UNIVERSITY OF CAPE COAST

ANALYSIS OF THE PERFORMANCE OF SOCIAL SECURITY AND NATIONAL INSURANCE TRUST IN GHANA FROM 1995-2005

BY

SEYRAM KAWOR

THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE, SCHOOL OF BUSINESS, UNIVERSITY OF CAPE COAST IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR AWARD OF MASTER OF BUSINESS ADMINISTRATION DEGREE IN FINANCE

CLASS NO.
ACCESSION NO.
233902
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AUGUST, 2008

DECLARATION

Candidate's Declaration

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

Candidate's Signature: ..... Date: MAY 11, 2009

Name: Seyram Kawor

Supervisors' Declaration

We hereby declare that the preparation and presentation of the thesis were supervised in accordance with the guidelines on supervision of thesis laid down by the University of Cape Coast.

Principal Supervisor's Signature: .....Date: May 13/09

Name: Professor P. E. Bondzi-Simpson

Co-Supervisor's Signature: ..... Date: 13/05/2009

Name: Mr. Edward Marfo-Yiadom

ABSTRACT

The study reviewed and assessed the performance of Social Security and National Insurance Trust's (SSNIT) pension scheme from 1995 to 2005, using horizontal and vertical analysis and financial ratios such as dependency, coverage, contribution, benefits and indebtedness to fund size and ascertained if there was government interference in the operations of SSNIT.

Evaluative research design was adopted in the study. Documentary secondary data which include written materials such as notices, correspondence, minutes of meetings, reports to stakeholders, diaries, transcript of speeches, books, journals, magazine articles and administrative and public records were used.

The performance of the SSNIT pension scheme from 1995-2005 has been mixed. This is because while funding status, contributions received and benefits paid have improved over the years, other indicators like investment income, coverage rate, dependency ratio and processing time have not fared as well. Agency problems exist in the operations of SSNIT. This is due to the fact that there political interferences that negatively affect the choice of investment and investment income. The study showed that the method of computing the pensionable income is an indication of poor scheme design because it can easily expose the scheme to abuse.

The study recommends that SSNIT should review the use of the best three years average to ensure a more equitable system. The average of total years of contribution should be used. SSNIT should approach the government to review the legal and regulatory framework to resolve the politically based agency problem eminent in the running of the scheme.

ACKNOWLEDGEMENTS

I hardly know where to start saying thanks to all those who helped me with this thesis. First of all, my profound and heartfelt gratitude goes to my supervisors, Prof. P.E. Bondzi-Simpson and Mr. Edward Marfo-Yiadom. Their valuable contribution, innovation, talent and creative flair are very evident and much appreciated and so is Honourable Sam Quarm for his financial assistance.

The greatest thanks of all go to my mom and dad who made it all worthwhile, who have supported me and encouraged me always and my fiancée for her unfailing support and help when I embarked on this painstaking, but ultimately fruitful journey into the academic world.

I am also thankful to Mr. Eric Paa Kwesi Rhule who consistently gave timely and constructive feedback throughout the writing of this thesis. Thanks are also due to the members of staff of the School of Business, University of Cape Coast and to my post graduate colleagues for providing support and suggestions.

Finally, the study would not have materialized without a scholarship from the University of Cape Coast. I also thank the management of SSNIT who provided materials, for the study, and to Mr. Edward Annan and Mr. Ebenezer Anowih for their immense and invaluable assistance during the data collection phase, I am very grateful for their help and expertise. To all of them, I say a big thank you and may God richly bless them.

DEDICATION

To my dependable parents, Mr. and Mrs. Kawor, and caring and understanding fiancée Emmanuella Akua Stowaye.

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ABBREVIATIONS

ABL	Accra Brewery Company Limited
AFIS	Automatic Finger Identification System
AFR	Armed Forces Regulation
AGA	Anglo Gold Ashanti Limited
ALW	Aluworks Limited
BEVE	Benefit Verification Letter
BOPP	Benso Oil Palm Plantation Limited
CAGD	Controller and Accountant General's Department
CAL	CAL Bank Limited
CMB	Cocoa Marketing Board
CPC	Cocoa Processing Company
CRIG	Cocoa Research Institute of Ghana
DB	Defined Benefit
DC	Defined Contribution
EIC	Enterprise Insurance Company Limited
ETIs	Economically Targeted Investments
FML	Fan Milk Limited
GAF	Ghana Armed Forces
GCB	Ghana Commercial Bank Limited
GDP	Gross Domestic Product
GGBL	Guinness Ghana Breweries Limited
GNAT	Ghana National Association of Teachers
GO	General Order
GRNA	Ghana Registered Nurses Association

GSE	Ghana Stock Exchange
GUSS	Ghana Universities Staff Superannuation Scheme
HFC	HFC Bank Ltd
ILO	International Labour Organization
IRS	Internal Revenue Service
ISSA	International Social Security Association
MLC	Mechanical Lloyd Company Limited
NHIS	National Health Insurance Scheme
NIS	National Identification System
PBC	Produce Buying Company Limited
PNDC	Provisional National Defense Council
SCB	Standard Chartered Bank (Ghana) Limited
SOEs	State-owned Enterprises
SPPC	Super Paper Products Company Limited
SSNIT	Social Security and National Insurance Trust
T-bill	Treasury bill
TUC	Trades Union Congress
UNIL	Unilever (Ghana) Limited

CHAPTER ONE

INTRODUCTION

Background of the study

The growth in the population of the urban jobless in a country like England, led to the enactment of the poor laws in the 16th Century. These laws which were prosecuted by Parish overseers, sought to provide relief for the aged, sick and the infant poor. The formation of workers' associations and trade guilds followed as a matter of course, providing protection and security through the principle of solidarity. The boost in the insurance industry also promised to provide protection through risk pooling. In all these, society made one fundamental error: there was the illusion that "rational man" would, of his own volition, save enough to take care of any contingencies that may befall him during or after his working life. This was a fallacy. To date, salaries/wages have never been enough to enable workers put aside something on their own for the purpose of paying hospital bills or taking care of contingencies which may lead to substantial loss in income (SSNIT, 2006).

The most important outcome of the series of events to date was the realisation of the need for community action in the provision of protection against the consequences of illness, old age, death of the bread winner and other

misfortunes. This resulted in pressure being put on governments, through those who could catch the ears of the authorities, to enact various laws to cater for the social protection of workers and citizens in general. Social security has been accepted as policy throughout the developed and developing nations. There is agreement that social security is important for poverty prevention; it ensures a basic minimum standard of living for people, and contributes to achieving a more equitable income distribution in society. The conceptualisation of social security incorporates notions of experiences, traditions, political nuances and levels of development. Thus, the nature and scope of social security will accommodate these ranges of social, political and economic experiences at a national level. SSNIT (2006) posits that, modern day social security began in Europe, Germany to be specific, under Chancellor Bismarck when he introduced a national health scheme in 1883. This was followed in subsequent years by other schemes introduced through statutes which provided other types of social protection. The body of laws providing different kinds of social protection was for the first time collectively called social security by the United States of America when they enacted the Social Security Act 1935.

According to SSNIT (2006), social security awareness in African countries was heightened after the attainment of independence. This was mainly as a result of these African countries becoming members of the United Nations and its affiliated bodies, especially, the International Labour Organisation (ILO). As a result, most of the former British colonies in Africa established social security or social protection schemes, not as a matter of conviction of their

importance, but rather to go through the motions of satisfying the necessary conditions to enable them to ratify the relevant conventions, or at least to appear to have made the effort. Politics, and not deteriorating urban social conditions, therefore, seem to be the immediate cause of the introduction of social security schemes in the former British colonies in Africa. Uganda is a good example of how social security was generally viewed. Social security was listed as one of the eighteen (18) reasons for the take over of government in 1971, allegedly because it was being used to unfairly tax workers and thus make them poor.

There was no universal social security scheme in Ghana prior to independence. Those that existed only provided some social cover to a selected group of workers. In 1960 a compulsory savings scheme was introduced in an attempt to establish a universal social security scheme. In 1965, this was replaced by the Social Security Act No. 279 under which coverage was extended to establishments employing five or more workers except those covered by CAP 30 (Boatin & Nyarko, 2006). This national scheme, introduced in 1965, was operated as a provident fund from the outset with the intention of converting it into a pension scheme after five years. However, the conversion did not take place as scheduled until 1991 when the PNDCL 247 was promulgated. Over the years the institution evolved and became more decentralised to enable the collection of contributions and the payment of benefits at the district level (SSNIT, 2002).

The Social Security and National Insurance Trust (SSNIT) is a statutory public Trust charged with the administration of Ghana's National Pension Scheme (SSNIT, 2002). The Trust is currently the largest non-bank financial institution in

the country (www.ssnit.com). The primary responsibility is to replace part of lost income due to old age, invalidity, or loss of life. The pension scheme administered by SSNIT has a registered membership of approximately one million with over 58,000 pensioners who currently collect their monthly pension from SSNIT (www.ssnit.com).

The SSNIT pension scheme is partially funded with social security contribution rates determined by using the scaled premium method to finance the benefits. Accumulated reserves are invested. The current obligatory contribution rate is 17.5% of a member's monthly earnings. This contribution rate is split into two, employees contribute 5% and 12.5% of employee's monthly earnings is paid by the employer (SSNIT, 2002). The employer is required by S.22 (1) of the Social Security Law, 1991 to deduct from the pay of every worker at the end of every month a worker's contribution of an amount equal to five per centum of the worker's pay for such period irrespective of whether or not such pay is actually paid to the worker. A member of the scheme may make additional voluntary contributions to the fund and these are mostly social security contributions from self-employed persons who opt to join the state pension scheme. The voluntary contributor is required to pay the full contribution rate (17.5%) with respect to the declared monthly income from his/her profession, occupation, business or vocation.

The core functions of the Trust are: collection of contributions, keeping records on members, managing the funds of the scheme, processing and paying benefits to eligible members and declared dependants. The Trust has a

decentralised operational system made up of the area, district and day offices. The district office activities are: registration of employers/employees, collection and maintenance of data on employers and employees, inspection of establishments and collection of contributions, distribution and retrieval of statement of accounts on contributors, assembling, processing, vetting and payment of claims, assembling students' loan applications for processing and payments and public education on SSNIT operations. There are 7 areas, 46 district and 8 day offices located all over the country (see appendix J). The area offices which exercise supervision over the district offices carry out the following activities: co-ordinate operational activities between the districts and head office, institute legal action against defaulting employers, collate accounting returns and reports from the districts under them and educate the public on SSNIT operations. Area operations department acts as the link between management and all the seven (7) area and forty-six (46) district offices of the Trust and undertakes the following activities: co-ordinates all the activities of the area and districts and submit monthly reports for management information, formulates operational policies and strategies, and monitors and controls all the affairs of area and district offices for efficient performance.

Statement of the problem

The provision of state pension in Ghana is an issue that has attracted major concerns from politicians, social groups and individuals. The present day state pension scheme in Ghana, the Social Security and National Insurance Trust

(SSNIT) pension scheme, has been the subject of bitter criticisms from identifiable bodies in Ghana such as the Trades Union Congress (TUC), Ghana National Association of Teachers (GNAT), Civil Servants Association, Ghana Registered Nurses Association (GRNA) and the private sector workers (SSNIT, 2002).

The major issues of concern are the adequacy of benefits currently provided by the scheme and the qualities of the services provided by SSNIT, the body established by law to administer the state pension scheme in Ghana. The current levels of benefits are perceived to be inadequate. According to the various annual reports, the minimum benefits as at the end of 31st December, 2002, 2003, 2004, and 2005 were ¢50,000, ¢90,000, ¢100,000, and ¢125,000 respectively.

