

UNIVERSITY OF GHANA

**THE EFFECTIVENESS OF THE CURRENT THREE-TIER PENSION
SCHEME IN PROVIDING ADEQUATE SOCIAL SECURITY
FOR GHANAIS: EVIDENCE FROM THE
EASTERN REGION OF GHANA**

BY

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**THIS THESIS IS SUBMITTED TO THE UNIVERSITY OF GHANA, LEGON IN
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DECLARATION

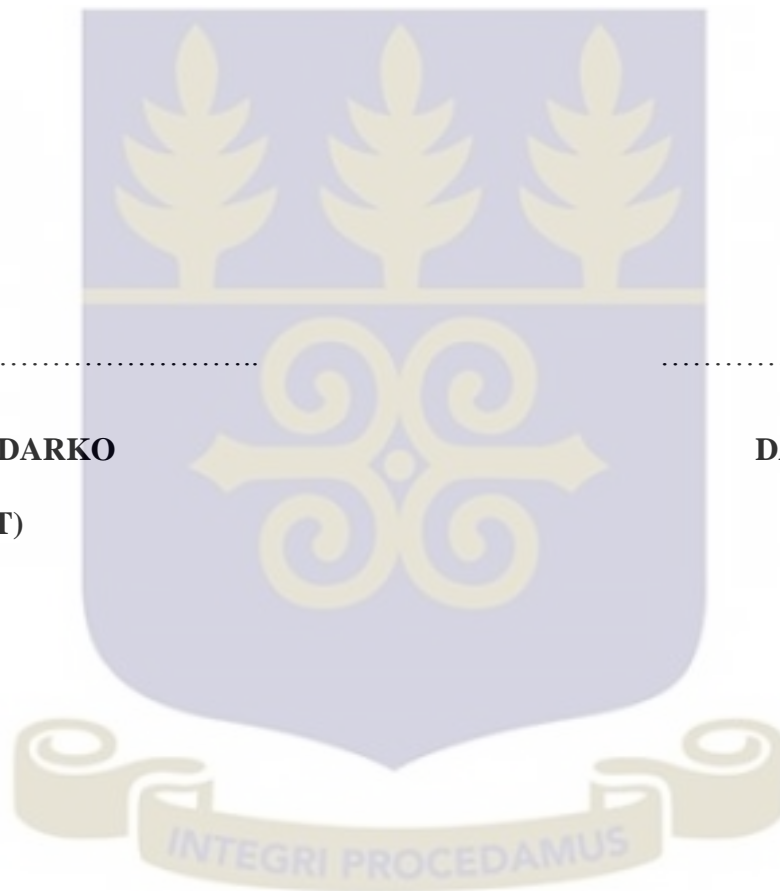
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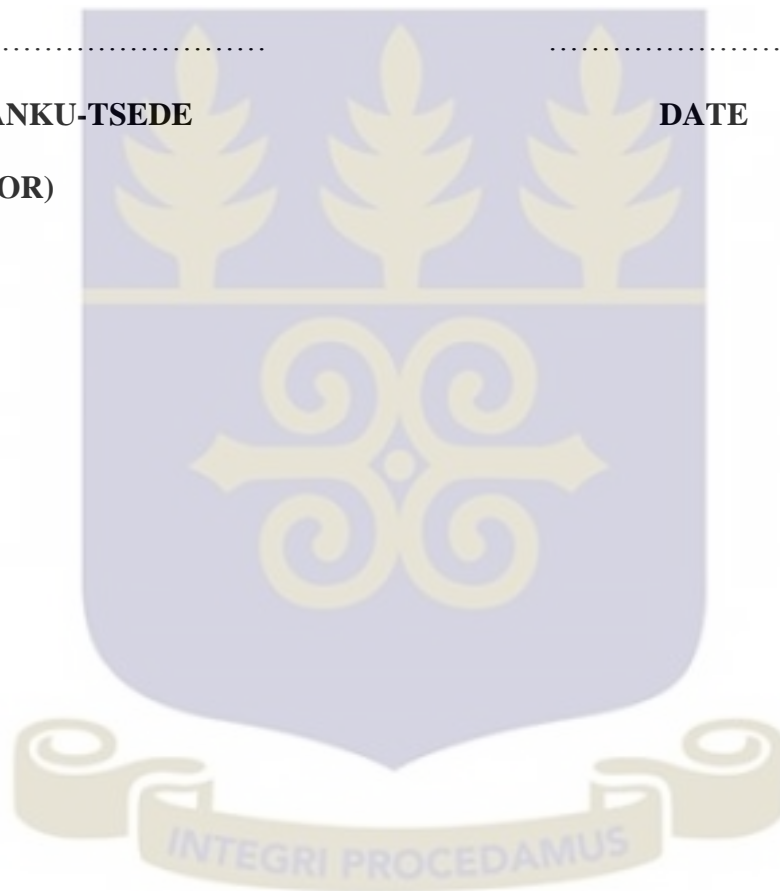


CERTIFICATION

This work was submitted in accordance with the guidelines of supervision of thesis laid down by the School of Graduate Studies, University of Ghana.

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DEDICATION

I dedicate this work to my wife Mrs. Linda Darko for her love and financial support in the course of the programme.



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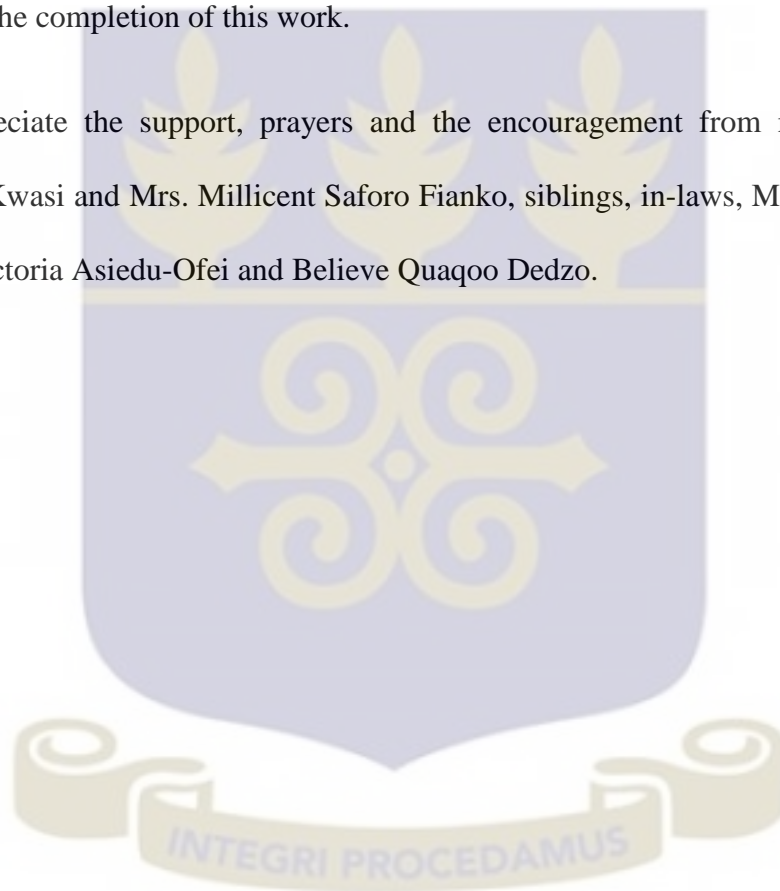
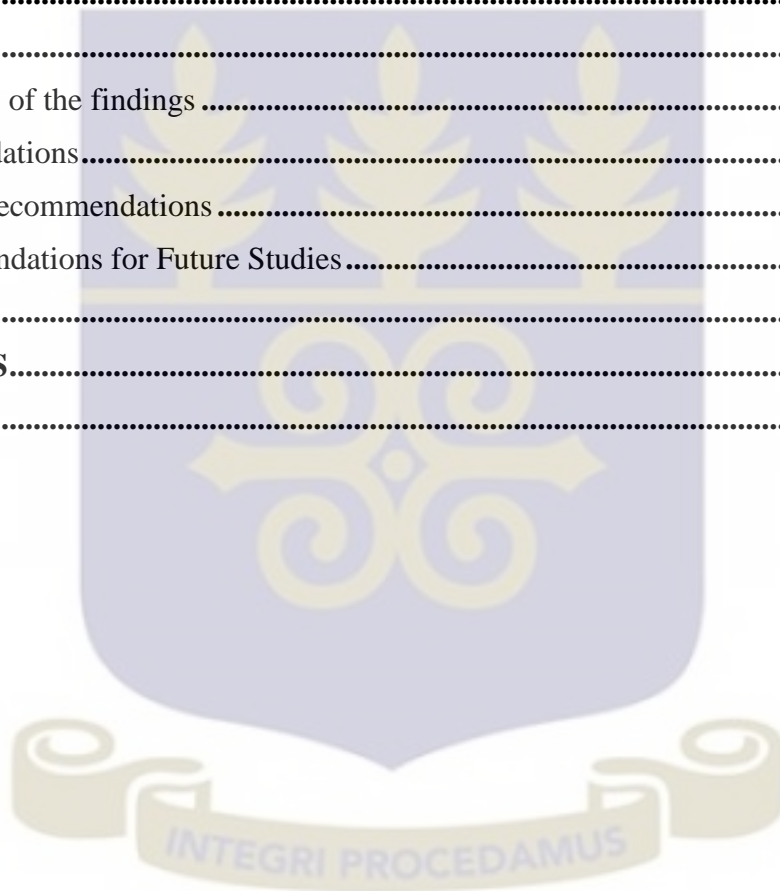


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ABBREVIATIONS

CAGD	-	Controller and Accountant General's Department
CARA	-	Constant Absolute Risk Aversion
EU	-	European Union
GDP	-	Gross Domestic Product
GNI	-	Gross National Income
ILO	-	International Labour Organization
NPRA	-	National Pensions Regulatory Authority
OECD	-	Organization for Economic Co-operation and Development
PIH	-	Permanent Income Hypothesis
SEC	-	Securities and Exchange Commission
SSNIT	-	Social Security and National Insurance Trust
TPF	-	Temporal Pension Fund



ABSTRACT

A public pension system is the only system that guarantees income security for the aged, regardless of any economic change in the future. In this regard, a pension is seen as a social and economic necessity that society should embrace in the quest to alleviate poverty and provide economic security that will enable individuals to cope with life's major risks. The purpose of the study was to investigate the effectiveness of the current tier-three pension scheme in providing adequate social security for Ghanaians. The study utilized the qualitative research method and adopted purposive and convenience sampling techniques to sample 40 public sector workers and expert managers of the new pension scheme from the Eastern Region of Ghana. The study found that the three-tier pension scheme ensures information access, bulk payments, internet communication, arbitrary withdrawal, knowledge on pension entitlements, accumulation of income, and the ability of workers to appoint their own fund managers. It was also observed that the introduction of common IT interface which operates across the three-tier pension system has helped in curtailing some of the biases, inconsistencies, fraud, and agitation that were associated with the old schemes. This has also given the opportunity for workers to channel their grievances through an online platform for it to be resolved. The system also provides notification, an update of account and other issues relevant to the worker which were non-existing in the old schemes. The indication is that the new scheme has drawn more informal sector workers because of enormous advantages such as improved living standards for the aged; financial autonomy and independence of retirees; and the promotion of growth and development of the capital, mortgage, and insurance markets, which were hitherto not in the old scheme. However, the lack of effective coordination among the managers of the three components of the current three-tier pension scheme has caused failure in relation to the realization of the key objective of the pension schemes "Unity of Purpose" in accordance with regulations made under the National Pension Act, 2008 (Act 766). Based on the findings, there should be a continuous and effective collaboration of all stakeholders in connection with the new pension scheme in order to ensure effective working of the scheme. Additionally, public education and sensitization should be provided to ensure people understand all components of the scheme in order to increase the number of enrolment and sustainability of the scheme. Further, the implementation should provide an opportunity to use future lump sum pension benefits to secure mortgages.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

All over the world, systems providing financial security for the aged are under increasing strain (Gockel & Kumado, 2003). The World Social Security Report (2010/2011) shows that the major risks faced when an individual reaches old age is either poverty or income insecurity due to the inability of the person to earn income, whether partially or completely. This was the main justification for the adaptation of pension schemes, which emerged at first only in highly developed countries. The report asserts that social security is a right to be enjoyed by every human being and that it should be seen as a social and economic necessity, and as such society should adopt an important role in alleviating poverty and help provide economic security that will enable individuals to cope with life's major risk or the need to quickly adapt to changing economic, political, demographic and societal needs (World Social Security Report, 2010/2011).

Kenny (2004) posits that retirement today should only be seen as a change in lifestyle and not an end to the productive life as it was in the past. The baby-boom era in the early 1960s has also been reduced as a result of social and economic factors. For this reason, there was the need to plan for retirement period ahead of time. It is therefore very essential that everyone should be encouraged to make adequate provision during their time at work to ensure financial security through what may be a lengthy period in retirement. Though, the percentage of Ghana's population considered as old is still very small (less than 5%) compared to 20% or higher in some developed countries like Japan, this figure is expected to increase gradually as a result of rising life expectancy and declining fertility. At the same time, if the proportion of the aged population remains unchanged, the numbers

involved will increase with population growth thereby, inviting more health and economic challenges both at the national and individual levels.

Barr (1999) argued that population ageing was both predictable and predicted. Yet few countries have the antidote that comes with its implication. An average death in the UK (compared to other countries) has been rising steadily at least since 1860. In the early part of the period, few people reach pension age. During the early part of the twentieth century, the average age at death started to exceed 65 years. Before the establishment of a formal pension scheme as a means of providing social and financial security to the people of Ghana, the extended family system has the responsibility of taking care of the aged, the infirm and in the final analysis the dead in the community. The introduction of modern society that is highly migratory and the introduction of Social Security have interrupted this traditional extended family system of care, as we now experience it (Dei, 2001).

The missing link is that some sections of the population have been unexploited in the provision of the social security in the transition from the rural extended family system to the modern social security and this group of people forms the majority of the working populace as far as the working class is a concern. These people, unfortunately, form the bulk of the population (about 85%) and the challenge was to design a scheme to cater for the needs of this broader sector of the population.

Dasgupta (2001) and Heal (1998) are of the view that, pension policies are unsustainable because they are based on the assumptions about growth rates that are inflated because they take no account of the costs of environmental damage that comes with it. In view of this, Ashidam (2011) argued that pension has been reformed several times and gotten to the current pension scheme, the three-tier pension scheme. Adjei (1999) also indicated that the Pension Schemes predating the current three-tier scheme faces several challenges since its inception and in order to preserve and improve the scheme, there have been several

reforms to the Act. In addition to the changes, there have also been several judicial decisions, CHRAJ rulings and administrative instructions to guide its implementation (Adjei, 1999).

The prime purpose of this Act is to provide a comprehensive legal framework for implementing pension's policy. CAP 30 pension scheme was a social protection scheme. The pensions, gratuities, and allowances payable to officers in the public services of Ghana were more of privileges and not rights. It is, therefore, essential that in these 21st-century contributors to the scheme would be aware of their pension entitlement before their retirement and what will be paid to their dependents after death. This knowledge will inform their decisions when planning for pension, while time is still on their side, to decide if really adequate provision has been made to secure the future and if not take action, if necessary, to supplement what you have or still contributing. The limited studies in connection with issues of pension schemes in Africa especially Ghana couple with continuous implementation of diverse pension schemes because of non-sustainability of old pensions schemes has necessitated the current investigation of examining the effectiveness of the current Three-tier Pension Scheme in Ghana in the quest to provide financial security for the aged upon retirement (Ashidam, 2011).

1.2 Problem Statement

The advancement in technology, health and pension schemes in congruence with social protection policies have become pre-occupation of mankind due to the unpredictability of life. There are numerous concerns that have been raised by public sector workers over the inadequacies inherent in the level of pension to sustain a respectable life for the aged upon retirement. Most workers highlighted the low pension received under the Social Security and National Insurance Trust (SSNIT) compared to workers under CAP 30 of the 1950 British Colonial Ordinance (Pension Ordinance No.42) as discriminatory. Further, besides

the challenges pre-dating the current three-tier pension scheme, it has also woefully failed to address the plight of workers in the informal sector who form the bulk (85%) of the working force in Ghana. The concerns degenerated into a protest by various worker unions requesting government to place them on the same level as enjoyed by some public sector officers under CAP 30 in place of SSNIT system. In order to end this conflict of interest among public sector workers, the government introduced the three-tier pension scheme to bring all schemes under one umbrella for all employees in Ghana and aftermath address concerns of Ghanaian workers (Government of Ghana, 2006).

Literature indicates that studies within the area of social protection rules have concentrated hugely on benefits of social protection, challenges, social security issues and pension schemes (Kumado, 2003). (Ashidam, 2003) make an important argument to buttress the point made by Kumado and stated clearly that pension schemes pre-dating the current three-tier pension scheme have been criticized by many stakeholders for its inadequacy and bureaucratic processes involved in assessing the benefits. Further, there are numerous problems confronting the smooth running of the schemes, benefits under these scheme has no actuarial basis and gratuity lump-sum payments are made without regard to the time value of money. A survey conducted in Ghana by Kpessa (2010) indicates that extensive work on pensions has been carried out in the developed world with limited attention in the developing countries. In addition, Ghana has also concentrated on investigating the benefits of pension schemes (CAP 30 and SSNIT scheme) as well as the Acts which establish the implementation of such schemes. The literature reviewed on the current three-tier pension scheme indicates that less attention has been given to the evaluation and the sustainability of the scheme in Ghana. Additionally, work on pension schemes in Ghana have concentrated on sampling respondents from the Greater Accra Region. The Greater number of works on pensions in Ghana has also tremendously

utilized systematic review design in relation with secondary sources of data. Further, the Quantitative approach has been widely used with little attention on qualitative method.

It must be understood that with the introduction of the current three-tier pension scheme in 2010, it is uncertain whether all the hitches inherent in previous pension schemes have been resolved. More prominently, there seems to be limited education on how effective the current three-tier pension system would be providing adequate insurance and support for elderly Ghanaians. In view of these gaps, the present study seeks to uncover the effectiveness of the current pension scheme in resolving the problems of the previous pension scheme (CAP 30) and SSNIT scheme in order to provide insurance for elderly Ghanaians and to contribute to the continuous debate on pensions in Ghana and the world in general.

1.3 Research Objectives

The main objective of the study is to examine the extent to which the current three-tier pension scheme is set to address the inadequacies inherent in the old pension scheme.

The specific objectives are as follows;

1. To investigate the merits inherent in the current pension scheme in Ghana.
2. To investigate the challenges facing the new pension scheme.
3. To determine the perceptions of stakeholders on the implementation of the current pension scheme.
4. To determine the extent to which the three-tier pension scheme provides better and alternative solutions than the old scheme.

1.4 Research Questions

1. What are the merits inherent in the current three-tier pension scheme in Ghana?
2. What are the challenges facing the new pension scheme?

3. What are the perceptions of workers on the implementation of the current pension scheme?
4. To what the extent does the three-tier pension scheme provides better and alternative solutions than the old scheme?

1.5 Significance of the Research

In this 21st century, the trend of employment has changed with the general population going into entrepreneurship or being self-employed. This indicates that a huge number of individuals in the informal sector are not captured as far as pensions and social security systems are concerned. As a result, the private sector employs about 85% of the nation's population (Dasgupta, 2001). This means that there is a large portion of the population needing some sort of social security in the case of retirement. There are also a significant amount of revenues being made in the informal sector hence the need to provide a system that will encourage savings and the anticipated return after a certain age. Consequently, there is the need to encourage the informal sector workers to have a long-term plan that does not only improve their well-being but also contributes to the overall GDP of the country. The study is significant in a number of ways; Firstly, the study will add to the existing literature or to the stock of collections on social insurance or social security in the country. Secondly, the research will be useful to the academic field and also serve as a springboard for further research or studies. Thirdly, it will contribute to the continuous debate on pensions in Ghana and the world in general. Further, it may serve as a measuring tool for the evaluation of the current three-tier pension scheme in providing adequate insurance for the aged as against the old scheme. Moreover, the study will inform both formal and informal workers to save towards retirement.

