Africa Centre for Retirement Research

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OPINION:

Inadequate Salary Increases for Public Sector Workers is Inimical to Prospective Retirees for 2021 to 2023 – ACRR

A Policy Research Think tank, Africa Centre for Retirement Research (ACRR) has expressed the opinion that any attempt by government to suspend or lessen salary increases for Public Sector Workers will not only aggravate the sustainability concerns of the Basic National Social Security Scheme but will also cut down retirement benefits of both prospective and existing pensioners.

This concern has been raised following a hint by the Technical Advisor at the Ministry of Finance, Dr. Samuel Ashong that the economic effects of COVID-19 might linger until 2023 and consequently could affect rates of salary increases for the public sector workers in the next few years. Dr. Ashong stated this when he was speaking on the 2021 budget during an event organized by Ghana National Chamber of Commerce.

As a policy research centre with the mission to contribute to the National Policy Dialogue on the subject of social welfare, retirement, and pensions, we wish to draw government's attention to the immediate economic consequence of this proposal on the financial wellbeing of the social security program and pensioners, particularly for retirees who may not be lucky to retire within the next three years.

Whist we should recognize and admit the reality that the pandemic has considerable effect on all economies, notably increased national debts, soaring unemployment rates, increased cost of living etc. and ultimately resulting in most economies recording negative growth in Real Gross Domestic Product (GDP), cutting down on salaries of workers at this time was inimical to the social and economic wellbeing of prospective retirees in the next few years, and does not represent a smart solution to the fiscal challenges, given that the pandemic has already taken its toll on individuals. Recall we pointed out in our March 2021 publication on "Pension Indexation in the Era of a Pandemic, impact and proposed policy responses", that government and stakeholders missed the opportunity to implement a uniform special-purpose stimulus package for old-aged pensioners through pension indexation for 2021, as a means of minimizing their economic struggle against the effects of the pandemic.

The suggestion that government intends to deal with the fiscal challenges posed by COVID-19 by using the ruse of inadequate salary increases if implemented will have multi-faceted effects which includes possible labor unrest, deepening economic woes of workers on whom many depend, adding to the solvency concerns of the contributory social security program and, most importantly, retirees from the public sector will have significant reductions in their retirement benefits.

The most certain and pronounced-short-term effects of such a move are as follows;

(A) REDUCTION IN RETIREMENT BENEFITS FOR RETIREES

For the single reason that retirement benefits are closely connected to salaries near retirement (Final Salaries), there is the need for government and worker unions to negotiate salary increases using the regular market variables (whist pretending that COVID-19 did not exist).

If COVID-19 is used as an excuse not to increase salaries or increased by slimmer margins for the period, the reductive effect on retirement benefits of retirees for 2021 to 2023 is definite, significant and will deepen further the existing social and economic inequalities among the pensioner population.

The amount of monthly pension a retiree is awarded upon retirement largely depends on salaries (Average of Best Three Years Annual Salaries). If the salary is not increased for a while or increased by a small quantum close to retirement, while cost of living is not stable, the cost to the worker when he retires is dire!

(B) IMPACT ON BENEFITS OF EXISTING PENSIONERS

Section 80 of the National Pension Act 2008, (Act 766) requires that pensions shall be reviewed (increased) annually using Wage Inflation of Active Contributors as the main policy variable.
Quantum of pension increases for existing retirees therefore depend on rate of increase of Average Earning of Active Contributors in the preceding year.
If salaries of public sector workers are frozen or inadequately increased for a period, the rate of increase of average earnings of active contributors will be minimal, and hence monthly benefits of existing pensioners will be increased only smaller margins.

(C) IMPACT ON SOLVENCY OF THE SSNIT SCHEME

Solvency looks at the Scheme's ability to pay benefits to current and future beneficiaries. The public sector contributors are estimated to constitute between 32% and 35% of the contributor population and also represent a definite source of revenue for the scheme, due to relatively high compliance rate by government establishment. If salaries are not increased adequately, the contribution revenue of the scheme will be affected besides the fact that the scheme investment income is struggling due to COVID-19. On the balance of the scale, this might be less of an issue, after all, government is the guarantor of the Social Security Scheme and has the sole responsibility to see to its sustainability into the future.

In conclusion, government needs to take a second look at the proposal, as he looks to strengthen the social security program with the goal of improving the economic wellbeing of the aged population. The Worker Unions are also encouraged to negotiate salary increases convincingly using the appropriate market variables which includes targeted benefit replacement rates.

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