Another issue of concern is the scope of coverage of the working population by the state pension scheme. Over ninety percent of the members of the scheme are formal sector employees, with the rest of the members being self-employed persons in the informal sector of the economy. A similar pattern is obtained with regards to the coverage of the working population by the private pension schemes (Tibuahson, 2003). Adjei (2000:172) stated that, "Only an insignificant number of informal sector workers, which formed about 90 per cent of the working population in Ghana, are members of the scheme". As a result, in 1997 the World Bank sponsored a study on how to provide social security coverage for the informal sector.

Furthermore, an issue of public concern is the alleged misuse of the pension fund by SSNIT and the government and this does not only make the

benefits under the scheme inadequate but more importantly, puts the sustainability of the SSNIT scheme into question (Kumado & Gockel, 2003). There seems to be fears within members of the scheme that given this alleged misuse of the pension fund, the state pension scheme could become insolvent at some point in time, resulting in some members' entitlements not being met. A statement in 2000 attributed to the then deputy Director-General of SSNIT indicated that if social security contributions to the scheme were to be stopped in that year, then the assets of the scheme could pay for benefits and expenses for a period of twenty-five years. This was misunderstood as meaning that the pension scheme could not be sustained after twenty-five years and immediately sparked furious arguments in both the electronic and print media.

In addition to the above issues of concern is the inability of management to control the very high administrative cost of SSNIT's operations. To many contributors, this situation directly affects SSNIT's capacity to improve the quantum of benefits, in particular the gratuity lump-sum (Presidential Commission on Pensions, 2005:75).

In Ghana, SSNIT is required to invest in assets with adequate yield and liquidity and an acceptable risk level. Managers must follow basic portfolio theory rules for asset diversification as they seek to maintain an optimal funding ratio and to secure long-term rates of return for the fund (Dei, 2001). However, the SSNIT investment policy includes social and developmental mandates in the following areas: housing finance, student loans, and industrial estates.

The study therefore seeks to analyse the operations of the Social Security and National Insurance Trust in Ghana from 1995 to 2005. This will prepare the grounds to proffer suggestions for the improvement in the operations of SSNIT.

Objectives of the study

The general objective of the study was to analyse the performance of SSNIT in Ghana from 1995-2005. Specifically, the study sought to:

i. Review and assess the performance of SSNIT pension scheme from 1995 to 2005;
ii. Examine the existence or otherwise of agency problems in SSNIT's operations;
iii. Examine weaknesses and problem areas in the operations of SSNIT; and
iv. Proffer suggestions for the improvement of the operations of SSNIT.

Research questions

In order to carry out the study, three research questions were developed:

i. How was the performance of SSNIT from 1995-2005?
ii. Are there any agency problems in the operations of SSNIT?
iii. Are there weaknesses and problem areas in the operations of SSNIT?
iv. What suggestions can be proffered for the improvement of the operations of SSNIT?

Organisation of the remaining chapters

The thesis had five (5) chapters. The following is the organisation of the remaining four (4) chapters. In chapter two considerations were given to the review of related literature. This chapter contains: history and definition of social security, persons protected by social security, outline of social security benefits, financing social security, acceptance of social security in Africa, challenges facing social security provisioning in Africa, types of pension schemes, risks in pension scheme and examined agency problems in public pension schemes, pension fund stakeholders and potential agency problems. The Chapter further examined theoretical principles underlying social security: need, equity and equality.

In chapter three, the methodology of the study was discussed. This chapter presents the study organisation, study design, population, sampling, data collection, data collection procedure, data analysis, non-financial performance indicators of SSNIT and financial performance indicators of SSNIT. Chapter four mainly was devoted to analysing the findings of the study. The data was analysed according to the objectives of the study: performance of SSNIT pension scheme, agency problems in the operations of SSNIT, and weaknesses and problem areas in the operations of SSNIT. Chapter five had as subject, summary of findings, conclusions, recommendations and implications for further research.

Definition of terms

Appeal (Appeal rights)

Appeal right is a letter of explanation from a social security firm regarding a members' eligibility for social security or supplemental security income benefits.

Benefit verification letter (BEVE)

An official letter from social security that verifies the amount an individual receives each month in social security benefits. These letters are normally issued following a request from a beneficiary or his/her authorised representative.

Defined benefit (DB) pension scheme

A defined benefit pension scheme is one where the retirement benefit is specified in advance to the members.

Defined contribution (DC) pension scheme

A defined contribution pension scheme is one where the contributions are defined, usually as a percentage of salary/earnings, from both the employer and employee. There is no guarantee on the size of pension. The pension will depend on the rate of investment return earned and the annuity rates available at retirement to convert the accumulated fund into pension.

(through higher contributions), by taxpayers (through tax-funded subsidies), and by future taxpayers (through subsidies financed by government borrowing).

Social adequacy

Benefits paid will provide a certain standard of living for all contributors.

Social assistance or general revenue programmes

The right to benefit flows from membership of the community – and the community itself finds the necessary funds for the provision of benefit. With this scheme, there is no need to keep the detailed contribution or employment records, over many years, which a social insurance scheme requires.

Social security

Social Security is based on a simple concept: While you work, you pay taxes into the social security system, and when you retire or become disabled; you, your spouse and your dependant children receive monthly benefits that are based on your reported earnings. Your survivors can also collect benefits if you die.

Vesting period

A vesting period is the period of membership after which a member has a right to a pension benefit.

CHAPTER TWO

LITERATURE REVIEW

Introduction

In this chapter the focus is on theoretical and conceptual issues that are relevant for the study. Specific issues, concepts and theories addressed are history and definition of social security, social protection, persons protected by social security, outline of social security benefits, financing social security and acceptance of social security in Africa. Other issues addressed are challenges facing social security provisioning in Africa, types of pensions schemes, risk in pension schemes, agency problems in public pension schemes, potential agency problems, pension fund stakeholders and theoretical principles underlying social security.

History and definition of social security

Social security often starts before birth – with the provision of pre-birth care and maternity benefits – and continues after death, with the payment of some form of death benefits. There is the need and search for greater individual and group security which has always been present as people tried to protect themselves and their families from hunger, pestilence and other dangers which

threatened and surrounded them. Providing the necessities to sustain life – shelter, food and clothing – has been a continual battle and this still remains a constant and ongoing problem for a large proportion of the world's population (Whitaker, 1998).

Century by century, communities organised themselves into groups of various types. This was done to protect themselves from the physical dangers which surround them, but later on attempts were made to lesson some of the harsher aspects of life. As this continued people with similar problems and concerns came together for mutual protection. Trade and artisan guides were formed with the aim of helping members when hardship struck, and many religious institutions helped to alleviate some of the misery of those who were unable to cope with life's problems. Kaseke (1998) and McGill, Brown, Haley and Schieber (2005) noted that, with increasing urbanisation, changes in housing conditions, greater geographic mobility, and many other economic and social developments, the traditional approach to old-age care and support was weakened.

Whitaker (1998) and Berghman and D'Haeseleer (2003) observe that piecemeal attempts were made to lesson the distress of those whose wages stopped because of sickness, unemployment, work injury or old age. Savings schemes were organised by governments or mutual aid societies. Private insurance developed and provided life cover and funeral benefits. States began to introduce legislation which required employers to provide some maintenance for their sick or injured workers but these arrangements were not sufficient in themselves. The philosophy of the day was that workers could and should make

their own arrangements to counteract life's risks yet they were so absorbed in the day-to-day struggle for survival that it was unrealistic to expect them to anticipate or plan for possible or distant eventualities.

Against this background, labour became more organised, more vocal and more powerful, and social security programmes began to take shape in industrialised countries. These early programmes were often compulsory, applying initially to certain categories of workers but were progressively extended to cover large sections of the population. Various benefits were introduced which sought to replace – at least in part – lost wages and income. With the passage of time, these benefits were extended and eventually the term "social security" was used to collectively describe them (Kumado & Gockel, 2003).

The body of laws providing different kinds of social protection was for the first time collectively called social security by the United States of America when they enacted the Social Security Act 1935 – and it also appeared in an Act passed in New Zealand in 1938. The International Labour Organisation (ILO) subsequently used the term "social security" extensively in several ILO Conventions and Recommendations.

The International Labour Organisation (ILO, 2000:29) provided the following definition for social security:

> "... the protection which society provides for its members – through a series of public measures – against the economic and social distress that otherwise would be caused by the stoppage, or substantial reduction of

earnings resulting from sickness, old age and death; the provision of medical care; and the provision of subsidies for families with children."

Bergham and D'Haeseleer (2003) also define social security as a body of public measures that society may take to protect its members against economic and social distress which may otherwise be caused by substantial loss of income as a result of old age, invalidity, sickness, unemployment injury, death of breadwinner, maternity, health (medical cost) and to help ease the financial burden with the provision of safe working environments as a protection against undue work related injuries. Certain authors believe that definitions of social security are limited because they merely focused on the formal wage economy (Midgley & Kaseke, 1996; Kaseke, 2000; Taylor, 2002; Oliver, 2003). These definitions exclude the reality of the context of poverty and social exclusion; for example, the informal sector is excluded from social security and may be considered the "working poor".

Social protection

According to Kumado and Gockel (2003), social protection has become mankind's pre-occupation due to the vagaries of life. Before the advent of Europeans, and the rise of modern states, African societies realized the need to put in place measures to cater for the major contingencies through collective social and mutual help to one another. With the development of societies came different community structures. In Africa, the most common structures were the village, the clan, the extended family and the nuclear family. All these structures

provided security for the members, but the one structure which covered an appreciable number of people, maintained intimate relations and provided most visible protection based on the principles of solidarity, was the extended family. A person staying in the family house was taken care of when he grew too old or too weak to work, or if he became ill. Orphans in the family house became adopted children of the whole family (Kaseke, 1998).

In short, the extended family system provided all kinds of benefits including those which, in modern day parlance, would be referred to as:

- Old age benefits
- Invalidity benefits
- Sickness benefits
- Health
- Survivors' benefits
- Maternity
- Family assistance

According to Whitaker (1998), over the last two centuries, men and women have become increasingly reliant, for the standard and quality of their life, on cash wage and on goods and services provided by others. In the absence of wages or income they have often been unable to cushion themselves and their families from the uncertainties of life. Like-minded individuals have banded together for mutual self-protection to try to ease their problems when income, on which they have come to rely, is reduced or ceases. This has not always been easy

and in many countries, even today, there are communities that still have little or no protection.

With the introduction of the machine, which led to the industrial revolution in Europe, the competition between factories produced goods- which were less expensive and in most cases better- and small scale village or family producers of similar products was such that people had to abandon their family businesses and move to the cities in search of work for pay. Apart from those who never found jobs and those who quickly lost the jobs they found, were those who found jobs but lost them after they became too old or invalid to be effective workers. The welfare of the worker and safety in the work premises were sacrificed in the quest for high profits. Child labour and near-slave labour were the order of the day (Kasente, 2000).

Meanwhile life in the urban areas was not always rosy, and many of the rural immigrants became paupers or took to evil ways. Even those who were a little more fortunate did not always maintain their links with their extended families. This situation led to the gradual weakening of the economic base of the rural society and ultimately to the complete loss of contact between the urban migrant and his extended family. Eventually, the urban jobless had nowhere to turn to (Kumado & Gockel, 2003). According to Kumado and Gockel (2003), the main thrusts of the new economic order that have affected the level of social protection include minimalist state intervention in economic activity with policies of deregulation and divestiture of state-owned enterprises, stabilisation and structural adjustment policies, liberalisation of both domestic and foreign trade

that entailed removal of price and distribution controls by franchise, removal of subsidies under incomes reform to reward performance consistent with allocative efficiency policies and cost-effectiveness in the production and delivery of goods and services, especially those produced by the public sector, and exit policies such as redeployment/retrenchment in the public sector, wage restraint, revision and transfer payments.