1.6 Organization of the Study

The study is organized into five chapters. The first chapter highlights the background of the study, problem statement, objectives and significance of the study. Chapter Two discusses the overview of pension systems in Ghana and a critical review of the literature. Chapter Three deals with the methods adopted for the study and Chapter Four covers data analysis and interpretation. The fifth chapter of the study discusses the research findings, implications, conclusion, and recommendations.



CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter of the study discusses the major theories in relation to pension schemes and the applicability of the theories in connection with study under investigation. This chapter reviews literature in relation to the history of pension schemes in the world and specifically in Ghana, definition of concept with pension schemes, kinds/ categories of pension schemes and empirical review of work in terms of pension schemes implementation, effectiveness, challenges and prospect in developed and developing countries.

2.2. Theoretical Framework/Models of the Study

In view of the purpose of the study, theories/models in relation to the study are reviewed in this section of the study. The theories/ models relevant and considered for the study include pensions and saving theories, life cycle model, and permanent income hypothesis theory.

2.2.1 Pensions and Saving Theories/ Models

These theories were propounded during the 1950's with the major aim of proving in the spirit of Irwin Fisher's article from 1930, that consumers allocate their resources rationally to create a utility maximizing consumption throughout their lifetime (Modigliani, 1970). The model of the theory portrays an idea of utility maximization throughout one's lifetime. Consumption would be the maximized, average consumption one could maintain throughout their lifetime. The author went on to argue that, it is natural for one to save during their working years to spend during their elderly years. They also argued that if a person manages to save the amount they would like, there would not be a change in the consumption pattern when they retire (besides work related expenses).

2.2.2 Life Cycle Theory on Pensions

Life cycle theory developed by Modigliani and Brumberg in 1954 was a theory to provide a framework that study's mandatory pension scheme on savings at the micro-level. In this model, they created the assumption that the individual lives for two periods, the period when the individual is in active service that is working and possibly save part of the income. The second is when one dis-saves due to young age or old age and when one is on retirement or not working. The understanding coined from this model is the fact that the theory encourages consumption smoothening, that is, an individual will save during his working period and dis-save for consumption purposes during retirement.

The significance of the theory is that, when an individual is working, he will save in the form of pension income so that when he goes on retirement and he is no more working, he will receive the accumulated savings as pension benefit to enable him to continue consumption like he used to when he was working. Analyzing this model at the micro-economic point of view, suggest that when the net pension wealth (present value of benefit minus value of contributions) is positive, an individual reduces all other forms of savings and this causes consumption to increase in both periods. If the net pension wealth is negative, an individual will prefer to increase their other forms of his savings and reduce consumption at each period. Now, if borrowing constraints are introduced, an individual may reduce his or her other savings (non-pension savings) because he knows there is a borrowing facility available. However, the overall aggregate savings will increase since the borrower will be paying plus interest on the loan (Murphy & Musalem, 2004).

The theory assumes that firms are risk neutral and employees are risk averse and individual lives for four periods of equal length. The meaning derived from this theory is that workers always receive their highest post training wage in their most senior working

years at the firm and always end up with a pension less than their final wage (Arvin, 1991).

Individuals will set aside money for pension based on three factors; money allotted to consumption, savings that would have been done in the absence of taxes, and savings as a result of higher disposable income. National savings will increase only in the first instance. The foundation of this theory is that, from the Keynesian framework in a simple economy, savings equals Income minus consumption and considering a closed economy (Smith, 1991). A drop in consumption will cause savings to increase. In the second instance, the effect on savings is zero since pension contribution serves as taxes levied on employers and employees. However, in the case of higher disposable income, private savings is rewarded by lower public savings causing a valueless effect on national savings (Attanasio & Deleire, 2002).

Individuals will also save based on bequest motives. That is, people can save for their children, parents, relatives or friends in the form of inheritance. The bequest model suggests that every individual has a multi-generational time limit, that is, a time as a child (dependent), and adult (Independent) and a retired person (dependent). In the stages of the dependence of a man's life, he may depend on bequest savings from beneficiaries. In this model, when Pay-as-you-go pension scheme was introduced, there was no dislocation of private savings since individuals were adjusting their private bequest causing savings to offset the transfer. However when we introduce market imperfections to the model such as liquidity constraint, a displacement of Pension fund on national savings occurs (Kohl & O'Brien, 1998).

Weil (1994) argued that there have been numerous studies done on elderly spending which reviews several of them and the state: "Numerous studies examine the relationship between age and savings using data at the household (micro) level or at the aggregate

(macro) level. Their conclusion has differed substantially with regard to the question of whether the old dis-save” (page 1in: Weil, Daniel (1994). Humans sometimes do not act normal as assumed in most economic literature in the sense that, pension wealth might be considered as a separate asset class which is only used for retirement or invalidity purpose. When this happens, pension income will not be considered as part of permanent income. If this situation occurs, there will be no substitution between pension and other savings. This in a long run will reflect as an increase in national savings since pension wealth will have its separate influence on savings while the individual continues to save for further purposes (Bebczuk & Musalem, 2006).

The Pension is part of a worker’s real wage. Deroode, (1913) supported this point by establishing the fact that, the forgone increase in wage is the pension income contribution. Other authors have argued that/ an important key to determining the effect of 401 (K) (U.S pensions) is heterogeneity in taste for savings. Poterba et al. (1995) emphasized that based on household income and other demographic characteristics, the probability of one working at a firm which offers a 401 (k) plan is exogenous and makes this independent of individual household saving behavior (Larra-Ibara, 2011). This means that a smaller family size with high household income and fewer dependents may save more in pensions and other savings as compared to a large family size with many dependents and low household income.

When an individual saves voluntarily for the sake of retirement purposes, a rise in mandatory institutional saving, either through legislation or through collective agreement to broaden the scope of pensions will cause a large offset by a fall in voluntary savings. The offset of institutional savings for retirement purpose as a result of reduced savings in other forms depends also on the volume of liquid assets held by individuals (Samwick, 1998; Carroll, 1991; Deaton; 1992).

Reforms that have occurred in Chile (1981), Peru (1993) and Columbia (1994) have involved in the issuance of a special bond called “recognition bonds”. This bond issued alternates for the obligations of the Pay as you go system. In this way, recognition bond provides a mechanism for the government to partially reputable some of the implicit debt. If this occurs, current workers will respond by reducing consumption and increasing savings across the board (Samwick, 1998).

PAY-AS-YOU-GO (PAYG) pension scheme was designed in a way that gives annuity to the contributor when he goes on retirement. The mandatory nature of most Pay-as-you-go (PAYG) pension schemes in most developing nations helps the government to overcome potential adverse selection. Reforms that have vented in developing countries like Chile and Peru have created no annuity option for receiving benefit. When there is a decrease in accessing annuities occur, savings may have to increase to partially insure against longevity risk (Samwick, 1998). Individuals may save in the face of uncertain i.e. deaths, income disruptions, and strange health expenditure. It is in this light that the life cycle model spells out a two-period consumption model to explain a situation where an individual has in mind the distribution of his future (retirement) income but does not know what his pension income will be like. This kind of model has a doubt over both pension income and length of the individual’s life. Labor income, interest rate and date of retirement is known while the utility function to use per-period are the Constant Absolute Risk Aversion (CARA). From this model, one is able to deduce that without certainty, consumption would be equal to the permanent income and with certainty; consumption equals permanent income minus precautionary saving due to lifetime and pension income uncertainty (Santen, 2012).

2.2.3 Permanent Income Hypothesis

Friedman's (1957) posit that works on consumption function is one of the great works of economics demonstrating the interplay between theoretical ideas and data analysis. Milton Friedman's permanent income hypothesis was basically an intuition that individuals would wish to smooth consumption and not let it fluctuate with short-run fluctuations in income. Friedman hypothesized that individual's base their consumption on a longer term view of an income measured, perhaps a notion of lifetime wealth or a notion of wealth over a reasonable length of time.

Permanent Income Hypothesis model, indicate that incomes of various households' changes thus decreases as time passes by since these incomes earned from their economic activities are not permanent. This model comprises of the permanent income and transitory income. He further explains permanent income as the one which an individual tends to gain and save throughout their life time which they also presume that this income can be used in the future as well. However, transitory income was explained as the income households do not expect but gain and diminishes over a period of time. Other authors for instance Branson (1989) criticized that the marginal tendency to consume should rather be consistent in order for it to be on the same level with the average tendency. During retirement, consumption should not depreciate since households consumption does not fully depend on social security but rather the permanent income.

Hamermesh (1984) argued that on the average, consumption of retirees should exceed income from pensions and social security by 14%. This was later deduced that the pensioners did not have enough private and social security savings. He indicated that this excess consumption expenditure is financed by income from other sources other than social security specifically; pensions and private savings. Though he did not pinpoint the

exact sources, he mentioned that this consumption pension's discrimination was due to inadequate savings.

Fisher and Marchland (2011) agreed with Hamermesh (1984) but opposed that consumption expenditure exceeds income in retirement but their reason for such occurrence was not related only to inadequate savings but was said to be due to excessive consumption. Furthermore, Paulin and Duly (2002), added their voice to given reasons for this disparity as due to changes in sources of receipt of income due to retirement and essentially other demographic factors.

In view of the reviewed theories and models, it can be stipulated that the theories are applicable and relevant to this study because there is a significant correlation between the theories adopted and giving a clear indication of the need to save for retirement. It also indicates the necessity to save towards pension to make life more bearable during old age. It further reviews some of the studies in relation to the theories and how important the models are contributing to issues of pension across the globe.

2.3 Issues of Pensions across the Globe

Barr and Diamond (2006) argued that many countries face rising pension spending and often accompanied with significant pensioners poverty. They went on to say that the problem identified was mainly as a result of rising life expectancy and lower birth rates. Their findings show that the average pension spending in the OECD in 2001 was 7.4 percent of GDP, which is a comparable figure for the EU 15(i.e. the older member states), being 8.2 percent.

Pension spending in some countries was significantly higher, 10.4 percent in France, 10.8 percent in Germany and 12.6 percent in Greece. Based on their assessment if pension formula remain unchanged, then there is the possibility that the projected trends in longevity, fertility, and economic growth suggest that pension spending in some countries

could double from their present level, as population ages, in Greece, for example, the trend will be nearly 25 percent of GDP in 2050 if action is not taken (UK Pension Commission, 2004).

Barr and Diamond (2006) posit that the many agitations and the debates about pensions points to the type of pension individual countries wish to adopt, whether pensions should be Pay-As-You-Go (PAYG) or funded. He makes the assertions that in a PAYG pension scheme, contributions are paid out of current income. In a fully-funded scheme, pensions are paid from a fund build over a period of years from members' contributions. Practically all state pension scheme are mainly (PAYG), private schemes which are generally funded. Chile has become a famous example when it comes to the debates on pensions and it is for no reason why most countries choose to adopt Chile's pension scheme. In 1981, Chile moved from Pay-As-You-Go (PAYG) pensions to individual funded accounts. This strategy, in essence, was a form of privatization, underpinning the World Bank's advocacy of the multi-pillar model (World Bank, 2004) with a significant mandatory funded component. This demonstration effect on Chile and the advocacy of the World Bank were powerful, in that many countries, notably Latin America, Central and Eastern Europe have added mandatory contributions to private, funded pension alongside contribution to the PAYG state system.

'PAY-AS-YOU-GO (PAYG) pension faces major fiscal problems since its inception, in view of this, (Barr and Diamond, 2006) argued that PAYG pension scheme should be privatized. In trying to reconcile with the issue, it is important to differentiate between this two questions:

- Is the fiscal cost of public pensions a problem?
- Would a move towards funded pensions be beneficial?

Barr and Diamond (2006) argued that there are two different questions, which requiring separate answers. They believe that if fiscal cost of public pensions is a problem and there are no major gains perceived from moving to funded pensions, then the relevant policy directions are those that will reduce public pension spending; in distinction, if there are potential benefits from funding, a move in that direction may be sound policy even where the fiscal costs of a public pension are sustainable.

2.4 Definitional Issues of Pension Systems

Pension systems are transfer schemes instituted by the State, with the purpose of providing income to the aged in a context where informal arrangements are considered insufficient. Rofman et al. (2012) expressed pension as a contract for a fixed sum to be paid regularly to a person following retirement from service. The Organization for Economic Co-operation and Development (OECD) in 2005, defines Pension funds as a pool of assets forming an independent legal entity that are brought with the contributions to a pension plan for the exclusive purpose of financing pension plan benefit. Agbobli (2010) explains pensions as a means of investment for retirement purposes. It is considered as a long-term investment vehicle which converts one's pension fund to pension income when an individual retires till he or she dies. The difference between pension and another investment is the availability of favorable tax treatment till the point of collection. This retirement benefit could either be provided by government or private entity.

State pension combines social insurance, intergenerational support and welfare schemes, where the state or government improves the lives of the aged and invalid by smoothening their consumption when they have retired (Agbobli, 2010). Other names for state pension are public pension or social security schemes and these account for a substantial portion of the disposable income of the aged (Aidt et al. 2008). Obeng (2008) also explains social security as a scheme, established by statute for the protection of members through a series

of public measures against economic and social distress. A comprehensive social security covers most productive workers (Perotti & Schwiabacher, 2006). The private pension is a type of occupational scheme which is personal in nature. Here, the state is not involved in providing pension benefits, that is, the government does not use state taxes to pay pensioners (Agbobli, 2010). Adenutsi (2009) explains occupational pensions as a situation where an employer creates a pension scheme for its workers. Occupation pensions give an advantage to both the employer and employee with respect to taxation.

2.5 Modern Pension Schemes in Review

Hinz et al. (2005) argued that the rising effect of modern pension system is as a result of the reaction to the socio-economic changes in the nineteenth century, and reiterated that, as individuals move out of the traditional agricultural family structures there was the need to establish formal risk management arrangement that could substitute for the informal arrangements that were eroding the face of the transition. They were of the view that income-transfer programmes to the aged started in the nineteenth century and that it first started in Germany and in Denmark, and gave reasons why pensions was established in these countries which appears to have differed significantly. In Germany, for instance, it was identified that Chancellor Bismarck was interested in tying workers to the new German state while the Danish scheme was introduced as a locally administered means-tested scheme for the needy citizens over age 60.

The concept of modern pension started in Chile in the 1980's and at a point, it was privatized. It took policy analysts more than a decade to explore the Chilean reform; this was because many customers initially did not take interest in the Chilean experience due to the fact that the system of government practiced was a military dictatorship when their pension reform was implemented (Hinz et al., 2005). A dramatic shift in this attitude

happened after Chile's democratization and opening up in the 1990's as the new democratic government remained committed to the pension reforms. Furthermore, neighboring countries and countries around the world started considering a partial pension system privatization as a possible solution to the forthcoming crisis of the old-age security system (Hinz et al., 2005).

Over the years, concerns have been raised and agitations made by public sector worker over the inadequacies of the level of pensions to sustain a respectable life for retired public servants. Concerns raised by most workers' groups has been the low pensions received by workers under the Social Security and National Insurance Trust (SSNIT) Pension Scheme as compared to those still under Chapter 30 of the 1950 British Colonial Ordinances (Pension Ordinance No. 42), popularly known as CAP 30. In addition, pension schemes that have been operated in the country has its own limitations, and also failed to consider the plight of workers in the informal sector, who constitute the bulk (about 85%) of the working population in Ghana. The concerns rose to a peak in agitation and protests by workers' for the restoration of public service pensions to the level of the provisions still available to some public officers under CAP 30, in place of the SSNIT system that had been introduced in 1972 as the mandatory and universal pension scheme for all employees.

Many countries have boarded the expedition of social security since ageing is inevitable in our societies and this predates to the early nineteenth centuries. In our traditional circles, the extended families by Ghanaian nature took care of the aged and sick who could not work, however, the situation we find ourselves currently is different due to the search for greener pastures. Pensions in diverse forms have one major goal in every society and that is to smooth consumption when one is old and cannot work anymore (Allen et al., 1966).

Earlier works done on pensions have highlighted the need to cater for the aged in the society and this has been of prime importance to many governments across globes. Savings rate around the globe has been undulating and very volatile with East Asia saving more than 30% of the gross national domestic income (GNDI) whiles Sub-Sahara Africa saves less than 15% of their GNDI. Developed nations have similar determinants of savings whiles developing nations like Ghana, Nigeria, and Korea also have their own savings characteristics (Deaton, 1989; Gersovitz, 1988; Schmidt-Hebbel, 1992).

2.6 Historical Overview of Pensions Schemes in Ghana

Darkwa (1997) posits that almost all societies have a mechanism by which they provide a form of social security system against unforeseen contingencies of life such as old age, unemployment, sickness, and disability. In Ghana, before the advent of colonial rule, most Ghanaians, more especially, those residing in the rural areas depended on the traditional forms of social protection such as the extended family and a number of mutual aids from organizations for their security, welfare, and social protection. With the introduction of colonial rule in Ghana, a number of Western social security interventions were introduced in Ghana together with other bureaucracies and institutions. Like other social intervention introduced during this era, the Ghanaian social security system was designed to cater to the needs of urban workers. The scheme did not cover the over 60% of Ghanaians residing in rural areas and working in the non-formal sectors as farmers, petty traders, and self-employed people (Dei, 2001).

Currently, the SSNIT and the CAP30 pension schemes are the two mandatory schemes running parallel in Ghana. Though there are other social security systems predating them. SSNIT pension scheme covers workers in both the formal and the informal sector workers. The CAP 30 takes care of the military and the security services and a few civil servants. Reviews of literature identify several types and kinds of pensions adopted by countries.

This has informed the evolution of major pension in Ghana. This chapter will give a brief overview of the pensions systems in Ghana, that is, the history of pension contributions in Ghana. The chapter will go on to elaborates reasons why always there are reforms in the pension industry. Also, the institutions responsible for pensions in Ghana will be identified and their major roles assign to them (Dei, 2001).

2.6.1 The History of Pensions in Ghana

Social security in Ghana embraces old-age persons, survivor benefits, and Disability pensions. In Ghana, the social security system was modeled after the British system, when the country was colonized for almost 108 years (Darkwa, 1997). The British enacted the colonial Development and welfare Act in the 1940s to support the development of social security. The primary beneficiaries of the program during the colonial era were Europeans and some Africans who worked in the public services (Asamoah & Nortey, 1978). The social security system was designed to cater for the needs of workers in the formal sector, more especially, those residing in the urban area.

Before the establishment of a formal pension scheme as a means of providing social and financial security to the aged in Ghana, the extended family system has the responsibility of taking care of the aged, the infirm and in the final analysis the dead in the community. The coming into being of modern society that is highly migratory and the institution of Social Security has interrupted this traditional extended family system of care, as we now experience it (Dei, 2001).

The strongest argument used to justify the need for undertaking a pension reform has been a global trend of aging. For the developed countries this trend has been a reality for some time now, whereas population projections show that a majority of the developing countries (including china and India as the most populous countries in the world) will face a similar problem in decades to come. This will inevitably put an enormous pressure on the existing

stress on public pension systems considering its design and the level of promised benefits. On the contrary, some countries used the argument of boosting the financial market and increasing savings as means of additional gain from the pension reform. In Ghana, about 85% of the population falls within the informal sector of the economy and the challenge that it poses to government is to design a scheme to cater for the needs of this broader sector of the population (Dei, 2001).

