

ASHESI UNIVERSITY COLLEGE

**THE ROLE OF GHANA'S NEW THREE TIER PENSION SCHEME AND ITS
EFFECTIVENESS IN PROVIDING SOCIAL SECURITY FOR GHANAIS.**

BY

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DECLARATION

I hereby declare that this thesis is the result of my own original work and that no part of it has been presented for another degree in this university or elsewhere.

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I hereby declare that the preparation and presentation of the thesis were supervised in accordance with the guidelines on supervision of thesis laid down by Ashesi University College.

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ABSTRACT

This paper investigates the role and effectiveness of Ghana's new three pension scheme in providing and ensuring income security for Ghanaians in their old age. It discusses the state of the current three tier pension scheme and how it measures up against other pension schemes such as the SSNIT pension scheme which predated it. This research is motivated by a historical inability of the pension schemes to fully resolve the issues of pension schemes pre- dating them in the literature.

To fully appreciate the issues raised this research addressed the following questions.

1. What are the weaknesses inherent in Ghana's different SSNIT pension schemes over time?
2. Can the new pension scheme address these weaknesses identified?
3. Is the current scheme effective and adequate in providing insurance for Ghanaians

To answer these questions, information was obtained through interviews of several stakeholders in the Ghanaian pensions industry such as the Social Security and National Insurance Trust and a number of licensed and approved Trustees, Custodians and Pension Fund Managers. Additionally, through questionnaires, this paper was able to measure how Ghanaians currently under the new pension scheme were aware and understood the new scheme. A analysis of the data gleaned from both interviews and

questionnaires showed that the new three tier pension scheme is indeed an effective scheme because of it delivers on its promise of higher pension benefits for its current contributors. It was also proven that the scheme is more accountable and transparent than the SSNIT scheme that pre dated it. Unfortunately, although many Ghanaian workers especially those belonging to the financial sector are aware of the new scheme, they do not understand its current structure, the role of the new players and exactly how high pension benefits under the new scheme can be obtained. It is therefore the duty of the National Pensions Regulatory Body to set up efforts in educating the public on the new pension scheme with particular focus on its new structure, the role of the new stakeholders and its benefits.

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LIST OF ACRONYMS

NPRA	National Pensions Regulatory Body
SSNIT	Social Security and National
GDP	Gross Domestic Product
PFM	Pension Fund Manager

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CHAPTER ONE

1.0 INTRODUCTION.

1.1 BACKGROUND

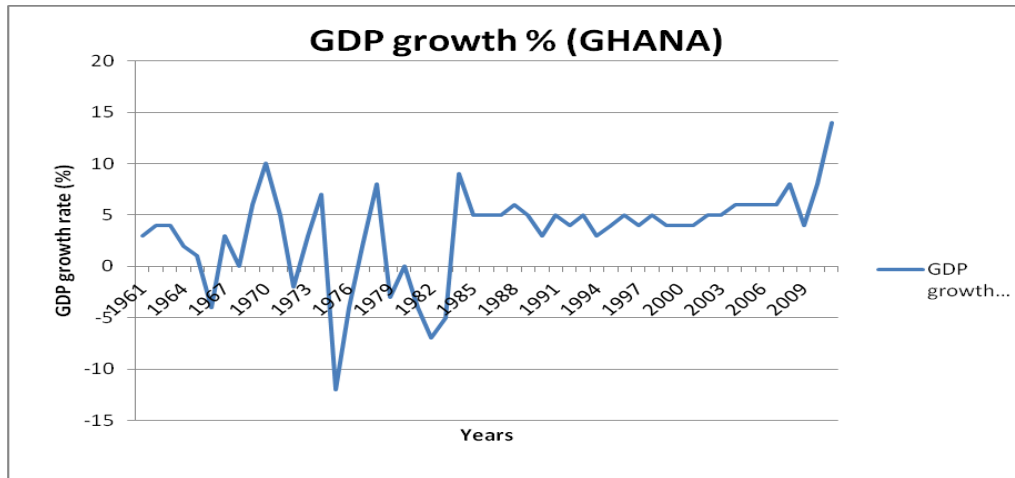
Ghana has experienced a series of pension reforms dating back as early as the year 1950 (Gockel and Kumado 2003). Before the establishment of a formal pension scheme as a means of providing social security to a people in Ghana, the extended family system was the major source of social protection for the Ghanaian populace. The extended family was the institution in Ghanaian community that provided social and economic support to various family members at appropriate times of need. It was, traditionally, a source of support when members became old and threatened by economic deprivation, disability and social isolation (Gockel and Kumado 2003).

Over time, the dependence on the extended family as a source of social protection began to wane partly because of education and westernization and as such Ghanaians began to focus on more semi-formal institutionalized social security systems. These more formal social security systems came into existence as a result of a new economic order based on market led strategies. This new economic order which stressed on economic growth as well as social mobility put severe strains on the extended family as an effective tool for providing income security for the aged, disabled, ill, unemployed family member, new born child and mother, the orphan and even a complete stranger (Gockel and Kumado 2003).

Furthermore, general levels of income in Ghana experienced a surge as measured by the nation's GDP for that period. The rising incomes and associated decrease in the dependence on the extended family not only undermined the structure of the extended family and its ability to provide old age insurance but may have increased the demand for more formalized institutions to provide income security for the increasing number of Ghanaians who did not want to depend on the extended family system for old age insurance.

A graph showing that surge in income levels for the period between the years 1960 where the CAP 30 had become prominent to about 2009 is displayed on the next page. Now although income levels for the period indicated was quite inconsistent, it can generally be said that income levels were indeed rising which were a strong indicator of the declining dependence on the extended family as the major source of both income and social security.

Figure 1. GRAPH INDICATING LEVEL OF INCOME IN GHANA AS MEASURED BY GDP FOR THE PERIOD BETWEEN 1960 TO 2009.



Source: (World Development Indicator & Global Development Finance)

A pension scheme refers to a long term investment vehicle whose principal objective is to provide decent and reliable income upon retirement (Britam 2012). The development of the public pension systems in Ghana has its origins set in early colonial systems. In the year 1950, the British authorities present in the Gold Coast (now Ghana) created a Pensions Ordinance to replace and unify the Pension (European Officers) Ordinance and Pensions (Non-European Officers) Ordinance into a single non discriminatory pension scheme that gave equal benefits to both local and expatriate workers in the country at that time.

The new scheme which came to be known as CAP 30 (a name derived from chapter 30 of the Pension Ordinance of 1946) was a non contributory scheme designed as a reward for civil servants who had worked for a period

of at least ten years and had attained the voluntary retirement age of forty five or the compulsory age of fifty years (Gockel and Kumado 2003).

The non contributive nature of the CAP 30 pension scheme meant that civil servants made no contributions to the scheme but received regular monthly benefits (which were financed from general tax revenues) upon retirement (Kpessa 2011). The aim of the CAP 30 was to ensure efficiency and loyalty from these civil servants to the state especially in a period where the torch of nationalism as (Ashidam 2011) put it, had been set ablaze in the Gold Coast. The new Pension Ordinance or the CAP 30 Pension scheme also came at a period where the Gold Coast was experiencing a transition from an expatriate dominated civil service to an indigenous one (Ashidam 2011).

The government however, reserved the right to suspend payment of pensions to pensioners who were detained under the Preventive Detention Act of 1959 (Ashidam 2011). The Preventive Detention Act was an act passed in 1958 that gave power to a Prime minister to detain persons for up to five years without trial (US Liberty of Congress n.d).

Prior to the establishment of the CAP 30, there was also another pension or retirement scheme in place. This was known as the End of Service Benefits, a non contributory or unfunded scheme which unfortunately came to a halt in the year 1990. A non contributory or unfunded scheme is a scheme where members are not obliged to pay contributions but received monthly payments or benefits (Gockel and Kumado 2003). The failure of the End of Service Benefits scheme was mainly because its unfunded or non-

contributory nature was a disadvantage to its sustenance and viability. Additionally, the government of Ghana as at that time was unable to take on the responsibility of meeting pension obligations that were not funded for its citizens. It was simply difficult especially due to the new arrival of the new economic order¹ that highlighted the inefficiencies of this retirement scheme. As such it was done away with in 1990 (Gockel and Kumado 2003).

Following from the CAP 30 Pension scheme, came an impetus to create a social security scheme with national coverage. Hence, the Compulsory Savings Act of 1961 (Act 70) was initiated to promote national savings and provide social security on a national scale (Ashidam 2011). This was later replaced by the Social Security Act of 1965 (Act 279) which extended coverage to all establishments with employees of up to five or more with the exception of employees already covered by the CAP 30 Pension scheme. These exceptions comprised of employees from the following sectors;

1. Members of the Armed Forces, the Police Service and the Prison Service
2. Foreigners in the diplomatic missions
3. Senior members of the universities and research institutions (Ashidam 2011).

¹ The new economic order was a set of proposals brought forward in the 1970s by some developing countries through the United Nations Conference on Trade and Development to promote their interests by improving terms of trade, increasing development assistance and other means. (Retrieved from UN Documents, 1974. Declaration on the establishment of a New International Economic Order. Available at <http://www.un-documents.net/s6r3201.htm> [Accessed December 25th, 2012])

The focus for the payment of retirement contribution therefore moved from being a reward for loyalty to one that was based on the right of all individual workers in Ghana (from both formal and informal sectors) (Kpessa 2010).

A Provident Fund Scheme was later introduced by the 1965 Act of Parliament, Act 279. This fund, which would later be converted to a pension scheme in 1970, was jointly administered by the Department of Pensions of the Ministry of Finance and the State Insurance Corporation (Ashidam 2011). Unlike the CAP 30 scheme, this provident fund scheme was contributory. Funding of defined contributions was based on contributions made by both employees and employers (usually on behalf of the employees). These contributions were then invested and when the employees reached retirement, became permanently incapacitated or died prior to retirement; the total contributions as well as the returns from the investments were paid as lump sum to the individual or his/her dependents.

The reason for this one off payments was due to its simplicity and ease of operation even to illiterate or poorly educated contributors. The Provident Fund scheme was regarded as a post independent initiative that would assist Ghana generate the needed pool of financial resources to fund developmental projects such the construction of roads, health facilities, schools and provision of amenities such as electricity and good drinking water (Kpessa 2010).

In the early 1990s, the Provident fund scheme or provident funds as they came to be called was converted to social insurance by the government

at that time, the Provisional National Defence Council (PNDC) which came into power through a coup d'état organized by Flt Lt J.J Rawlings in 1981 (2000).