Persons protected by social security

Ideally, every member of the community could be protected by social security, whatever the individual's station in life. It would also be ideal if the protection could be uniform, across the community. Countries with advanced form of social protection cannot claim that each and every individual has complete and adequate coverage. For cultural, religious or traditional, political and economic reasons, some social security programmes are given greater emphasis than others (Subbarao, Bonneriee, Braithwaite, Carvallio, Ezemenari, Graham & Thomas, 1997).

According to Triegaardt and Patel (2005:122), when formal social security programmes were first introduced, they were often very limited in their coverage, for example, by including only certain type of workers – coalminers, railway-men, workers in factories employing more than 20 persons, and workers in certain towns or regions. Formal social security protection around the world covers about one third of the population. The coverage in Africa is however, very low, where 90 per cent of the population are without any formal protection (Van Ginneken,

1997; Kaushik, 1998). Even today, many countries are unable to have a universal scheme. Most countries therefore make a start by covering those sectors which are reasonably well organised and where the individual worker can be readily identified, because this eases the task of administration.

Whitaker (1998) and Taylor (2002) postulate that, there are many individuals in addition to employed persons who form part of society including persons who work for their own account – the self-employed; those who are not employed at all; and those who work in the home but receive no wages, are not included in an insurance-based social security scheme. This is because although workers pay part of their wage as contribution toward benefits, that contribution is almost always doubled by the employer. Self-employed and non-employed persons, on the other hand, will have to meet the cost of the full contribution themselves and may find it difficult, if not impossible, to pay.

Outline of social security benefits

The aim of social security is to provide assistance, financial or otherwise, in the event of loss or reduction of income. Originally, social insurance provided some measure of income replacement when earnings were interrupted or had ceased completely (Whitaker, 1998). It is also hoped that social insurance provisions would be adequate to meet the continuing needs of a scheme's members or that it would at least greatly reduce the need for social assistance measures.

According to Kaseke (2000), there are several social protection programmes all over the world but it cannot be claimed that the types of protection programmes used in other industrialised countries can easily be adopted by developing countries, for the needs of people in industrialised communities is not the same as those in the other part of the world. Each country should develop its own programme, determine its own needs in the light of resources available and the aspirations of its people.

International Labour Organisation Convention No. 102 groups benefits in a way which has regard to their functions and only imposes a minimum of conditions, which all countries – industrialised and developing – can build upon as and when the time is appropriate.

The benefits referred to in the Convention are nine in all and are:

- Medical care
- Sickness benefit
- Maternity benefit
- Unemployment benefit
- Family benefit
- Employment injury benefit
- Invalidity benefit
- Old-age benefit
- Survivor's benefit.

With the exception of unemployment benefit, Berghman and D'Haeseleer (2003) note that, all have some biological association – childbirth, rearing

children, disease, injury, old age and death – and any or all of these may affect a worker's income.

Financing social security

The financing of social security benefits is expensive since the benefits must be paid on regular basis. Beneficiaries of social security schemes need to have confidence that the benefits accruing to them would be available. There is therefore the need to have an efficient administration and the money to meet payments which are needed. Whitaker (1998) is of the view that social security schemes cannot be introduced without very careful attention to their financing and that any new scheme need to cost the proposed benefits to ensure that they can be afforded. The only exception is provident fund where the combined contribution of the employer and employee are collected and made available at some future date. Provident funds are said to be fully funded – that is the workforce pays an adequate contribution in one form and another to meet the cost of the ultimate benefit.

Another system of funding is the "general average premium" system, which at the outset determines a constant rate of contribution as a percentage of insurable wage or salary. There is also at the opposite end of the scale according to McGill et al. (2005:49), "annual assessment" or "pay-as-you-go" (PAYG) where the contribution rate remains stable over successive intervals of time, being revised only when the accumulated reserve starts to deplete. This system is also known as "scaled premium". The Presidential Commission on Pensions (2006:25)

noted that PAYG system is funding pension cost from current revenue and that it is easy to operate and the administrative costs are usually low.

Acceptance of social security in Africa

Most societies, at all levels, recognise the need to ensure that their members are protected against loss of income in the event of social risks. They also recognise the need to ensure that there is access to adequate and affordable health care. For many, these needs are met through their conditions of work which form an important component of decent work. Africa is no exception. Social security provisions in Africa are generally characterised by the following: economic features comprising limited productivity, persistently high inflation rates, high and increasing informal sector employment. Skewed income distributions and demographic characteristics, with reference to uneven population densities, low life expectancies, high birth rates, differing patterns of retirement; and issues of governance, relating to emerging democracies and weak subsystems for public administration according to Oliver (2005) are other factors that characterise the provision of social security in Africa.

Barbone and Sanchez (2000) submit that the pattern of social security provision in Africa reflects colonial preferences and considerations. New systems of organised social protection emerged to support economic development. Initially, the colonial powers extended their own system to their expatriates. The extension of such provisions to African workers varied but was mainly concentrated on urban and industrial workers to stabilise the labour force and to

satisfy the trade unions. However, the majority of the population remained beyond the scope of such an extension.

In North Africa, where proximity to Europe was a dominant factor, schemes are to be found in Algeria, Egypt, Libya, Morocco and Tunisia, which provide pensions based on social insurance principles that were established in the 1950s. Efforts have also been made both to provide a wide range of benefits with contingencies such as unemployment (being covered in Algeria, Egypt and Tunisia) and also to reach beyond employed persons to coverage of the self employed.

Barbone and Sanchez (2000), and Bailey (2003) comment that in the former British colonies, priority was given to employment injury schemes, but the development of social insurance was slower. Liability was instead placed directly on the employer (in Ghana, Nigeria, Kenya, Swaziland) and only later were schemes developed which relied on the payment of contributions by employers into a public social security fund and at least, to some extent, on the pooling of risks. The systems introduced by the British were generally more modest and except in the case of provision for public servants, did not follow the lines of schemes operating in the United Kingdom.

Although there was a growing recognition of the need to provide some form of protection to other workers in the organised sector, this led only to the establishment of national provident funds. These were effectively compulsory savings schemes, financed from contributions paid by employers and workers, which accumulated, with investment interest, to form an individual savings

account for each worker. They were seen as simple to operate and also as consistent with the future needs of the African workers who were expected to return to their village on retirement where they would benefit more from a lump sum than a pension. Some countries such as Sierra Leone did not establish either pension schemes or provident funds for private sector workers and particularly in Southern Africa (Zimbabwe, Malawi, Botswana and Lesotho and, to an extent, in South Africa) this development was delayed and instead there was considerable reliance on occupational pension schemes and private provident funds (Bailey, 2003).

In the French colonies of Sub-Saharan Africa, priority was given, initially, to employment injury schemes and then family benefits and maternity benefits were introduced in the early 1950s. Given their common heritage many of the countries of French speaking Africa have similar pension schemes, which provide benefit on retirement based on length of service and average earnings. Health care provision also followed a different pattern with French speaking Africa tending to link health care to the social insurance principles of the pension scheme, whereas the British preference was for a national health service financed centrally from government revenues. Access to adequate health care has emerged as the most important of the social security benefits to the majority of the people in Sub-Saharan Africa, but it is too often denied to those most in need such as people working in the informal economy and in agriculture (Dau, 2003).

Since independence, several modifications of health care policies have been put in place. Between the 1960s and 1980s, most French-speaking Sub-

Saharan Africa countries implemented policies aimed at improving the living conditions and health status of the people. The political and economic context was quite favourable to a focus on improved access to health care but through initiatives financed by international agencies and targeted on disease prevention programmes, rather than on the development of national health care programmes.

Challenges facing social security provisioning in Africa

Social security provisions in Africa face a lot of challenges. As noted by Barbone and Sanchez (2000), people came to view social security contributions more as a tax and do not trust financial institutions as a result of periodic sector crises. According to Musenge (2003), good governance in social security schemes is critical for the viability and sustainability of the schemes. It is equally critical for building trust in institutions that have often been the subject of suspicion and scorn.

In many African countries there are clear indications of excessive state intervention or interference. Governments often control the composition and appointment of governing boards, as well as social security administrations, the management of funds and investment decisions. Invariably, the relevant minister is empowered by statute to give directions of a general or specific character to the board. This increases the possibility of political interference and may compromise the independence of the board. Furthermore, while the composition of the boards, where appropriate, is often of a tripartite nature, Barbone and Sanchez (2000) note that this may have to reflect experience in social security, financial matters or

administration. The choice of a stakeholder representative may be restricted to a particular entity from among the stakeholders, and may result in weak representation of those for whom the relevant scheme has been established.

One of the major sources of distrust in social security institutions in Africa, as noted by Oliver (2003), has to do with the mismanagement of these schemes. Many social security institutions in Africa lack proper management of the operations of the schemes. This is largely attributable to a lack of adequate training and understanding of prudent social security principles. Barbone and Sanchez (2000) and Oliver (2003) note that service delivery is another area which has generated substantial dissatisfaction among members of social security schemes. Most of the complaints revolve around the inadequacy of benefits, delays in payments, the lack of up to date information about the schemes and the amount of individual contributions made and estimated benefits (i.e. benefit statements). Members may also not be informed about the interest earned on their contributions. Furthermore, contribution records are often incomplete. Schemes are often unable to give a reliable figure of contributing members, due to an incomplete registration process, double registrations, numerous cases of irregular contributions and terminated payments, and the inability to verify the exact number as a result of the fact that the system of member records and verification in many cases is essentially a manual system.

Oliver (2003) further states that members are not well-informed about their rights, and about what is expected of them in terms of the existing claims and other procedures. It is also the experience that members or their beneficiaries

fail to claim benefits, as they are unaware of their entitlement and/or the procedures (Anowih, 2008). In some cases members have difficulties in accessing the relevant fund. This applies in particular to those employed in rural areas, as some of the funds have not extended their operations and physical presence to centres within the rural areas.

Types of pension schemes

According to the Presidential Commission on Pensions (2006:19):

> "Pension is the generic name of long-term periodical cash benefits that social security systems pay in case of invalidity, in old age and on the death of the bread winner. Whether the method of affording protection is social insurance, public service or social assistance, the three kinds of pension should be coordinated" (as cited in ILO Conventions, 1970).

A pension is a steady income given to a person (usually after retirement). Pensions are typically payments made in the form of a guaranteed annuity to a retired or disabled person. A pension created by an employer for the benefit of an employee is commonly referred to as an occupational or employer pension. Labour unions, the government, or other organisations may also fund pensions (www.en.wikipedia.org/wiki/pensions).

Occupational pensions are a form of deferred compensation, usually advantageous to the employee and employer for tax reasons. Many pensions also contain an insurance aspect, since they often will pay benefits to survivors or

disabled beneficiaries, while annuity income insures against the risk of longevity. While other vehicles (certain lottery payouts, for example, or an annuity) may provide similar stream of payments, the common use of the term pension is to describe the payments a person receives upon retirement, usually under pre-determined legal and/or contractual terms. Most pension schemes fall under one of the following broad categories, namely: defined benefit scheme, defined contribution scheme, or private scheme or public scheme (Whitehouse, 2007:8).