Kpessa (2010) argued that/ “the reason behind the introduction of the CAP 30 was to encourage loyalty and efficiency within the colonial civil service”. The retirement benefit was not one that was carved from deferred incomes by the retiree but rather it was seen and considered as a reward for people who served the Queen and the colony diligently until their old age. Thus, public servants had no claim to such programs unless they were umpired by colonial administrators as meeting eligibility requirement of loyalty (Government of Ghana, 2006). Further, an income protection policy was introduced to serve urban dwellers who were Europeans and some few Africans in the colonial Bureaucracy (Asamoah & Nortey, 1987). The old age income protection policy that was working during the colonial period was accompanied with the introduction of the Colonial Development and Welfare Act in the 1940s (Darkwa, 1997). Further, a Pension Ordinance was enacted by the British government to replace and unify the Pensions (European Officer) Ordinance (CAP-29, 1936) and the pensions (Non-European Officer) Ordinance (CAP-30, 1936) into a single non-discriminatory pension’s scheme that, offered equal benefits to both expatriates and local workers during that period (Government of Ghana, 2006). In its unified form, the scheme was referred to as CAP-30. This name was derived from chapter 30 of the 1950 Pension Ordinance (Kumado & Gockel, 2003). Because this scheme was seen as one that did not involve any contribution, it was meant for workers who have been loyal to their work and without discoloration for at least ten years in

service. With the CAP-30, employees are at liberty to go on voluntary retirement at age forty-five or a compulsory retirement at age fifty. This scheme created a lot of inconvenience for the British government since it was fully financed by the government and managing the scheme was draining government coffers.

As a result of the financial burdens inherent in the scheme, policy makers after independence opted for the establishment of a new and different pension scheme to be recognized as Provident funds in 1965 for all groups of workers that were not covered by the CAP 30 scheme at that time (Kpessa, 2010). Government by then introduced a more developed national scheme to cover all workers for both the private and public sector workers.

The term provident fund refers to a pension plan under which retiring workers received lump sum benefits in the form of financial assets build up over a period of time through membership contributions and investment returns (Dixon, 1989) This was a type of defined contribution since the employer (government) contributes funds to the scheme, but the employee bears all the risk of the fund's investment performance. Under this arrangement "an individual's pension annuity size, at any given life expectancy and rate of interest, is determined only by the size of his or her lifetime pension contribution" (Barr, 2002). The Provident Fund provided a lump sum payment for the old-age, invalidity and survivor's benefits. During this period, the funds generated from the contributions were invested in special government bonds with very low-interest rates and very long maturity periods.

As a result of the low-interest rates coupled with rising inflation at the time, the lump-sum benefits due pensioner were worthless. "Following the negative impact of the economic crisis on the provident funds, the labor unions necessitated the conversion of the provident funds to pay-as-you-go (PAYG) social insurance plan to pensioners to be paid every

month on regular basis”(Kpessa, 2010). Kumado and Gockel (2003) assert that workers who were under the Provident Fund were automatically enrolled into the new social insurance scheme as well as “Individuals who reached the retirement age at the exact date of the transition were also given the opportunity to choose between monthly benefits and lump sum payment, and pension entitlements were extended to employees with age 55 (the retirement age under the provident funds) with less than 240 of months participation but more than 180 months contribution to smoothen the transition process” (Dei, 1997). The scheme was planned such that the three main contingencies were taken care of; old age/retirement, invalidity/disability, and dependents/ survival’s benefits. The compulsory old age retirement was fixed at 60years while the voluntary retirement was also placed at 55 years.

Kpessa (2010) argued that the CAP 30 Benefits were calculated on the basis of 50% of the average of an employee’s three best years’ salary. Employees were awarded an additional 1.5% on top of the 50% minimum base pension formula for every additional year of contribution or participation in the scheme beyond the 240 months up to a maximum pension benefit of 80% of the best three years’ income. Adjei (2000) and Osei (2005) are of the view that where an employee is not able to contribute for the total of 240 months before retirement, the individual will receive his or her accumulated contributions with interest that are calculated at half the rate of the government’s treasury bills. For the disability benefit, in order to qualify, the employee should have contributed to the scheme not less than three years and must be fit by all medical standard proven by the medical board which will confirm that the person is really incapable of working again. Disability benefits are usually paid in a form of monthly installment to the affected person and lump-sum payment to the nominated beneficiary if the retiree is deceased (Kpessa, 2010).

Kpessa (2010) posits that in 1991 when the scheme was introduced, the total numbers of active members were about 647,712. Social Security and National Insurance Trust in 2006 also reported that by the close of that same year the active members increased to 1,211,620 members, who represents 87.06% increase within the fifteen years of establishment and at the close of that year the scheme recorded a total contribution of 2,868 billion old cedis (Kpessa, 2010). With this type of insurance, the employee contributes 5% while the employer contributes 12.5% making a total contribution of 17.5%. The most interesting aspect of the social insurance plans has to do with the fact that it ensures inter-generational transfers and intended to ensure cohesion and collectivization of risks (Kpessa, 2010). Funds or contributions from the scheme are invested in numerous sections of the economy like financial, manufacturing, services, residential (real estate), and commercial properties. Generally, the investment portfolio of the scheme is divided into fixed and non-fixed income investments. The fixed income investments include registered stocks, home finance company index-linked bonds, fixed deposits, call monies, student loans, corporate loans, treasury bills and government bonds and most of these investments are mostly short term. “Non-fixed income investments are economically targeted investment such as real estate, commercial and residential, development and equities.

Agboblí (2010) posits that the new Three-Tier Pension Scheme in Ghana will further throw more light on the Scheme making up of three separate sources one can save towards retirement. This pension reform has its firm grounds from National Pensions Act, 2008 (Act 766). The new scheme consists of three strong investment pillars upon which it revolves, with introduction geared towards bringing relief to the pensioner or their beneficiaries. It is arranged as follows; First-Tier is a mandatory basic national social security scheme which will integrate an improved system of SSNIT benefits mandatory for all employees in both the private and public sector (no lump sum payment, only

monthly income replacement and related benefits such as survivor benefit, invalidity pension.) are currently paid by SSNIT (National Pension Act 2008). Second-Tier is an occupational pension scheme, mandatory for all employees but privately managed by registered Pension Fund Managers and Custodians who are regulated by approved trustees licensed by the NPRA, and designed primarily to give contributors higher lump sum benefits than presently available under the SSNIT or Cap 30 pension schemes (National Pensions Act, 2008). Third-Tier voluntary provident fund and personal scheme/ is also supported by tax incentives. It is pertinent to note that this 3rd-tier voluntary personal pensions being managed by Pension Fund Managers seeks to address the needs of workers in the informal sector and also designed to provide an additional fund for formal sector workers who want to make voluntary contributions to enhance their pension benefits (National Pensions Act, 2008).

With the introduction of the new three-tier pension scheme, the employer now contributes 13% and the employee contributes 5.5% making a total of 18.5%. This shows an increase of 1% contribution on the old social security scheme. This additional increment was spread among the employee and the employer. Though the 1% increase on paper looks quantitatively small, but the benefits are much higher and more rewarding. The benefits of this retirement scheme are monthly pension income, lump sum payment, invalidity benefits, survivor benefits and a favorable tax exemption from investments (National Pension Regulatory Authority 2010).

2.6.2 State Pension Schemes in Ghana

Most people do not appreciate that pension right being built up year by year by members of occupational pension schemes are probably their most valuable assets after retirement even more valuable than the house they live in. It is therefore very prudent that Pensioners understand how the scheme work and what their entitlement are and this will aid in

keeping an eagle eye on the contribution. There were two pension schemes operating previously in Ghana. The pension Act, of 1950 (CAP.30) and the Social Security Act, 1965 (Act 279) established the two mandatory state pension schemes in Ghana. The pension ordinance 1950 (CAP. 30) require employee not to contribute any portion of their salaries towards the pension scheme and that took effect on January 1, 1946. The social security Act of 1965 requires all employers to deduct five percent (5%) of the monthly salaries of the employees and add twelve and a half percent (12.5%) towards the retirement benefits of the employee.

The CAP 30 Pension Scheme

Adjei (1999) posits that the public sector pension scheme, popularly known as CAP 30, emerged as a colonial legacy, drawing its authority from the pension ordinance No. 42 of 1950, which forms the chapter 30 of the 1950 British colonial ordinances under which the British government ruled the Gold Coast colony and other colonies. The pension ordinance, which was promulgated in 1950 took a retroactive effect from 1st January 1946, to replace the erstwhile pensions (European officers) ordinance CAP 29, 1936 and the pension (Non-European officers) ordinance, CAP 30, 1936, as a consolidated legal instrument for the uniform application of a much less discriminatory pension scheme, providing equal benefit to both the expatriate and the indigenous civil servants in the civil service of the gold coast (Adjei, 1999).

The scheme was an arrangement for guaranteeing a reasonably comfortable and more decent life, as well as the economic and social security for both pensionable and non-pensionable officers retiring from the colonial civil service, through the payment of pensions, gratuities or annual allowance. The schedule to the ordinance provides regulations for applying the provisions of the ordinance (Adjei, 1999). The CAP 30 pension scheme was originally a non-contributory and was intended to be a reward

package from the colonial government to all civil servants after working for a minimum of ten (10) years unblemished and loyal service, at a voluntary retirement age of forty-five (45) or on the attainment of the compulsory retirement age of fifty-five (55) years (Gockel & Kumado, 2003). All these were done in a form of motivation to encourage lifetime employment and an efficient career development in the civil service for it to be more attractive. This fact is echoed by 6 (1) of the pensions ordinance, which categorically states that “pension and another benefit under the scheme are not a right”. The fact that the CAP 30 pension was the right of the employer was overextended by the provisions of the pension’s special provisions act of 1959. This amendment empowered the government to suspend payment of pensions to pensioners who were detained under the preventive Detention Act of 1959 (Ashidam, 2011).

The administration of the scheme was not for any special purpose but to be linked-up with professionals such as actuaries, as a typical civil service function, located in the Controller and Accountant General’s Department (CAGD). Subsequently, the role of the CAGD was strengthened by the creation of the pension’s computations and pension payment units, both of which still operate within the overall framework of the central treasury system, but without the involvement of professional like accountants and actuaries. Presently, the administration of the CAP 30 pension scheme has a dual responsibility shared by CAGD and the Audit Service. The CAP 30 scheme was designed on the basis of the sound actuaries’ principles. However, the implementation of the scheme went through considerable environmental dynamics which have brought along with them a various form of legislations, amendment and administration decision not supported by any actuaries inputs or projects and which have impacted negatively on the original scheme. The environmental changes include; the pension Act, 1950 and other subsequent Acts, like the teachers’ pensions Act, 1955, the local government Act, 1961 (Act 54) covered all public

officers. Clause 190 (I), (a), (b), (c) and (d) of the 1992 constitution of Ghana defines public service in Ghana to include;-

- The civil service
 - The judiciary service
 - The audit service
 - The education service
 - The prison service
 - The parliamentary service
 - The health service
 - The statistical service
 - The national fire service
 - The custom excise and preventive service
 - The internal revenue service
 - The police service
 - The immigration service
- (b) The public corporation other than those set-ups as commercial ventures
- (c) The public service established by the 1992 constitution of Ghana
- (d) Such other services as parliament may by law prescribe.

The CAP 30 pension scheme is non-contributory and is charged to the consolidated fund. Members of the scheme may retire voluntarily at the age of 45 years giving six-month prior notice or at 55 years. CAP 30 pension is granted by the president of the republic of Ghana and may be withheld, reduced or forfeited when proven the offense. Aside compulsory retirement at 60 years, a member will be entitled to Cap 30 pension on the basis of

- (a) Transfer to other public sector
- (b) Abolition of the office
- (c) Compulsory retirement on restructuring for improvement and efficiency.
- (d) On medical grounds.

2.6.3 The Social Security Pension

It is argued that social security is a human right as well as a social and economic necessity, and that all successful societies and developed economics has employed all form of developmental strategies to alleviate poverty and also to provide economic security that in the end will help people to cope with life's major risks (ILO 2010/2011). However, for the organization to achieve it Millennium Development Goal, introduced national social protection awareness as a basic social security to benefit all countries more especially countries where no such scheme existed or have limited coverage. The report reiterated that to have a sound social security policy it should be based on facts and figures.

According to ILO (2010/2011), social security has two main dimensions, namely “income security” and “availability of medical care”, and that social security coverage can be measured based on either of them that are functional or dimensional, such as health care, old age or unemployment. The ILO report finds out that there is some level of social security protection existing virtually in nearly all countries, though only a few countries provide protection in both categories, and that there is no country in the world without any form of social security, but in many countries coverage is limited. The International Labour Organization (ILO) report depicts that only one-third of the countries globally representing 28% of the global population have comprehensive social protection systems covering all branches of social security per the ILO convention No.102.

The social security pension was started in Ghana in 1965 initially as a provident fund established by the Social Security Act, 1965 (Act 279). The Act clearly established that

any organization with five workers or more are to register with the scheme and contribute 12.5% towards the retirement benefit of their workers, while the employer contributes five per cent. The social security law 1991 (PNDCL 247) converted the provident fund to a pension scheme thus replacing the lump sum previously paid to retired employees. Beside pension, Death and survivors Benefit, Emigration Benefit, and unemployment Benefit were also paid as additional Benefit under the social security pension.

The social security law (PNDCL 247) mandated contributors to contribute for a minimum of two hundred and forty months (20 years) before he or she qualifies for the pension. A contributor who contributes less than 20 years before retiring is normally paid lump sum of his or her contribution plus 3% interest. Aside, contributors must also attain the prevailing compulsory retirement age of sixty (60) years before he or she can earn a full pension. Voluntary retirement is not encouraged since the contributor will definitely receive reduced pension if he or she retires at age fifty-five (55) years' section 34(1) (a) (1) and (ii) and (b). Employees engaged in hazardous employment such as quarrying, underground mining, steel works may, however, retire on full pension on attaining age fifty-five (55) years.

Life expectancy after retirement under the social security pension was twelve (12) years (Section 37 (3) of the social security law, 1991 (PNDCL 247). The death of a pensioner under this scheme before attaining the age of 72 years entitles his or her relatives to claim survivor's benefit of the remaining years but if a person died on attaining 72 years survivor will have nothing to claim section 38 of the social security law, 1991 (PNDCL 247) provide for invalidity benefit for persons certified to be legally incapacitated before the compulsory retiring age.

2.6.4 Institutions of the National Pension Scheme

The Government was the first to establish pension institution to regulate contributions and benefit payment; this, however, was entrusted in the hands of Social Security and National Insurance Trust (SSNIT) in 1965. The core mandate of the institution of SSNIT has changed with the introduction of the new law to administer the First-Tier Basic Scheme in a form of a Pay as you go (PAYG) scheme. Presently the National Pensions Regulatory Authority (NPRA) is the sole regulator and administrator of pensions in Ghana. Also, with the establishment of the New Three-Tier Pension Scheme, private financial institutions has been given the mandate to operate as Trustees, custodians and Pension Fund Managers, an opportunity for them to join the players in the pension industry and are regulated by the NPRA. This section briefly describes the government agency in the pension industry, its functions, and objectives.

2.7 The National Pensions Regulations Authority (NPRA)

The NPRA was established in 2008 under Act 766 of the constitution of Ghana. The Act 766 are to provide pension reforms for Ghanaians by introducing a contributory Three- tier pension Scheme. This Authority was established to oversee the administration and management of registered pension schemes and trustees of the scheme. The main objective of this body is to regulate and monitor the operations of the scheme and ensure the effective administration of pensions in the country.

According to Section 5 (2) of the Act 766, National Pensions Regulatory Authority (NPRA) is a corporate body enshrined with perpetual succession and a common seal and may sue and can be sued in its corporate name. The state pension system is a cornerstone in Ghana long-awaited policy on aging. Indeed, as people tend to live

longer, it is the ultimate goal for the NPRA to ensure security in retirement income for all Ghanaian both in the formal and informal sector of the economy. This body was established in 2008 under Act 766 of the constitution of Ghana.



Table 2.1: Functions of NPRA**Functions of the Authority**

1. Be responsible for ensuring compliance with this Act
2. Register occupational pension schemes, provident funds and personal pension schemes.
3. Issue guidelines for the investment of pension funds
4. Approve, regulate and monitor trustees, pension fund managers, custodians and other institutions that deal with pensions as the custodians and other institutions that deal with pensions as the authority may determine
5. Establish standards, rules and guidelines for the management of pension funds under this Act;
6. Establish standards, rules and guidelines for the management of pension funds under this Act
7. Regulate the affairs and activities of approved trustees and ensure that the trustees administer the registered schemes
8. Regulate and monitor the implementation of the Basic National Social Security Scheme
9. Carry-out research and ensure the maintenance of a national data bank on pension matters
10. Sensitize the public on matters related to the various pension schemes
11. Receive and investigate complaints of impropriety in respect of the management of pension schemes
12. Promote and encourage the development of the pension scheme industry in the country
13. Receive, and investigate grievances from pensioners and provide for redress
14. Advise government on the general welfare of pensioners
15. Advise government on the overall policy on pensions in the country
16. Request information from any employer, trustee, pension fund manager or custodian,
17. Any other person or institution on matters related to retirement benefit
17. Charge and collect fees as the Authority
18. Impose administrative sanctions or fines
19. Perform any other functions that are ancillary to the object of the authority

Source: National Pensions Act, ACT 766

2.8 The Structure of the three-tier Pension System in Ghana

The change in the pension scheme was 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 and monitor Trustees, Pension Fund Managers, and Custodians, who are also players in the new pension system.

The Trustee can be a company or an individual licensed by the NPRA, with the overall responsibility for the administration and management of Tier 2 and Tier 3 schemes. The Trustee is separate from the Fund Manager and the Custodian. The Trustee is an independent third-party, responsible for ensuring that the investment objectives of the contributors are adhered to. Trustees are mandated by (Act, 766) to register pension schemes and appoint pension fund managers and custodians who are responsible for the investment strategy and for the management of investments of retirement assets (Kpessa, 2011). The Trustees as part of their mandate is to ensure that proper accounting records of members' registered are kept, Service providers conform to the regulatory requirements, and that, transfer and payment, requests are processed. However, Trustees do not have access to pension funds.

The Pension Fund Manager is licensed by the Securities and Exchange Commission (SEC) and registered by the NPRA. The Fund Manager is independent of the Trustee and the Custodian. The Fund Manager makes investment decisions as guided by the NPRA and mandated by the Trustee. The Fund Manager maintains records and statements of account on transactions related to the pension funds and assets and reports monthly to the Trustee and quarterly to both the Trustee and the NPRA. The Fund Manager does not have direct access to pension funds and assets (Databank, 2014).

The Custodian is licensed by the Securities & Exchange Commission (SEC) and registered by the NPRA similar to that of the Fund Managers. The Custodian receives contributions of the scheme from Employers and is responsible for the safe keeping of the pension fund and assets. Payments from the scheme's account are for the direct settlement of transactions and the payments of claims. The only payment made directly from the Custodian to Trustees, Fund Managers, and other service providers are for the payment of their fees. The Custodian is independent of the Trustee and the Pension Fund Manager.

They maintain records and statements of account on transactions related to the pension funds and assets/ and report monthly to the Trustee and quarterly to both the Trustee and the NPRA (Databank, 2014).