The Administration of this new scheme fell in the hands of an independent corporate body, the Social Security and National Insurance Trust (SSNIT). The main difference between this new scheme and the previous one was the shift from a lump-sum payment to a monthly payment of retirement benefits. The contributions made by both employers and their employees under the old scheme were however maintained. Under the new scheme, participants must have demonstrated at least 240 months (20 years) of contribution to the scheme to qualify for retirement benefits. The scheme was designed for three main contingencies namely; old age/retirement, invalidity/disability and the dependents/survival's benefits (Kpessa 2010).

The SSNIT and CAP 30 pension schemes were running parallel to each other until the promulgation of a new three tier pension model in 2008 (National Pensions Regulatory Authority 2012). Although the CAP 30 scheme has been annulled, the SSNIT scheme is still in operation and has an important role in the new pension scheme to be initiated in Ghana (Kpessa 2010). As mentioned earlier, the new pension reforms consist of three tiers which are explained as follows;

1. The first tier is a *mandatory* occupational scheme which is run by SSNIT.

2. The second tier is also a *mandatory* occupational scheme which will be managed by private fund managers.
3. The third tier is a *voluntary* scheme which would also be managed by private fund managers and give individuals the opportunity to freely open provident funds and personal pension schemes (Kpessa 2010).

The new pension's scheme has created an opportunity for private participation in the management of pension funds as well as created a greater opportunity for individuals in the informal sector of Ghana especially to plan effectively towards their retirement. However, the effectiveness of this new pension scheme in rectifying the problems of the current SSNIT scheme is unclear and is yet to be investigated and so forms the motivation for this research. Additionally, the delay in implementing this new pension scheme is a major cause of concern so this paper would discuss the implications as well. Below is a summary of how pension schemes have evolved the years in Ghana.

**TABLE 1: THE EVOLUTION OF PENSION SCHEMES IN GHANA
PREDATING INDEPENDENCE TO DATE.**

Pension Scheme	Duration
Extended Family	(Pre Independence- 1950)
CAP 30 Pension Scheme	(1950-2004)
Compulsory Savings Act (Act 70)	(1961-1965)
Social Security Act (Act 279)	1965

SNNIT provident Fund Scheme	1970-1991
SSNIT pension scheme	1991-Present
NEW 3 tier pension scheme	Waiting to be implemented (although promulgated in 2008)

Source: Gockel and Kumado (2003)

1.2 STATEMENT OF PROBLEM

The problem identified in researching into the background of pension reforms in Ghana is the historical inability of the different pension schemes across time to effectively resolve the shortcomings of the pension schemes that pre-dated them. With the introduction of the current pension scheme in 2010, it is unclear whether all the problems inherent in earlier pension schemes have been resolved. Even more importantly there seem to be little research available on how effective the current system is in providing adequate insurance and support for elderly Ghanaians. This research seeks to uncover the effectiveness of the current pension scheme in resolving the problems of the SSNIT pension scheme and providing insurance for the elderly in Ghana.

1.3 RESEARCH QUESTION

The main research question for this study is, has Ghana's current pension scheme resolved the problems inherent in previous pension schemes and is the scheme effective and adequate in providing insurance for the Ghanaians?

1.4 RESEARCH OBJECTIVES

1. To investigate the weaknesses inherent in Ghana's different SSNIT pension schemes over time.
2. To assess the role of the new pension scheme in addressing these weaknesses identified in objective 1.
3. To determine if the current scheme is effective and adequate in providing insurance for Ghanaians
4. To recommend strategies that will help solve problems inherent in the current scheme and make it more effective and useful in providing insurance for the Ghanaians.

1.5 RESEARCH RELEVANCE

The introduction of the recent pension scheme in Ghana is quite new and as such there is limited literature with regards to its effectiveness in dealing with the problems of the schemes pre dating it. This research seeks to fill this gap in literature.

1. This research will also serve as a basis for measuring the effectiveness of the recent scheme in providing insurance for the elderly in Ghana.
2. The research will provide vital information to policymakers in charge of regulating the pension scheme and administering its benefits to beneficiaries.

3. The results of the research will also contribute to the limited literature on the assessment of pension schemes in developing countries like Ghana.

CHAPTER TWO

2. 0 LITERATURE REVIEW.

2.1 INTRODUCTION

There has always been a need for social protection universally. Before the emergence of well structured or institutionalized social security schemes, the family was the main source of social protection in the pre colonial era. However the advent of colonial rule or colonialism was one of the major factors responsible for the occurrence of institutionalized schemes in many sub Saharan countries including Ghana. Additionally, the prevalence of other issues pertaining to poverty, health and conflicts caused the role of the family to decline. These issues eventually raised the urgency and popularity of social protection systems which resulted in the introduction of pension schemes (Kpessa 2010).

Stewart and Yermo (2009) argue that the importance of pension schemes in Africa for instance, have helped in the alleviation of demographic pressures, poverty amongst the elderly and provided support for households headed by grandparents. Simultaneously, Gockel and Kumado (2003) also point out that pension schemes are sources of income security for the aged, the disabled, the invalid and the unemployed.

Ghana and a few countries including Nigeria and the United States are no strangers to pension reforms. Although Ghana adopted several social protection schemes following the collapse of the extended family, there have still been problems with social security in the country under each of the

programs or scheme adopted according to Gockel and Kumado (2003); Kpessa (2010) and Kpessa (2011). All the authors cite several problems with the various social protection schemes (namely the CAP 30 pension scheme, the SSNIT Provident Fund, the SSNIT Pension Scheme) identified.

2.2 EVOLUTION OF PENSION SCHEMES IN GHANA FROM THE PRE-INDEPENDENCE PERIOD TO DATE.

For the most part the controversy with Ghana's social security schemes was often between its CAP 30 and the SSNIT pension schemes. The CAP 30 (a name derived from chapter 30 of the Pension Ordinance of 1946) was a non contributory scheme designed especially for civil servants. The non contributive feature of this scheme meant that civil servants were not required to make contributions into the scheme but received regular monthly benefits often financed from general tax revenues. As a result of this there was a general preference for the CAP 30 scheme over the SSNIT scheme as Gockel and Kumado (2003) cited. People outside the scheme fought to get in while those already in it kept themselves in. Its dismissal was met with harsh remarks and was marked with demonstrations by certain interest groups that were benefitting from the scheme. A story retrieved from the Modern Ghana (2008) revealed the following...

Over 2,000 teachers and Civil Servants in Mfantseman District on Wednesday embarked on a three-hour demonstration through the principal streets of Saltpond to back their demand for the restoration of the Government Pension Scheme, called Cap 30. Wearing red bands,

the demonstrators carried placards some of which read, "SSNIT Pension is worse than HIV/AIDS", "Cap 30-No discrimination", "Living wages denied and Cap 30 is sustainable".

Indeed the benefits that were served under the CAP 30 scheme far outweighed those of the SSNIT scheme (Gockel and Kumado 2003). Some of these benefits which for the most part made beneficiaries under the CAP 30 scheme reluctant to move to the SSNIT included the following;

- Under the CAP 30 scheme, contributors were entitled to their lump sum payments after working for a period of 10 years as against a period of 20 years under the SSNIT pension scheme.
- Additionally, under the CAP 30, a pensioner's lump sum payment constituted 70% of the individual's final salary as compared to 50% of the average of three highest years' salaries of an individual under the SSNIT scheme.
- CAP 30 pension payments were also indexed annually to current salary scales.

Kpessa in 2011, also supports this fact in his article, A comparative analysis of pension reforms and challenges in Ghana and Nigeria, that workers covered by the CAP 30 scheme "enjoyed flexible retirement income conditions, a more generous benefit computation formula, and a lower voluntary retirement age"(Kpessa 2011: p96).

The question to ask therefore is why the CAP scheme was done away with when it was obviously offering more to beneficiaries than the SSNIT scheme?

Clearly, the underlying detriment of the CAP 30 pension scheme stemmed from the fact that it was an unfunded or a non contributory scheme (Kpessa 2011).

According to Gockel and Kumado (2003), the problem with the CAP 30 pension plan was not just the dissatisfaction among workers under it but its largely unfunded nature that unfortunately put a drain on general revenues. An unfunded scheme like the CAP 30 meant that its members made no contributions towards the scheme and yet received monthly contributions like any ordinary scheme. The benefits under the CAP 30 scheme were therefore funded by the government often through its tax revenues.

Stewart and Yermo (2009) emphasize the advantages of funded pension systems in their OECD working paper. According to them, developing funded pension systems alleviates government costs by reducing government expenditure levels. This thereby releases government funds to other key policy challenges and initiatives. Therefore the unfunded nature of the CAP 30 was a major deterrent to the country's development as government revenues that were used to fund it could have been put to better use. Additionally, funded schemes also reduce the fiscal burden that they place on a country's population especially the populations of developing countries (Stewart and Yermo 2009).

Another shortfall of the CAP 30 pension scheme that eventually resulted in the establishment of the SSNIT pension scheme was that it was not open to all Ghanaians under employment. Unlike the current SSNIT scheme which is open and mandatory for all employees, the CAP 30 scheme

was only open to employees in the civil service such as the armed forces, the police and the prisons services (Gockel and Kumado 2003). A similar program which was modeled on the CAP 30 was later created to extend these benefits to other public servants such as teachers (Kpessa 2010). Therefore, the benefits of the CAP 30 scheme which according to Gockel and Kumado (2003) far outweighed that of the current SSNIT scheme was enjoyed by only civil servants and not by the employees in Ghana at large.

The government of Ghana at the execution of the CAP 30 scheme cannot be blamed entirely for the implementation of a scheme whose unfunded nature was a disadvantage to itself. Kpessa (2010) argues that the Cap 30 pension scheme was to serve as reward system for members of the civil service. It was designed "as a means of encouraging loyalty and efficiency within the colonial civil service" (Kpessa 2010: p93). Therefore being a reward, "it was non-contributory and provided benefits for individuals who were deemed to have provided loyal service in the colonial administration for at least ten years" (Kpessa 2010: p 93). Therefore, how much of a reward would it be if its beneficiaries, that is, civil servants, received their retirement incomes which were funded by monthly contributions from their own salaries? However, Kpessa (2003) contradicts his earlier claim by concluding that the CAP 30 scheme was limited in scope due mainly to the financial burdens inherent in it. Perhaps, he like Stewart and Yermo (2009) agree that running a non funded scheme puts a burden on the government's revenue figures as well as on a country's population. In addition, Stewart and Yermo (2009) claim that pension schemes designed to

cater for specific workers as with Ghana's CAP 30 scheme, ultimately burden a country's population and also crowd out important government expenditures.