Defined benefit (DB) scheme

A defined benefit scheme specifies the formula for the determination of benefit entitlements and employees are promised a 'guaranteed' or 'defined' amount of pension (Barr, 2002: IV). The cost of the fund is determined on an actuarial basis, as the amount of money required to provide the given level of benefit to all employees on the scheme. Mishkin and Eakins (2006:580) note that a DB scheme specifies that the employee contributes a percentage of his/her earnings to help fund the benefit. The employer contributes the difference between the cost of providing the benefits as indicated by the actuary and the level of employee's contribution. If sufficient funds are set aside by the firm for the purpose of pensions, then the plan is fully funded. If more than enough funds are available, the plan is over-funded and if insufficient funds are available, the plan is under-funded.

Whitehouse (2007:8) states that the DB scheme provides a guaranteed pension, calculated on the basis of the member's salary in the final years of

employment and the number of years of service. It may be based on the employee's final salary or the average of the salary earned over a number of years. Fewer years of contributing to the scheme means a relatively small pension after the minimum qualifying years of service.

McGill et al. (2005:235) show that in a DB scheme, payments can be fixed at the retirement date, or they can be indexed to increase as the cost of living increases. Section 36, 37 and 38 of P.N.D.C.L. 247 also specifies the formula for the computation of pension, survivor's benefits and invalidity benefits respectively and the time periods that pensions can be claimed.

Defined contribution (DC) scheme

The Presidential Commission on Pensions (2006:21) postulates that, under the DC plan, the employer and usually the employee make a pre-determined contribution expressed as a percentage of salary, into an account held on behalf of the employee as the individual investment fund. The contributions, less charges levied on them are invested in assets such as stocks, bonds, property, treasury bills, bank deposits and housing, up to retirement. The level of benefits received at retirement is determined by the accumulated value of the assets in the pension fund into which contributions are made. This is sometimes referred to as the investment reserve. Mayo (2001:50) mentions that the role of pension scheme is to accumulate assets for workers so that they will have funds for retirement.

Brigham, Gapenski, and Ehrhardt (1999:1061), and Whitehouse (2007:8) observe that in a defined contribution plan, the employer agrees to do something

to help employees when they retire. Rather than specifying exactly how much each retiree will receive, companies can agree to make specific payments into a retirement fund and then have the retirees receive benefits that depend on the plan's investment success. The Presidential Commission on Pensions (2006:22) and McGill et al. (2005:273) posit that there are two basic types of DC pension schemes:-

i) Money Purchase Pension Scheme

ii) Profit Sharing Pension Scheme

Money purchase pension scheme

This type of DC scheme is an employer-sponsored arrangement where employer and employee contributions are defined. They may be fully employer-paid or require employees' contributions as well. The employer's contribution may be conditional to and/or vary with the employee's contribution. Contributions may be a fixed percentage of earnings, a fixed amount, or a specified amount per year of service (McGill et al., 2005:282).

Profit sharing pension scheme

A profit sharing pension plan is a type of DC scheme where employer contributions are linked to the profitability of the company. The employer's total annual contribution is determined using a formula related to profits. Allocation of profits among plan members may be based on a point system, where points are

assigned in relation to service, earnings or on both. Investment earnings and forfeitures are allocated to employees in proportion to their account balances.

Brigham et al. (1999:1062) and McGill et al. (2005:274) observe that for profit sharing schemes, payments are made by the employer into the retirement fund, but the payments vary with the level of corporate profits. This type of plan may act to motivate employees and lead to increased productivity. However, the only drawback of this arrangement is that contributions are linked to profit and this increases the uncertainty associated with the level of retirement income. From the employer's perspective, costs are linked to the company's ability to pay.

Private and public pension schemes

Mishkin and Eakins (2006:581), and Whitehouse (2007:44) note that the DC and DB pension schemes can either be a private or public pension scheme. They state that a private pension scheme is any pension scheme set up by employers, groups, or individuals while a public pension scheme is any pension scheme set up by a government body for the general public.

Risks in pension scheme

Defined contribution schemes offer flexible mechanisms for saving for retirement, enabling the members to share in investment returns. These schemes are designed to allow those who change jobs and those who have intermittent employment to have regular and uninterrupted retirement income. Defined contribution schemes are normally employed by personal pension schemes, and

hence entail considerable risk for individual members. Barr (2002:4) posits that both private and public pension systems are subject to risk and uncertainty.

Daykin (2005:282) defines risk as "the possibility of something going wrong which will have unfortunate consequences, will undermine the institution's plan or will make it less likely that the institution's objectives will be achieved". These risks according to Daykin (2002:67) include: market risk, economic risk, default risk, hedging or mismatching risk, management risk, interest rate risk, longevity risk, expense risk, political risk, insolvency risk, fiscal risk and operational risk. Market risk is where the value of the investment in the individual account fluctuates and can suffer significant falls in value in adverse market conditions. Economic risk occurs when the real rates of return on investments prove unsatisfactory as a result of difficult economic conditions or mismanagement of the economy, or because of inflation or low economic growth rates. Longevity risk talks about improvement in average life expectancy among the population of actual and prospective annuitants will be factored into the price of annuities and hence will directly affect the amount of annuity which can be purchased. To the extent that members are expected to draw down on their accounts and not be required to purchase annuities, the risk of long life of the individual member falls directly on the member and he or she runs the risk of exhausting his or her savings too early or leaving an excessive balance on his or her death. Osei (2005), comment that future improvements in mortality will result in pensioners receiving pensions for longer periods and consequently increase the cost of benefit payments.

Operational risk occurs when the manager of the scheme may fail to exercise adequate operational controls, resulting in the loss of information about the individual's accumulated contributions. This can also arise because of catastrophic computer failure, fire, flooding or other natural hazards. Operational risk may affect the performance of the pension manager in many other ways. The level of expenses of administration, or deductions to generate profits for the pension management company, may be or become too high, leading to an inadequate charge on the savings on the individual members. Political risk occurs when the government interfere in the operations of the pension system, sequester assets, reduce contribution requirements, or direct investments towards social or political objectives, without regard to whether the returns are economic (Daykin, 2002).

The main risks that DB pension funds are exposed to are investment, inflation, and longevity risk. (Blome, Fachinger, Franzen, Schewenstuhl, & Yermo, 2007:5). These risks, according to Barr (2002:4) threaten the viability of all pension systems because they undermine output, or generate price inflation or both.

Agency problems in public pension schemes

In this section, the researcher take a closer look at public pension funds to determine potential agency problems. By taking a "nexus of contracts" approach to public pensions, the expectations of the various stakeholders from public pensions were examined and where there are potential conflicts. A "nexus of

contract" approach is a social contract which builds on the idea that we can forge social theory based on how, rationality, free will, impartiality, and bargain with one another in the absence of coercive forces.

Agency theory deals with the problem of one person (an agent) acting on behalf of another (the principal). With delegation of authority to the agent, the agent may take actions that are not in the principal's best interests (i.e., acts out of self- interest on the part of the agent) but are unknown to the principal. The goal of agency theory is to constrain agents from acting improperly and provide them with incentives to act appropriately. This therefore calls for the separation of ownership from control (Jensen & Meckling, 1976).

In addition to the separation of ownership from control issues, there are problems that can be present in any type of agency relationship. These problems result from uncertainty and goal conflict, as well as the inability to write a contract that fully specifies the behaviour of the agent in all situations (Levinthal, 1988).

With respect to uncertainty, agency theorists discuss two categories of problems. First, a moral hazard problem involves an agent failing to exert the necessary effort to satisfactorily perform his or her job (shirking) or taking actions that benefit him or herself at the expense of the principal (opportunism). As noted by Mishkin and Eakins (2006:377), moral hazard arises after the transaction occurs. The principal runs the risk that the agent will engage in activities that are undesirable from the principal's point of view. These problems result from a lack of monitoring or ineffective incentives. Second, there is an adverse selection

problem of an agent failing to have the competence needed to perform the job. This results from an inability or failure of a principal to verify the claimed skills of the agent. Adverse selection is an asymmetric information problem that occurs before the transaction occurs. The parties who are the most likely to produce undesirable outcomes are most likely to want to engage in the transaction.

Potential agency problems

Similar to corporations, there may be agency problems based on goal conflict and uncertainty. For public pension funds, it is useful to consider two potentially separate problems. First, there are the traditional problems based on the direct self- interest of trustees, such as self-dealing and corruption, or simply shirking. Second, there are problems based on the political goals of the trustees, such as using the pension fund's assets to further the social goals of the current governing party. This occurs, for example, when the trustees direct the pension's assets towards investments that support local businesses and employment, but without considering the risk-return characteristics of the investment (Romano, 2001).

Hess and Impavido (2003) posit that in the United States, unresolved agency problems based on self-interest often involve politically motivated actions, commonly when politically appointed or ex officio trustees make decisions not to further the beneficiaries' interests but to improve their own situation. Romano (1993, 2001) as cited in Hess and Impavido (2003) postulates that, during her campaign for public office a former ex officio trustee of the New York City

pension fund publicised the corporate governance activism in which she had participated as a trustee of the city pension fund. Critics argued that she had spent the fund's assets on corporate governance activism not because she believed it would improve the fund's performance but because it would bolster her reputation as a populist politician who would stand up against big business.

Hess and Impavido (2003) further note that in politically based agency problems, trustees may be tempted to fund local initiatives for its social benefit without giving appropriate weight to the risk-return characteristics of the investment. They are of the view that a pension fund may choose to invest in a financially troubled local business in order to save the jobs that the company provides, but at a significant risk to the fund's assets. Such actions may also include significant purchases of government bonds (at lower than market interest rates) as a way to further the borrowing ability of the government. Trustees may be acting on their own initiative (perhaps based on their roles as publicly-elected officials) or based on pressures from outside political parties.

Other examples from the US experience include decisions to select investment advisors based not on their performance, but on a preference for in-state managers and furthering affirmative action goals (Romano, 1993). These investment managers are likely to be small and unable to take advantage of economies of scale on transactions, thus reducing fund performance.

It is important to remember that the current political party in power chooses the social and political goals served by such actions, and other political parties may oppose these goals. These actions may be a way for the ruling

political party to further social goals without going through the regular political decision making system for resource allocation. For example, in the US, some commentators raised concerns that the California Public Employees' Retirement System (CalPERS), was dominated by Democrats and that they were using the system's assets to attempt to bring about social change without regard to the direct financial health of the system (Walsh, 2002). In other cases, the action may be widely supported by the public. Taken together, these problems led Romano (1993, 1995) to argue that public pension funds with trustees who are susceptible to political pressure will perform significantly worse than those boards with more politically independent trustees. Political involvement in the investment choices of public pension funds is well known. This involvement can come in the form of government-passed laws based on the initiatives of the trustees, and it can involve mandates to make certain investments or prohibitions on other investments (Hess & Impavido, 2003).

Watson (1994) and GAO (1995) as cited in Hess and Impavido (2003) note that in the US, the use of economically targeted investments (ETIs) was one of the most controversial issues facing pension fund management (both public and private) in the 1990s. ETIs are investments where pension fund managers take into consideration not only the investment return, but also the economic benefits to the local community. Hess and Impavido (2003) cite Stevenson (1992) who observed that, examples of ETIs in the US include California's investment of $375 million in single- family homes to help increase affordable housing and create jobs, Connecticut's investment of $25 million in a local company to save

1,000 jobs, and Pennsylvania's decision to provide favourable interest rates for home mortgages. Another common ETI practice involves using pension funds to provide venture capital to in-state companies that may not be able to attract the attention of other venture capitalists (GAO, 1995).

The National Pension Fund (NPF) of Korea implemented a requirement to contribute to economic and social development by lending to the government at non-market rates and purchasing non-tradable government bonds (Hess & Impavido, 2003). While ETIs may be able to achieve an acceptable rate of return, or taxpayers may be willing to take on the extra risk in exchange for social benefits, Iglesias and Palacios (2000) point out that most pension funds do not have established criteria for selecting ETI projects. Thus, such investments are entirely under the purview of the board or perhaps the ruling political party.

