

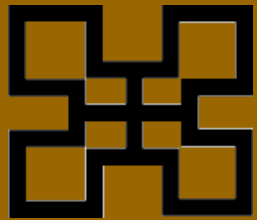
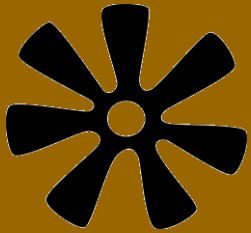
**IFS NATIONAL PENSION DIALOGUE
ON THE THEME**

**GHANA'S PENSION SYSTEM
- IS IT WORKING?**



PENSION REFORM IN GHANA:

The New 3-Tier Pension System-Rationale, Implementation Challenges and the way Forward



By

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2 July, 2019

Mr. Chairman, Hon Minister, Invited Guest, Ladies and Gentlemen. I am happy to be a part of this much awaited National Pension Dialogue to deliberate on whether Ghana's Pension System is working or not.

I am required to speak on the topic: **Pension Reform in Ghana: “Rationale for the New Three-Tier Pension system, Implementation Challenges and the Way Forward”**.

Mr. Chairman, to put the topic in the right perspective and for a better understanding of the issues at stake, I have divided my presentation into five sections.

Section 1 gives the background to the Pension Reform in Ghana. It takes a critical look at the state of Ghana's pension system just before the pension reform and examines the rationale for the new 3-tier pension system.

Section 2 looks at the key features of the 3-Tier Pension Scheme, including its structure and the special scheme for the informal sector. It will particularly show how the key issues raised by workers and other stakeholders were addressed by the PCP in its recommendations. It will also take a look at the benefits of the scheme, including its expected impact on the Ghanaian Economy.

Section 3 looks at Implementation of the 3-Tier Pension system and the challenges encountered so far.

Section 4 looks at the Way Forward and my concluding remarks which will hopefully lead to further dialogue.

SECTION 1

THE PENSION REFORM IN GHANA

Background to the Pension Reform in Ghana

Prior to the pension reform, Ghana operated two major parallel public pension schemes, namely:

- the Cap 30 Pension Scheme - for public servants in the civil service in Ghana employed before 1st January, 1972; and
- the Social Security and National Insurance Trust (SSNIT) Pension Scheme which was introduced in 1972 as the mandatory and universal pension scheme for all employees both in the private and public sectors.

- There were other public sector pension schemes such as the Ghana Universities Staff Superannuation and Ghana Armed Forces schemes, which had close resemblance to the CAP 30 Scheme, in form and substance.
- There were disparities between the two major schemes which over the years became more pronounced, leading to agitation and protest by some public sector workers on the SSNIT scheme demanding to be placed on the Cap 30 scheme which was considered more favorable, particularly the lump sum element.
- The Cap 30 and SSNIT schemes paid almost the same monthly pensions.
- However, Cap 30 lump sum benefit was about 2.5 times the SSNIT Lump sum benefit.

Reasons for disparity:

- SSNIT benefits are funded from contributions by members whilst the Cap 30 scheme is not funded and benefits are paid from the Consolidated Fund.
- Cap 30 is not based on actuarial principles; lump sum payment is not discounted to allow for time value of money.

Pension Cost to Government

- Government as an employer, spent 12.5% of employee's salary for SSNIT benefits.
- Government spends between 24% and 29% of employee's salary to pay Cap 30 benefits.

- **Fairness:** Apart from the disparity, there were situations where for two workers in the same office, one will be on Cap 30 whilst the other on the SSNIT Scheme.
- In addition to the disparity and unfairness, pension schemes that operated in the country, beside their limitations, also failed to consider the plight of workers in the informal sector, who constitute about 85% of the working population in Ghana.

PENSION REFORM - MILESTONE

Pension Commission, Key issues/Observations and Recommendations

- Government in July 2004 initiated a major reform of the Pension System in Ghana.
- This process started with the establishment of a Presidential Commission on Pensions, which reported its findings to Government in March, 2006.
- The overall objective of the three-tier pension scheme was to ensure **Retirement Income Security for Ghanaian workers** (formal and informal sectors).

- Mr. Chairman, during the Pension Commission's work, a number of pertinent issues were brought to their attention for consideration that also informed their work.

Key Issues/General Observations

Prominent among these issues/observations were:

- Pensions in Ghana covered about 10% of the nation's workforce, mainly those employed in the formal sector. The vast majority of workers in the informal sector had no coverage.