2.3 COSTS AND BENEFITS OF THE SSNIT PENSION SCHEME

It was for reasons such as the unfunded nature of the Cap 30 scheme as well as its inability to cater for all Ghanaian employees that the SSNIT scheme came into existence in 1991(Gockel and Kumado 2003). One of the major characteristics of the SSNIT scheme was its wide coverage. According to Gockel and Kumado (2003), the 1991 Social Security Scheme was open to all of employees, both in the formal and informal sectors of the country. Now this was something that the CAP 30 failed to do. As mentioned earlier, its coverage was only limited to certain members of the civil service such as members of the armed forces, the police service and the prison services(Gockel and Kumado 2003).

The SSNIT scheme took this into consideration and did not cover members who held these offices. Gockel and Kumado (2003) point that these members were exempted by law as they were catered for by the popularly known CAP 30 pension scheme. The SSNIT scheme was designed for three main contingencies namely; the old/retirement, invalidity/disability and dependent/ survival's benefits (Gockel and Kumado 2003). This means that in order to qualify for pension payments an individual had to meet one of the three contingencies. This was a vast difference from the Cap 30 scheme as Kpessa (2010) points out.

To qualify for old age pension payments, an employee or a worker should have contributed to the scheme for a period of at least 20 years and should have attained the voluntary retirement age of 55 or the compulsory retirement age of 60 years. The payment of old age pension payment was dependent on the employee's work history (Kpessa 2010).

Under the second contingency, death/survivors, if a contributor dies while still being a member, his or her dependents are entitled to his or her pension payments. This would only be possible if the contributor has contributed to the scheme for a period of about twenty years or two hundred and forty month (240) before dying (Gockel and Kumado 2003).

Finally, to qualify for pension payments as an invalid, a member should be certified permanently invalid and incapable of gainful employment by a medical board including a medical practitioner appointed by SSNIT (Gockel and Kumado 2003).

The SSNIT scheme unlike the CAP 30 is a funded scheme. This means that it is financed by combined contributions from employers and employees (Agyeman 2011). The SSNIT scheme is the sort of scheme that Stewart and Yermo (2009) encourage most developing countries to adopt in their working paper. By being a funded scheme it not only eases the pressure on government revenues but also ensures that resources go to areas where they are needed the most (Stewart and Yermo 2009).

The SSNIT scheme is also regarded as "self-financing and self-sustaining" as a result of contributions from its members being employers and employees (Gockel and Kumado 2003). Prior to the establishment of the

new 3 tier pension scheme, contributions under the SNNIT scheme included the following. Employees contributed 5% of his or her basic salary while their employer's added 12.5% of their employee's basic salary making a total contribution of 17.5% to SSNIT (SSNIT Pension House 2008). The contributions are then invested in several sectors within Ghana's economy including, the financial sector, manufacturing, services, residential and commercial properties to yield attractive returns for the company's contributors.

SSNIT or the Trust is the largest single institutional investor on the Ghana Stock Exchange and also has investments in equity in unlisted companies and fixed income securities such as bonds and treasury bills. This is definitely an improvement from investing only in government stocks as indicated by Gockel and Kumado (2003). Payments to SSNIT beneficiaries are done on a monthly basis and are dependent on various investments that SSNIT makes over a specified period (SSNIT Pension House 2008).

Agyeman (2011) takes the investment choices of the Trust or SSNIT to task by deeming them inadequate and a threat to the profitability and utility of the scheme. The research conducted by Agyeman (2011) focuses on the study of return on investments (ROI) made by SSNIT over the period from 1990 -2008. Several reports including an article retrieved from MyJoy Online (2012), dubbed "Pension scheme in danger as SSNIT investments dip" reports that Ghana's pension scheme is threatened as a result of increased losses in its current investments.

In another article, dubbed, "Towards a sustainable National Pension System" written by Dewotor (2004), he reiterates the claim that returns on investments made by SSNIT is unsatisfactory. In February 2010, SSNIT was reportedly making low returns on investments made in only six out of forty companies it had invested in. Furthermore an article retrieved from the Graphic Business (2012), reported that real return on SSNIT's investment dropped from 7.2% in 2010 to 5.6% in the 2011 financial year.

According to Dewotor (2004) as cited in Agyeman's paper, *An assessment of the returns on employee pension fund investments and their impact on future benefit payments, some of the factors responsible for negative real return yields on SSNIT's investments could be accounted for by "political interference, lack of competition and probably inadequate investment expertise at SSNIT"*(Agyeman 2011: p31). Although the SSNIT scheme was implemented to meet the short comings of the CAP 30, it had its fair share of inadequacies.

Ginneken (2003), in an International Labour Organisation paper, argues that the proportion of a country's population that is excluded from social security work largely in the informal sectors. Unfortunately, the regions of Asia and Sub-Saharan Africa are not strangers to this phenomenon.

In a second article, Ginneken (1999) poses possible reasons for the low coverage as being due to the fact that many workers in the informal sector are "not able or willing to contribute a relatively high percentage of their incomes to finance social benefits that do not meet their priority

needs”(Ginneken 1999:p 279). They may also find it difficult to trust the management of formal social schemes and how it is managed as they fail to understand how they operate.

In Ghana, the role of SSNIT in the management funds for the informal sector is managed by a separate social security scheme that is purposely tailored to suit the needs of workers in the informal sector of Ghana. This subsidiary, the SSNIT Informal Sector Fund was established in 2005 after research conducted by the Trust’s Research Department and a team from the World Bank revealed that the SSNIT pension scheme was not compatible with the informal sector. More specifically, the patterns of incomes in the informal sector were unpredictable and irregular for contributors to make monthly contributions towards the Trust (SSNIT Informal Sector Fund 2011).

Contributions under the Informal Sector fund are not fixed but are based on an “individual’s preference as well as his ability to pay which could be either, daily, weekly, monthly, annually or even when the contributor has some money to spare”(The Corporate Guardian 2009). Since its inception in 2005, the SSNIT Informal Sector Funds has been doing very well. Reports from “The Chronicle” indicate a steady growth in total contributions of about GH¢ 21, 495, 358.89 in 2011. This figure is due to a rise in the membership for the fund from 6,577 in 2005 to about 90,913 in 2011 (Freiku 2011). In the case of Ghana, the reason for low coverage of informal sector workers in the SSNIT pension was not due to a lack of understanding or distrust of

management as Ginneken (1999) made it out to be, it was instead due to failure of the SSNIT scheme to suit the contribution needs of these workers.

Although SSNIT may have found a way to cater for the insurance needs of the informal sector of Ghana, the question of how effective they have been in this regard remains. What is being done by way of providing social security to the people residing in Northern Ghana who fortunately or unfortunately are still reliant on the traditional social security system of the family? (Abebrese 2011). Clearly, more work needs to be done to extend these services to these people. After all, even with the extension of security services to include a reasonable number of informal sector workers, the problem of poor returns made by the Trust is prevalent.

Kpessa (2011) points out another major problem that SSNIT had to deal with. This had to do with corporate fraud and political manipulations in the investment practices of the social insurance scheme. According to reports made to the Auditor General, the management of SSNIT had issued loans (financed from worker's contributions) to individuals and companies which were against the scheme's investment code. It had done so without complete agreement on the terms and conditions of repayment as such when these companies defaulted, SSNIT failed to enforce repayment due to the circumstances under which the loans were given. Through the implementation of the new scheme, the management of pensions in Ghana does not lie solely in the hands of SSNIT but with a separate body, the National Pensions and Regulatory Authority. Additionally, with the introduction of the two additional tiers which consequently encourage

private participation in the management of pension funds, issues of corporate fraud and mismanagement by SSNIT would be curtailed.

2.4 THE NEW 3 TIER PENSION SCHEME

In July 2004, President John Agyekum Kufuor established a Presidential Commission on Pensions (PCP) to address the concerns of Ghanaian workers with regards to some discrepancies in the benefit package for retirees under both the CAP 30 and SSNIT pension schemes.

The commission headed by Mr. T.A Bediako was tasked with the responsibility of creating a uniform pension scheme that would ensure retirement income security for all Ghanaian workers. The recommendations brought forth by the commission were for the creation of a new contributory three tier pension scheme consisting of two mandatory schemes and a voluntary scheme. They also recommended that the CAP 30 scheme be done away with due to its "decentralized public sector pension management" and called for the SSNIT scheme to be restructured by revamping its management and administrative structures.

To honor the commission's recommendations, a National Pensions Regulatory Board was established to regulate both public and private pension schemes in the country. Additionally, a National Pensions Bill was established to cater for the new contributory three tier pension scheme (Aidoo Mensah n.d). The new scheme is as follows;

- The *first tier* is a basic national social security scheme that is managed by Social Security and National Insurance Trust. *It is mandatory* for all employees in both private and public sectors but optional for the self employed and informal sector workers. (Kpessa 2011).
- The *second tier* is also a *mandatory scheme* for all employees. However the main difference between this tier and first is that *it is privately managed by registered Pension Fund Managers and Custodians who are regulated by approved trustees licensed by the National Pensions and Regulatory Authority*. Pension fund managers as per the National Pensions Act of 2008, are responsible for investing pension funds and assets in investments achieving the best return. Custodians are also charged with receiving contributions remitted by employers on behalf of trustees (National Pensions Act 2008).
- The third tier is a voluntary scheme that enables individuals to freely open provident funds and personal pension scheme which are managed by Pension Fund Managers. This tier is supported by tax benefit incentives to provide additional funds for workers who want to make contributions to enhance their pension benefits. It also allows individual to make additions or top-ups that are 16.5% of their gross salary. This scheme is particularly designed to meet the contribution needs of workers in the informal sector of Ghana (National Pensions Act 2008).

