THE SOCIAL IMPACT OF INCLUDING PENSION FUNDS IN THE DEBT EXCHANGE PROGRAMME WOULD BE IMMEDIATE WITH SIGNIFICANT SPILLOVER EFFECTS - ACRR

There were reports in the media space that the Ministry of Finance (MoF) is purported to have indicated that Pension Funds that are invested in Government Bonds may be affected by Ghana's Debt Restructuring Programme. The Ministry in its response earlier refuted the possible use of pension funds in the debt restructuring process. However, on December 6, 2022, the Minister for Finance launched what it called 'Ghana's Domestic Debt Exchange Programme (DEP)'. The Ministry admitted that Ghana's Domestic Debt is unsustainable and the government may not be able to fully service its debt based on the existing agreement with bondholders. Hence the Debt Exchange Program (DEP) aimed to renegotiate the bond coupon rates and maturity periods.

Due to the possible negative impact the DEP would have on the adequacy of workers' retirement income security (benefits levels), over 24 Worker Unions and Associations have opposed the inclusion of Pension Funds in the Debt Restructuring Program. It would also seem the government and the MoF have not conducted any stress testing (as best practices require) to fully evaluate and appreciate the depth of injury the involvement of pension funds would inflict on the pension system and ultimately the socio-economic wellbeing of Ghanaian workers and retirees.

What is Debt Restructuring and Haircut?

A significant portion of Pension Fund Assets (workers' contributions) is invested in government bonds under fairly agreed terms regarding coupon rates and maturity periods. The government is now in a financial crisis and seeks help from the IMF. The IMF says, as a precondition for a loan, go and restructure your debt profile (bring down your debt level). The government (not usually though) then tells Pension Fund Managers that she is in financial trouble and would not be able to pay the full value of their investments on the due dates and the interest rates, as was earlier agreed. She, therefore, intends to renegotiate new terms with existing bondholders essentially to reduce the debt (coupon rates) and extend maturity periods (haircut).

Policymakers sometimes need to be guided (using science and proper review of the literature) to improve the quality of public policies and their implications. The Team at the Africa Centre for Retirement Research (ACRR), therefore, finds it prudent and timely to contribute to the debate on the proposed involvement of social security assets (pension fund managers holding government bonds) in Ghana's Domestic Debt Restructuring strategy as follows;

Firstly, workers under the current 3-Tier pension system are already facing significant investment risk. The required action is for the government to put in measures to control the investment risk borne by workers. One of the key findings of ACRR's recent impact evaluation of the 3-Tier pension system revealed that about **81%** of workers who retired in 2020 under the new pension system recorded Lump Sum shortfalls. Similarly, **61%** of retirees in 2021 recorded shortfalls.
The shortfalls are attributed to low investment income and are rated to be persistent, widespread, and significant, and the social and economic impact on the retiring population is dire.

Secondly, the potential inclusion of pension funds in the debt exchange programme would reduce workers' retirement benefits significantly. Under the 3-Tier pension system, the private Corporate Trustees and Fund Managers are responsible for paying Lump Sum benefits to workers upon retirement or invalidity or death. The value of the benefits at the point of retirement is the accumulated balance which comprises workers' contributions and the investment interest. The quantum of the benefits is therefore directly linked with the investment performance of the scheme. If the Fund Manager records poor investment outcomes or losses, the same will reflect in the workers' Tier2 and Tier3 statements and ultimately will result in low retirement income for workers, and vice versa. Workers' retirement benefits under the SSNIT Scheme may not be affected as a result of the DEP (because benefits are determined by a formula) but it would affect SSNIT's ability to pay benefits in the near future (which is a major concern). According to the DEP, as proposed by the MoF, there will be no interest payments in 2023, a 5% coupon payment in 2024 and, a10% coupon payment in 2025 and after. Fund Managers (provided this proposal is accepted and implemented) will simply transfer the new terms to the contributor – low-interest income and possibly could introduce inefficient benefit administration practices.

Thirdly, any form of involvement of pension assets in the DEP would certainly impose significant economic and financial disruptions to the pension system and ultimately, the socioeconomic wellbeing of the retiring population. Considering the quantum of pension funds invested in government bonds and other securities, nearly 80% of pension assets, estimated at 26 billion may be affected by the proposed haircut policy, and this could have serious implications for the overall Social Security Policy agenda.

Fourthly, the IMF Policy Paper '**Issues in Restructuring of Sovereign Domestic Debt',** published in November 2021, have cautioned nations on the possible spillover effects of involving pension funds in the debt restructuring process. The IMF Debt Restructuring Framework indicates that spillover effects potentially could persist for many years and have dire economic implications on the social security policy targets and ultimately the wellbeing of citizens.

The IMF framework encourages clean, transparent, and thorough engagement with debtors and all stakeholders in the process.

Conclusion

It is important to note that Ghana is far from the United Nations Sustainable Development Goals target in social protection. It is therefore critical that the government in its attempt to navigate out of the current economically challenging times will recognize the fragile nature of the 3-Tier pension system. The Ministry of Finance, as best practices require, in collaboration with all stakeholders and debtors needs to consider conducting a stress test to reveal the possible implications of including pension funds in the program.

In the meantime, we project that the adverse impact of including pension funds in the DEP will be immediate, Social Security might not be able to serve its purpose of alleviating old-age poverty because the spillover effect will be massive and the healing process will take longer. The level of impact on the retirement income security of citizens and the damage to the pension system may require a possible pension reform along the way to fix the disruption. To forestall undesirable early post-retirement mortality among the pensioner population, Worker Unions, Civil Society Organizations, etc. are encouraged to dialogue with the government with the main goal of excluding pension funds from the perimeter.