- Even though membership of the SSNIT Pension Scheme was open to workers in the informal sector on a voluntary basis, patronage had been very poor.
- This was mainly because the threshold of entry in terms of their contribution and benefit structure was too high for most workers in the informal sector and because the benefits provided were not consistent with the priorities of people living in poor circumstances whose social protection needs were essentially short-term.

- Low monthly pension payments under both SSNIT and Cap 30 schemes was a major concern to all.
- For workers who enter the job market at an early age, the long waiting period to access their pension under the SSNIT Scheme even after qualifying, as compared to CAP 30, was a source of worry.
- To meet some major needs like housing, prior to retirement, the common view was that existing public sector schemes must allow for some flexibility, enabling contributors to have access to funds or alternatively, to patronise supplementary scheme(s).

- Following the Commission's in-depth analysis of the key issues and socio-cultural environment, it was concluded that existing pension schemes will not deliver benefits that will allow for adequate and sustainable income security.
- To improve benefits and ensure retirement income security for Ghanaian workers, the Commission proposed a three-tier pension structure, comprising two mandatory schemes and a voluntary scheme.
- Design of the new scheme was based on:
 - Best practised schemes,
 - Best fit, and
 - Ghanaian social-cultural environment.

Other recommendations made by the Commission included:

1. The CAP 30 Scheme was not sustainable and should be phased out.
2. Restructuring of SSNIT which should involve an overhaul of the governance, management and administrative structures.
3. Review of the SSNIT Law.
4. Establishment of a National Pensions Regulatory Authority to regulate both public and private pension schemes in the country.
5. Pension coverage for the Informal Sector.

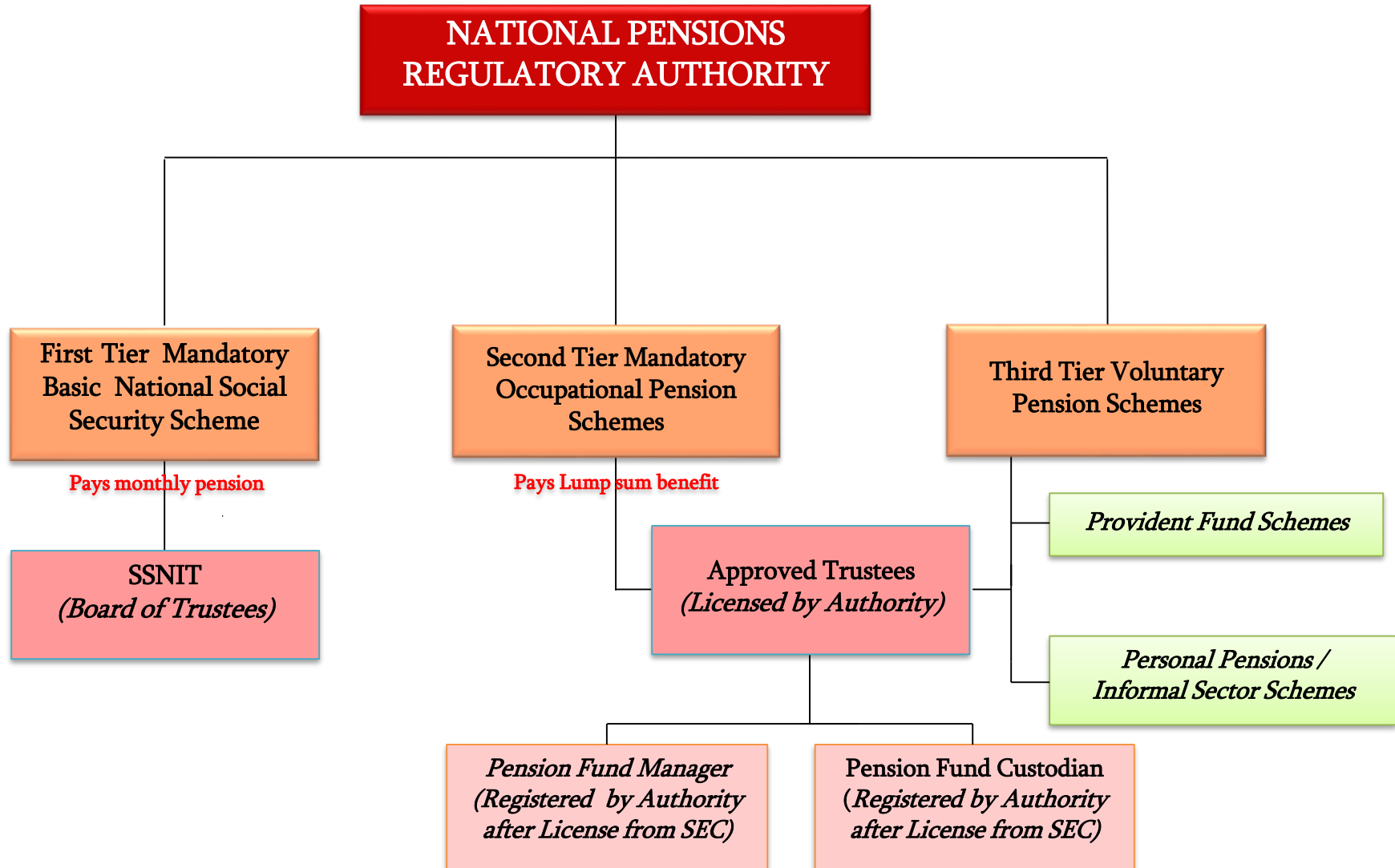
- Government accepted almost all the recommendations in the report and issued a White Paper in July, 2006 (W.P. No. 1/2006).
- An 8-member Pension Reform Implementation Committee (“PRIC”), and a Consultant was established in October, 2006.
- The Committee commenced work in November, 2006 and submitted proposals for a National Pension Reform Bill to Government in 2007.
- The Bill was passed by Parliament on 29th Oct. 2008, and received Presidential assent on 4th December 2008.