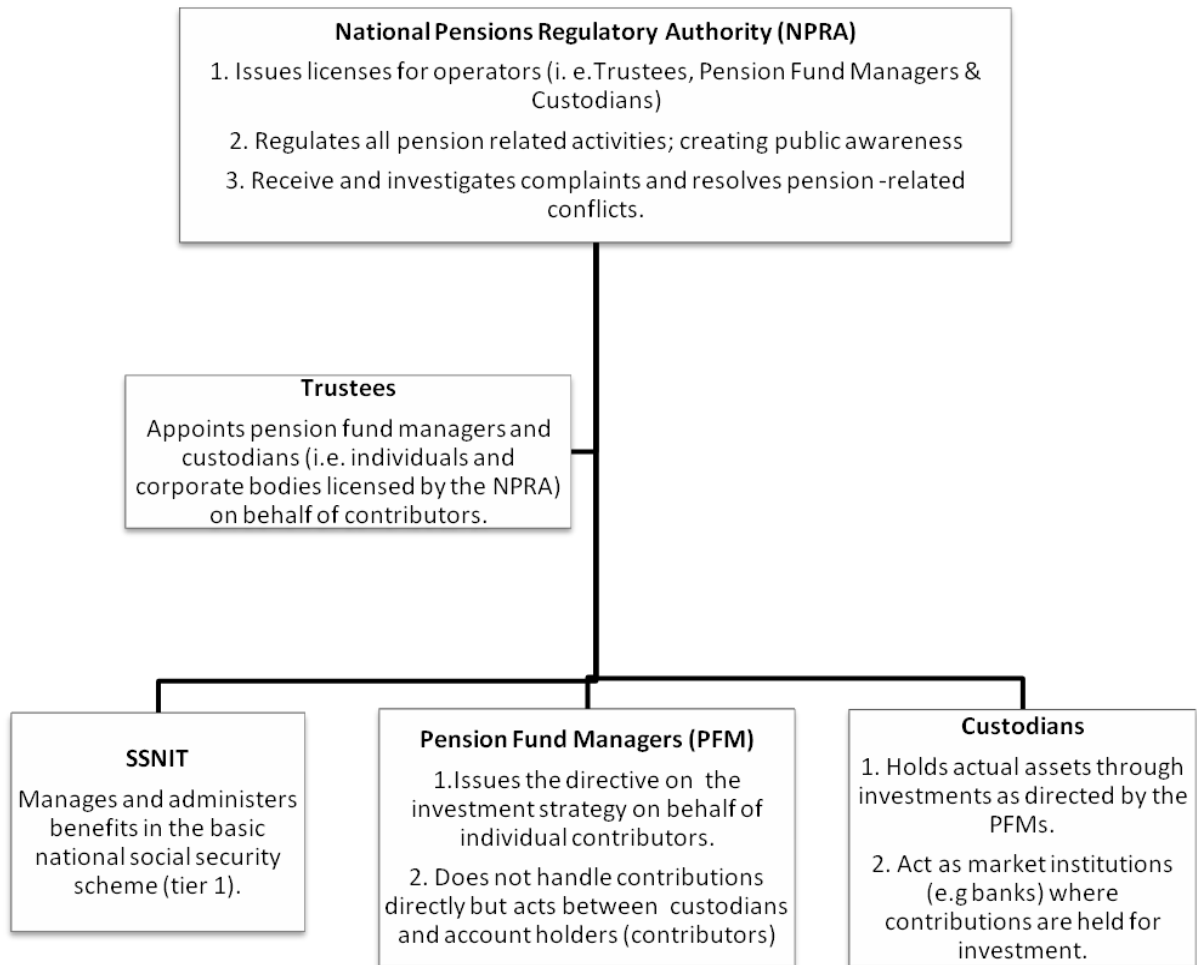
2.5 THE STRUCTURE OF THE NEW PENSION SYSTEM IN GHANA

The change in the pension scheme was also accompanied by a change in the number of players managing pension systems in Ghana. These include the introduction of the National Pensions Regulatory Authority (NPRA) to regulate all the operations of the tiers as well as the authority to license, regulate and monitor Trustees, Pension Fund Managers and Custodians, who are also players in the new pension system.

Trustees are responsible for appointing licensed pension fund managers and custodians who are also responsible for the investment strategy and for the management of investments of retirement assets (Kpessa 2011).

Figure 2 below, gives a brief overview of the structure of pensions under the new system. It outlines the roles of each of the players in the administration and management of the new pension scheme.

FIGURE 2: STRUCTURE OF NEW PENSION SCHEME.



Source: Kpessa 2011, p. 99

2.6 CONTRIBUTIONS UNDER THE NEW SCHEME

The rates of contribution under this new scheme have also been revised under the new National Pensions Act, 2008, Act 766. The contribution rates simply assist both the employer and employees in figuring out the proportion of an employee's salary that would be paid out to his or her monthly contribution towards SSNIT. Therefore under the new scheme, an employer shall deduct from the salary of every worker an amount of 5.5% of

the worker's salary irrespective of whether the worker has been paid or not. In addition an employer shall also pay a contribution of 13% of the worker's monthly salary which together make a total contribution of about 18.5%. Now, 13.5% of this total shall be paid to the first tier mandatory basic national social security scheme and the remaining 5% shall be paid to the second tier mandatory occupational pension scheme managed by registered pension fund managers (National Pensions Act 2008). Below is a table illustrating both new and old rates of contribution.

TABLE 2: NEW AND OLD CONTRIBUTION RATES UNDER THE FIRST AND SECOND TIERS

Contributions	Old rates	New rates	Difference
Worker	5%	5.5%	0.5%
Employer	12.5%	13.0%	0.5%
Total	17.5%	18%	1.0%

Source: SSNIT Pension House, 2008. (Online).

2.7 BENEFITS OF THE NEW SCHEME

One of the underlying features of the new pension scheme was the fact that, it was drafted with the socio cultural environment of Ghanaians at heart. For instance the commission set up to create the new scheme were cognizant of the fact that in Ghana, the needs of individuals rather increase upon retirement due to demands placed on him from traditional customs

such as family engagements and other social responsibilities. In addition to being an entirely new scheme, the new 3 tier scheme was in many ways better than the pre existing CAP 30 and SSNIT pension schemes. Some of these distinguishing features outlined by (Aidoo Mensah n.d) which double as benefits of the new scheme include the following;

- An improvement in the entry/maximum age at which a person may join the social security scheme. The new entry has been reduced from 20 years to 15 years while the new maximum age is 45 years.
- An improvement in the second tier lump sum benefits or returns that are higher than the benefits under the CAP 30 scheme and far higher than that of the SSNIT scheme. This is probably due to fact that this tier is privately managed and as such will be invested in high yielding investments.
- An opportunity to use future lump sum pension benefits to secure mortgages. This gives a worker the opportunity to own his or her own house before retirement by using their pension benefits as collateral.
- An opportunity for workers to have better control over their pension benefits under the second and third tier schemes which are both managed privately.
- An opportunity for funds to grow since no arbitrary withdrawals is allowed.

2.8 PROBLEMS OF NEW PENSION SCHEME

Although on paper, the new three tier pension scheme is the perfect solution to the discrepancies existing in the SSNIT specifically, with its

dwindling investment returns and improving access to informal sectors. It has encountered its share of scrutiny and difficulties prior to its implementation in November this year.

According to an article retrieved from Graphic Business, it was revealed that management of the NPRA, the body charged with licensing and regulating all pension related activities including its three main players, has been involved in the mismanagement of individuals' contributions. The NPRA, in 2010, set up a Temporary Pension Fund (TPF) to provisionally administer Tier 2 contributions pending the licensing of Trustees. As a result, employees have been paying 5% of their salaries to the TPF. According to the article, there have been allegations that the Acting CEO of NPRA has been making unapproved withdrawals from the accounts of hard working Ghanaian employees. Additionally, a third party service provider tasked with the duty of managing and providing data concerning the use of tier 2 contributions have no record of information concerning the use of tier 2 contributions since the establishment of the TPF in 2010. There have also been issues concerning NPRA's delays in the registration and licensing of trustees, pension fund managers as well as custodians leading to the implementation of the new scheme (Okine 2012).

Since the passage of the New Pensions Bill in 2008, the NPRA has failed to fully implement the new three tier pension scheme as a fully operational scheme in Ghana. It has taken almost four years just to register and license its trustees, fund managers and custodians which have put a stump to its implementation. Although, it has tried to speed up the process

by initiating the TPF, it has failed miserably amidst allegations of embezzlement of employee's contributions and its inability to account for what the contributions into the TPF have been used for since 2010. If the NPRA continues in this stead, it would most likely raise the risk of retired workers not having access to their lump sum benefits. In fact, people who have retired since 2011 but have made their 5% tier 2 contributions still cannot access their lump sum benefits based on their contributions into the TPF since January 2010. There is also concern of whether the contributions paid into the TPF have even been invested because of the NPRA's failure to show records as proof of the fund's availability. Most companies that were established in preparedness for the implementation of the scheme are running out of funds they heavily invested in the business (Okine 2012).

2.9 COMPARISON BETWEEN GHANA'S PENSION SCHEME WITH OTHER SCHEMES IN THE WORLD

The provision of social security is a common practice in many countries where the management of pension funds is particularly unique to that country (Idowu and Olanike 2009). Regardless of this, there may still be some similarities between the type and management of pension systems being implemented. In an article review by Idowu and Olanike (2009), many countries especially members of the OECDs have undergone changes in their pension systems. Some of these include Chile, Australia, Germany, Switzerland, Tanzania and even recent Nigeria and Ghana. The latter are however not members of the OECDs (Idowu and Olanike 2009). In an effort

to assess Ghana's own pension reforms, it would be advisable to juxtapose it against other pension schemes.

As stated earlier, pension reforms are becoming a common practice. Chang and Jaeger express in a 1996 paper that pension regimes may be financially unstable and as populations age, there is a need for reforms to forestall the occurrence of large public sector deficits. Even more, these reforms are fairly common for public welfare systems such as Ghana's SSNIT pension scheme of 1991 (Gockel and Kumado 2003). Similarly, Nigeria went through its share of pension reforms in 2004. Much like Ghana's SSNIT pension scheme, Nigeria saw a transition from a point where the state was expected to provide social assistance to its citizens in a process described by Idowu and Olanike (2009) as from "cradle to grave".

However, this sole responsibility has been taken from the state. Previously, Nigeria's pension system, the Pension Decree No 102 of 1979 was a non contributory scheme that was largely unfunded (Idowu and Olanike 2009). Much like Ghana's previous CAP 30 scheme, this had its own share of problems such as the erratic budgetary burden it put on the federal government. As mentioned in their 2009 article, Idowu and Olanike express that even with Nigeria's wealth due mainly to her oil reserves; she was having difficulty meeting her pension obligations.

In a study conducted by Stensnes and Stolen (2007) on the effect of pension reforms on fiscal sustainability, labour supply and equity in Norway, the results showed that pension reforms in Norway stimulated labour supply

and improved public budgets. This is evident in Ghana as a result for the increasing number of institutions whose core business centers on pensions. These institutions have created employment opportunities and the future of the pensions industry according to stakeholders is predicted to be prosperous in the next 15 years.