The Ghanaian pension system was reformed to a three-tier pension scheme in 2008, a concept known in many OECD countries as three-pillar. The new three-tier pension scheme comprises of two mandatory schemes and a voluntary scheme with its peculiar objectives. The First-Tier is a mandatory Basic National Social Security Scheme managed by SSNIT and mandatory for all employees both public and private sectors. The Second-Tier is an occupational pension scheme, which is compulsory for all workers in the formal labor market which is designed primarily to give contributors lump sum. The pension arrangement is managed by private pension scheme licensed by the NPRA. The Third-Tier is a voluntary provident fund and personal pension scheme which is supported by tax incentives, targeting workers in the informal sector and also designed to provide additional funds for formal sector workers.

2.8.1 Contributions under the New Scheme

The rates of contribution under this new scheme have been reviewed under the new National Pensions Act, 2008, Act 766. There is an additional contribution rate of 1% to be shared equally by the employer and employee. This additional contribution is almost cost neutral, but the additional benefits are much higher and more rewarding though on paper it may seem small. The employer will now pay 13% instead of the initial 12.5% and the worker will now pay 5.5% instead of the 5% making a total contribution of 18.5% instead of the 17.5%.

2.8.2 Percentage Allocations of the 18.5% rate Contribution

- 13.5% of the funds contributed are allocated to SSNIT for the mandatory 1st tier: to provide monthly pensions and related benefits (2.5% NHIS Levy; 11% for pensions)
- 5% of the remaining is allocated to the mandatory 2nd tier privately managed, for lump sum benefits. The minimum contribution for the mandatory schemes will be based on daily minimum wage. Therefore there is a maximum contribution to check abuse of the first-tier basic national social security scheme (that is to check gaming) (Aidoo, 2008).

2.8.3 Benefits of the New Scheme (3-Tier)

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 the aged 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 preexisting CAP 30 and SSNIT pension schemes. Aidoo (2008) outlined some of these distinguishing features which double as benefits of the new scheme;

- 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 the 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.

2.8.4 Problems of the three-tier pension scheme in Ghana

Although on paper, the new three-tier pension scheme is the perfect solution to the inconsistencies, agitation, and protest existing in the SSNIT specifically, with its declining investment returns and improving access to informal sectors. It has encountered its share of scrutiny and difficulties prior to its implementation. Literature from Graphic Business revealed that management of the NPRA, the body responsible for 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 Data Bank report 2010, there were some allegations leveled against the Acting CEO of NPRA about making unapproved withdrawals from the accounts of hard working Ghanaian employees (Okine, 2012).

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 (Okine, 2012). 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 years to register and license its trustees, fund managers, and custodians which have put a stump to its implementation (Okine, 2012). 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 (Okine, 2012).

As 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 cannot access their lump sum benefits based on their contributions into the TPF since January 2010 and has to turn back to SSNIT for their contribution. There is also a 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 awaiting the implementation of the scheme were running out of funds since they heavily invested in the business (Okine, 2012). Though the implementation of the new three-tier is still young, in 2015 the National Pension act (Act, 883) introduced some major amendments under the first-tier. These included the age limit exemption, payment of emigration benefits to non-Ghanaian, the computation of pension rights and other related matters. The following are some relevant amendment that Act 883 makes to the Act 766.

2.8.5 Age exemption

Under the National Pension Act, (Act 766), a worker who was deem to be 55 years or more at the time the pension scheme was implemented was exempted from joining the new pension scheme, however, Act 883 has now reduced the age limit exemption under

Act 766 from 55 years to 50 years. It further reiterated that workers who were exempted still have the option of joining the scheme (PWC, 2015).

2.8.6 Payment of Benefits to Non-Ghanaians

The Amendment Act (Act, 883), makes provision for Non-Ghanaian citizens of the first-tier scheme who are emigrating or have emigrated permanently from Ghana to be entitled to lump sum benefits. This amendment seeks to emphasize permanent emigration as a key condition for granting pension benefit to the Non-Ghanaians who may not meet the conditions for accruing pension benefit under both first and second tier schemes. Though the Act does not define what permanent emigration constitutes, as a result it is incumbent on the National Pension Regulatory Authority (NPRA) and or Social Security and National Insurance Trust (SSNIT) per the Act to come out with modalities to clarify the qualification conditions for Non- Ghanaians who may deem to have emigrated permanently from Ghana (PWC, 2015).

What happens in the case where a Non-Ghanaian leaves Ghana permanently for a number of years but for business reasons the employer calls or re-assigns the worker back to Ghana. Again, what happens if a worker who again re-assigned to Ghana, having previously worked in and permanently emigrated from Ghana but has at the time of his re-assignment not yet received his or her lump sum pension benefits? Does the worker continue contribution to his or her old social security account or does he re-register for social security number and start contributing into a new account. All these questions can only be clarified by NPRA or SSNIT (PWC, 2015).

2.8.7 Computation of Pension Rights

The Act also make provision for members of the first-tier scheme who meet the minimum pension contribution period of an aggregate of 180 months (15 years) will now be entitled to a minimum pension right benefit of 35%, expressed on the average annual salary for the

best three years of members working life. This rate initially used to be 50% under the Act 766. Again for members who work be young the minimum pension contribution period, their minimum pension right of 35% will be increased by 1.125% for every additional year worked. The maximum pension right is now capped at 60% which used to be 80% under Act 766 and the annual increment was 1.5% (PWC, 2015).

2.8.8 Penalty for non-payment of contribution

Under the new amendment Act (Act, 883), employers are liable for prosecution for defaulting with timely remittance of monthly pension contributions under the first-tier scheme. This will only take effect after the defaulting employer has been notified of the outstanding pension contributions plus penalties of 3% per month of the contribution payable (PWC, 2015).

2.8.9 Some takeaways from the scheme

Non-Ghanaians, other than those exempted by law, may not be required to make pension contributions under both first and second tier mandatory schemes because the NPRA and SSNIT who are the major players in the industry may not know the length of time such employees may stay in the country to qualify for a pension. Employers are encouraged to make a monthly contribution on time i.e. within 14 days after the end of each month in order to avoid the imposition of sanctions (PWC, 2015).

2.9 Comparison between Ghana's Pension Schemes and 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 & Olanike, 2009). Nevertheless, there may still be some similarities between the type and management of pension systems being implemented globally. Idowu and Olanike (2009) posit that many countries especially members of the OECDs have undertaken changes in their pension systems. Some of these include countries like Chile, Australia, Germany,

Switzerland, Tanzania and most recent Nigeria and Ghana. The latter are however not members of the OECD (Idowu & Olanike, 2009). In an effort to assess Ghana's own pension reforms, it will be very prudent to compare it against other pension schemes.

Chang and Jaeger (1996) opined that pension regimes may be financially unstable and as population ages, there is a need for reforms to anticipate the occurrence of large public sector deficits. Though, these reforms are fairly common for public welfare systems such as Ghana's SSNIT pension scheme of 1991 (Gockel & Kumado 2003). Similarly, Nigeria also went through pension reforms in 2004. Like Ghana's pension scheme, Nigeria saw a transition from a point where the state recognized the need to provide social assistance to its citizenry from cradle to grave as described in (Idowu & Olanike, 2009).

However, the 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). Just like Ghana's previous CAP 30 scheme, with its own accompanied problems such as the erratic budgetary burden it places on the federal government. Idowu and Olanike (2009) argued that even though Nigeria's generates most of its country's revenue mainly from her oil reserves; the country still have difficulties meeting her pension obligations. Stensnes and Stolen (2007) examined the effect of pension reforms on fiscal sustainability, labor supply and equity in Norway, the results showed that pension reforms in Norway inspired labor supply and improved public budgets. This is evident in Ghana as a result 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.

According to Stensnes and Stolen (2007), one of the striking characteristic that will aid pension scheme sustainability 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 of 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 (Bodie et al., 1998). While a defined contribution pension scheme is a retirement plan in which both employer and employee contributes into a pension fund which is predetermined by contribution rate or rates (Bodie et al., 1998).

According to Ahmad (2010), the transition from Defined Benefit schemes to Defined Contributory scheme was initially becoming a global phenomenon in developed as well as developing countries such as the USA, the UK, Nigeria, and Ghana respectively. 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). Idowu and Olanike (2009) in their article proposed that for Nigeria to be able to arrest the problems associated with its pension obligations it would be appropriate for the country to implement a guided fully funded defined contribution system.

One major characteristic of a defined benefit system is that pension contributions are paid to beneficiaries on a monthly basis while under the defined contribution system; beneficiaries 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 (Bodie et al., 1998). By poignant to defined contribution systems, pension benefits are likely to experience a surge simply because contributions are paid by both employers and employees. Bonin (2009) cited Germany as example of a

country that implemented pension reforms that were considered as a move from a defined benefit system to a defined contribution system.

According to Bonin (2009), the movement from defined benefit to defined contribution naturally leads to stabilization of a country's pension finances. In Ghana, however, both pension systems are run concurrently. While the defined benefit system is similar to that of the first-tier of Ghana's new scheme, the defined contributory system is associated only with the second and third-tier of the new pension scheme. Under the first-tier, contributions are based on a formula using factors such as the employee's number of years contributed, 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 have first information beforehand what their contributions from SSNIT will be. On the other hand, the second-tier contributors are entitled to an amount equivalent to their total contributions and any interest accrued.

In the United States, a total of 89 out of the Fortune 100 companies offered its employees what Orszag (2011) describes as, '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. Gougeon (2009) argued that over the years, the Canadian pension system has experienced a rise in the number of defined contributions participants and that the number almost doubled between these periods.

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 of 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 by the government's existing pension system (National Statistics, 2012).

Another social protection scheme that Ghana can be compared 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 sponsored by the government to cater for people unable to provide any form of 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 constituents of the tiers. Under first and second tier, contributions are mandatory and form part of an individual's basic pension pay. The only difference is that/ the first-tier is managed by the government through the Social Security and National Trust (SSNIT) whiles the second-tier managed by the private operators. 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 also serve 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, it is harmless to say that Ghana's newest pension reforms are a step in the right direction. Idowu and Olanike (2009) posits that, pension reforms have become increasingly common and Ghana was 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 Ghana's new three-tier pension scheme is a step in the right direction essentially because of 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 (Idowu et al., 2009). According to Selen and Stahlberg (2007), the success of a pension reform lies in the ability of the reforms to gain majority support. They concluded after assessing the successful implementation of Sweden's pension reform from a defined benefit system to a defined contribution system, and 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 since it is an intergenerational process.

2.10 Review of Savings in Ghana

2.10.1 Savings in Ghana

Savings in Ghana are seen from two main sources; public sector and the private sector. Hence, national savings are the compositions of savings from both the public sector and the private sector. The public sector is made of government agencies that take revenue in a form of tariffs and taxes for efficient and equitable redistribution of resources in the

country. The private sector revenue is also made up of levies from domestic household and private businesses in the country. As individual always faces the challenge of how much to save in order to continue with consumption smoothening, the government also faces similar challenges in allocating revenue for consumption and national savings. Financial intermediaries have been established in almost every part of the country making it accessible and comfortable to save.

The institutions are made up of both financial and non-financial institutions. Financial institutions in Ghana include banks, microfinance companies, and stock exchange commission (SEC) and brokerage firms. The Non-financial institution includes the NPRA, SSNIT, insurance companies. The formal sectors of the financial institution consist of about twenty-six banks, and the informal sector consists of susu operators and other traditional savings operators (Bremang, 2012).

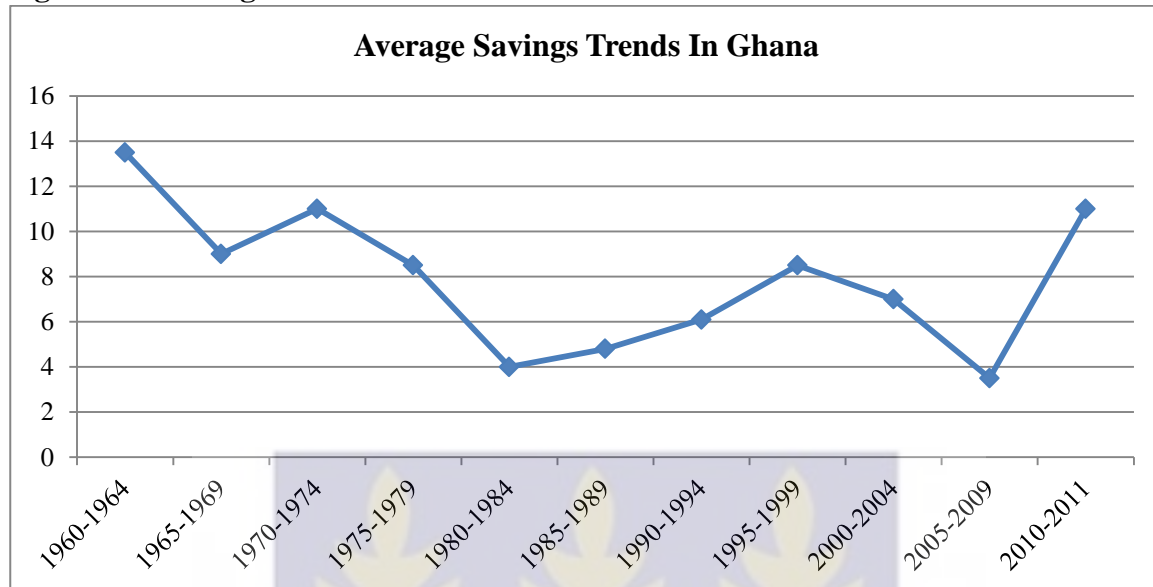
2.10.2 Trends in Savings

Savings has become every nation's priority because of its strong connection in terms of the economic growth. The Eastern Asia has seen some remarkable increase in their national savings due to the improvement of infrastructure and technology, while most countries in Latin America have experienced stagnancy (Apergis et al., 2012). Africa has also seen an undulating trend in its national savings (Loayza et al., 2000). Apergis and Christou (2012) defined Gross Domestic Savings as the calculation of GDP less final consumption (total consumption).

World Bank report (2013) indicates an unstable movement in the trend of Ghana's Gross Domestic Savings which supports the study by Loayza et al (2000). The figure 2.1 depicts an average of five years interval of Gross Domestic Savings as a percentage of GDP with data spanning from 1960 to 2012. The highest national savings was recorded from 1960-1965 and these were the early years after independence (Kpessa, 2010). The high savings

was partial as a result of the small size in population of the country and the abundance of natural resources. The best savings period Ghana ever recorded was from 1960-1965. The rising and falling trend in Ghana's savings is as a result of economic and political instability. From the period of 1965 to 1969, the trend in savings began to fall and this can be attributed to the political unrest in the country after the end of the First Republic. The fall in the trend of savings continued till it recorded one of its worse rates of about 4% from 1980 to 1984. The severe drop of 4% was accounted for, as a result of political instability and the heavy famine that resulted in low productivity from 1980 to 1984. (Kpessa, 2010).

However, in 1985, the Ghanaian economy started showing signs of recovery by increasing in savings to about 5.6%. This recovery continued and savings gradually increased to about 7.8% in the period of 2000 to 2004. A sharp fall was recorded during the period of 2005 to 2009 as a result of the global financial crises that hit the world at that time. However, with the recent discovery of oil, and the inflow of multinational companies, financial operating in the country like the Energy Bank has paid off as we see a tremendous recovery from the 4% to about 11% in 2010 -2011 savings. Figure 2.1 shows the trends in savings of Ghana (Mensah, 2013).

Figure 2.1: Savings trends in Ghana

Source: (World Bank Indicators, 2013)

2.11 Provident Fund

The National Pension Regulatory Authority of Ghana (NPRA) defines a provident fund as a fully funded, defined contribution scheme in which funds are managed privately and benefits paid in a form of a lump sum to the employee or to a surviving relation in case of death. This fund also mandates contributors to partially withdraw from the fund in case of uncertainty or emergencies to provide for specific needs. “Provident fund scheme” speaks to a scheme that is governed by a trust to which both the employer and the employee contribute to, which provides benefits based on a defined contribution formula to provide for the payment of lump sum benefits to the members of the scheme upon retirement (NPRA, 2016).

According to Mensah (2013), provident fund was the sort of pension scheme after Ghana’s independence with the aim of widening the scope of the Ghanaian pension system in the establishment of a single pension structure for all categories of workers. As a result, many private firms and state-owned enterprises enrolled onto the provident fund and renamed it as End-of-service benefits (ESB) for their employees and it is mainly financed

by employer-employee contributions as deductions from their salary. These funds were managed by banks, professional fund managers, insurance companies and stock brokers (Mensah, 2013).

Many companies, particularly, in the service sector set up provident funds to provide lump- sum cash benefits to their employees upon retirement. Private companies including Unilever Ghana Ltd, Guinness Ghana Ltd, and Ghacem Ltd among others, created their own retirement schemes based on the national provident funds (Government of Ghana, 2006). These provident funds are purposely designed to cover contingencies like retirement, invalidity. Survivors' payments broadly classified as primary contingencies; and sickness, maternity, and emigration as subsidiary contingencies.

2.12 Empirical Review Literature

Review on social security and savings has produced a wide variety of inferences. Lack of common agreement is due to the theories underpinning the lack of a clear empirical test. The impact of aging population on economic growth is determined by the saving rate, capital stock, access to foreign capital and level of retirees. A series of dynamic panel estimators (within the group, first differentiated and system GMM) would be used to achieve the objective of the extent to which old age dependency affects gross domestic product (GDP) growth. The study brings to notice an interesting observation of a non-linear and negative relationship between savings and GDP growth in countries with high level of old age dependency (Herzog, 2012).

Deaton (2005) argued that where the population is stable (no changes between the proportion of age group) without a change in the level of economic growth, the aggregated saving ratio would be equal to zero. With this, the authors believe it is due to the fact that elders does not save the same amount the workers would save, therefore such population generates no extra aggregated savings. On the contrary, an aging population would

decrease the aggregated savings, since more would dis-save than save. Further, this means that with no growth in an economy, there is no extra wealth being created, and it is just “old wealth” being passed around. It is consistently found from the accession made by Modigliani which states, saving rates are higher where growth rates are higher. (Deaton, 2005)

Lopes et al. (2004) used data from the UK Family, Resource Survey to find out the individual pension's choice between Defined Contribution and Defined Benefit plan and related it to labor income characteristics. They found out that individuals are likely to choose DB if they have low-income growth and those individuals who earn a high income are less likely to choose DB or DC instead of occupational plan. In Conclusion they argued that an individual with shorter job tenures is more likely to contribute to the Defined Benefit state pension plan.

Exley et al. (1999) argued that many companies across the world run occupational pension schemes of one form or the other. Studies on occupational pension reveals that, companies do not exist purely for the purpose of providing a pension. Exley et al. (2003) examined the company manager's view on pension plans and find out that classical financial theory offers a normative prescription for pension fund asset allocation that rejects the widely adopted portfolio selection theory favored by practitioners in favor of close asset and liability matching. The study settled that corporate managers could quote to outsiders a number of secondary reasons why they linger to support equity investment by pension funds, different to the normative, neoclassical theory. Nevertheless, one main explanation appears to be an insider effect whereby management prefers to maintain the important ability to operate earnings associated with equity invested pension funds.

Lungu (2009) explored the sustainability of occupational pension schemes in Zambia. The study was conducted based on 7 multi-employer trusts in Zambia and studied the factors

that influence their sustainability. Lungu (2009) indicate that, the 7 multi-employer trusts in Zambia are in deficit and therefore not viable. The study also recognized a number of factors that determine their viability and cited just a few as inadequate regulatory policies; unstable macroeconomic environment and high levels of employee mobility. The findings also established a significant relationship between the sustainability of the pension funds

Antolin (2008) also did a comparative study on the performance of pension plans. The study funded by OECD in collaboration with the World Bank and other donor agencies which began at the end of 2006 compared the investment performance of privately managed pension funds across several OECD, Latin American and Central and Eastern European (CEE) countries.