In Ghana, the Social Security and National Insurance Trust (SSNIT) is required to invest in assets with adequate yield and liquidity, and an acceptable risk level. Managers attempt to follow basic portfolio theory rules for asset diversification to ensure that an optimal funding ratio is maintained and that long-term rates of return are secured for the fund (Dei, 2001). However, the SSNIT investment policy includes social and developmental mandates in the following areas: housing finance, student loans, and industrial estates. Although returns on these assets were not reported, Dei (2001) comments that the student loan scheme has become a burden for the SSNIT. These loans are provided to students (including university students) at a subsidised interest rate. While the number of students has increased considerably, postgraduate unemployment has also

increased. This creates a further burden on the system. In addition, increases in the size of loans (as they are indexed to inflation) and government delays in the payment of interest subsidies to the SSNIT further increase the burden.

Pension fund stakeholders

In order to develop an understanding of the appropriate governance structure of public pension plans, it is necessary to identify the stakeholder groups and their interests. Hess and Impavido (2003) observe that there are three key stakeholder groups and these are the plan participants, the government, and the taxpayers.

The plan participants group includes active members (the current contributors), retired members (those currently receiving benefits), and survivors and dependants of plan participants. The membership of this group can be very broad, or limited, depending on whether the pension plan is a national scheme or a specific civil service group. This stakeholder group clearly has the most direct interest in the pension system's performance (Mitchell, 2002). In the US and UK, the law governing private pension plans requires that the plans be managed solely in the best interests of participants and beneficiaries. This stakeholder group has interests in the amount of their benefits, assurances that they will receive those benefits at a future date, and the size of their contributions to the plan. Murphy and Van Nuys (1994) argue that the residual claimants of pension schemes are the taxpayers.

A second stakeholder group is the government, which has an interest in the administrative costs of running the plan and the performance of the plan's assets, as these factors influence the amount of the government's contribution. As an employer (for civil service plans), the government is interested in the financial health of the plan for its impact on the ability to recruit new employees and retain existing employees (Mitchell, 2002). In addition, the financial health of the plan can have an impact on pay and benefit negotiations with employee representatives. The government, however, may desire to use the plan's assets to further other government objectives, such as making investments to help the local economy.

Finally, taxpayers are natural stakeholders of any DB public pension fund and any DC scheme with minimum return guarantees. In a DB plan, the beneficiary is given a set of retirement benefits based on a formula that considers years of employment, salary, cost of living adjustments, and other factors (McGill et al., 2005:246). The pension fund sponsor must make sure that the assets of the fund are sufficient to provide for current and potential liabilities (the payment of benefits to retirees). In this situation, the taxpayer bears the ultimate obligation to maintain adequate funding levels. If a pension fund obtains sufficient market returns through investment, the government may lower its contributions to the fund, which means it may directly lower taxes or use those funds for other government projects. On the other hand, if market performance is poor and liabilities are greater than assets, the government will have to use taxpayer money to increase the plan's assets. This will result in either an increase in taxes or fewer

available funds for other government services. Funding problems in civil service plans can also have a current impact on taxpayers, as significantly under- funded pension plans can reduce property values (due to the expectation of future tax increases) or reduce local government's bond or credit ratings (Mitchell, 2002).

Theoretical principles underlying social security

In some respects all social security schemes are needs-based, given that they have developed in response to the needs of groups of citizens that stem from certain social contingencies. Underlying each type is a typical normative view of the character of the need which is responded to, and a related use of one of three basic principles of redistributive justice: need, equity and equality (Deutsch, 1975; Schwinger, 1980). A first type of response, aimed at poverty relief, sees need as arising only from the moment that a minimal level of subsistence is not met. Based on what is generally called the principle of need, this response redistributes resources only to the worst off. In social security practice the typical instrument used for assessing 'true need' is the means test.

A second type of response, aimed at the preservation of living standards, sees need as arising when an achieved standard of living is threatened. It redistributes resources to those who are regarded as being in need on grounds of the equity principle: those who have achieved more are given more, so that initial status (or income) differences are reproduced. In social security practice, the relationship between wages, contributions and payments is a typical manifestation of this type of response.

The third type of response sees need not, so much as an issue of minimal or differentiated living standards but as a broader condition of citizens, as an issue of general well-being. The aim here is not to relieve citizens from neediness, but to pro-actively promote well-being. In this type of response resources are redistributed on the principle of equality, since all citizens are seen as having a right to a common standard of well-being. Here, the typical instrument in social security is the universal benefit (Schwinger, 1980).

Within the field of social security there are three ideal-typical connections between needs perceptions, redistributive principles and design of instruments. The principle of need is central to social assistance programmes. These are commonly tax funded, under control of the central government or local authorities, and aimed at poverty relief. The needs principle is most directly manifested in the fact that social assistance schemes provide benefits up to subsistence level only and that eligibility depends on a means test. However, the design of the latter can vary from a very strict definition (all resources and capital taken into account; no or negligible amounts of other income disregarded; high marginal tax rates) to a more lenient one (e.g. only income taken into account; a considerable amount of resource disregarded, a low marginal tax rate). Means tests can be limited to the claimant, or extended to his or her spouse or partner, other family or household members, and even to relatives not living in the same household (Schwinger, 1980; Pierson, 1994; Clasen & Oorschot, 2002).

At the other end of the spectrum in terms of the scope of conditionality are benefit programmes which embrace the principle of universalism. Universal

benefits tend to provide standard flat-rate benefits, often at a moderate level in order to provide basic security. However, varied rates are applicable at times (e.g. for dependants) and rates can be more generous. In deed, they could be defined in terms of the fact that eligibility is unconditional in the sense that it is not subject to a test of needs (and means), and that contributions are not required prior to receiving support. The scope of universal benefits can vary, with same benefits pertaining to the entire population above a certain age (e.g. universal pension), others to certain groups (e.g. same disability benefits) or sections of a group (universal benefit for the child only). Benefits tend to be tax funded and to be the responsibility of the country (Clasen, 1997; Clasen & Oorschot, 2002).

The principle of reciprocity is most prevalent in social insurance programmes. Typical characteristics compared to other income maintenance schemes include risks which are generally associated with the labour market, eligibility and risk pooling (no differentiation of individual contribution rates in relation to risk and compulsory membership), public regulation or involvement (at least to some extent), entitlement (based on contribution records) and funding (contributory rather than taxation) (Erskine & Clasen, 1997). Employers' and employees' unions are often involved in policy-making and/or administration, and most of the funding stems from contributions by employers and employees.

In comparative social policy, this threefold typology is rather common, although the general principles are often described in different terms, such as the principle of selectivity (need), the principles of reciprocity, contribution, proportionality, equivalence or social insurance (equity), and the principle of

universality (equality). Different distinctions between types of social rights, based on poverty (relief), reciprocity and citizenship, are also common to the level of welfare regimes. The principle of need has been regarded as the dominant influence on policy direction in liberal welfare states, the principle of equity as prevalent in conservative welfare states, and the principle of equality is most manifest in social-democratic welfare states (Esping-Andersen, 1990).

However, these are ideal-type correspondence between justice principles and characteristics of social security schemes. In practice, the design of actual social insurance programmes can reveal significant deviations, or combinations. Social insurance programmes, for instance, may be heavily supplemented with tax subsidies; membership can be voluntary (as in unemployment insurance in Sweden and Denmark); paid employment is rarely the exclusive route to eligibility (since certain groups may be granted access or are considered as co-insured, even though they do not contribute financially); and social insurance schemes may contain a means test (like the Dutch old age pension) (Clasen & Oorschot, 2002).

Furthermore, the existence of earnings-related or flat-rate contributory benefits is a crucial characteristic. Because of the correspondence between wage-related contributions and wage-related benefits, pension schemes are close to the logic of private insurance. In combination with other design features (e.g. the ease of access) this can make them similar to universal schemes in the sense of providing basic security (often at subsistence level) rather than status preservation. In other words, the reference to a general justice principle is often

insufficient without acknowledgement of the parameters which determine the actual character of particular social security programmes (Daly, 1997).

The three principles of social security, namely: principle of need – aimed at poverty relief, principle of equity – aimed at the preservation of living standards and the principle of equality – provided standard flat-rate benefits (Deutsch, 1975; Esping-Andersen, 1990; & Erskine and Clasen, 1997) provide an important theoretical framework for a comprehensive study of evaluative stance in academics. These principles consider social security as an outcome of intergenerational interest conflicts. They imply that social security should transfer from the young to the old. These three principles, however, do not provide further insights on political behaviours of different generations.

CHAPTER THREE

METHODOLOGY

Introduction

This chapter contains the methodology of the study. The study aimed to review and assess the performance of SSNIT from 1995 to 2005, ascertain if agency problems exist in the operations of SSNIT and to identify weaknesses and problem areas in the operations of SSNIT. To achieve these objectives, it is important to design a research methodology that will provide relevant and accurate data. This chapter discusses the study organisation (organogram and functional breakdown of SSNIT), study design, population and the basis on which samples were chosen and the data collection procedures adopted. Finally, it outlines the preparation of the data collected and the techniques utilised for analysing the data.

Study organisation

The study was done using the Social Security and National Insurance Trust (SSNIT). It is a statutory public Trust charged with the administration of Ghana's National Pension Scheme. The primary responsibility is to replace part of lost income of Ghanaian workers or their dependants due to old age, invalidity, or

loss of life. The Trust was established in 1972 under NRCD 127 to administer the national social security scheme. Prior to 1972, the scheme was administered jointly by the then Department of Pensions and the State Insurance Corporation. The Social Security Law (PNDC Law 247) under which the current social security scheme operates was passed in 1991. The trust administered a provident fund, and this was converted into a pension scheme.

The day to day administration of the Trust is headed by the Director-General, who is the Chief Executive. There are also three (3) Deputy Director-Generals who are part of the executive team. There are eight (8) General Managers in charge of Operations, Management Information System, Benefits Administration, Finance, Investment, Human Resources and Legal and Administration. SSNIT has Area and Branch Managers responsible for the core business of SSNIT and Heads of Departments who provide advisory and support services. In combination with its mission statement to develop SSNIT into a world class financial institution dedicated to the promotion of economic security of Ghanaian workers, SSNIT aims at providing the very best that there is in the financial services industry. The intention is to make SSNIT's products the preferred retirement scheme. The primary objective of SSNIT vision statement is to provide an adequate income replacement under any of the three contingencies covered under the scheme. Figure 1 shows the organisational structure of SSNIT.