One striking characteristic that was pointed out by the authors in their article is the tendency for countries to move from one classification of a pension system to another in order to satisfy weak, aged and economically inactive members of the society. Lindbeck and Persson (2003) cited some these classifications as a shift from a defined benefit pension scheme to a defined contribution pension scheme. A defined benefit plan can be described as an employer-sponsored retirement plan where employee benefits are based on a formula using factors such as the employee's salary history, duration of employment and not on individual investment returns (Investopedia 2012). While a defined contribution pension scheme is a retirement plan in which both employer and employee contributions into a pension fund are dependent on a predetermined contribution rate or rates (Investopedia 2012).

According to Ahmad (2010) the move from Defined Benefit schemes to Defined Contributory scheme is fast becoming a global phenomenon in both developed and developing countries such as the USA, the UK, Nigeria and Ghana. This was fairly inspired by the success story of the Chilean Pension reform in 1981 which serves as a model for defined contribution schemes in

other countries (Ahmad 2010). Even authors Idowu and Olanike (2009) proposed in their article that for Nigeria to deal with the difficulties associated with its pension obligations it would have to implement a guided fully funded defined contribution system.

One major characteristic of a defined benefit system is that pension contributions are paid to recipients on a monthly basis while under the defined contribution system; recipients receive their contributions as a lump sum. Additionally, as per its definition, defined contribution pension systems are employer sponsored; meaning that contributions are sponsored by employers while defined contribution pension systems are sponsored by both employers and employees (Investopedia 2012). By shifting top defined contribution systems, pension benefits are likely to experience a surge simply because contributions are paid by both employers and employees. Bonin (2009), cites Germany as an example of a country that implemented pension reforms that were characterized by a shift from a defined benefit system to a defined contribution system.

According to him, this shift resulted in a stabilization of the country's pension finances. In Ghana, however, both pension systems coexist or are practiced simultaneously. While the defined benefit system is synonymous with the first tier of Ghana's new scheme, the defined contributory system is associated only with the second and third tiers of the new pension scheme. Under the first tier, contributions are based on a formula using factors such as the employee's salary history, age and an average of the employee's best

salary for 3 years (SSNIT Pension House 2008). As a result, it is possible for employees to know beforehand what their contributions from SSNIT will be. On the other hand, the second and tier contributors are entitled to an amount equivalent to their total contributions and any interest accrued.

In the United States, a total of 89 of the Fortune 100 companies offered its employees what Orszag (2011) describes in his article, 'the traditional defined benefit plan' in 1985. Presently, only 13 of the Fortune 100 companies in the United States offer its employees the traditional defined benefit pension plan while 70 offer its employees a defined contribution plan. Additionally, Brown and Liu (n.d) argue that this shift from a defined benefit plan to a defined contribution plan has occurred in the United States over the last 20 years. This trend according to Gougeon (2009) was also noticeable in Canada. Between the years 1991 to 2006, the country experienced a rise in the number of defined contributions participants. Guogeon (2009) argued that the number almost doubled between this period.

There has also been an increasing demand for employees to own private pension accounts in a number of countries including, the UK, Nigeria and Ghana. These private pension accounts are characterized by tax exemptions which contributors are entitled to if they have contributed to their funds for a number of years. In Ghana, the voluntary third tier which is managed by private participants is supported by tax benefit incentives that encourage employees to supplement the retirement income they receive

from the mandatory tier one and two schemes (Petra Trust 2012). Under this tier, contributions can be made without the government taking any income taxes in the amount of the contribution. However, this is applicable if the contributions are made for a period above ten years. Similarly, in the United Kingdom, employees are also encouraged to participate in voluntary private pension plans characterized by tax reliefs to allow individuals to again supplement the retirement income provided through the government's existing pension system (Office for National Statistics 2012).

Another social protection scheme that Ghana can be likened to is that of Tanzania which is famous for its social policy formulation. In Tanzania, social policy formulation are efforts made by the government to ensure both social and income security for its citizens through social assistance scheme. Some of the similarities that Tanzania's social scheme shares with Ghana are its efforts at following the International Labour Authority's (ILO) Three Tier system. This system is as follows. The first tier is financed by the government caters for people unable to purchase social security such as the sick, disabled and the elderly. The second tier caters for those who can contribute and is compulsory and managed by the government. The third tier caters for those who would want to supplement their tier two funds by opening private pension schemes (Ministry of Labour, Youth Development and Sports 2003).

In Ghana, the new pension scheme is also in three tiers. However the difference lies in components of the tiers. Under first and second tiers,

contributions are mandatory and form part of an individual's basic pension payment. The only difference is that, the first tier is managed by the government through the Social Security and National Trust while the second tier managed by the private sector. Therefore the first tier in Ghana resembles the first tier as practiced in Tanzania under the ILO framework (Ministry of Labour, Youth Development and Sports 2003).

Another similarity Ghana's new pension scheme shares with that of Tanzania is its voluntary or supplementary third tier. In Ghana, the third tier is a voluntary scheme which causes it to also act as a supplementary scheme. Under the third tier, individuals have the option of opening additional or supplementary pension funds to supplement their mandatory schemes.

Judging from the literature reviewed, it is safe to say that Ghana's newest pension reforms is a step in the right direction. Again as highlighted in Idowu and Olanike (2009) pension reforms have become increasingly common and Ghana is fortunate to be associated with pension reforms in countries such as the USA, the UK, Chile, Germany and even Nigeria. In assessing its effectiveness, it is also safe to conclude that again Ghana's new three tier pension scheme is a step in the right direction mainly because its shift or expansion from a defined benefits system to a defined contribution system, a system that other countries such as Germany, Nigeria and Chile have successfully implemented. Salen and Stahlberg (2007), argue however that, the success of a pension reform lies in the ability of the reforms to gain

majority support. They came to this conclusion after assessing the successful implementation of Sweden's pension reform from a defined benefit system to a defined contribution system. They argue that, in order for pension reforms to be successfully implemented, they would require the present or current generation to embrace it or "bear the burden for tomorrow's generation."

CHAPTER THREE

3.0 METHODOLOGY

3.1 OVERVIEW OF THE METHODOLOGY SECTION

The primary objective of this research is to uncover the effectiveness of Ghana's new three tier pension scheme in resolving the problems of the SSNIT pension scheme as well as its effectiveness in providing income security for Ghanaians. This chapter discusses the research tools and methods of data collection used for this study. It also outlines the types and sources of data to be collected in order to embark on this research.

3.1.2 RESEARCH SCOPE (POPULATION AND STUDY AREA)

The sample area used in the research was Accra. Accra is the capital city of Ghana's Greater Accra region and also the area in which the offices of both the NPRA and SSNIT are located. This is the area where many of the experts in the field of pensions currently reside. The targeted population for this study consisted representatives from both the National Pensions and Regulatory Authority and the Social Security and National Insurance Trust whose offices are located in Accra. It also comprised of a number of pension fund managers, custodians and trustees that would give more insights into this topic.

Additionally, a number of selected financial institutions in the Airport Residential Area a suburb of Accra also form part of the target population. The area was chosen because it was assumed that the people who make up

these companies are registered unto the new scheme and as such should possess fair knowledge of the new scheme.

3.2 RESEARCH DESIGN AND RESEARCH TYPE

The research design employed for this research was primarily qualitative as the data was retrieved through interviews and questionnaires mainly. The data retrieved comprised of information concerning the effectiveness of the new scheme as well as how knowledgeable and conscious Ghanaians are about it. Quantitative data analysis was also employed to assist in measuring the level of awareness and knowledge of the new scheme by Ghanaians.

The research type employed was exploratory research. Exploratory research was an ideal research type as it aims at assisting research when little is known about the topic (HubPages 2013). In this case of this particular study, the three tier pension scheme of Ghana is a fairly new phenomenon and as such there exists limited information with regards to its effectiveness in ensuring retirement security for Ghanaians. Exploratory research therefore helped delve deep into this topic to glean information that was fed into the recommendations.

3.3 SAMPLE SIZE AND SAMPLING TECHNIQUE

The sampling technique used for this research was purposive sampling. Purposive sampling is a technique where researchers deliberately choose subjects who in their opinions are relevant to the topic (Sarantakos 2005).

This technique was very relevant in gaining first hand information from experts involved with the new pension scheme. As a result, selected experts were spoken to. It was also important as a researcher to speak with experts in order to gain accurate information concerning the state of the new pension scheme and how any discrepancies identified could be managed effectively.

In order to do this effectively, an initial sample size of about 10 experts comprising of pension fund managers, custodians and trustees was chosen. Experts from the National Pensions and Regulatory Authority as well as from SSNIT were scheduled for interviews. Owing to the fact that it was difficult to determine the sample size for my interviews with SSNIT and NPRA, the snow balling technique was employed to gain expert knowledge from representatives of these institutions.

In interviewing pension fund managers, trustees and custodians, information regarding their respective roles in the effective administration of the new scheme was attained. Also information with respect to how their respective roles assisted in eliminating some of the discrepancies of the SSNIT scheme was attained. In interviewing experts from the NPRA, more insight was gained into the scheme's efficiency in ensuring that the new scheme was implemented and executed successfully. Additionally, the views of these experts on how successful the new scheme would be in meeting the shortcomings of the SSNIT scheme were obtained. Finally, information with regards to the possible reasons for the delay in the implementation of the scheme was derived. By interviewing experts from SSNIT, insights were

gained into how effective they would be now that their duties had been simplified with the introduction of the 3 tier pension scheme.

Finally, through the use of questionnaires, data with respect to contributor's awareness, knowledge and understanding of the new pension scheme was derived. In order to do this, about 5 financial institutions located in the Airport Residential area were chosen initially. The employees of some of these reputable companies were administered questionnaires in order for to gain information that was used in measuring the level of awareness of the new scheme among Ghanaians.

3.4 TYPES AND SOURCES OF DATA

This research made use of both primary and secondary data. The emphasis was however on secondary data sources because it gave existing data concerning the history of pension schemes in Ghana starting from the CAP 30 scheme to the SSNIT scheme. It also assisted in gathering data concerning the problems with the CAP 30 and SSNIT scheme. Secondary data provided information concerning existing schemes in the world and how Ghana's new scheme matches up to those schemes. The information derived from secondary sources was obtained from journal articles, books as well as newspaper articles on the new pension reforms in the country. In gathering primary data, interviews and questionnaires were employed. This was very relevant because there was the need to glean information from experts in the field of pensions to gain insights into the effectiveness of the new pension scheme and how best it is being managed in providing social security for Ghanaians.