- **The National Pensions Act, 2008 (Act 766) was enacted on 12th December, 2008.**
- The National Pensions Act establishes a new contributory three-tier pension scheme with a National Pensions Regulatory Authority to oversee the efficient administration of the composite pension scheme.

SECTION 2

KEY FEATURES OF THE THREE-TIER PENSION SCHEME

REGULATORY STRUCTURE (THREE-TIER PENSION SCHEME)



TAX EXEMPTION

- Contributions: employer-13%; employee-5.5%
 - 5% to 1st tier; 13.5% to SSNIT (minus 2.5% NHIS)

Tax Relief

- Contributions up to 35% of Payroll is tax exempt.
- Investment income is tax exempt.
- Retirement (Pension) benefit is tax exempt.

Note: Contributions by workers are treated as deductible income and granted upfront.

➤ Tax exemption on Contributions

1st tier (mandatory) - 13.5%

2nd tier (mandatory) - 5.0%
18.5%

3rd Tier (voluntary) - 16.5% (employer/employee)

(section 112 of Pensions Act)

Special Pension Scheme for the Informal Sector (section 109)

- Provision has been made in the 3rd Tier voluntary Personal Pension Scheme to cater for the peculiar needs of workers in the informal sector of the economy.

**CONTRIBUTION
ACCOUNT**

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graph TD; A[CONTRIBUTION ACCOUNT] --- B[ACCOUNT A: PERSONAL SAVINGS ACCOUNT]; A --- C[ACCOUNT B: RETIREMENT ACCOUNT];
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ACCOUNT A:

**PERSONAL SAVINGS
ACCOUNT**

Can access benefits before retirement
(e.g. for school fees and business
enhancement);

ACCOUNT B:

RETIREMENT ACCOUNT

Can only be paid on the retirement of the
contributor as monthly or quarterly
pensions.

BENEFITS include:

1st Tier Social Security Scheme

- Improved qualifying conditions and survivors benefits
 - 15 years to qualify for SSNIT benefits instead of 20 years;
 - Survivors benefits period increased from 12 years to 15 yrs;

2nd and 3rd Tier Private Pensions

- Improved 2nd tier lump sum benefits;

- The privately managed schemes (2nd and 3rd tiers) allow the use of future lump sum pension benefits to secure mortgages (sections 103 and 114). This means that workers can acquire their own houses before retirement using their pension benefits as collateral.

Expected Socio-Economic Impact on the Ghanaian Economy

- While the main beneficiaries of the new pension scheme will be workers, as intended, the introduction of the scheme will also have a positive impact on the Ghanaian economy.
- A major contribution of the pension scheme is the availability of a pool of long-term funds for investments which will contribute immensely to national economic development. (.....)

SECTION 3

IMPLEMENTATION CHALLENGES

Section 3 looks at Implementation of the 3-Tier Pension System
and the challenges encountered so far.