Approved Organizational Structure

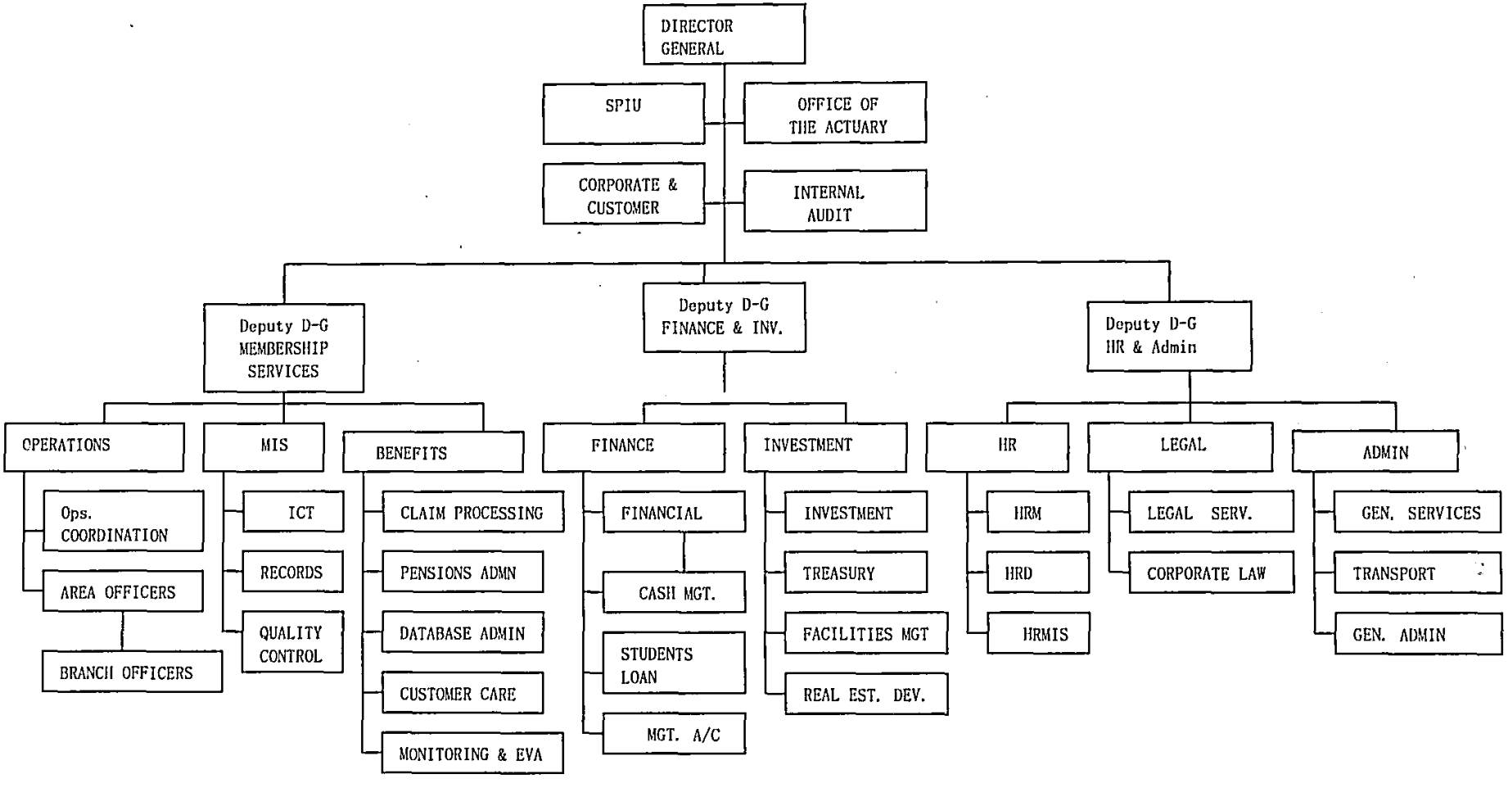

Figure 1: Organizational Structure of SSNIT

Source: SSNIT, 2008

Study design

McNeill and Chapman (2005) take the position that there is no perfect solution to any research approach, only a series of compromises. Because there are various research choices, the researcher must justify the approach chosen since each technique is associated with distinctive means of collecting and analysing data (Amaratunga, Baldry, Sarshar & Newton, 2002). The research design adopted in this study is evaluative. According Boohene (2006), evaluative study can be both qualitative and quantitative. It is an exploratory study which finds out what is happening; seeks new insights; asks questions and assesses phenomenon in a new light (Robson, 2002). It is particularly useful if a researcher wishes to clarify an understanding of a problem. Three principal ways of conducting evaluative study are: a search for the literature, interviewing experts in the subject and conducting focus group interviews. Adams and Schvaneldt (1991) argue that it gives a lot of flexibility but it does not mean absence of direction to the enquiry.

According to Weiss (1998), evaluation is the systematic assessment of the operations and/or the outcomes of a programme or policy, compared to a set of explicit or implicit standards, as a means of contributing to the improvement of the programme or policy. Evaluative research seek to assess or judge in some way, providing useful information about something other than what might be gleaned in mere observation or investigation for relationship. It seeks ideas that have already been found, and puts them together in new ways in order to arrive at a conclusion (http://www.deil.uiuc.edu/es/service). Evaluation refers to the use of

research technique to provide reliable and accurate information for practitioners, service providers, and policy-makers to make an informed judgement of an intervention, a programme or service.

Population

The study was done using twelve (12) members of the board of directors, ten (10) members of the executive team and fifteen (15) heads of departments. The total population was thirty-seven. All the members were located at SSNIT head office in Accra. The head office was selected based on the fact that it had documents on the whole country and all the fifteen heads of departments were also located in the corporate head office.

Sampling

The main sample period consists of fiscal years 1995-2005. This was chosen because current relevant data and other financial data were available. It was during this period that accounting principles that were used in the preparation of the accountings were consistent. A total of ten (10) senior executives were selected. This number was used because of the vital roles they play in the management of the SSNIT pension scheme. They were made up of two executive directors, two members of the executive team and six heads of department. These respondents were selected purposively to enable the researcher elicit data and information on the operations of SSNIT and how the funds were managed.

Data collection

The researcher used both primary and secondary data. According to Saunders, Lewis, and Thornhill (2007), there are three main groups of secondary data: documentary data, survey-based data and those compiled from multiple sources. Survey-based secondary data refers to data collected using survey strategy, usually by questionnaires that have already been analysed for their original purpose. Survey-based data are collected through censuses, continuous or regular surveys or ad hoc surveys. Multiple-source secondary data can be based entirely on documentary or on survey secondary data, or can be an amalgam of the two (Saunders et al., 2007).

According to Saunders et al. (2007), documentary secondary data are often used in research projects that also use primary data collection methods. Documentary secondary data include written materials such as notices, correspondence, minutes of meetings, reports to shareholders, diaries, transcript of speeches and administrative and public records. Written documents can also include books, journals and magazine articles and newspapers. Bryman (1989) notes that documentary secondary data are important raw data sources as well as a storage medium for compiled data, and provide qualitative data for decision making. Documentary data also include non-written materials such as voice and video recordings, pictures, drawings, films and television programmes. Robson (2002) also notes that DVDs and CD-ROMs as well as organisations' database can be analysed both quantitatively and qualitatively. In addition, documentary secondary data can be used to help to triangulate findings based on other data

such as written documents and primary data collected through observation, interviews or questionnaires.

Triangulation is the combination of methodologies in the study of the same phenomenon, on the assumption that the weaknesses of each individual method will be balanced by the strengths of the other (Yin, 1994). Those research projects that make use of documentary secondary data often do so as part of a within-company action research project or a case study of a particular organisation (Saunders et al., 2007). Secondary data offer advantages such as: result in unforeseen discoveries (Dale, Arber & Proctor, 1988), unobtrusive (Stewart & Kamins, 1993), permanence of data (Denscombe, 1998) and fewer resource requirement (Ghari & Gronhaug, 2005).

Based on the preceding arguments, it seems reasonable that the research approach adopted in this study should include both qualitative and quantitative methods in line with Robson (2002). This helped in generating insights, making inferences and drawing conclusions on the performance of SSNIT. In addition, in line with Bryman (1989) and Saunders et al. (2007) documentary secondary data were used to analyse the performance of SSNIT and to confirm the objectives. Further, this study sought to ascertain if agency problems exist in the operations of SSNIT and to identify weaknesses and problem areas in the operations of SSNIT. Thus the use of documentary secondary data with the results analysed quantitatively and corroborated by qualitative information from interviews helped to reveal how government interferes in the operations of SSNIT, and weaknesses and problems areas in the operations of SSNIT.

Data collection procedure

The researcher obtained an introductory letter from the School of Business, University of Cape Coast (see appendix D). Two cover letters were written by the researcher (see appendix E and F) to the director general of SSNIT and the head of public affairs to explain the purpose of the research to them. A memorandum was written by the head of public relations department of SSNIT (see appendix G) introducing the researcher to all heads concerned asking them to give the necessary assistance to the researcher to enable him complete the project.

The collection of secondary data took three months from October to December, 2007. Secondary data was gathered using SSNIT publications. Data was also obtained from the Ghana Statistical Service and the Ghana Stock Exchange. Primary data was collected by means of interviews (see appendix I) in February, 2008, a month after secondary data were collected. Structured and unstructured interview techniques were adopted to enable the researcher to gather the right data. The interview was done by the researcher personally. This lasted for a month (March, 2008). Interviews were used because, it offered flexibility as per Adams and Schvaneldt (1991) who argue that analytical study gives a lot of flexibility. Here there was the opportunity of seeking clarification from respondents on data obtained through documentary secondary sources. Interviewing also created a learning environment in which the researcher and the respondents were involved in a purposeful discussion. Questions were asked, and responses were provided within a relaxed atmosphere.

Data analysis

Financial statement analysis is the process of reviewing and interpreting financial information for the purpose of appraising the financial health and operating performance of an organisation. Many individuals associate financial statement analysis exclusively to ratio analysis, or a process of analysing ratios formed from two or more financial statement numbers. This thesis adopts a broader perspective, however, in which financial statement analysis is seen to include not only the development and interpretation of ratios using historical accounting data but also combined with other knowledge of an organisation's management and economic circumstances, both financial and non-financial.

According to Larson, Wild and Chiappetta (1999:774), financial statement analysis is the application of analytical tools to general-purpose financial statements and related data for making business decisions. Financial statement analysis, according to them, involves transforming data into useful information, and reduces reliance on hunches, guesses, and intuition. Financial statement analysis provides an effective and systematic basis for business decisions. Financial analysis provides insight into how well a company is performing. Larson et al. (1999:774) posit that the purpose of financial statement analysis is to help users make better business decisions. These users include decision makers, both internal and external to the company.

Internal users of accounting information are those individuals involved in managing and operating the company. These individuals include managers, officers, internal auditors, consultants and employees. Internal users make the

strategic and operating decisions of a company. The aim of financial analysis for these groups of users is to provide information helpful in improving the company's efficiency and effectiveness in providing products or services.

The external users such as shareholders, lenders, directors, customers, suppliers, regulators, lawyers, brokers and the press are not directly involved in running the company, yet they are affected by and sometimes affect, the company's activities. These external users rely on financial statement analysis to make better and more informed decisions in pursuing their own goals.

Shareholders and creditors assess future company prospects for investing and lending decisions. A board of directors analyses financial statements in monitoring management's decisions. Employees and unions use financial statements in labour negotiations. Suppliers use the statements in establishing credit terms. Customers use it in deciding whether or not to establish supply relations. Public utilities set customer rates by analysing financial statements. Auditors use financial statements in assessing the "fair presentation" of their client's financial statement numbers and analyst services use financial statements in making buy-sell recommendations and setting credit ratings.

Larson et al. (1999) note that the common goal of most users of financial statement analysis is to evaluate company performance. This includes evaluation of past and current performance, current financial position and future performance and risk. Saunders and Cornett (2001:383) state that one way to identify weakness and problem and strength areas is by analysing financial statements. In particular,

ratio analysis – allows a manager to evaluate current performance, the changes in performance over time and performance relative to that of other competitors.

The data was analysed using Microsoft Office Excel. Financial ratios and trends analysis were also used in assessing the performance of the SSNIT pension scheme. Tables and graphs were used by the researcher to present the data collected.

Standards for comparisons

When analysing the performance of a company, it is necessary to determine whether the measures suggest good, bad or average performance. To make these judgments, there is the need for standards for comparison. Larson et al. (1999:776) posit the following standards of comparison:

- Intracompany – the company under analysis provides standards for comparison based on prior performance and relations between its financial items.
- Competitors – one or more direct competitors of the company under analysis can provide standards for comparison.
- Industry – industry statistics can provide standards for comparison.
- Guidelines (rules of thumb) – general standards of comparison can be developed from past experiences.