3.5 RESEARCH INSTRUMENTS

The main research instrument used in this study was surveys. Described by Sarantakos (2005) as the most commonly used method of data collection, surveys can be described as methods of data collection in which information is gathered either through oral or written questions. Oral questioning is known as interviewing while written questionnaires are often through questionnaires. In this study, information gathered was done orally through interviews with stakeholders in the pension industry. Unstructured interviews that contained a number of open ended questions were used to make the process more interactive so as to glean enough information from respondents. Questionnaires were administered to employees of financial institutions in selected companies in the Airport Residential area in Accra. These questionnaires consisted of both open and closed ended questions to allow respondents to express their thoughts freely.

3.6 DESCRIPTION OF DATA COLLECTION PROCEDURE

In gaining information for this study, meetings with several stakeholders in the newly established pensions industry were set up. As stated earlier, some of these stakeholders consisted of pension fund managers, custodians and trustees. For a period of about three months, interviews with these stakeholders were scheduled in order to gain information regarding the effectiveness of the newly established pension scheme in Ghana. Overall, about ten (10) stakeholders as well as representatives from the newly established pensions regulatory body, the NPRA were interviewed. Preparations to interview representatives from

SSNIT were also scheduled in order gain information about how effective they would be in going about their responsibilities especially in the wake of the new three tier pension scheme. Unfortunately, out of a total of ten (10) stakeholders, only five (5) stakeholders were available for interviews. The interview with the NPRA unfortunately did not come on as they did not communicate any acceptance of an interview with a representative of the regulatory body. Fortunately, the interview scheduled with a representative from SSNIT did take place.

Additionally, questionnaires were administered to participants of the new scheme in an effort to measure how aware Ghanaians are of the new scheme. To do this, a number of companies located in Airport Residential area, a suburb of Accra were chosen. Overall, 5 companies were visited and about ten questionnaires were administered per company. Out of this number, only four (4) of these companies which included, Ernst & Young, Bullion Holding, IFS Financial Services and Ecobank were responsive.

3.7 DATA ANALYSIS TECHNIQUES

In order to analyze the data collected, content analysis was chosen as the ideal analysis technique. The justification for this method was the fact that content analysis is a method employed to study the content of communication. This communication could be through interviews, books, websites, etc. This method of analysis was applied only to the qualitative data gathered from the interviews with various stakeholders. Additionally, descriptive analysis was employed to analyze the data received from the questionnaires administered to employees of the 5 financial institutions

selected. The justification for choosing this method lies in the fact that the information received from respondents was quantitative in nature and through the analysis inferences on how aware Ghanaians in the formal sector are aware of the new pension scheme was made.

3.8 ETHICAL CONSIDERATIONS

One major ethical consideration was to ensure respondent's anonymity throughout the analysis process.

3.9 LIMITATIONS

It was difficult to get people to interview especially individuals from the NPRA as well as SSNIT. There was also an issue of fact that some institutions were not willing to grant me the opportunity to administer questionnaires and this may proved to put a limit on the amount and type of information received. Finally, issues pertaining to accuracy with the data collected from respondents proved to be a challenge.

CHAPTER FOUR

4.0 FINDINGS AND DISCUSSION

4.1 INTRODUCTION

The purpose of this chapter is to present and discuss findings from data collected concerning the role and effectiveness of Ghana's new three tier pension scheme in providing income security for Ghanaians. The data that will be analyzed will consist of data retrieved from interviews held with experts in the field of pensions as well as from general participants of the new pension scheme.

Through interviews with experts including pension fund managers, custodians and trustees, a number of themes that were common with respect to the effectiveness of the new three tier pension scheme in Ghana were generated. Interviews with personnel from Enterprise Trustees, Universal Pensions Master Trust, IFS Capital Management Limited, Petra Trust, IC Securities were conducted. A report of some of the problems they have encountered with the new three tier pension scheme since its implementation in 2010 is found below.

4.2 PROBLEMS ENCOUNTERED UNDER THE NEW THREE TIER PENSION SCHEME

4.2.1 POOR EDUCATION ON THE NEW SCHEME

According to the personnel interviewed, one major problem that acts as a setback to the proper management of the new three tier pension

scheme is the fact that majority of the general public are not aware or do not understand what the new pension scheme is about. Information gleaned from the experts, show that this responsibility is in the hands of the pensions regulatory body, the NPRA who have done a very poor job in this regard. According to the Pensions Act (2008), it is one of the many functions of the NPRA to sensitize the public on matters related to the various pension schemes. Many of the experts agree that the regulatory body is not doing enough to educate the public on the new scheme. Some have even described them as lackadaisical and are calling on them to be more aggressive with their responsibility of educating the general public on what has become an opportunity for Ghanaians to secure their futures.

4.2.2 DELAYED MONTHLY PENSION PAYMENTS

This was yet another problem that was synonymous among the experts interviewed. According to these experts, some companies fail to make their monthly contributions on time and this often affects the returns that are earned when these contributions are invested. According to the National Pensions Act (2008), employers are mandated by law to pay for each month on behalf of their employees, a total contribution of eighteen and a half percent (18.5%) of a worker's salary within fourteen days from the end of each month. The emphasis here is not on the contribution rates but instead on the time frame within which monthly contributions are to be paid to the various participants of the newly reformed pension scheme. Unfortunately, some companies fail to make their monthly contributions on time and this adversely affects the returns earned on their invested

contributions. According to a number of experts including the Clients Relations Expert of Enterprise Trustees, a licensed pensions trustee, this problem does not only affect their clients but also affects the returns they make as a result of the management fees charged from managing the pension funds of their institutional clients.

4.2.3 PENAL CHARGE FOR DELAYED PAYMENTS

The issue of penal charges for delayed payments is regarded as one of the major problems that many stakeholders have pointed out under the new pension scheme. Again, according to the National Pensions Act (2008), employers who fail to remit total contributions within the time stipulated commit an offence and are liable to pay a fine or term of imprisonment for two years or both. The reason this is a problem is that under the new three pension scheme, there is now room for a portability clause which enables companies to move their funds from one trusteeship to another. In as much as this portability clause puts trustees as well as their pension fund managers and custodians in check, it also puts them in a position where they have to be careful not to do anything to lose their clients. For instance, one of the experts interviewed revealed that, although it was the duty of trustees to report delayed payments to the NPRA, most trustees were often reluctant to do so because of the fear of losing their clients. Therefore, although sanctions will be meted out to institutions that make delayed contributions this fear is heightened further by the portability clause that allows companies to easily move their funds from one trusteeship to another.

4.2.4 INEFFICIENCY OF NPRA

Another area, although sensitive and yet worth mentioning is the inefficiency of the NPRA in the performance of its duties. From my interviews with experts in the pensions industry, the newly established pensions regulatory body has fallen short in certain areas such as sensitizing the general public on the new scheme. According to some of the experts, their interactions with potential institutional clients have revealed how little the NPRA has done in educating the general public about the new scheme. In defining education, this would mean how knowledgeable most institutions are of the new scheme in terms of its new structure and how much this new scheme is better than the SSNIT scheme in terms of coverage and returns received upon retirement.

Additionally, the NPRA came under public scrutiny last year mainly because of its delay in implementing the new scheme after its inception in 2010. The newly established three tier pension scheme became fully operational in November of last year, that is, almost four years after its initial implementation in 2010. Despite the delay some companies had begun to pay their 5% contributions and because the regulatory body was still in the process of finalizing its list of licensed stakeholders, these contributions were being made into a temporary fund where they would be later transferred to appropriate stakeholders when all measures had been put in place. Unfortunately, since the new pension scheme became operational in November 2012, the NPRA has been slow in reconciling company contributions with the corresponding trustee. The Head of Operations of

Universal Pensions Master Trust, a licensed pensions trustee, indicated in an interview that the regulatory body has been tardy in reconciling contributions made since January 2010 to date.

These are some of the problems that have characterized the implementation of the new three tier pension scheme.

4.3 FUTURE OF THE NEW PENSION SCHEME

Despite the problems these experts shared on the new scheme, they admitted to the fact that it was indeed a step in the right direction. As stated by Idowu and Olanike (2009), pension reforms have become a global phenomenon which countries such as Nigeria, USA, UK and Germany have gone through. According to the experts, the creation of the new three tier pension scheme could not have come at a better time for Ghana especially since SSNIT “had not been doing much in the past”. The various stakeholders interviewed have high expectations of the new scheme for Ghana. For instance, it is expected that the newly established pensions industry would have an all round benefit for the country. In speaking with the Deputy Managing Director of Petra Trust, I was able to gather from the interview that the pensions industry is a growing one that is attracting investors thereby boosting Ghana’s financial market. In the next five to ten years the Ghanaian financial market is predicted to be very active possibly because a lot more companies would be listed on the Ghana Stock Exchange thereby giving the public more opportunities to make investments.

Furthermore, they believe that the success of the new scheme is further enhanced by the fact that there is now more transparency with the new scheme. Given the new structure of the pension scheme, it is better for companies to keep track of their pension funds as well as any interests earned from investing their funds. Therefore at any point in time, it is possible to know the worth of one's pensions fund because by law, employees are required to be given quarterly statements on the performance of their investments by their respective trustees (National Pensions Act 2008). Previously, this was deficient with the SSNIT pension scheme.

Additionally, the success of the new scheme is also dependent on the fact that the pension industry is now very competitive more especially with the inclusion of private companies whose responsibility is to run both tiers two and three of the pension scheme as well as the establishment of revised industry standards and regulations. Owing to the fact that employers now have a choice in who their service provider will be, it has created healthy competition among them to ensure that they are a step ahead of each other. This healthy competition puts employees in a position to enjoy better returns on their investments as well as superior service levels.