The study initially provided an analysis of aggregate investment performance of countries on a risk-adjusted basis using relatively standard investment performance measures. The next stage of the study involved evaluating potential relationships between the characteristics of each pension system, individual regulatory environments, and the investment performance. The study found out that, the Sharpe ratio and attribution analysis show that, for those countries with enough information and data to adjust returns accordingly, privately managed pension funds have obtained a risk premium against short-term investment replacements. According to the findings by Antolin (2008) pension funds have generally underperformed with respect to the hypothetical portfolio with the highest (mean) return for a given level of risk. The results also confirmed that in several countries investment restrictions have had a negative impact on performance.

Fisher et al. (2011) used Consumer Expenditure Survey (CEX) used by Hamermesh in 1984 to examine retirement changes across the consumption distribution in the United States through the application of quartile regression techniques on data from 1990-2007. The evidence indicated that the highest consumption declines experienced the largest

decrease in income and the largest increase in the consumption rate so that they were spending more than their income in retirement. The reason cited to be responsible for this outcome according to the authors would be consistent with either “inadequate savings “or excessive consumption.

Tonks (2005) conducted a study on pension fund management and investment performance. The study recognized that the value of the pension fund will increase over time based on the contributions and the investment returns on the fund. These investment returns depend on the asset allocation and portfolio decisions of fund managers. A change in the investment returns will result in huge changes in the value of the pension fund at retirement. The evidence on fund manager performance shows that on average they do not add any significant value over and above a passive strategy of investing in the market index. However, this average covers the fact that some fund managers perform well, and others perform poorly. The Findings, acceptance and the persistence poor performance of some fund managers is an important issue in the pensions arena and one in which further research would be valuable (Tonks, 2005).

Kumado and Gockel (2003) extracted essential lessons from various schemes around the globe like the Switzerland pension system, the Singaporean system, and the Chilean system. The outcome of their study reveals that the First Pillar of the Swiss System which is in the form of pay-as-you-go scheme provides an appropriate environment for developing countries to strive since government contributes some percentage into the scheme.

Ghana’s New Three Tier Scheme has the first tier showing the same trend as that of the Swiss pension situation. Idowu and Olannike (2009) made a resilient point of recommendation that the first tier of Ghana’s new pension scheme should not operate

under the fully funded scheme. This statement was backed by a fact which shows that majority of the Ghanaian populace are receiving wages below the minimum wage and government's heavy reliance on foreign donor source to finance budget. The second and third pillar of the Swiss pension is also reflected in the Chilean and Singaporean systems of pensions which provide both mandatory and voluntary schemes respectively. The third pillar which comprises of voluntary savings actually increases individual pension contributions which are offset by a reduction in other savings reforms (Idowu et al., 2009). When a nation decides to move from "Pay-as-you-go system" to a fully funded system, this may not only cause welfare enhancement but also increase savings by merely changing the taste or technology for savings. Samwick and Schmidt-Hebbel (1989) explain fully funded pension system as, an individual having a separate account for savings making it more transparent in terms of ownership. This confidence gained by individual household will stimulate and encourage the individual to save in other to increase his pension funds. Also, since these fully funded schemes are privately managed, there is an improvement in access to capital markets. When these capital markets are developed, this will cause savings to increase (Samwick, 1998; Schmidt-Hebbel, 1998). In Ghana's context, the pension reforms that led the country to have the New Three Tier scheme, the second tier which operates as a fully funded scheme and privately managed will increase capital market development and hence increase savings.

It is essential to consider other determinants of savings which may impact directly or indirectly. A number of studies on the determinants of savings in both developing and developed countries by Deaton (1989), Gersovitz (1988), Schmidt-Hebbel, Webb and Corsetti (1992), Murphy and Musalem (2004) Bremang (2012), and Obeng (2008) has suggested savings determinants to include, old age dependency, young age dependency, urbanization, terms of trade, income and wealth, growth, real interest rate, inflation,

financial deepening, and foreign savings. According to Deaton et al., (1989) savings are, the important determinant of retirement benefits. The more one saves the greater benefit in the future.



CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter elaborates on the research methods, procedures and processes followed in obtaining research information needed in achieving the objectives and research questions stipulated in chapter one of the study. The chapter covers the research setting, the research approach and design, population/participants, sample and sampling techniques, research instrument, description of data collection procedures, data analysis, and ethical consideration.

3.2 Research Setting

The research setting for the study is the Eastern region of Ghana. The Eastern region of Ghana was part of the British colony, serving as one of the administrative areas of the then Gold coast until independence. Ashanti and Northern territories were the other two administrative areas (Population and Housing Census, 2010). The administrative areas were later divided into native authorities and the native authorities during the colonial era corresponded to what were known as States or Traditional area and were headed by paramount chiefs (Census, 1962). According to the districts in the colony that was located in the Eastern region were the Akuapem, New Juabeng, and Birim which respectively had two and four native authorities (Census Report, 1962). These districts still belong to the Eastern region of today though other have been created and added at a different point in times after independence. Currently, there are 21 districts in the region among which some have graduated to a municipality (Census, 1962).

The Eastern region of Ghana shares common boundaries with Greater Accra, Central, Brong Ahafo and Volta region of the country. The population of the region grew from 1,635,421 in 2010 with a growth rate of 2.1%. The population is estimated to increase to

4.5 million by 2040. The population of males in the region is 49% and females represent 51.0%. The age structure of the region shows that, the proportion of the population aged 0-14 (less than 15 years) is 38.4% and those aged 15-64 and 65+ are 55.9% and 5.7% respectively. The population of the eastern region is the third highest after Ashanti (19.4%) and Greater Accra (16.3%) (Census, 1962). The setting was chosen because the majority of studies concentrated in either Greater Accra Region or Ashanti Region of Ghana. Further, other reasons included proximity of the researcher, time frame for the research, and familiarity with the culture of the people of Eastern region

3.3 Research Approach /Design

According to Ghauri and Gronhaug (2010), the basis for establishing a theory is to develop, build and test which is congruent to two fundamental disparate approaches within research, thus induction and deduction. In the application of deduction approach, there is a starting point for a research which indicates an existing theory. This already existed theory has provided the logical and chronological correlations among concepts, and therefore the researcher must investigate to establish and come out with findings or empirical basis or evidence to support the theory. In contrary view, inductive research or approach indicates no existence of a theory and a new theory is developed, built and tested through general observations of reality which are empirical and implication can be made in connection with the results for the theory that prompted that particular study (Ghauri & Gronhaug, 2010).

To investigate the effectiveness of three-tier pension scheme in Ghana, the inductive approach becomes the most obvious choice and better approach for providing answers to the stated research questions. Inductive approach is mostly in connection with qualitative studies, which involve the development of qualitative questions, collecting of qualitative data, the organization of qualitative data, classification of data, categorization of data and

analyzing using a qualitative approach, techniques, methods, which is also consistent with qualitative research strategies and techniques. Creswell (2006) explains qualitative research as a research that explores a social or human problem in which among other things the researcher “conducts and the study in a natural setting”. (p.13). the research type employed was exploratory research. Exploratory research was an ideal research type as it aims at assisting researchers when little is known about the topic under discussion (Hubpages, 2013). In the case of this study, the three-tier pension scheme of Ghana is fairly a new phenomenon and as such, there exist little information with regard to its effectiveness and efficiencies in ensuring retirement security for Ghanaian.

Kothari (2004) defined research design as various steps that are generally employed by a researcher in studying the various research problems. The design enables the researcher to obtain relevant information from respondents within a given period of time.

3.4 Population/participants

According to Best (2007), ‘a population is any group of individuals who have one or more characteristics in common that are of interest to the researcher’. The population area used in the research was the Eastern Region of Ghana, the area in which the offices of both the National Pension Regulatory Authority (NPRA) and the Social Security and National Insurance Trust (SSNIT) are located. This is the area where most of the experts in the field of pensions currently reside. The targeted population for the study comprised representatives from the National Pension Regulatory Authority and the Social Security and National Insurance Trust whose offices are located in the Eastern Region of Ghana as well as public sector workers (civil servants). It also consists of a number of pensioners, fund managers, custodians and trustees who have a vast knowledge of the area of pensions over the years and can give an insight into the topic. The area was also chosen because it is on records that the players to get the right information as far as pensions are concern

reside in the region (Idowu & Olanike, 2009). The reason for the selection of the target population is based on knowledge of the target group in relation to pension scheme issues in Ghana, proximity of the researcher and the familiarity of the researcher to the majority of people within NPRA and SSNIT.

3.5 Sample Size and Sampling Techniques

Sampling is one of the key important areas in the field of research. The study adopted multi-stage sampling technique made up of purposive, convenience, and stratified sampling techniques. Purposive sampling is a technique where researchers deliberately choose subjects who in their opinion 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. Further, convenience sampling is a procedure of obtaining the people that are most conveniently available (Boateng, 2014). For this study, a convenient sampling procedure; which is a non-probability sampling technique was used to select respondents.

The study also chose a stratified sampling technique to increase a sample's statistical efficiency, and also to provide adequate data for analyzing the various sub-groups of respondents. As a result, selected experts were interviewed. It was also important as a researcher to speak with experts in order to gain accurate information concerning the pension scheme and how any discrepancies identified could be managed effectively. In order to achieve the purpose of the study, a sample size of 40 respondents comprising of 30 public sector workers (civil servants), 5 experts from Pension Fund Managers, Custodians, Pensioners, Trustees, National Pension Regulatory Authority as well as Social Security and National Insurance Trust were sampled for the study. The interview number is an acceptable qualitative study sample according to Creswell (2006).

In interviewing Pension Fund Managers, Custodians, Pensioners, and Trustees, information regarding their respective roles in the effective administration of the new pension was attained. Also information with respect to how their respective roles assisted in eliminating some of the shortcomings inherent in the SSNIT scheme was attained. An interview with respondent 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 meet the shortcomings of the SSNIT scheme were obtained. Again, information with regard to the possible reasons for the delay in the implementation of the scheme was derived. By interviewing experts from SSNIT, insight was gained on how effective they would be now that their duties had been simplified with the introduction of the 3-tier pension scheme. Finally, managers of five selected institutions located in the region were interviewed in order to elicit information about their organization's awareness of the current three-tier pension scheme, these institutions include GCB bank, Agricultural Development Bank, National Investment Bank, ARB Apex Bank and Data Bank.

3.6 Research Instruments

Kothari (2004) posits that interview is one of the major methods of data collection and that it is a two-way systematic conversation between a researcher and a respondent for a specific study at hand. He further claimed that interviewing is the only suitable method for gathering information from illiterate or less educated respondents. According to Bernard (1988), a semi-structured interview is best used when you will not get more than one chance to interview the respondents. And that it provides a clear set of instructions for interviewers and also provide reliable comparable qualitative data.

The research instrument used both survey questionnaire and a semi-structured interview. In this, the information gathered was done orally through interviews with stakeholders in

the pension industry. Semi-structured 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. Semi-structured interview was employed because it gave the respondents the opportunity to express their views in their own terms and the researcher also had the chance of probing further for clarification where the need arise. In the interviewed process the researcher used tape-recorder to do the recording and later transcribe the data for analysis because the interview guide contains open-ended questions. Further, the study briefly utilized survey questionnaire which was filled on paper to help obtain information from public sector workers about their understanding of the current three-tier pension scheme.

3.7 Description of Data Collection Procedure

To extract the maximum attention and involvement of the respondents in the study, data was collected by administering the interview guide and questionnaires to the participants at their workstation. The procedure involved the following steps. A letter of consent was dispatched to seek the approval of the study. The participants were not only briefed on the purpose of the study with no use of deception but also informed on the academic purpose of the study hence encouraged to provide their candid information on the questions. A period of about three months was set for the interview with these stakeholders in order to gain information regarding the effectiveness of the current three-tier pension scheme in Ghana, ample time was given for clarification. In all, five (5) experts from the NPRA, SSNIT, including licensed fund managers, trustees and custodians were interviewed to solicit their views on the three-tier pension scheme. Again, five (5) managers from the selected institutions were also interviewed. Further, thirty (30) survey questionnaire was also utilized to help obtain information from respondents from the institutions selected. This helped to deepen the available interview information obtained from the experts. In

all, a total of 35 questionnaires were administered with the extra 5 catering for unforeseen contingencies. Further, a whole month was used to retrieve all answered questionnaire from the various institutions.

3.8 Sources of Data

This research made use of both primary and secondary data. In gathering primary data, a semi-structured interview was 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. The study further utilized secondary data because it is provided information 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 some developed and developing nations of which Ghana's new scheme matches up to those schemes. The information derived from secondary sources was obtained from journal articles, periodicals, policy documents of Social Security and National Insurance trust (SSNIT), National Pension Regulatory Authority (NPRA), Pension Act, books as well as newspaper articles on the new pension reforms in Ghana.

3.9 Data Analysis

Namey et al. (1993) argued that qualitative data analysis when properly explored falls into one or two categories; content and thematic. For the purpose of this research, content analysis technique was employed because of the valued for their efficiency and reliability. The content analysis evaluates the frequency and saliency of particular words or phrases in a body of original text data in order to identify keywords or repeated ideas (Dey, 1993).

For qualitative exploration, the examination of the information obliges innovativeness in light of the fact that the study takes crude information and sorts it into significant classifications, while clearly clarifying the translations of the data (Simon, 2005). Because of the unpredictability of qualitative studies, a few separate layers of the survey followed, including demonstrated inductive examination strategies, programming investigation instruments, and topical coding frameworks.

After gathering the information from the respondents, the researcher thoroughly read through the translations to pick up a general significance of the material. In the wake of examining the materials gathered, a thorough reading was done the second time and themes were composed. Creswell (2009) argued that performing unique association and audit of the information helps the analyst comprehend the tone and validity of the outcomes before proceeding onward to more thorough and top to the bottom investigation. In the wake of surveying the information, the data gathered was stacked into Nvivo programming for coding and topic examination.

Interviews with respondents were transcribed after which the information was gathered into subjects. From this point, the study added a composite clarification and significance of the experience, portraying the gathering as a unit. The information was then gathered into sensible pieces, look for relations, distinguish critical issues, and figure out lessons that can be learnt from the information gathered (Bogdan & Biklen, 1992).

After the themes had been established by the VanKaam system, the researcher then interpreted the outcomes. The information gathered was explored to address the understanding of the current three-tier pension scheme in Ghana. In view of this, the study also utilized content analysis in relation to the Nvivo software. Further, the information obtained from public sector workers were analyzed using rank order, descriptive statistics, frequency tables, and figures.

3.10 PROFILE OF SAMPLED ORGANISATIONS

SOCIAL SECURITY AND NATIONAL INSURANCE TRUST (SSNIT)

The Social Security Scheme of 1965 was a provident fund (PF) Scheme under which lump sums were paid to qualified members. Contribution to the scheme was at the rate of 7.5% by the worker and 6% by the employer from 25th May 1965 to July 31, 1966. In August 1966, the contribution rates were reduced to 5% and 12.5% by the worker and employer respectively. The scheme was intended to operate as a provident fund for a five-year period (1965-1970) and thereafter be converted into a pension scheme for periodic monthly payment. The provident fund system was very popular with the workers because inflation was very low. Successive governments also found the fund a ready source of capital for budget deficit financing. The Social Security and National Insurance Trust (SSNIT) was established to administer the fund which was hitherto managed by the State Insurance Corporation (SIC) a government commercial insurance institution. Before 1972, the Social Security Scheme was administered jointly by the then department of pensions and the state insurance corporation. In 1972, the NRC degree 127 established a corporate body. The Social Security and National Insurance Trust (SSNIT) as an autonomous body to administer the Social Security Scheme, It was the first time, for SSNIT to have an organizational structure with a tripartite Board of Directors representing-Government, Employers, and workers.

Currently, the Social Security and National Insurance Trust manages and operates the Basic National Social Security Pensions Scheme in accordance with the national pensions ACT, 2008 (ACT766) and SSNIT holds 11% for the administration of the First-Tier.

The contributions rates under NRCDC 127 were maintained at 5% for the worker and 12.5% for the employer which totaled 17.5% of the monthly basic salary of the worker. Out of these contributions, 2% was set aside for life insurance and unemployment. In effect, only 15.5% stood in the member's account. The following classes of workers were exempted from membership of the scheme.

- Members of the Armed forces
- Members of the Police Services
- Members of the Prison Service
- Members of the National Fire Service
- Foreigners in the Diplomatic missions
- Senior members of the Universities and Research Institutes.

Administering the Social Insurance Scheme entails a greater workload, efficiency at all level of operations and higher professional competence. To cope with these, the trust revamped its skilled personnel. The organizational structure was modified along three (3) financial areas of operations, Administration, and finance. These were all headed by General Managers who reported to the director general. Committees were also set up to review and closely monitor progress in their respective areas of concern. These were set up as sub- committee and were in charge of operations, finance, tender, investment and staff welfare. Repository systems were instituted to help appraise the performance of the various sectors of the trust respectively in the areas of the payment of the operational wing of the trust. Appropriate steps were also taken to complete the computerization of the scheme by the installation of personal computers in all the regional and district offices. The need for sound investment and prompt payment of pensions also necessitated the formation of the investment and claims department.

The implementation of ACT 766 in 2010 also introduced a new business process for the trust to streamline contribution collection, data processing, and general operational activities. The transitional provisions under ACT 766 also imposed a further challenge in the handling of contribution data for the first and second tier. In 2014, the Trust implemented the phase 1 of its operational Business suite (OBS) project. The deployment of the new pension's software migrates the Trust's systems from pension administration into a new working environment. The phase two (2) started in 2015. This business suite covers under listed operational activities;

- Registration and maintenance of new employed and records
- Migration of employer registration numbers to a new numbering structure.
- Biometric registration of existing members
- Registration of new members, biometrically
- Biometric registration of existing pensioners.
- Migration of 8-digit numbers to 13-alpha numeric characters
- Maintenance of member records
- Digitization of documents at the records department

The Social Security and National Insurance Trust (SSNIT) is the oldest Social Security administration institution in the country since 1965. It is also currently the largest public non-bank financial institution in Ghana; in term of the impact on financial, Social Security has significantly rendered poverty among the early who rely on social security. Under the ACT 766, SSNIT manages the first tier, which is a mandatory basic social security scheme in a firm of defined benefit, with this SSNIT do only income replacement (SSNIT annual Report, 2012).

GCB BANK LIMITED

GCB Bank Ltd. started in 1953 as the Bank of the Gold Coast to provide banking services to the emerging nation of socio-economic development. The Bank was to provide special attention to Ghanaian traders, business people and farmers who could not elicit support from the expatriate banks. In 1957, when Ghana attained independence, Bank of Ghana was established as the central bank while the bank of gold coast was renamed Ghana commercial bank to serve solely on commercial banking services. Since then GCB branches have been opened across the length and breadth of the nation tapping the potential of the 10 regions that makes Ghana. The bank has been wholly government owned until 1996 when under the economic recovery program part of the government ownership was directed. Today government ownership stands at 21.36% while institutional and individuals holding add up to 78.64%. From the one branch of the 1950's, GCB now has over 180 branches and 11 agencies throughout the country.

GCB abounds in high-quality human resources which stand at 2,101 as at the end of 2009. This is remarkable when one consider that the bank starts with a staff of 27. Currently, there are professionals of various disciplines who work in tandem to achieve the objectives of the bank .The growth of the bank has been synonymous with its customer base. GCB Bank now has a customer profile that ranges from salaried workers through small and medium scale entrepreneurs to large trading concerns, non-governmental institutions, and corporate institution.