The standards for comparison for the analysis of the performance of SSNIT were intracompany and the rules of thumb. The researcher selected intracompany and the rules of thumb because there were no readily available data

on competitors and no industry statistics on pension funds in Ghana. Information on other pension schemes was difficult to get. Monitoring investment performance is a subjective exercise. The returns earned by privately managed pension funds are usually not public information and there are no indices to track performance of other investment instruments other than equities of public companies. Because the investment portfolio of the social security scheme is usually the largest single pool of funds, and the investment objectives are different from those of private funds, it may not be fair to compare the return with that of privately managed funds.

According to Higgins (2001:57), the most useful way to evaluate company performance involves trend analysis. Ratios are calculated for a company over several years, and changes over time are noted. Trend analysis avoids the need for cross-company and cross-industry comparisons, enabling the analyst to draw firmer conclusions about the company's financial health and its variation over time. The researcher used these approaches in analysing the performance of SSNIT.

Tools for analysis

There are several tools of financial statement analysis. Three most commonly used tools were applied in analysing the performance of SSNIT.

- Horizontal analysis – Comparison of a company's financial performance across time.

- Vertical analysis – Comparison of a company's financial performance to a base amount.
- Ratio analysis – Determining key relations between financial statement items.

The performance analysis of SSNIT was done using a combination of these three tools.

Non-financial performance indicators of SSNIT

Membership

The social security scheme in Ghana is mandatory for employees who are in an employer-employee relationship. The scheme is however, voluntary for the self-employed. It is only when one is a member that one can benefit from the scheme. New members admitted into the scheme and active contributors to the scheme were looked at, since one can be a member of the scheme but not an active contributor. Asher (1991) posits that any individual who has in his or her working life contributed even once becomes a member and is regarded as such and contributors refers to active contributors at a given point in time. An active contributor as defined in the various annual reports of SSNIT is any member who had made at least one month's contribution within the last twelve (112) months. The growth rate of the active contributing population was calculated to ascertain the growth or otherwise in the operations of SSNIT.

Registered establishments

Registered establishments represent the number of organisations from which the SSNIT scheme drew its membership during the period 1995-2005. The growth rate was calculated to ascertain if any growth has led to increase in the membership of the scheme.

Economic activities of covered establishments

The economic activities of covered establishments were grouped under the following: domestic assistance, power, transport, mining, manufacturing, agriculture, construction, commerce and service. These groupings were done to determine which economic activity had the highest number of establishments and the highest number of contributors, in order to suggest ways for policy implementation.

Indebtedness to fund size and indebtedness

The ratio of indebtedness to fund size (indebtedness ratio) measured the percentage of contributions outstanding and its equivalent penalties to the fund size:

$$\text{Indebtedness ratio} = \frac{\text{Total indebtedne}}{\text{Fund size}} \text{ X } 100$$

Indebtedness included the actual contributions outstanding and penalties accumulated at a rate of 3% per month as stipulated in the S.23 (1) (a) of the Social Security Law. The view was that social security pension scheme managers should prefer low indebtedness because the lower the ratio, the greater their

protection against losses in the event of unemployment on the part of the contributor or the companies closing down. The higher ratio indicated a high default rate and vice versa.

Number of benefits (claims) paid

The payment of benefits is a crucial function of SSNIT as every member of the scheme ultimately expects to receive one of the benefits provided, either directly or indirectly through nominees. The benefits payable under the SSNIT scheme are old-age pensions, invalidity pensions and survivors lump sum. The number of claims processed during the period 1995-2005 showed how SSNIT used the resources at its disposal to meet it vision and mission.

Benefits paid ratio and dependency ratios

Benefits ratio is the ratio of benefits to contributions. It measured the amount of contributions used in the payment of benefits. It is calculated as:

$$\text{Benefits paid ratio} = \frac{\text{Benefits paid}}{\text{Contributions received}} \times 100$$

Dependency ratio on the other hand, is the ratio of pensioners to contributors. This ratio measured the number of pensioners that depended on contributors for the payment of pensions. The dependency ratio was calculated by dividing active pensioners by current contributors:

$$\text{Dependency ratio} = \frac{\text{Active pensioners}}{\text{Current contributors}} \times 100$$

The dependency ratio indicates the ability of SSNIT to pay her pensioners from the resources of current contributors. A low dependency ratio suggests a strong healthy position of the scheme. In a defined benefit system, one of the key factors in determining the required contribution rate is the system dependency rate so that the projected line path for the required contribution rate is consistent with that of the dependency rate (Bogomolova, Impavido, & Pallares-Miralles, 2006).

Benefits processing time

McGill et al. (2005:247) note that a broad aspect of retirement benefits is the time of payment. The time taken to process benefits was measured taken into account the time between the date on which the benefits fell due and the issue of the payment instructions. The average time was calculated on the basis of the variance of the time taken to process applications (applications processed during the period under consideration).

Pensioners

Pensioners are the most important stakeholders in pension administration. The promptness and certainty in pension payments are marks of good pension administration. The number of pensioners was analysed in terms of new awards in a particular year and its corresponding growth rate and active pensioners within a particular year and its equivalent growth rates. This was done to ascertain how effectively SSNIT used her resources in administering the pension scheme.

Compliance

Compliance is the most important factor for a pension scheme's success. It is only when full compliance is achieved will all citizens who should be insured, actually be protected by the scheme, and it is only when full compliance is achieved that SSNIT fund will be the size that it should be. Compliance was measured using the employers and employees/self-employed. The total number of employers and employees/self-employed were obtained and the actual number who paid were also obtained and used in computing the compliance rate. Compliance measured the percentage of actual contributors out of the total number who should have paid by the 14th day of the following month as stipulated by S.22 (3) of Social Security Law, 1991.

Debtor days

Debtor days were used to appraise contributions receivable and were calculated by dividing outstanding contributions by average daily contributions to find the number of contributions tied up in receivables. It was calculated as follows:

$$\text{Debtor Days} = \frac{\text{Outstanding contribution}}{\text{Contributions per day}} = \frac{\text{Outstanding contributions}}{\text{Contributions receivable}/360}$$

The debtor days measured the average length of time a social security pension scheme manager must wait after the due date for collecting contributions. It also measured the compliance with the Social Security Law, 1991 which states in S.22

(3) that all contributions shall be remitted to the Trust within fourteen (14) days at the end of each month.

Composition of SSNIT investment

SSNIT is the only legally authorized institution to operate a social security scheme in Ghana. Effective investment of surplus funds accruing to a pension scheme such as SSNIT's is a key responsibility imposed on the managers of the scheme. SSNIT has the responsibility for investing the scheme's resources in order to fulfil its obligation to current and prospective pensioners. Unlike the PAYG financing scheme which does not generate appreciable surplus funds for investment, a partially funded scheme (SSNIT) accumulates substantial funds that must be invested prudently to ensure that the contribution rate of the scheme is maintained at a stable level over a long period of time. This entailed diversified investment of the scheme's resources into promising areas of the Ghanaian economy, in particular, the financial, manufacturing, service, residential and commercial properties.

One result of policies that seek to fulfil social objectives beyond fund value maximisation is poor asset allocation, which in turn may lead to low investment returns. Studies show that asset allocation can explain up to 90 percent of the variability in return on assets over time (Brison, Hood & Beebower, 1986; Brison, Singer & Beebower, 1991). Where asset allocation decisions are based on politics rather than on sound portfolio theory, investment performance is sure to suffer – to the extent that some countries' public pension fund returns are

consistently lower than interest rates paid by banks to individual savings accounts in those same countries (Iglesias & Palacios, 2000).

SSNIT investment on Ghana Stock Exchange (GSE)

SSNIT has participated actively on the GSE since its inception in 1990. The GSE is a financial market in which financial securities that have been previously issued can be resold. The GSE makes it easier to sell financial instruments such as treasury bills, stocks of companies, mortgages and bonds to raise cash and provide more liquidity. The investment of SSNIT on this financial market was analysed, since a well-developed secondary market (GSE) makes the financial market an ideal place for SSNIT to 'warehouse' surplus funds until they are needed.

Portfolio returns

This is the yield on total amounts invested in the operations of SSNIT. The portfolio returns examined the nominal returns and real returns and compared the rates with t-bill rates. Real rates on investment were calculated as follows:

$$RRInv = \frac{2I}{(A+B)} - i$$

Where I represent the investment income, A is total amount at time t, B is investment amount at time t-1, i being average annual inflation and 2 is a constant.

General and administration expense ratio

This ratio measured SSNIT's ability to control expenses and its ability to produce more income to pay additional benefits. The general and administration expense ratio also measured the proportion of contributions received, investment income and total assets that went to pay this expense. The ratio was calculated as follows:

$$\text{General and administrative expense ratio} = \frac{\text{Gen. \& admin. Expense}}{\text{Contributions received}} \times 100$$

Coverage ratio

The coverage ratio is SSNIT contributorship to economically active population in Ghana. The coverage ratio measured the proportion of the economically active population covered by the social security pension scheme in Ghana. This ratio assessed the efficiency with which the pension scheme tried to achieve its principle of solidarity and was calculated by dividing active contributors to the social security pension scheme in Ghana by the economically active population in Ghana.

$$\text{Coverage ratio} = \frac{\text{Active contributors}}{\text{Economically active population}} \times 100$$

Financial performance indicators of SSNIT

Contributions

The SSNIT pension scheme is partially funded with social security contribution rates determined by using the scaled premium method to finance the benefits. The current contribution rate is set at 17.5% of members earnings.

According to S.22 (1) of the Social Security Law, 1991, non-retired members of the scheme are required to pay monthly contributions to the scheme.

The contributions from the private sector, subvented establishments and government institutions were analysed to determine if adequate measures were in place to ensure that the required funding level is met. The effects of average monthly salaries in both government and private establishments and minimum wage on the contributions of members were also examined.

Amount of benefits (claims) paid

The mission of SSNIT is to provide income replacement scheme to Ghanaian workers and their dependants in the event of old age, permanent disability, or death through a motivated staff and diligent leadership. The value of the benefits paid were examined to ascertain how far SSNIT had achieved its mission of providing a replacement income to Ghanaians. Growth rate was calculated to determine whether the benefits received match economic situations within the economy. The highest monthly pension (HMP), minimum monthly pension (MMP) and average monthly pensions (AMP) were also analysed in order to ascertain the effects of salary structure on pension payments.

Investment income

Since SSNIT is partially funded, the levels of investment income were examined to ascertain if the right funding level could be maintained. Both debt and equity securities were thoroughly analysed. Interest income and dividends received were all examined and put together from 1995 to 2005.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

Introduction

This chapter contains analysis and discussion on the performance of SSNIT pension scheme. Issues addressed for this objective include: membership, contributions received, investment income, number and amount of benefits paid, dependency ratio, benefits processing time, pensioners, compliance rate of employees and employers, composition of SSNIT investments and SSNIT investment on the GSE, coverage rate and general and administration expenses. Other objectives for which data were analysed were agency problems in the operations of SSNIT and weaknesses or problems areas in the operations of SSNIT. This chapter comprises three major sections. The first section covers the performance of SSNIT pension scheme pertaining to the data analysed using tables and graphs. Agency problems in the operations of SSNIT are discussed in section two and the last section discusses the weaknesses and problem areas.

Performance of SSNIT pension scheme

The data collected in this study were analysed quantitatively and qualitatively. The data collected from the field were analysed using Microsoft

Word Office, horizontal analysis, vertical analysis and financial ratios to develop trends. The findings are discussed in the following subsections.