4.4 STATE OF THE NEW PENSION SCHEME.

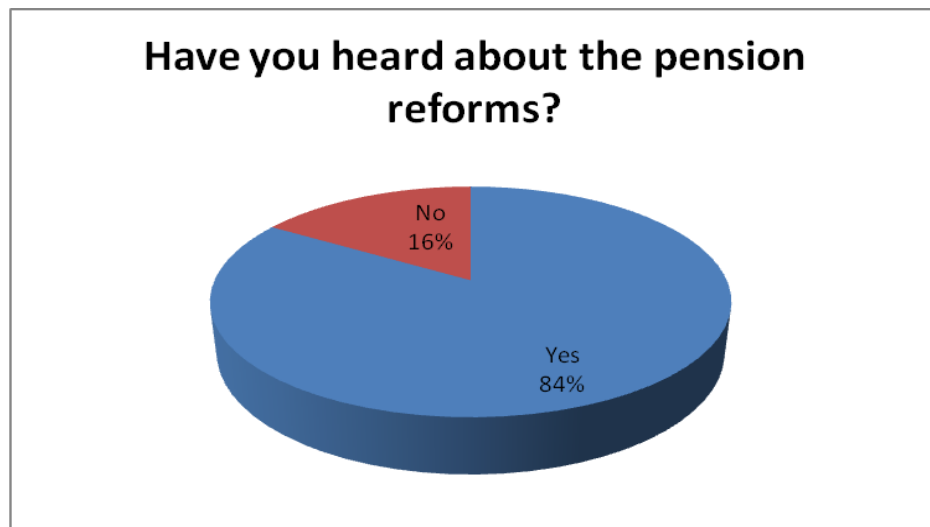
In order to determine whether or not the new scheme is effective, it would need the support of Ghanaian employees. Therefore to determine this, it was relevant to measure the level of awareness of Ghanaians by drawing conclusions from a sample of Ghanaian workers who are currently

contributing to the new scheme. To do this, questionnaires were administered to five (5) companies but only four (4) of them were responsive. A total of about fifty (50) questionnaires were administered and thirty seven (37) responses were received. The questions asked in the questionnaires were designed to determine or measure how aware individuals who in a matter of about twenty (20) to forty (40) years would be receiving their pension benefits were aware of the new three tier pensions scheme. Below are samples of the questions asked and the responses received from my respondents.

1. Have you heard about the new pension scheme?

This question was designed to measure if indeed my respondents had heard about the new pension scheme. The results in figure 5 showed that out of the thirty seven responses received, thirty one responses were affirmative. This number represented a percentage of about 84%.

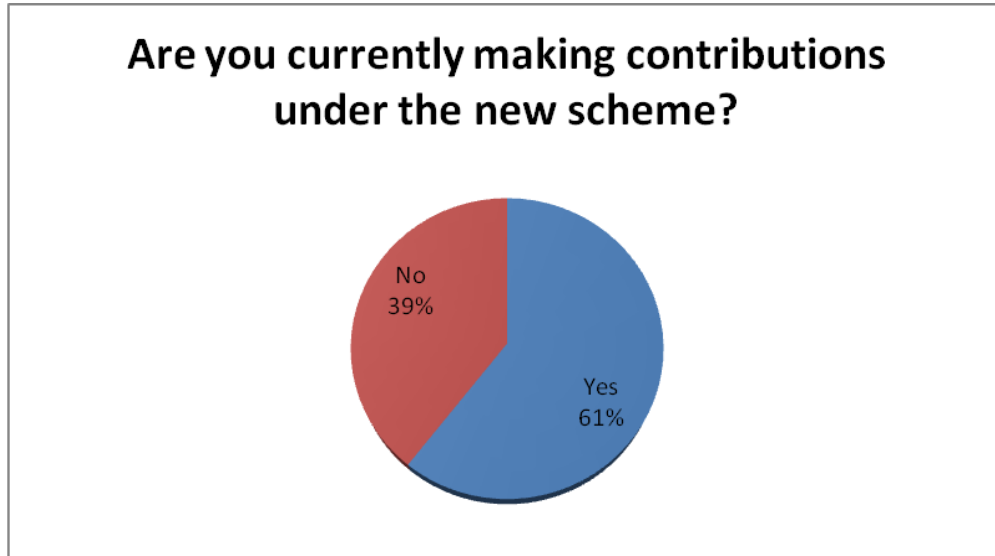
FIGURE 3: PIE CHART DISPLAYING THE PERCENTAGE OF RESPONDENTS WHO ARE AWARE OF THE NEW PENSION SCHEME



Source: Field Data

2. Are you currently making contributions under the new pension scheme?

FIGURE 4: PIE CHART DISPLAYING THE PROPORTION OF CONTRIBUTORS UNDER THE NEW SCHEME

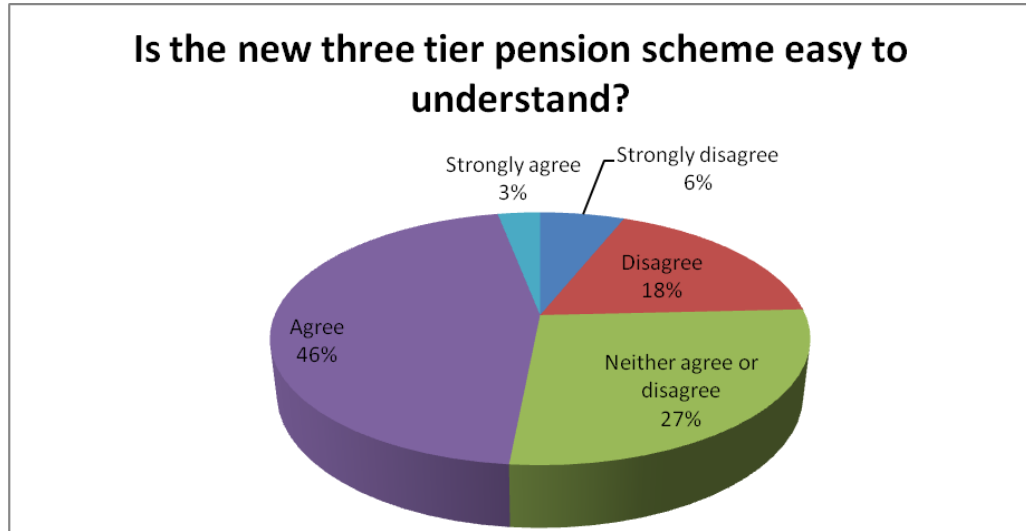


Source: Field Data

Owing to the fact that a large proportion of my respondents responded positively, I went on to measure how many of them were in fact making contributions under the new pension scheme. The results showed that, although over 80% of them were aware of the new scheme, only 60% of them were contributing towards the scheme. The remaining 39% were not contributing to the new scheme at all although they are mandated by law to do so under the first and second tiers. One reason for this is the fact that majority of this 39% represents respondents who are not aware of the new scheme. Even for the minority of this percentage that did, they were still not making contributions towards it because they failed to understand how beneficial it will be for them because they had limited knowledge and comprehension of the new pension scheme.

3. Is the new three tier pension scheme easy to understand?

FIGURE 5: PIE CHART SHOWING HOW WELL RESPONDENTS UNDERSTAND THE NEW PENSION SCHEME



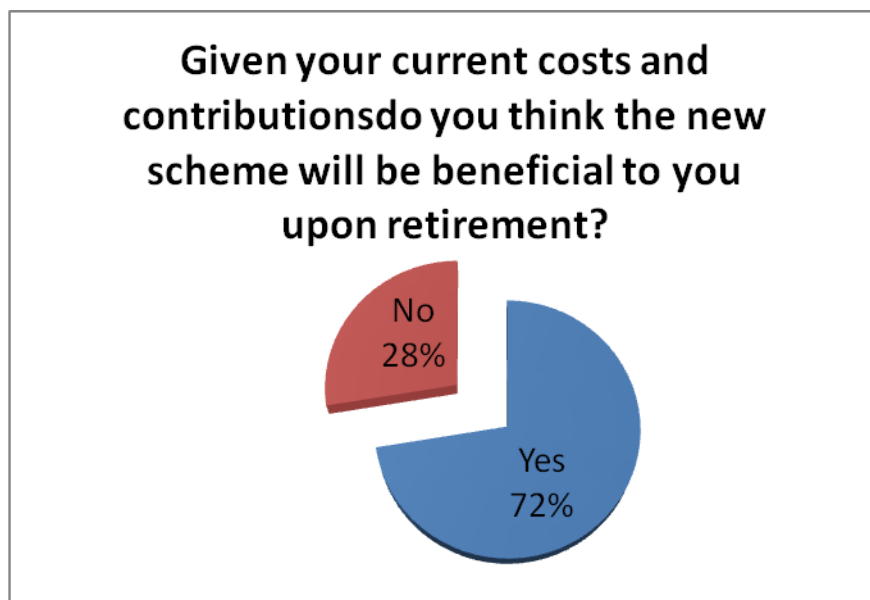
Source: Field Data

This particular question was designed to see how well my respondents understood the components of the new scheme. Although the NPRA has made several publications on its website about the scheme, I wanted to see how well the general public much more those contributing towards the scheme understood how the new scheme operated as well as how it outperforms the previous SSNIT scheme. Out of the responses I received, less than 50% of my respondents agreed that the new scheme was easy to understand. Almost 25% felt otherwise while the remaining 27% could neither decide if the scheme was easy or difficult to understand. This 27% through my analysis consisted of respondents who were currently not making payments under the new scheme and so their input is negligible. Unfortunately, the fact that there was a section of the working population that did not comprehend the new scheme was quite problematic because it

could affect the success of the new scheme particularly, the voluntary third tier. This is because, the first and second tiers are mandatory and so for many workers, the deductions are usually made before they receive their salaries. However, under the voluntary third tier, workers have the option of adding onto their existing pension funds by opening private pension funds. If they have difficulty understanding the new scheme this opportunity would be lost. Although these respondents may have heard of the pension reforms, they may not necessarily understand what specifically these reforms are and how beneficial they would be for them upon retirement and this would be a problem.

6. Given your current costs and contributions, do you think the new pension scheme will be beneficial to you upon retirement?

FIGURE 6: PIE CHART DISPLAYING RESPONDENT'S ACCEPTANCE OF THE NEW SCHEME UPON RETIREMENT



Source: Field Data

Evidently, from the graph, many of my respondents agreed that the new pension scheme will be of great benefit to them upon retirement. This conclusion was reached given their current expenses or costs as well their current contributions towards the scheme.

Overall, the results of my questionnaire show that for employees who understand the scheme regard it as effective. These results speak volumes on the effectiveness of the new scheme specifically because most of these respondents have not begun to receive their pension benefits and already majority of them believe that given their present costs and contributions they would be satisfied with their pension benefits. These results are in line with the results gleaned from the experts interviewed who also concluded that the new pension scheme is indeed an effective one. One of the interviewees admitted that, current contributors should expect to receive returns far higher than the previous scheme because, most pension funds are expected to be invested for a very long period. Moreover, these funds will be invested into fixed income securities such as bonds, treasury as well as in equity. Therefore, current pension contributors should expect high returns because of these long term investment advantage.