GCB Bank provides a wide range of products and services for the benefits of its customers, from the traditional products of the current saving accounts. GCB Bank now offers specialized products and services including link-2 homes for Ghanaians resident abroad, doorstep cash collection, loans and overdrafts. There are also investments products

like treasury bills as well as fixed and cell deposits. These are cut to suit the individual needs of customers.

In addition, GCB has taken advantage of an entire information technology system, to introduce internet banking (commernet plus), Royal banking, Smart pay (fee payments) kudi Nkosuo, GCB inland Express money transfer, international money remittance payment, GCB Kidi star Account and master card. All these have been done to increase profits and enhance shareholder value (GCB bank annual report, 2012).

PETRA TRUST

Petra Trust is a company set up to provide trustee to Ghanaians employers and individuals under the pension act 2008. The company is led by investment practitioners with decades of asset management and finance experiences in the country. Petra Trust provides the best opportunity for it client employers to achieve a financially secure retirement and also ensures that their legal and fiduciary obligations are met. They also provide a complete solution by applying their world class expertise to the establishment of pension schemes in the area of education, investment policy and asset allocation, manager selection and evaluation, and fund administration.

Petra Trust is built on a foundation of Operational and service excellence and is unmatched in its knowledge and experience in the sector. Petra stands poised to be the market leader in the pension trustee industry (Petra Trust, 2012).

GENERAL TRUST

Gen Trust is a wholly owned Ghanaian limited liability which was incorporated on the 11th day of March 2011 and was licensed on March 16, 2012, as a corporate Trustee by the national pensions regulatory Authority (NPRA).GEN Trust was set up solely to provide corporate Trustee service for both the formal and informal sector of the working population of Ghana. As a licensed corporate trustee, the trust is mandated by the NPRA

among all other things to secure scheme registration, appoint fund managers and custodians and ensure their compliance with regulatory requirements and guidelines.

The aim of the General Trust is to ensure Transparency, Accuracy, integrity and timeliness in the delivery of pension services. They select custodians and fund managers and operate the highest standards laid down by the NPRA to achieve a good balance in asset accumulation, investment mix, and wealth management. The ability of Gen Trust to perform its functions to ensure efficient and effective pension fund administration greatly depends on the expertise and social principles of its management team.

The Board of Directors is made up of five members. The experience and skill of the board comprise of corporate management, Business and Finance, Actuarial science, legal and compliance, Trade Union Advocacy, Investment and Retirement Management of Gen Trust to deliver market leadership caliber services. Each member of the board is appointed to a renewable term of 4-years (General Trust, 2012).

NATIONAL PENSIONS REGULATORY AUTHORITY (NPR)

The National Pensions Regulatory Authority is a government of Ghana statutory agency responsible for the regulation and policy development of pension's administration in Ghana. The NPRA was established in 2008 under Act 766 of the constitution of Ghana. The Act 766 is to provide pension reforms for Ghana by introducing a contributory Three-Tier pension Scheme. This Authority was established to oversee the administration and management of registered pension schemes and trustees of the scheme. The main objective of this body is to regulate and monitor the operations of the scheme and ensure the effective administration of pensions in the country.

The National Pensions Regulatory Authority (NPR) is a body corporate with perpetual succession and a common seal and may sue and can be sued in its corporate name. The

state pension system is a cornerstone in Ghana long-awaited policy on aging. Indeed, as people tend to live longer, it is the ultimate goal for the NPRA to ensure security in retirement income for all Ghanaian both in the formal and informal sector of the economy. This body was established in 2008 under Act 766 of the constitution of Ghana. The Act 766 is mandated to provide pension reforms for Ghana by introducing a contributory Three-Tier Scheme. This Authority was established to oversee the administration and management of registered pension schemes, fund managers, custodians, and trustees. The main objective of this body is to regulate and monitor the operations of the scheme and ensure the effective administration of pensions in the country. NPRA performs the following functions. Table 1 clearly outlines the functions of NPRA (NPRA, report 2008).

AGRICULTURAL DEVELOPMENT BANK (ADB) CUSTODIAN

Agricultural Development Bank of Ghana, commonly known as Agricultural Development Bank or ADB, is a government-owned development and commercial bank in Ghana. The bank is the first development finance institution established by the Government of Ghana. It is one of the commercial banks licensed by the Bank of Ghana, the national banking regulator. DB was established in 1965, by Act of Parliament to meet the banking needs of the Ghanaian agricultural sector in a profitable manner. Before its current name, the bank was known as the Agricultural Credit and Co-operative Bank. The bank changed its name in 1970 when the parliamentary statute was amended to grant the institution full commercial banking powers. The Bank is a large development and commercial bank. In 2010, ADB was the leading financial institution in agricultural financing in Ghana, responsible for 35% of the total bank industry financing of agriculture. In 2010, the bank was recognized as Bank of the Year at the Africa Investor Agribusiness Awards, in Durban, South Africa, the first institution so recognized, at this annual event. The total assets of the institution at the end of December 2011 were valued

at approximately US\$683.6 million (GHS: 1.21 billion). The bank is currently looking to list on the Ghana stock exchange, and has is currently awaiting government approval to be listed. The bank engages in other types of banking in addition to making agricultural loans. The range of services offered includes (a) Development Banking (b) Corporate Banking (c) Personal Banking (d) International Banking (e) Diaspora Banking Services (f) Treasury Management Services and (g) Money Transfer Services, in partnership with the Western Union. The Bank maintains a network of fifty (78) branches located in all areas of Ghana. There are also an additional four (4) Farm Loan Offices and ten (ten) Agency Offices. This adds up to a total of sixty-four (64) service outlets, in addition to the bank's headquarters in Accra. (ADB bank report, 2010)

ARB APEX BANK (CUSTODIAN)

The ARB Apex Bank Limited is a “mini”-central bank for the Rural & Community Banks (RCBs). The Bank was registered as a public limited liability company in January 2000. The shareholders are the RCBs. In 2001, the bank was granted a banking license and was admitted to the Bankers Clearing House as the 19th member in August 2001. The bank has issued a certificate to commence business on 1st November 2001 and commenced banking business on 2nd July 2002. The activities and operations of the Bank are governed by the ARB Apex Bank Limited Regulations, 2006 (L. I. 1825) which came into effect on 12th December 2006. The Bank has 9 branch offices throughout the country.

DATABANK ASSETS MANAGEMENT SERVICE LTD (FUND MANAGER)

Over the past years, Databank has been involved in numerous ground-breaking transactions that have taken place on the Ghana Stock Exchange (GSE) including advising the Ghanaian government on privatization deals, the private sale of 52% (US\$21million)

of the Social Security Bank (SSB), the US\$25million packaged sale of government interests in seven listed companies; the first tender offer on the Ghana Stock Exchange (Enterprise Insurance Company Ltd); the US\$35 million shelf offering of the HFC dollar-indexed bonds, and the first cross-border listing on the Ghana Stock Exchange (Trust Bank Ltd of The Gambia). We were also the sponsoring brokers of the first initial public offering (IPO) to be oversubscribed by 200% (IPO of CAL Bank), the first security to be listed on the Ghana Alternative Market (Bond Programme of Izwe Loans Limited) and the largest corporate bond issue on the GSE (Bayport Financial Services Plc). In the mutual fund space, Databank also launched the first equity fund, money market fund, balanced fund, ethical fund and two-tiered educational fund. Through Databank Asset Management Services Ltd. (DAMSEL), investors have access to more mutual funds than any other investment bank in Ghana (Epack, MFund, BFund, ArkFund and EdIFund), institutional fund management for corporate, benefit and endowment funds, pension fund management and private wealth management service. Databank currently has 11 branches across the country. The main branches are in Accra (Head office), Tema, Takoradi and Kumasi. There are also 7 partner-locations situated within GTBank branches in Accra, Ashaiman, Cape Coast, Tarkwa and Tamale. Through Databank's partnership with GTBank, the intention of the bank is to be in every region in Ghana within the next few years so that the bank fulfils its mandate of helping Ghanaians achieve financial independence (Data Bank, 2010).

NATIONAL INVESTMENT BANK (FUND MANAGER)

The National investment bank was established by the Government of Ghana in 1963, as a national development bank. The bank later was granted a commercial banking license by the Bank of Ghana, the national banking regulator. National Investment Bank Ghana Limited commonly referred to as National Investment Bank, normally abbreviated to NIB,

is a parastatal private bank in Ghana. It is one of the commercial banks licensed by the Bank of Ghana, the national banking regulator. NIB is a medium-sized financial services provider in Ghana. In 2011, the total valuation of the bank's assets was approximately US\$468.5 million (GHS: 878.9 million), with shareholders' equity of approximate US\$47 million (GHS: 88.1 million). The shares of stock of the National Investment Bank are 100% owned by the Government of Ghana. Currently, the bank maintains a network of 29 branches (National Investment Bank, 2011)

3.11 ETHICAL CONSIDERATION

The research followed all ethical considerations during the process of data collection and the course of the study. Mainly, this includes confidentiality and anonymity, disclosure and identity, respect for human rights and beneficence. An introductory letter was first sought from the Department of Organisation and Human Resource, University of Ghana Business School with permission to the selected institutions for the study. Further, the researcher obtained participants' informed consent and asked for voluntary participation before allowing the respondents to partake in the study. Individual participation was purely voluntary and not under pressure with an obligation to respect the dignity, beliefs, attitudes and worth of individual participants. They were provided detailed information on the subject matter including the effectiveness of the current three-tier pension scheme in providing adequate insurance for the aged. The ethics of anonymity and confidentiality were also upheld during the process. The researcher also adhered to the disclosure policy which requires one to refrain from public disclosure and hand it over to their managers for onward collection. Finally, the ethics of beneficence was also upheld. This principle requires the research to be beneficial and useful to both participants and the larger society.

CHAPTER FOUR

ANALYSIS AND DISCUSSION

4.1 Introduction

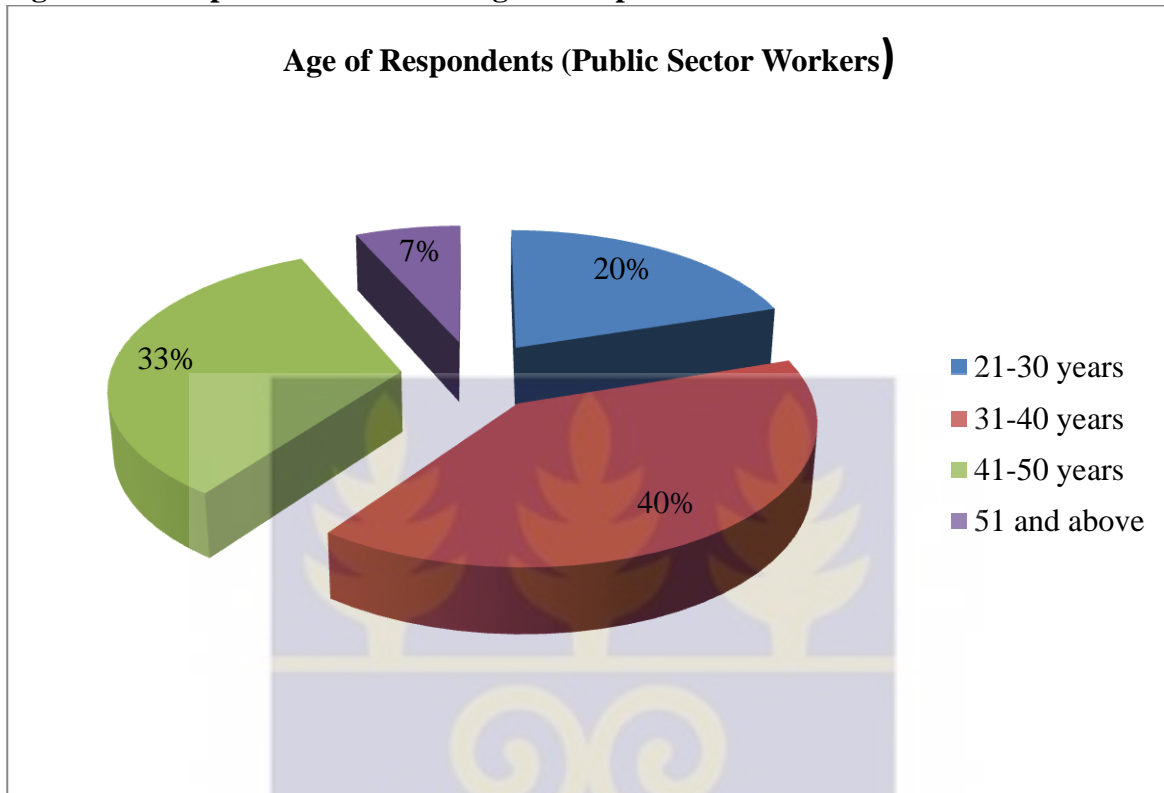
The purpose of this chapter is to present and discuss the study findings. The raw data obtained from Pension Fund Managers, Custodians, Trustees, National Pension Regulatory Authority personnel, Social Security and National Insurance Trust personnel and managers from selected institutions were transcribed and transported into Nvivo qualitative software for analysis in line with the stipulated research objectives. Here, the themes were developed by the researcher and an output based on recurring information in the transcribed feelings was analyzed by the use of the software. However, the information obtained from public sector workers were directly coded into the software and result retrieved accordingly. Further, a critical review was done, content analysis was also done in order to understand and empirically present the findings. The results captured demographic characteristics of respondents, merits inherent in the current pension scheme in Ghana, challenges facing the new pension scheme, perceptions of stakeholders on the implementation of the current pension scheme and the ability of the three-tier pension scheme to solve the hitches inherent in the old scheme.

4.2 Demographic Characteristics of Respondents

The study analyzed demographic information obtained from respondents and the public sector workers which include age and gender whiles that of Pension Fund Managers, Custodians, Trustees, National Pension Regulatory Authority personnel, Social Security and National Insurance Trust personnel, and managers from selected institutions included gender, number of years worked with the organization or institution and educational level of respondents.

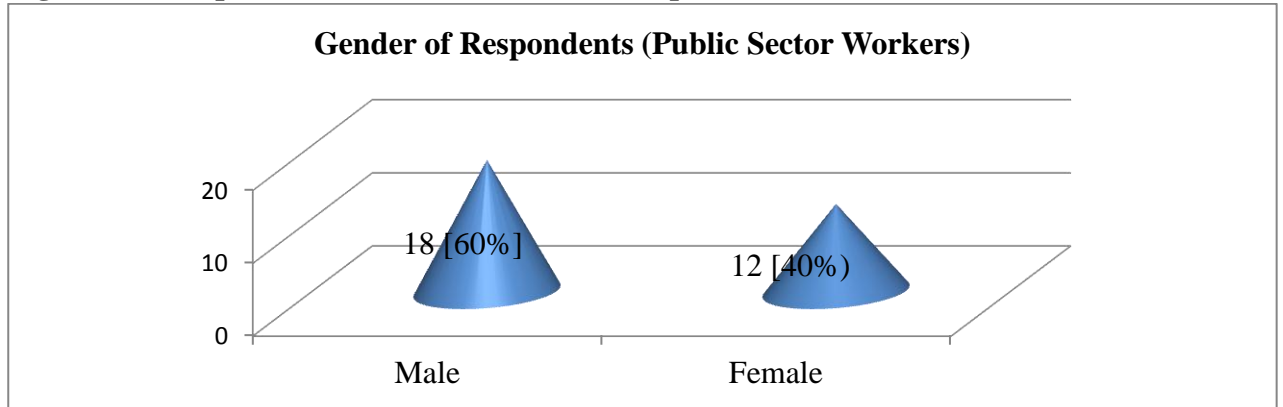
Demographic characteristics of Public Sector Workers

Figure 4.1 Sample Distribution of Age of Respondents



Source: Field Data (2016)

The result of the sample distribution of age of respondents (public sector workers) is presented in Figure 4.1. The result indicates that out of the 30 sampled civil servants for the study, greater number of the sampled respondents falls within the age range of 31-40 representing 40.0%, followed by those within 41-50 years representing 33.0%, next is 21-30 years representing 20.0% and the least represented are those 51 years and above representing 7.0%. However, the interview data result shows that almost the entire interviewed respondents were above 30 years of age.

Figure 4.2 Sample Distribution of Gender of Respondents (Public Sector Workers)

Source: Field Data (2016)

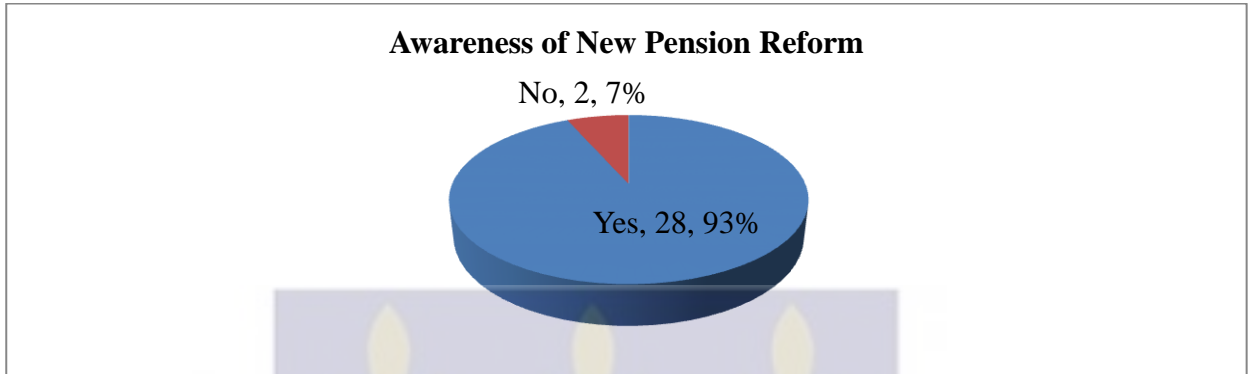
Figure 4.2 shows the sample distribution of gender of respondents. The resulting review that majority of the sampled respondents were males representing 60% while the rest of the respondents were females representing 40%. This shows that in connection with public sector workers there were more males than females utilized for the study. However, the demographic result from the interview data in relation to Pension Fund Managers, Custodians, Pensioners, Trustees, National Pension Regulatory Authority personnel, Social Security and National Insurance Trust personnel, and managers from selected institutions shows that out of the 10 experts or professionals interviewed greater number of the respondents were males 60.0% while the rest were females representing 40.0%.

4.3 Merits Inherent in the Current Pension Scheme in Ghana

In order to investigate the merit inherent in the new pension reforms numerous questions were posted to respondents to ascertain level of awareness or knowledge, level of understanding of new pension scheme as well as the overall merit of the new scheme and the response from the respondents shows that a greater number are aware of the three-tier pension scheme as shown in figure 4.3

4.3 Level of Awareness or Knowledge of New Pension Scheme

Figure 4.3 Awareness of New Pension Reform



Source: Field Data (2016)

Figure 4.3 shows the result of the awareness or knowledge level of respondents (public sector workers) in connection with the new pension scheme. The result shows that almost the entire sampled respondents are aware or have heard about the new pension scheme representing 93% while very few have not heard about the new pension scheme representing 7.0%. This clearly shows high awareness level of respondents with regards to the new pension scheme. Awareness creation is very important when it comes to policy implementation. This helps individuals to develop an interest to investigate the new policy or scheme in order to understand its benefits and challenges, which can foster acceptance or rejection. When people are aware of the policy it goes a long way and contributes towards effective implementation. The finding on the awareness level suggests that workers within the public sector have heard about the scheme which is very significant during the implementation of the scheme. The implication is that public sector workers' hearing and understanding the new pension scheme will inform their decision to tell others the need for them to contribute, this will make a greater number of people to register onto the scheme. It must be noted that being aware of an existence of a policy does not mean that the public sector worker understands it. However, it is a great step necessary for

obtaining an understanding of the scheme. This offers the opportunity for the workers to have an insight into the functioning of the new pension scheme since the scheme was established for them.