Implementation Challenges

- Mr. Chairman, there is no gainsaying the fact that the implementation of the new 3-tier pension system has faced a number of challenges, some of which are real and others created. I will enumerate the key challenges that I am aware of and offer suggestions for the way forward to engender further discussions.

- The challenges include (not in any particular order):
 1. **Initial false start including:**
 - a) perceived lack of political will to facilitate the implementation of the new pension scheme.

- b) inadequate funding support and lack of needed seed fund for the NPRA for full implementation of the Pensions Act. This led to lack of a sustained public education about the virtues of the new pension system and also affected the recruitment of very experienced and well motivated technical staff.

On the Joy FM's supper morning show of 8th October 2012 to discuss problems with the implementation of the new pension scheme, Dr. T.A. Bediako, then a Board member of the NPRA admitted financial and administrative constraints are unduly affecting the implementation of the 3-Tier Pensions Scheme. He expressed among other concerns that:

“We don't have enough money and we depend on gov't of Ghana. The budget we presented this year, we had one-third of it. And we are supposed to receive money every month but from January till now, at my last count, we had only 3 remittances which are not enough and also not forthcoming” (ref: myjoyonline.com news-2012-10-08).

2. Another major challenge has been the instability in the leadership of the NPRA – 6 CEO’s within 8 years with an average tenure of 16 months.

3. Adverse press reports on the work of the NPRA, leading to loss of public confidence and creating credibility problems. In fact, some large corporate institutions which transferred their existing PF to the 3rd Tier later withdrew their funds and in some cases shared the proceeds.

E.g.: “SCANDAL ROCKS PENSION SCHEME” – (The Chronicle, Tue Dec 4, 2012

“NEW PENSION SCHEME UNDER THREAT” –
(Graphic Business. Mon Oct. 4, 2012

4. The initial uncertainty about the commencement of the full implementation, including licensing of service providers and registration of schemes created some doubts and frustrations of players in the pensions industry in the minds of people.

Extract from an article by Charles Benoni Okine in the Graphic Bizz of 9/25/2012 *reveals the frustrations of players in the pension industry.*

According to Charles Okine:

“The NPRA set three deadlines for the licensing of the pension schemes of companies but have had to postpone it three times without concrete reason. The first deadline of April 30, 2012 was later changed to June, 2012 and subsequently to August 31, 2012. The August 31 deadline is past, without a single pension/provident fund scheme licensed. The situation is creating serious anxiety among the players in the industry”.

5. Wrongful interpretation of some provisions in the pensions law thus bringing conflict between Government and its workers on the management of the mandatory 2nd tier occupational pension scheme leading to court action (Section 95, 96 and 98 provides clarity on the role of employers and employees.)
6. Registration of Pension Fund Custodians contrary to section 158 of Act 766-No Chinese Walls, impact of recent challenges in the banking-financial sector.
7. Lack of resources for massive education of the millions in the informal sector. This has led to a delay in expanding coverage to the informal sector .

8. There are also no appropriate regulations and guidelines for the operation of informal sector schemes.
9. Another key challenge is the absence of effective contribution collection systems adaptable to these informal wage earners.

10. Delays in transferring funds from the TPFA into individual accounts took about 7 years (2010 -2017) contrary to section 218(4) of the Pensions Act which stipulated a period of within 90 days from the licensing of service providers. NPRA licensed service providers in 2012.

Mr. Chairman, I believe other issues will come out during the discussions.

SECTION 4

WAY FORWARD AND CONCLUSION

Section 4 looks at the Way Forward and my concluding remarks which will hopefully lead to further discussions

The Way Forward

Mr. Chairman, having identified key challenges and inherent weaknesses in the implementation of the new pension system it is only fair to make some recommendations to enhance the development of adequate, equitable and sustainable pensions in Ghana.

These recommendations are personal and not in any particular order.

1. **Gov't Role:**

Pension issues must be placed on the front burner of the national agenda and be given the needed financial and material support. It must also be devoid of any political interference.

2. **Phasing out the Cap 30:** The Cap 30 scheme must be phased out quickly to eliminate the inequities that presently exist as recommended by the Pensions Commission and stipulated in the new pensions law (Pensions Act 766).

We learnt recently from the Dep. Min. of Employment and Labour that Cabinet has given approval for a road map to be developed to unify all pension schemes in the country by 2021. This is a step in the right direction.