Additionally, under the new scheme, there is more transparency and accountability which was quite deficient under the previous SSNIT pension scheme mainly because SSNIT was the sole provider of pensions in the country. Fortunately, under the new scheme, the inclusion of the private sector into the pensions industry has allowed there to be more diversity and

transparency mainly because of the introduction of three additional roles in the management of pensions. These include trustees, custodians and pension fund managers whose clearly defined roles ensure that the management of pensions in Ghana makes it difficult for there to be issues such as the mismanagement of pension funds or the difficulty of ensuring proper records are kept various pension contributions. For instance, it is the responsibility of trustees to appoint and pension fund managers and custodians (licensed by the NPRA) on behalf of their contributors. It is also the duty of pension fund managers to invest pension funds and assets according to an agreed investment policy designed by the trustee. Custodians are tasked to act as market institutions where contributions are held for investment as directed by the pension funds managers. Previously under the SSNIT scheme, all three roles were handled by one corporate body and this made transparency and accountability of pension funds quite difficult. However, a number of experts in the pensions industry believe that under the new pension scheme, there would be better transparency and accountability due to clearly defined roles of the different bodies, that is, trustees, custodians and pension fund managers.

From the interviews conducted with employees from selected financial institutions, the specific ways in which they believed the new pension scheme is better than the previous SSNIT scheme is in the following areas. Firstly, there is better administration and accountability as a result of the presence of three additional players as well as the creation of a new pension's regulatory body, the National Pensions Regulatory Body (NPRA). They also

believed that the presence of the new players would give them more opportunities to contribute towards their retirement which is made possible specifically because of the creation of the mandatory first and second tiers and the voluntary third tier. Overall, what most of the respondents were looking forward to under this new scheme was an opportunity to earn higher pension benefits upon retirement. Again, this is made possible as a result of the inclusion of the private sector in the management of pension funds and the voluntary third tier which enables employees to earn more retirement income in addition to that earned under the basic mandatory schemes.

CHAPTER FIVE

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 RECOMMENDATIONS

1. The newly established pensions regulatory body, the NPRA must step up its efforts at educating the general public of the new pensions scheme. Through my interviews with the experts, I learnt that although the NPRA has made efforts of educating the public of the new scheme, there were still a number of people who were not aware of the new pension scheme. Two (2) out of the five (5) experts interviewed admitted that through their interactions with certain members of corporate Ghana, they realized that some of them were not aware of the new three tier pension scheme. Moreover, the results of my own survey showed that 16% of the 37 responses received from the respondents were not aware of the new pension scheme. Kpessa (2010) argues that retirement security is more a right than a privilege for citizens of a country. Therefore how are employees in Ghana going to enforce this right if they are not even aware of the new pension scheme? The NPRA must therefore step up its efforts to ensure that every Ghanaian employee is fully aware of the new pension scheme and how its benefits far outweigh that of the scheme that pre dated it.

5.2 CONCLUSION

Although Ghana has had its share of pension reforms, the new three pension scheme is one that many experts in the pensions industry believe will be here to stay. Judging from the pension reforms in countries such as

Germany, the UK, Chile, the USA and Nigeria, the direction that these countries took in the wake of their pension reforms is quite similar to that of Ghana.

With most of these countries, there was either a shift from a defined benefit scheme to a defined contribution scheme or the inclusion of voluntary pension scheme to allow individuals to earn more retirement income in addition to that earned under the basic mandatory schemes.

Fortunately, in Ghana, the current three tier pension scheme is a blend of both a defined benefit scheme as well as a defined contribution scheme and like the United Kingdom, we have made a step towards the introduction of a voluntary pension fund to enable more Ghanaians especially those in the informal sector to have a better chance at ensuring income security upon retirement.

According to the five experts interviewed, the future of the pensions industry is predicted to be quite competitive. Presently, they all agree that the scheme on its own is an impressive one mainly because many other countries both developed and developing are undergoing quite similar reforms. Although, the implementation of the new three tier pension scheme has had a rough start in the beginning, the current pensions regulatory body is doing its best to ensure that the scheme is fully effective so that Ghanaians can be guaranteed of all benefits promised under the new scheme. These include, higher pension benefits upon retirement, more accountability and more accountability.

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APPENDICES

APPENDIX 1: TERMINOLOGY TABLE

- **CAP 30**: A pension scheme that was created in Ghana in 1950 by the British authorities present in Ghana. Its name was derived from chapter 30 of the British Pension Ordinance of 1946. It is a non contributory scheme designed as a reward system for civil servants who had worked for a period of ten years.
- **Unfunded/Non-contributory scheme**: This refers to a scheme where its members are not obliged to make monthly contributions into the scheme but are still entitled to full or monthly benefits upon retirement. The benefits paid to pensioners under this scheme are often financed by a government often through general tax revenues. The CAP 30 scheme is an example of an unfunded scheme.
- **Lump sum payment**: This refers to the full and complete pension payment that a worker is entitled to upon retirement. This is usually a one off payment as opposed to a series of payments made over time.
- **Funded scheme**: This refers to a scheme where its members are obliged to make regular monthly contributions into the scheme. The benefits these members receive often consist of the contributions made as well as any interest which may have accrued from investments made with member contributions.

- **Contingencies**: These refer to the conditions that have to be in place before an individual is entitled to benefits under the SSNIT scheme. These preconditions or contingencies include, old/retirement, invalidity/disability and dependent/survival benefits.
- **SSNIT scheme**: This is the pension scheme that was initiated in 1991 and was managed by a separate body, the Social Security and National Insurance Trust. It was initiated after the CAP 30 scheme to expand social security to all classes of workers in Ghana.
- **The 3 tier pension scheme**: This is the new scheme that was implemented in 2010 to improve the state of social security in Ghana. One of the major highlights of this new scheme is the inclusion of two additional tiers to assist in the management of pension in Ghana. The objectives of the new scheme include the following.
 1. To provide pension benefits thus ensuring retirement income security for workers.
 2. To ensure that every worker receives retirement and related benefits as and when they are due.
 3. To establish a uniform set of rules, standards and regulations for the administration and payment of retirement and related benefits for workers in both public and private sectors.
- **Return on Investment**: This is a measure that is used to evaluate the efficiency of an investment.

- **Defined contribution pension plan**: This is a retirement plan in which contributions into a pension fund are dependent on a predetermined contribution rate or rates.
- **Defined benefit plan**: This is an employer-sponsored retirement plan where employee benefits are based on a formula using factors such as the employee's salary history and the duration of employment.

**APPENDIX 2: SAMPLE OF QUESTIONS ADMINISTERED TO VARIOUS
STAKEHOLDERS IN THE PENSIONS INDUSTRY INCLUDING SSNIT,
PENSION FUND MANAGERS, CUSTODIANS, TRUSTEES AND CURRENT
CONTRIBUTORS TO THE NEW PENSION SCHEME**

THIS IS AN INTERVIEW GUIDE FROM A STUDENT OF ASHESI UNIVERSITY SEEKING VIEWS AND INFORMATION PERTAINING TO THE ROLE AND EFFECTIVENESS OF GHANA'S NEW THREE TIER PENSION SCHEME IN PROVIDING INCOME SECURITY FOR GHANAIS. ALL INFORMATION PROVIDED WILL BE USED SOLELY FOR ACADEMIC PURPOSES.

1. What is SSNIT and what is its role?
2. How long has SSNIT been operation in Ghana?
3. What is SSNIT's role especially in the wake of the new three tier pension scheme?
4. How is SSNIT separate from the NPRA?
5. In your professional opinion, why was there a need for the government of Ghana to initiate a new pension scheme?
6. What were some of the difficulties or problems with the SSNIT pension scheme?
7. In your opinion, have these problems been rectified under the new three tier pension scheme?
8. What were some of the benefits or advantages of the old SSNIT pension scheme?
9. In your opinion, how has the new three tier pension scheme performed in maintaining and adding on to the list of benefits?

10. With respect to the new three tier pension scheme, what has been the general public's reaction to it?
11. In your professional opinion, do you they believe that the general public understands this new pension scheme and how it differs from the pre existing SSNIT pension scheme?
12. Kindly identify some of the difficulties you have identified with the new three tier pension scheme since its implementation?
13. How or what is SSNIT doing to rectify some of these problems?
14. In your professional opinion, how has the transition from the old SSNIT scheme to the new three tier scheme been for **you**?
15. In your professional opinion, how has the transition from the old SSNIT scheme to the new three tier scheme been for the **general public** at large?
16. What challenges have you faced during the period of transition?
17. In your professional opinion, what do you think of the new pension scheme?

The purpose of this questionnaire is to gain insight into the role and effectiveness of Ghana new three tier pension scheme in providing income security for Ghanaians. The Information gained from this survey will be used to assess the scheme's effectiveness since its implementation in 2010.

Confidentiality clause: The information provided in this questionnaire will be used solely for the purposes of this study. This questionnaire will remain confidential and will not be distributed. Anonymity will remain at all times.

Please tick the appropriate boxes and fill where spaces have been provided

1. What age range do you fall under?

- 21-30 31-40 41-50 51 and above

2. Have you heard about the new pension reforms?

- Yes No

3. What exactly have you heard concerning the new three tier pension scheme?

.....

.....

.....

4. The new three tier pension scheme as implemented in 2010 is easy to understand?

- Strongly disagree Disagree Neither agree or disagree Agree
- Strongly agree

5. Are you currently making contributions under the new three tier pension scheme?

- Yes No

6. Given your current costs and contributions do you think the new pension scheme will be beneficial to you upon retirement?

Yes No

7. Given your current costs and contributions do you think the new pension scheme is better or worse than the old pension scheme run by SSNIT?

Worse Bad No change Good Better

8. In what ways is the new scheme **BETTER OR WORSE** than the old scheme run by SSNIT?

.....
.....

9. Have you incurred any difficulties with the new scheme?

Yes No

10. What specific difficulties have you faced under the new scheme?

.....
.....

APPENDIX 3: QUESTIONS TO ASK STAKEHOLDERS INVOLVED IN THE NEW SCHEME

1. What is your role in the administration of the new scheme?
2. How successful have you been in going about your duties or responsibilities?
3. What in your professional opinion is the reality on the ground since the new scheme was implemented in 2010?
4. Is the public aware of this new scheme in your professional opinion?
5. What are some of the problems you are facing in the management of the new scheme
6. What are you doing to resolve some of these problems?
7. How are the transition from the old scheme to the new scheme been?
8. What do you think of the new scheme in your professional opinion?
9. Is it here to stay?
10. Will it be as effective as the NPRA has said it will be?
11. In what ways is the new scheme better than the SSNIT scheme?