praises. We recommend that the functions of the Audit Service should be expanded to include auditing the activities of the Second Tier Occupational Pension Schemes, given that under the defined contribution arrangement, the contributor bears all the risk (risk of operational failures, investment risk etc.).

(4) ACRR, after having obtained public views, examined the rate of growth of the PC, and analyzed the age at which most Ghanaians embark on housing projects in preparation for retirement, is of the opinion that the vesting period for accessing the PC should be reduced to age 50 (instead of accessing it at retirement). This should be paid directly by SSNIT to the beneficiary as an interim benefit upon beneficiary's submission of application for the PC benefit, subject to other eligibility conditions.

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