In view of this when asked what exactly they have heard concerning the new three- tier scheme, the result shows that respondents have an in-depth knowledge of the scheme. The result indicates that a greater number are of the view that the three- tier scheme consists of tier one, tier two and tier three. Tier one, according to respondents, is managed by SSNIT, while tier two, which is a bulk payment, is managed by different institutions or fund managers for investment purposes. Almost forty-seven percent (46.67%) of sampled respondents are of the view that the third-tier is an optional contribution. 26.7% of the respondents viewed the scheme as a voluntary contribution made towards pension.

The result also indicates that the tier-three pension scheme acts as a provident fund representing 13.3% of views of sampled respondents, followed by those who posited that the new scheme has a better rate of interest compared to the old pension schemes, representing 6.7%, and the lowest represented issue was the three tier scheme's ability to reduce the suffering of clients, also representing 6.7%. The views clearly indicate moderate knowledge in relation to the understanding of the new scheme. Despite a majority having the ability to explain that the new scheme has three components; it is not enough grounds to explain respondents' understanding of the scheme. The scheme, as a provident fund, explains public sector workers' understanding of the role of fund managers in the investments of workers' contributions to the overall growth of the scheme.

This finding again throws more light on the view expressed by Okine (2012) that the new pension scheme has a component managed by fund managers which acts as a provident fund for workers. Therefore, the findings with the view expressed by Okine (2012) shows

that one purpose of the scheme is to invest the contribution of registered individuals so that interest can be paid on their contribution continually until retirement. This understanding provides that the scheme acting as a provident fund is very beneficial to workers since the same contribution would be received during retirement, including interests which were part of the old scheme as noted by Okine (2012), will still be calculated and added to the registered workers on the scheme. The indication is that this will inform public sector workers to contribute greatly towards pension, which is an important indication for savings towards retirement.

4.3.1 Benefits/Merit of the New Pension Scheme

The views on benefits/merits of the new pension scheme were examined from the perspective of public sector workers and experts. The result shows that almost all the respondents are of the view that the new pension scheme has enormous advantages and benefits compared to the old pension schemes. It was discovered that the new scheme has helped to reduce the problems relating to payment of monthly pension contribution by workers and organizations. SSNIT is working efficiently because of the introduction of defined benefits (monthly income replacement). Contributors have firsthand knowledge or are aware of how much one is supposed to be paid as entitlements. This finding clearly shows that understanding of how much premium an individual is supposed to contribute, coupled with how much one will receive at the end of retirement is important for building confidence. This greatly shows that the scheme offers an opportunity for individuals to know how much to be paid every month as well as the mechanisms necessary to understand the range of amount to be received after retirement. It is also important to note that the introduction of defined benefits of the scheme is very important because it provides registered workers with information on monthly income replacement as well as repayment terms when the need arises and which were non-existence in the old scheme.

Aidoo (2008) argued that the new pension scheme has instituted a new policy framework termed as defined benefits which are mostly managed by fund managers. This shows that defined benefits also offer an advantage for workers to understand benefit on income paid after the contribution has been invested with defined time period. Therefore, with regard to the finding and the view expressed by Aidoo (2008), it can be ascertained that the new scheme is highly open to workers and presents greater opportunities which were not in the old schemes. It provides the prospect for contributors of the scheme to feel they are part of the whole implementation process which helps to develop their confidence in the operation of the scheme.

The results also show that systems to check money accumulated for pension entitlement always through online or internet have been instituted, with the ability of workers to check whether the correct or right payment is being made by their employers. The ability of workers to ascertain how much accumulation of pension entitlement during the course of saving is an indicator for boosting the confidence of workers to make a greater contribution. The introduction of information technology systems by the new scheme clearly suggests that the scheme is in line with modern technological innovation and development. The implication is that workers can access the system at their own location without necessarily going to the offices of the fund operators. This supports the views of Okine (2012) that the new three-tier pension scheme is the perfect solution to the inconsistencies, agitation and protest existing in both SSNIT and CAP 30 schemes. Okine (2012) posits that the use of modern equipment, whereby workers can stay at their comfort zone to obtain the information needed on their contribution, benefits, and payment terms are necessary indications that the new scheme is very beneficial.

There has also been a reduction in queues at pension offices as a result of the succinct statement of objectives, goals, and mission for executing the new pension scheme as well

as effective communication between SSNIT, fund managers, trustees, NPRA and effective coordination of all sub-areas or sectors of the new pension scheme. This was expressed by SSNIT official as:

So with the introduction of the new pension scheme, the NPRA realized that with SSNIT people don't have a problem with their monthly pension and as such should continue in that regard. So under the new law, SSNIT is responsible for monthly income replacement called defined benefit. With this, the moment one goes on the pension he or she is aware of how much he or she is to earn based on the qualifying conditions that is how much the person has contributed, the numbers of years contributed and the age at which the person is exiting from the scheme. This means that one can influence whatever the outcome of his or her benefits will be and one can do so through checking whether his employer is paying the right pension contribution.

Further, the result indicates that the new pension scheme has a lot of advantages because of the “ACT 766” which has laid down procedures and processes that fund managers, trustees, custodians and other institutions should follow in order to ensure effective implementation of the scheme. ACT 766 has specified the key roles that stakeholders should play in order to achieve the overall objective of the scheme. According to a respondent from NPRA:

There are laid down procedures for the Implementation of the Act. Trustees, Fund Managers, and Custodians have laid down procedures in implementing their roles and responsibilities. Failure to comply with the Act attracts sanctions. Notwithstanding the Act remains a benchmark for measuring effectiveness.

The critical roles played by all stakeholders and the link among these coordinated agenda have ensured a successful implementation of the new scheme. The results show that some of the roles played by NPRA, fund managers, and trustees include; regular monitoring, implementation of national pension scheme policies, regular research, effective maintenance of national data bank, and education of public. The indication is that the success of any policy is greatly determined by the key roles played by actors of the policy.

The actors must understand the scheme or the policy and the people for whom the policy is meant. This helps to ensure that all people are brought on board during decision making to liaise with stakeholders to feel that they are part of the process. The detailed roles of all stakeholders through regular monitoring of the scheme, research etc., help to determine the inefficiencies and the challenges of the scheme in order to provide the needed assistance in curtailing the difficulties. The implication is that this critical role, when executed through collaboration and coordination of efforts, has the propensity for the eventual success of the scheme. It also suggests that regular checks by the institutions on roles performed by each scheme operator will ensure the effective and efficient working of the scheme. This supports the conclusion drawn by Kpessa (2010) on the new pension Act 766, that when the detailed role expressed by the Act is followed in the implementation of the new scheme, greater successes will be accumulated by the state. This depicts how the function performed by stakeholders is a necessary condition for growth and development of the nation in relation to issues of pension.

It was also discovered that promotion and development of better pension schemes, receiving and investigation of clients' grievances, advice to governments, registering of occupational pension schemes and taking critical measures on the general welfare of pensioners are of paramount importance because of the propensity of ensuring effective working of the scheme as well as appropriate treatment of pensioners. The new pension scheme puts the worker or the contributor always first. This means that the worker is a key engine of which the scheme evolves. Therefore, providing better welfare system for workers will encourage their interest in saving more.

This suggests that workers welfare and their standard of living is the focus of the scheme. Through these, grievances of workers, contributors, and government are explained and solved. This builds confidence which is an important indication for the sustenance of the

scheme. This finding provides support to the outcome of Aidoo (2008) that workers welfare is paramount. This, therefore, allows the worker to own his/her house even before retirement since arbitrary withdrawals are allowed after 5 to 10 years of contributing into the scheme. The conclusion drawn by Aidoo (2008) on the current finding shows clearly that, with regard to issues of welfare, greater opportunities are enshrined in the new pension scheme as compared to the old pension schemes. Workers can access a number of opportunities to own asset and other properties even before their retirement which is a significant indication of how well the scheme has been structured to have the worker at its fulcrum.

In addition, it was discovered that investing into pension funds in accordance with Act 766, minimizes the risk of investment, thereby ensuring effective working of the scheme. It can be inferred that the responsibility lies with fund managers and other stakeholders to critically review investment packages so that funds can be channeled to diverse packages in order to ensure risk-free investment on pension funds. Using various packages will help the scheme to operate effectively even when one of the investment packages suffers a loss. This implies that workers will be assured of return on investment when there are even problems with one or two investment packages.

The finding complements the views expressed by Kenny (2004) that, risk reduction is very important in any pension scheme; therefore managers of pension funds should develop a system that will allow them to invest funds on risk-free high yielding investment ventures for the organization. Kenny (2004) argued that investment of pension contribution in non-profitable ventures is very detrimental to workers and overall success of the scheme. The implication is that fund managers must conduct extensive research to high yielding investment packages, lower risk in order to invest pension funds. This will help increase the faith and confidence of workers towards the scheme leading to the overall sustenance

of the scheme. It also shows that effective collaboration of fund managers with various banks across the country can help invest funds with banks that are credit worthy in order to provide assurance and safety of funds invested for future years.

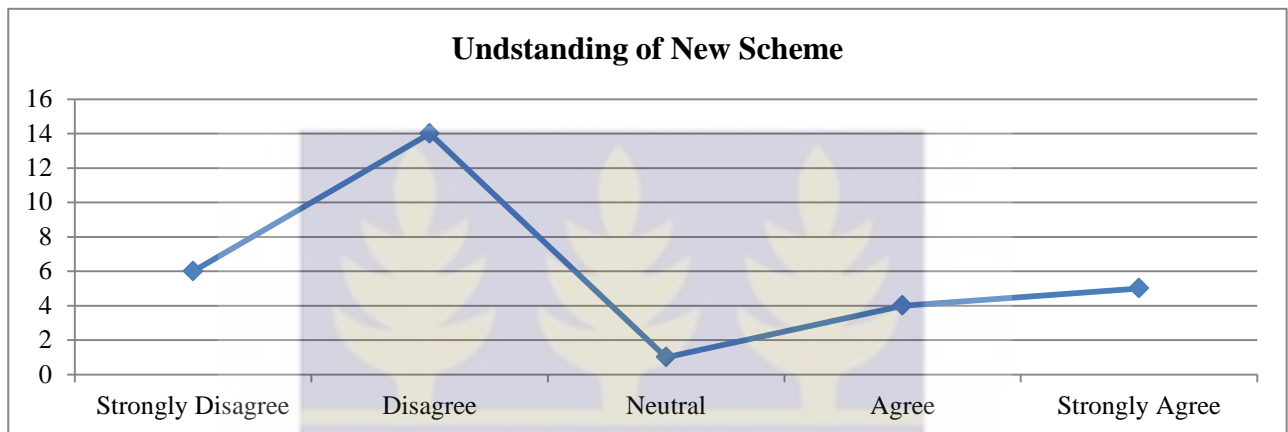
4.4 Challenges Facing the New Pension Scheme

The study also examined the challenges of the new pension scheme and discovered that the new pension scheme is not easy to understand by public sector workers because of the technical nature of concepts and issues embedded in the scheme. It can be inferred from the result that a majority of a contributor on the scheme have limited knowledge on the issues operating within the scheme and how the scheme can affect their living standards after retirement. This shows that enough education has not been done by experts of the scheme in relation to the public understanding of the scheme. The result generally shows that majority of the respondents do not understand the components of the new scheme in relation to its operation.

The finding complements the view of Heal (1998) that the population of Africa has many people operating from the informal sector and this makes it problematic in terms of implementation of policy on pension for the aged. This is attributed to low level of education among informal sector workers. The findings of Heal (1998) show that there is the need for more education and sensitization for workers in African countries. This suggests that public education will bring to light many issues inherent in the scheme so that questions surrounding the implementation and the workability of the scheme can be provided to the public. Public understanding is paramount to the successful implementation of any policy that has the propensity to affect people. The indication is that educating the public on each of the components of the scheme has the ability to influence the workers in comparison with the old scheme in order to make informed choices.

The results from the respondents on the understanding of the new scheme are presented in Figure 4.4 from Nvivo rank analysis. The figure shows that the new pension scheme has not been understood by the public because of inadequate sensitization and education on the workability, operation, and components of the scheme.

Figure 4.4 Rank Results on the Understanding of the New Three Tier Scheme



Source: Field Data (2016)

In addition, further examination was also done on specific difficulties regarding the new scheme. It was discovered that majority of public sector workers have incurred some difficulties in relation to the new pension scheme. This shows that the new pension scheme is not devoid of problems; however, the difficulties are very limited as compared to the old pension schemes. The difficulties include understanding the operation of the general scheme, the link among the three components of the scheme and calculation of pension fund invested by a public servant or client within a given time period. It can be inferred that these difficulties can be attributed to inadequate education and lack of sensitization. It can also be attributed to the inadequate role played by pension scheme experts and stakeholders on the proper operation of the scheme as stipulated in Act, 766.

Further, the study discovered that the implementation of the new pension scheme has failed to achieve one of its key objectives as stipulated in the Act, 766 which is "Unity of Purpose". One critical objective of the new scheme is to bring unity among the existing

pension's schemes in Ghana as well as the major players in the industry. This means the relationship between stakeholders on the effective operation of pension systems both old and new as stipulated in the pension Act, Act 766 has not been realized. This is a challenge because the three components of the scheme, as well as the key stakeholders, must work mutually in order to ensure the success of the scheme. The finding affirms the view of Okine (2012) that the overall objective of the unity of purpose within the Ghana pension system has not been realized by the country. Juxtaposing the finding to Okine (2012) shows that enough coordination of activities has not been realized and the onus lies on the different fund operators to support and complement the proper coordination of the components of scheme the as stipulated in new pension Act, Act 766.

The result also shows that the new scheme has various indicators which are not within the purview of the public. This also poses a lot of challenge to fund managers because precious times are sometimes wasted educating some clients on the scheme which should have been done by civic education and other agencies in Ghana. This limited knowledge on the indicators of the new scheme has led to the registration of a limited number of private workers to the scheme. It can be inferred that with the limited number of public and private sector workers on the scheme, the financial standing of the scheme is inadequate, leading to negative consequences in relation to the socio-economic development of the country and the sustenance of the scheme. This was expressed by a respondent from NPRA as:

The scheme is very good looking at its overall benefits. However, other people are not aware because of the limited level of education and sensitization of the workability of the scheme. Notwithstanding this, education and sensitization programs are currently being designed to ensure periodic public education on the scheme. The pension scheme has a key objective thus creating unity of purpose among diverse stakeholders, however, looking at what we are faced with, that objective stipulated by the ACT 766, through NPRA has not been achieved yet.

The finding shows that a number of problems confront the current three-tier pension scheme; however, in comparison to the old schemes challenges are minimal as argued by (Gockel & Kumado, 2003). The implication is that the overall mission of the scheme has not been realized and proactive measures can be the way forward. Understanding the functions performed by all fund operators in tier one, two or three are very vital in the sense that it will help in achieving the mutual and complementary role established by Act 766.

4.5 Perceptions of major Stakeholders on the Implementation of the Current Pension Scheme

The perception of major stakeholders of the new pension scheme was examined. It was discovered that these major stakeholders have positive perception towards the scheme as compared to the old schemes. It was discovered that the new scheme is a better alternative as compared to the old schemes because of its ability to provide an effective and modern mechanism for the retirement of the aged. This means that the perceived image of the new scheme is highly positive in the eyes of registered workers. This means with the advancement of technology, payments, withdrawal and other procedures will be easier for workers.

It was with this view that Gockel and Kumado (2003) presented that the new three-tier pension scheme is better than the old schemes because of its ability to curtail the inconsistencies, agitation, and protest existing in the SSNIT and CAP 30 through technology which were the failure of the old schemes. Gockel and Kumado (2003) suggest that the positive image created by the public in relation to the new scheme is in itself a sign that the new scheme has been accepted by the public. It can also be inferred that the positive perception of the new scheme by fund managers, trustees, custodians, head of institutions, pensioners and many others can be attributed to the successful implementation

of the scheme which has raised the number of trustees to 28, 76 fund managers and 17 custodians, to help in the continuity and the workability of the new scheme in Eastern Region of Ghana and the country in general.

The study again reveals that the positive perception and advantages of the new scheme can be observed in the continuous increase in the number of organizations and public sector workers as well as private organizations and workers who have been registering with the scheme. This does not suggest that all public and private sector workers have been captured on the scheme. However, the majority have come to terms with the tremendous benefits of the new scheme, therefore, raising their inclination to register with the new scheme. It can be inferred that, the enormous benefits that the new pension scheme offers have also whipped the appetite of the informal sector workers who are now registering with the scheme regularly. This was expressed by some respondent as from Petra

The new scheme to me is very good since I have been part of the old scheme. Now people are still coming on board to register and be registered, ranging from the informal sector to the formal sector. There have not been any inadequacies through the new scheme. The implementation is still in process. So many people are registering even people within the informal sector.

4.6 Ability of the Three-Tier Pension Scheme to Solve the Hitches Inherent in the Old Scheme

4.6.1 Comparative Analysis of the Old Schemes and the New Scheme

The study further examined the ability of the new scheme to solve the challenges of the old scheme. The study examined the views of respondents on the advantages of the new scheme in comparison to the old schemes. The finding was that the new pension scheme is better and effective. The study revealed that the new scheme contributes greatly towards social –economic life of pensioners as compared to CAP 30 and SSNIT pension schemes. The new scheme was discovered as having better cost effectiveness as compared to the old

schemes. This suggests that the new scheme has the propensity of raising the living standard of workers who have registered on the scheme as well as pensioners and therefore provides enormous opportunity for socio-economic development of the country in general. This explains the conclusion by Adjei (2000) that the tier- three pension schemes is relatively cost effective as compared to SSNIT and CAP 30 which brought a lot of burden to workers. Juxtaposing the finding with the conclusion drawn by Adjei (2000) shows that the cost burden on workers has been reduced through the implementation of the new scheme and arbitrary withdrawals have been instituted to allow workers to withdraw funds for emergencies when the needed arises. The reduction in cost burden on workers is really an indication of building trust, faith and confidence level of workers in the scheme.

Further, the study discovered a number of themes from Nvivo software on which the new scheme was compared to the old schemes and the result are presented in Table 4.5

Table 4.5 Rank Order Results of New Pension Scheme and Old Pension Scheme

Information	Rank	New Pension Scheme	Rank	Old Pension Schemes	Explanation
Curbing biases in the system	1 st	Effective	5 th	Moderately effective	Ability of the scheme to help curb biases
Efficiency	2 nd	Very efficient	4 th	Moderately efficient	Efficient working of the scheme
Data problem	5 th	No data problem	1 st	Data problem	Issues with data
Adequate insurance	1 st	Effective in providing adequate insurance	3 th	Ineffective in providing adequate insurance	Ability of the scheme to provide adequate insurance
Number of people who enjoy pension	1 st	More people enjoy pension	3 rd	Few people enjoy pension	Number of people who enjoy pension
Coordination of various stakeholders	3 rd	Moderately Effective	3 rd	Moderately effective	Ability of the scheme to coordinate all stakeholders

Informal Sector Link	1 st	Effective	3 rd	Moderately effective	Ability of the scheme to bring on board informal sector workers
Bulk payment	1 st	Effective in providing bulk payment	4 th	Ineffective	Ability of the scheme to provide bulk payment for workers
Opportunities	1 st	More opportunities	3 rd	Less opportunities	Ability of the scheme to provide opportunities

Source: Field Data (2016)

The rank order results in Table 4.5 shows the comparative analysis of the new pension scheme and the old schemes. The result shows that on the issue of the ability of the scheme to curb biases in the system, majority ranked the new scheme as 1st in helping curb biases as compared to the old scheme which was ranked 5. This clearly depicts the effectiveness of the new pension scheme in curbing the challenges of the old schemes. Osei (2005) argued that the new pension scheme will help curb the fraud, biases, and agitation that were within the previous schemes. It can be explained that reducing biases in a policy has positive effects on policy implementation because workers perceive fairness and justice prevailing in the policy which is fundamental for the sustenance of the policy.