But I have a foot note:

The Pensions Act 766 (S213(2)) envisaged a phasing out period of 5 years. Cabinet's time frame is less than 2 years. If they are able to do this, it will further advance the objectives of the pension reform.

In phasing out of Cap 30 and similar schemes, there is the need to give assurance and allay the apprehension of those currently on Cap 30 about the safety and benefits of the new 3-Tier scheme and the protection of their pension rights under the Cap 30 scheme.

For example they will be interested to know that Section 219 of Act 766 provide guarantee of their accrued retirement benefits right under the Cap 30 scheme.

They will also be interested to note that the lump sum benefit of the 2nd Tier is about 1.5 times the lump sum benefit provided under the Cap 30 scheme for a 30 year old contributor.

3. Issue of Low pensions

- Currently, the monthly remuneration package of a worker includes basic salary, allowances and non-cash benefits. However, the pensionable salary on which deductions are made for social security and 2-tier contributions is limited to **only the basic salary**. Low contributions will definitely lead to low pensions.
- Going forward, I recommend a redefinition of pensionable salary to include some allowances as a way of improving pension benefits.

4. Informal sector participation

The voluntary 3rd Tier personal pension scheme has been specially designed to meet the special needs of the informal sector in terms of how much they can contribute and also the benefits are structured to meet their short term and retirement needs.

Adequate resources must be made available for a massive national educational campaign to sensitise and encourage the informal sector to participate in pension schemes. Group personal pension schemes must be promoted for identifiable groups such as farmers, fishermen, market women, GPRTU, CIBA and other cooperative groups.

The campaign must involve all major stakeholders

There must appropriate and relevant regulations and guidelines for the operation of informal sector schemes.

The objective is not to impose the rules governing the structured/formal sector on the informal sector, but to apply rules which take account of its specific nature and the aspirations of those who operate in it.

We must develop innovative approaches of effective contribution collection systems adaptable to the informal wage earners. An example is using the pricing mechanism for cocoa farmers whereby contributions are deducted from the sale of cocoa to Cocobod.

Incentives can also be provided to the informal sector contributors such as tax holidays and matching of contributions.

Concluding Remarks

Mr. Chairman, Hon Min, Distinguished Ladies and Gentlemen:

- ❖ Have you ever thought about what you would like to do after retirement?
- ❖ Will you have enough savings to implement your plans? Getting ready for retirement is a long-term plan that requires time and commitment.
- ❖ You have to start preparations right now!
- ❖ The adage “time flies” is true, and one eternal certainty is that **retirement will come whether you plan for it or not.**

- ❖ It is envisaged that the new three-tier pension scheme will enhance pension benefits and increase the retirement income security of workers both in the formal and informal sectors.
- ❖ The new three-tier pension scheme is expected to bring into existence a formal system of retirement protection for Ghanaian workers both in the formal and informal sectors. The benefits accruing from the scheme will be an important source in meeting the financial needs of workers after their retirement.
- ❖ To this end, it is my expectation that a system of prudential supervision and regulation is always in place to protect scheme members' interests and also safeguard the stability of the pension system.

- I trust that within the time constraint I have been able to give you an insight into the Pension Reform and what it is intended to achieve – **RETIREMENT INCOME SECURITY FOR THE GHANAIAN WORKER.**
- It is also expected to add impetus to the further development of the financial markets and eventually lead Ghana into economic independence and prosperity.
- In conclusion, Mr. Chairman, kindly permit me to restate the theme for this National Pension Dialogue and rather pose the question **“Ghana’s New 3-Tier Pension System - has it is been allowed to work?”**

Long Live The Institute of Fiscal Studies!

Long Live The Republic of Ghana!

THANK YOU

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- ❖ Co-Founder and Council Member of the AUCC Pensions Academy, Ghana;
- ❖ First Ag. Chief Executive of the National Pensions Regulatory Authority (Jan. 2010 - March 2011) - prepared proposals leading to Pension Regulations (LI 1990) in Ghana;
- ❖ Project Consultant to the Pension Reform Implementation Committee, Ghana (Oct. 2006 - Dec. 2010); prepared proposals leading to National Pensions Act, 2008 (Act 766);

- ❖ Member of the Presidential Commission on Pensions, Ghana (July 2004 - Sept. 2006); lead architect of the new contributory three-tier pension system for Ghana;
- ❖ Former Managing Consultant & CEO, Tri-Star Actuarial & Management Consultants (Jan 2004 – Dec. 2009); and
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