Secondly, on the issue of efficiency, the new pension scheme was ranked 2nd while the old schemes were ranked 4th. This shows that the new scheme is highly efficient as compared to the old schemes. The efficient working of the new scheme can be attributed to the adoption of better IT interface system to ensure regular operation and monitoring online, ability to remove inconsistencies and determination of fraudulent practices is a sure way to assess the effective working of the new policy. Further, regarding data issues, the result shows that the old schemes have high data problem ranked as 1st as compared to the new pension scheme. In addition, on the issue of the ability of the scheme to provide adequate insurance for pensioners, the result shows that the new scheme has the ability to provide adequate insurance for people than the old schemes. They are ranked 1st and 3rd respectively. The

overall aim of any pension scheme is its ability to provide adequate insurance at the contributor's old age. Therefore, provision of adequate insurance by the new scheme shows clearly that, the scheme is following the principles and mechanisms acceptable by all pension system management scholars across the globe (Samwick, 1998).

Regarding the number of people who enjoy a pension, the study reveals that more people enjoy pension under the new scheme as compared to the old scheme. The income accumulation policy under the scheme underscores why many people are enjoying greatly under the new scheme. The suggestion is that the income accumulation policy helps fund managers to accumulate one's income for a stipulated time frame in addition to interest. This provides workers with enough financial power to cater for their health, increase spending, etc., during retirement age. Carroll (1991) argued that the necessity to save while working is important because one's spending habit does not change with age. This means an individual needs enough funds to cater for self during retirement and this is what the new pension scheme offers.

Moreover, on the issue of coordination of various stakeholders, the results found no difference in the old scheme and the new scheme. This clearly shows that proper coordination has not been achieved by the new pension system with regard to the three components by stakeholders. In connection with the ability of the system to link the informal sector, create opportunities and make bulk payment, the result shows that the new pension scheme is very effective in performing these functions. It ranked 1st as compared to the old pension scheme that is the CAP 30 and SSNIT pension scheme. The indication is that the greater the number of people registered on a scheme, the greater investment leading to greater profit for the scheme. Therefore, the capacity and ability of the new scheme to draw more people into it is a necessary framework to determine the tremendous amount of profit as well as financial performance to be benefited from the scheme. Deaton

(1992) argued that increase in one's income is a necessary indicator for determining an increase in pension fund contribution. In the same vein, a rise in people who contribute to the scheme is a real indicator for determining greater profit by the scheme in the future. Deaton (1992) posits that saving should be a necessary condition for all workers. In the sense that the higher one's contribution to the scheme, the greater the ability to make a huge arbitral withdrawal and greater accumulated amount to be received in the future.

This was expressed by a respondent from SSNIT as:

I think the new pension scheme is effective than the old schemes. And the three-tier pension scheme is good for all and sundry. Because having 1st-tier and 2nd-tier been mandatory for formal workers, what then happens to the informal workers? So the third-tier pension scheme was introduced to curb the bias in the system. Problems have to do with data, with the introduction of the new law, it became very difficult for pensioners to access data on the 2nd as stipulated in Act 766. This made it difficult for people know where to go for their lump sum. Further, under the old law, even if you contribute for 200 months you don't qualify for a pension but you will be paid lump sums. But under the new law, it is an automatic qualification for a pension.

4.6.2 Ability of the New Scheme to Solve Challenges of the SSNIT Pension Scheme

The study examined the views of respondents in relation to the ability of the new pension scheme in solving the challenges within the old schemes especially the SSNIT scheme and CAP30. In relation to SSNIT pension scheme, the result shows that the new pension scheme has a better system for determining the higher interest rate for its members. It was also discovered that the new system has an IT indicator that provides periodic notification to registered members on the scheme concerning the status of their pension fund. This reaffirms the views of Adjei (2000) and Osei (2005) that Ghana needs a pension scheme that will provide workers with enough information through a notification on a regular basis for

workers to update their system. This enhances access to information as workers can now obtain information on payment systems, updates on their contribution, etc.

Further, it was found that the pension package under the new scheme is much greater than the SSNIT scheme because unlike the SSNIT scheme, the new scheme also gives public sector and private sector workers the opportunity to select their own fund managers, as indicated in the Act 766. The indication is that workers on the scheme will feel part of the decision-making processes to interact with fund managers in relation to their investments. This affirms the function embodied in Act 766 in relation to the role of fund managers.

Another limitation of the SSNIT scheme was its inability to offer opportunities for clients to make withdrawal from the pension fund after five years of registration. The new scheme, however, provides that opportunity and clients have the opportunity to make withdrawals for building projects, health, education, funeral, etc., which were lacking in the SSNIT scheme. This encourages more people to save and regularly pay their pension contributions in order to have the opportunity to withdraw when the need arises. This provides clear support to “pension and saving theory” that explains that savings are a necessary condition for workers because the act of spending is greater in old age. These include health complications and other expenses during these years of life. Therefore saving enough today has the advantage of reaping better tomorrow (Adjei et al., 2000).

It was also discovered that the new scheme adds additional income to one’s personal pension income based on returns of the client’s investment of his/her pension fund. This clearly shows that clients are assured that the same amount of contribution paid will not be the same as pension returns because investment on their contributions is also accumulated and added upon retirement.

4.6.3 Ability of the New Scheme in Solving Challenges in CAP 30 Pension Scheme

The study examined the ability of the new pension scheme in providing solutions to the CAP 30 pension scheme. The study discovered that the new scheme has an inbuilt system to ensure that all players in the industry comply and conform to the Act, 766. The system has disciplinary measures for people that may go contrary to the acceptable principles and rules of the scheme which was a limitation in CAP 30 scheme. It can be inferred that the system has check and balances to monitor workers of the fund who will fail to comply with regulations. The coordination of activities with the system from various stakeholders also helps to check fraud and other negative practices as provided by the Act 766.

It was established that Trustees, Fund Managers, and Custodians have laid down procedures in executing their roles and responsibilities. This suggests that the roles of these stakeholders are not independent but mutually exclusive. The stakeholders work hand in hand in order to offer help to other bodies within the system to help in the effective and efficient execution of tasks. It was also discovered that the new pension scheme has insured the package to protect the scheme as compared to CAP 30. The implication is that a better working of stakeholders has the propensity of increasing contributions to the fund as workers may have confidence with the management procedures of their fund managers.

CHAPTER FIVE

SUMMARY, RECOMMENDATIONS AND CONCLUSION

5.1 Introduction

All over the world, systems providing financial security for the aged are under increasing strain and the World Social Security Report (2010/2011) shows that the major risks faced when an individual reaches old age is either poverty or income insecurity due to the inability of the person to earn income, whether partially or completely. This was the main justification for the adaptation of pension schemes across the globe. The introduction of the three-tier pension scheme in Ghana has witnessed enormous debate whether the scheme has the ability to curtail the problems or the hitches of the old pension schemes. It is, therefore, prudent and proactive to investigate the effectiveness of the current pension scheme in resolving the problems of the previous pension schemes. This chapter deals with the summary of the findings, conclusion and study recommendations. The summary again draws the various inferences and implication for the study in relation to the theory. The implication of the findings in connection with the future workings or prospect of the new pension scheme is provided. The recommendation in view of practice, and future research was also provided.

5.2 Summary

The advancement in technology, health and pension schemes in line with social protection policies have become pre-occupation of mankind due to the unpredictability of life at old age. As a result of this many developed and developing nations have introduced diverse pensions based on the ability of the nations to project the age and growth rates of their citizens. This study considered the new three-tier pension scheme in providing adequate insurance for Ghanaians. A qualitative method was adopted for the study. The research was based on four objectives namely; to investigate the merits inherent in the current

pension scheme in Ghana, to investigate the challenges facing the new pension scheme, to find out the perceptions of stakeholders on the implementation of the current pension scheme, to determine whether the three-tier pension scheme will be able to solve the hitches inherent in the old schemes.

The introduction of pension in Ghana was to encourage loyalty and efficiency in the 1940s within the colonial service. The problem statement is whether the three-tier pension scheme would be able to address the hitches inherent in the previous pension schemes. Pension schemes in Ghana started in 1940 with CAP 30 to encourage loyalty and efficiency and then moved to Provident Fund in 1965, providing a lump sum for payment to beneficiaries. There was the introduction of mandatory pay-as-you-go social security schemes which was in the form of annuity or gratuity payment.

The theoretical frameworks and methodology clearly explains the general frameworks behind the study and the approach in achieving the objectives of the study. In order to achieve the purpose of the study a sample size of 40 experts comprising 30 public sector workers, 5 experts from pension fund managers, custodians, pensioners, Trustees, National Pension Regulatory Authority as well as Social Security and National Insurance Trust and 5 managers from selected institutions in the region were interviewed

The first research objective investigated the merits inherent in the current pension scheme in Ghana. The findings show that public sector workers are aware of the new pension scheme. It suggests that many issues about the scheme were not publicly known in relation to the components. The study again discovered the pension scheme is not managed by a single institution or government but diverse institutions that are inter-dependent and have specific roles to perform in ensuring successful implementation of the scheme.

Further, the study discovered that pension gratuity in the new scheme is far greater than those paid by the old schemes. Again, the IT interface adopted by the new pension scheme is very effective in helping workers have access to information relating to pensions.

The second research objective also investigated the challenges facing the new pension scheme, it was realized that despite the numerous merits of the new pension scheme, there are other challenges of the scheme including inadequate education and poor knowledge about the components of the new pension scheme. It was again revealed that, the purpose for establishing the three-tier pension scheme of bringing unity among the pension system in Ghana has not been achieved.

The third objective of the study was to find out the perceptions of stakeholders on the implementation of the current pension scheme. The study found that public service workers perceive the new scheme as a good substitute for an old-age security system for the aged. Increase in the number of organizations and public sector workers as well as private sector workers onto the new pension scheme were found.

The fourth objective of the study was to determine whether the three-tier pension scheme will be able to solve the hitches inherent in the old scheme. The study found that, the new scheme has the ability to curb biases in the system compared to the old scheme. The study also found that, on the issue of efficiency, the new pension scheme was more efficient as compared to the old schemes. This was done through a rank order analysis from diverse questions posed to respondents. The new scheme has a high data access and utilization. In addition, the study discovered that the new scheme has the ability to provide adequate insurance for workers and pensioners. These advantages can also be observed in a number of ways namely; provision of better interest rate, bulk payment of pensioners and periodic notification, better package, opportunity to appoint their own fund managers, etc.

The study also observed that the new scheme provides an opportunity for people to make a withdrawal after 5 or 10 years, as well as an inbuilt system to ensure that all players in the industry comply and conform to the Act 766.

5.3 Implications of the findings

The findings of the study provide support to the pension and saving theories. The new pension scheme provides an opportunity for people to save during their working years as well as benefiting from the scheme through withdrawals without waiting till retirement. This encourages saving and therefore helps workers to save in order to reap significantly in later years. The pension and saving theory portrays an idea of utility maximization throughout one's lifetime. Consumption would be maximized and maintained an average throughout their lifetime. This suggests that saving is an important component of the new pension scheme. Opportunities are created for workers to save in order to reap the benefit now and later. With an increase in human consumption pattern as one ages, it is therefore important for individuals to save more into pension scheme so that after retirement they can enjoy the fruit of their labor without much struggle. The implication is that the higher one saves into the scheme the greater the retirement benefit. This is because interest on individual's investment is accumulated and added to the person's income for retirement.

A practical finding shows that a three-tier pension scheme is important and also has the ability to curtail some of the disadvantages that were inherent in the old schemes. The new scheme is a better development or advancement of the old schemes. It strengthens the mechanisms upon which the old schemes operated which led many managers to embezzle funds that were undetected (Okine, 2012). Act 766 provides individuals who breach the law to be punished. The findings also show that as an individual is working, he will save in the form of pension income so that when he goes on retirement and he is no more

working, he will receive the accumulated savings as pension benefit to enable him to continue consumption like he used to when he was working.

5.4 Recommendations

5.4.1 General Recommendations

In view of the findings of the study the following recommendation are outlined;

1. There should be a continuous and effective collaboration of all stakeholders in connection with the new pension scheme in order to ensure effective working of the scheme.
2. Fund managers, custodians, NPRA and SSNIT should act as a check on government, policy makers and employers in order to execute effectively the functions, roles and sanctions required to achieve the purpose of the scheme. With this, any delay in remitting workers contribution within the stipulated period should attract interest which will go to the central poll for the management of the fund.
3. Public education and sensitization should be provided to ensure that people understand all sections and aspect of the scheme in order to increase the number of enrolment.
4. The Act 766 guiding the scheme should be strengthened in order to provide punishment for mismanagement of resources. This can be done through the introduction of bye-laws that will give government opportunity to withhold asset and properties of managers who embezzles funds and mismanages the resources of the scheme.
5. The Scheme must provide an opportunity for contributors to use future lump sum pension benefits to secure mortgages. This will, for example, give the worker the

opportunity to own his or her own house before retirement by using their pension benefits as collateral.

6. Public sector workers should be allowed to appoint their own fund managers or be aware of their fund managers, with their contributions managed as a mutual fund where quarterly statements are sent to members. This will encourage members to make adequate provisions during their time at work to ensure financial security at old age. This would aid members to monitor and increase their contribution if there is a provision to that effect.

5.4.2 Recommendations for Future Studies

Future studies can extend the study to cover more than one region since the majority of the studies on pension schemes concentrates greatly on Greater Accra, Ashanti and Western region. Future study can adopt mixed method, using both qualitative and quantitative methods for generalization. The scope for future studies can be widened to the informal sector. This will enrich research findings for policy development.

5.5 Conclusion

The study investigated how the new pension scheme can help resolve the problems within the old pension scheme. In the light of this, views of public sector workers and management and that of stakeholders of the scheme were obtained. The study found that the three-tier pension scheme is very beneficial and has a lot of advantages to workers, organizations and the government. These advantages include; better payment systems, the introduction of defined benefits (monthly income replacement), and certainty on the amount of premium to be paid monthly, ability to access pension entitlement, and effective coordination and communication among diverse stakeholders. The advantages suggest that government and management of the pension fund should provide the necessary support needed to strengthen the implementation of the scheme in order to attract more people

onto the scheme. The indication is that the new scheme is really working well in the interest of workers and therefore must be strengthened since it is very young. This may go a long way to help workers and reduce the higher dependency ratio on the working population.

In relation to the challenges of the new scheme, the study found that the indicators within the pension scheme are very difficult to understand. It was also discovered that inadequate education on the new scheme and inadequate knowledge on the link between the three components of the scheme is a real challenge facing public sector workers. Further, it was revealed that the three-tier pension scheme and its major role of bringing unity among the pension system in Ghana has not been achieved. This suggests that despite enormous advantages of the new pension scheme, it is not devoid of challenges. The indication is that there is more room for improvement with regard to the implementation processes. Therefore, providing education to the public and making known all the indicators within the three components of the scheme is very paramount for ensuring effective implementation of the scheme. A good working relationship is a requirement for all stakeholders and managers of the fund so that problems can be shared and information disseminated effectively. This will go a long way in ensuring that the current challenges are curtailed to the barest minimum.

It was observed that the new scheme is better than the old schemes on a number of indicators. The effectiveness of the new scheme to solve the hitches within the old schemes was discovered in its ability to curb biases in the system. The discovery indicates that the prospect for the new pension scheme is great and has the propensity to help curtail the numerous demerits inherent in the old pension schemes that have brought a lot of problems to the people, and government of Ghana. The new scheme give an opportunity for people to plan a heard of retirement having the knowledge of their contribution in other

to influence their contribution by checking whether the pension is been paid by their employers to be able to enjoy the full benefits that come after retirement.



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APPENDICES

APPENDIX A: INTERVIEW GUIDE TO NPRA.

Dear Sir/Madam,

I am an MPhil student University of Ghana Business School. I am conducting a research on ‘**The Effectiveness of The Current Three- Tier Pension Scheme in Providing Adequate Social Security for Ghanaians**’ (Evidence from the Eastern Region of Ghana).

I would be very pleased if your outfit could assist me in undertaking this study by providing relevant responses to the questions that follow.

Please be assured that your responses will be used for academic purposes.

Thank you.

1. What is the NPRA and what are its roles?
2. For how long has the NPRA been in existence?
3. What informed government decision to adopt the new pension scheme
4. What led to the delay of the new pension scheme?
5. How did the Authority originate?
6. Kindly identify certain inadequacies associated with the old pension scheme and why it did not work generally?
7. In your opinion has the new pension scheme been implemented successfully so far?
8. Comparably, among the three pension schemes, in your opinion which one is the best and why?
9. Will the current three-tier pension scheme provide adequate insurance for Ghanaians?

How?

10. In your opinion will the new pension scheme meet the shortcomings of the old scheme?
11. What are the perceptions of public sector workers on the implementation of the current pension scheme?
12. What are the strategies that have been adopted to solve the problems associated with the current pension scheme?
13. What are the measures put in place to ensure the effectiveness of the new pension scheme?
14. What is the role of the fund managers?
15. How many registered fund managers operate in the country now?
16. What are the roles of the custodians?
17. How many custodians is your outfit aware of?
18. What are the roles of the Trustees?
19. How many trustees are registered by your outfit?
20. From your professional opinion, do you have any recommendation for the new pension scheme, and with the respect its enhancement?
21. Why the major amendment to the first tier and what is its effect on the existing one?

APPENDIX B: INTERVIEW GUIDE TO SSNIT

Dear Sir/Madam,

I am Mphil Student University of Ghana Business School. I am conducting a research on **‘Effectiveness of the Current Three-Tier Pension Scheme in Providing Adequate Social Security for Ghanaians’ (Evidence from the Eastern Region of Ghana).**

I would be very pleased if your outfit could assist me in undertaking this study by providing relevant responses to the questions that follow.

Please be assured that your responses will be used for academic purposes.

Thank you.

Section 2: The Social Security and National Insurance Trust (interview guide).

Gender Male Female

2. Please indicate years of service with SSNIT;
3. What is SSNIT and what is its role?
4. How long has SSNIT been operational in Ghana?
5. What is SSNIT’s role especially in the wake of the new three-tier pension scheme?
6. How is SSNIT separate from the National Pension Regulatory Authority (NPRA)?
7. In your opinion, was there a need for Ghana to initiate a new pension scheme?
8. What were some of the difficulties or problems with the SSNIT pension scheme?
9. In your opinion, have these problems been rectified under the new three-tier pension scheme?
10. What were some of the benefits or advantages of the old SSNIT pension scheme?

11. In your opinion, how has the new three tier pension scheme performed in maintaining and adding on to the list of benefits?
12. With respect to the new three-tier pension scheme, what has been the general public's reaction to it?
13. In your professional opinion, do you believe that the general public understands this new pension scheme and how it differs from the preexisting 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 opinion, how has the transition from the old SSNIT scheme to the new three-tier scheme been for you?
15. In your 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 opinion, what do you think of the new pension scheme?
18. How effective are you as most of your duties have been simplified with the introduction of the new pension scheme?

APPENDIX C: SEMI STRUCTURED INTEVIEW TO SOME SELECTED INSTITUTIONS

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 nor 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?

.....

.....