Membership

Table 1 shows annually, the number of new members of the SSNIT scheme and the number of active contributors in the scheme from 1995-2005. Also shown in Table 1 is the growth rate of active contributors over the same period. The number of new members admitted to the scheme had increased over the period under review. The year 2005 recorded the highest number of new members, however, the number of active contributors for 2005 reduced by 15.9%. The Trust redefined its active contributing population to include only members who had made at least one month's contribution within the last twelve months. The 2004 financial year recorded the highest number of active contributors of 1,068,546 representing 7% growth rate over 2003 base year.

When the management of SSNIT was asked why the figure continued to fluctuate and why the growth rate of active contributors had been slow, a number of reasons were given. Prominent among them is unsatisfactory customer service. Contributors, according to the management of SSNIT, were generally dissatisfied with the services arising out of delays in issuing social security numbers and membership certificates, processing of benefits and the inability of the Trust to issue members with accurate statements. And even in some instances, the unprofessional attitude of staff of the Trust towards clients accounted for the high drop-out rate.

Table 1: Active contributors and growth rate (1995-2005)

Year	New Members	Active Contributors	Growth Rate %
1995	39,655	643,325	
1996	38,419	677,078	5.2
1997	49,452	722,120	6.7
1998	45,800	767,155	6.2
1999	54,122	807,540	5.3
2000	60,944	850,778	5.4
2001	57,851	894,220	5.1
2002	64,154	941,782	5.3
2003	72,366	998,393	6.0
2004	88,561	1,068,546	7.0
2005	96,414	898,368	-15.9

Source: SSNIT Annual Report (Various years)

From Table 1, the average (harmonic) growth rate was 3.30% over the period. The reason is not far fetched. The formal sector from which the scheme derives most of its membership is not expanding fast enough while the informal sector, which is made up of voluntary contributors and constitutes majority of the workforce is yet to sign up and contribute. This relates to the findings of Whitaker (1998) and Taylor (2002) who postulate that there are many individuals in addition to employed persons who form part of the society including persons who work for their own account – the self-employed; those who are not employed at

all; and those who work in the home but receive no wages that are not included in an insurance-based social security scheme.

Registered establishments

The number of establishments from which the scheme drew its membership during the period 1995-2005 is shown in Table 2. The total number of establishments covered over the period under review continued to increase. While all years record a substantial increase in the number of establishments, 1997 registered the least increase of 1.27% while 2004 registered the highest increase of 13.16%.

The growth rate continued to fluctuate because government withdrew its direct involvement in the financing and running of state-owned enterprises. These measures led to reorganisation and restructuring of some 300 enterprises which resulted in the lay-off of workers and some closed down, with the net effect being the reduction in the covered rate of establishments (Atta-Panyin, 2008).

Another reason given for the fluctuation in the growth rate of covered establishments was due to trade policies within the economy which impacted positively on the operations of SSNIT. Prominent among them was government's effort to improve the export sector by the introduction of free zones. The establishment of these free zones, according to management, provided some additions to the establishments covered (Atta-Panyin, 2008).

Table 2: Establishments covered (1995-2005)

Year	Total	Growth Rate
1995	10,938	-
1996	11,744	7.37
1997	11,893	1.27
1998	12,593	5.89
1999	13,274	5.41
2000	14,606	10.03
2001	15,440	5.71
2002	17,469	13.14
2003	18,638	6.69
2004	21,090	13.16
2005	23,134	9.69

Source: SSNIT Annual Reports (Various years)

Economic activity of covered establishments

The economic activities of covered establishments include: domestic assistance, power, transport, mining, manufacturing, agriculture, construction, commerce and service. Table 3 shows the distribution of establishments and the number of contributors according to their domestic activity in 2005 (data relating to the preceding years were not available). From Table 3, it can be observed that the economic activity with the highest number of establishments and the highest number of contributors was services.

Table 3: Economic activity of covered establishments (2005)

Economic Sector	No. Of Contributors	Percentage Of Contributors	No. Of Ests.	% Of Ests.
Domestic Assistance	359	0.04	46	0.20
Power	12,308	1.37	111	0.48
Transport	16,350	1.82	386	1.67
Mining	21,112	2.35	130	0.56
Manufacturing (Heavy)	23,178	2.58	271	1.17
Agriculture	24,166	2.69	553	2.39
Construction	38,809	4.32	3,884	16.79
Manufacturing (Light)	62,976	7.01	1,432	6.19
Commerce	74,475	8.29	3,935	17.01
Services	624,635	69.53	12,386	53.54
Total	898,368	100	23,134	100

Source: SSNIT, 2005

The services sector accounted for 53.4% and 69.53% of the total number of establishments and contributors respectively. The economic activity with the least number of contributors was domestic assistance which had accumulated number of contributors up to 359, representing 0.04% of the total number of contributors and 46 establishments, representing 0.20% of the total number of establishments.

The agricultural sector recorded a 6.5% growth in GDP in 2005, which indicates a fall of about 10% over 2004 figure of 7.5%. The industrial sector recorded 5.6% growth in GDP in 2005, indicating a rise of 9.8% over the 2004 growth rate of 5.1%. In 2000, however, many industries operated far below half of their productive capacities. Average cost of production was high and profit margins were eroded. Unemployment was on the increase and income levels in 2000 declined in real terms. Companies in the manufacturing and hospitality industries suffered the most from the unfavourable conditions (Ghana Statistical Service, 2005).

The service sector which remained the main and highest provider of contributors to the Trust also recorded 5.4% growth rate in GDP representing an increase of 14.9% over the 2004 figure of 4.7%. In 2000, however, the service sector performed creditably well by recording the highest growth rate of 5.4% in GDP. The financial service sector establishments appeared to have had a good period as their profit margins soared. Most banks in Ghana showed impressive performance in the year 2000. Huge borrowing by government and the consequent high t-bill rates provided lucrative risk free investment avenue for the banks. Bank credit had dwindled and was virtually inaccessible to the business community. Most enterprises suffered from working capital inadequacy, hence their inability to meet their primary obligation to their stakeholders (SSNIT, 2005).

Figure 2 reveals the picture of the Gross Domestic Product (GDP) real growth rates from 1995 to 2005. The lower growth rate of 3.7% in 2000 was due

to unfavourable developments in the agricultural sector. In the year 2005, all the three sectors of the economy namely: agricultural sector, industrial sector and service sector contributed to the GDP. The agricultural sector grew by 6.5 per cent while the industrial sector recorded a growth of 5.6 per cent. However, the service sector grew by 5.4%. This accounted for the service sector being the highest sector to provide more establishments (SSNIT, 2005).

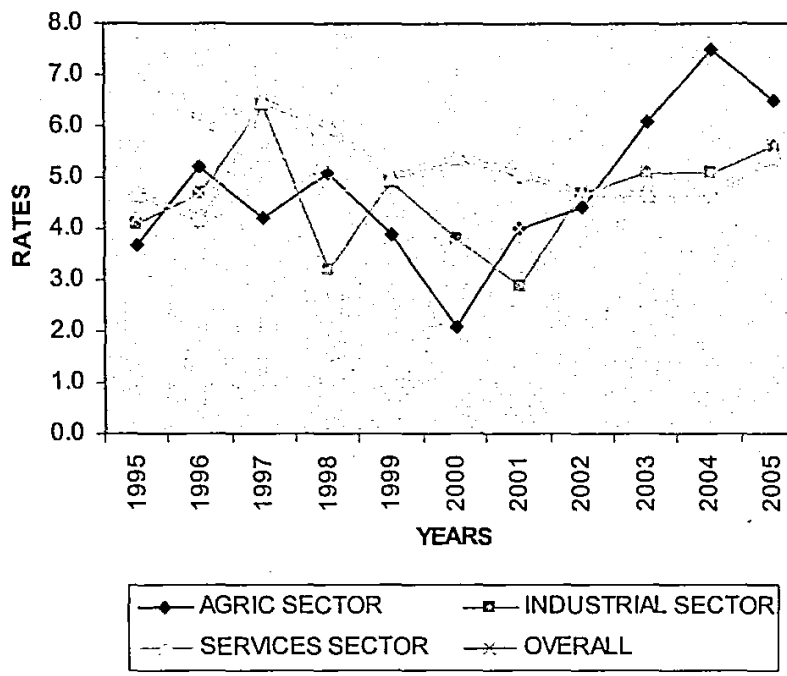

Figure 2: GDP growth rates 1995-2005
Source: Drawn from data collected from Ghana Statistical Service

Indebtedness to fund size and indebtedness

The Trust continued to record high default rates. This resulted in a cumulative indebtedness of ¢329.14 billion to the scheme as at the end of 2005, representing 3.54% of the fund size. The amount includes the actual contributions and penalties accumulated at a rate of 3% per month. Table 4 depicts the

distribution of indebtedness by private sector and government sector from 1995 to 2005 as well as the fund size and the ratio of indebtedness to fund size.

From ¢13.0 billion in 1995, indebtedness increased to ¢329.14 billion in 2005. Of this amount, government and subvented establishments owed ¢113.18 billion, while private establishments owed ¢215.96 billion (52.4%). Indebtedness as a per cent of fund size increased to 3.54% in 2005 from 2.26% in 1995. The years 1998, 1999, 2000 and 2001 recorded high percentages of indebtedness to fund size, representing 9.64%, 10.18%, 10.94% and 8.75% respectively.

The issue of high indebtedness to fund size is in line with Barbone and Sanchez's (2000), Musenge's (2003) and Oliver's (2003) conclusion that people came to view social security contributions more as a tax and do not trust financial institutions as a result of periodic sector crises. On the question of what measures a put in place to recover outstanding amounts, management gave the following measures:

- Enforcement of compliance activities;
- Publication of names of defaulting employers in the national newspapers;
- Prosecution of defaulting employers.

Table 4: Indebtedness to fund analysis (1995-2005)

Year	Private Ests. (¢'B)	Gov't And Subvented (¢'B)	Total (¢'B)	Fund Size (¢'B)	Indebtedness To Fund Size (%)
1995	12.30	0.70	13.00	551.50	2.36
1996	15.60	0.20	15.80	805.60	1.96
1997	21.50	0.20	21.70	1,011.60	2.15
1998	29.30	91.90	121.20	1,257.90	9.64
1999	37.20	90.90	128.10	1,257.90	10.18
2000	47.00	154.50	201.50	1,842.50	10.94
2001	41.28	197.30	238.58	2,726.70	8.75
2002	65.80	134.70	200.50	3,701.60	5.42
2003	91.52	103.85	195.37	6,215.02	3.14
2004	143.34	162.98	306.32	8,751.28	3.50
2005	215.96	113.18	329.14	9,292.03	3.54

Source: SSNIT Annual Report (Various years)

The year 2000 recorded the highest percentage of indebtedness to fund size among the various years because, most enterprises suffered from working capital inadequacy when the general macroeconomic environment was unfavourable for growth (SSNIT, 2005). As evident in Table 5 the cedi deteriorated heavily against the dollar in 2000. This affected most establishments adversely, hence their inability to meet their obligations toward SSNIT. The outstanding contributions as at 2005 were estimated at about 10% of total contributions.

Table 5: Exchange rate of the cedi to the US dollar

Year	Average Inter-Bank Exchange Rate (Cedi/US Dollar)	Depreciation (%)
1995	1,446.1	51.16
1996	1,740.4	20.35
1997	2,250.0	29.28
1998	2,346.0	4.27
1999	3,500.7	49.22
2000	6,889.3	96.80
2001	7,255.2	5.31
2002	7,932.3	9.33
2003	8,697.5	9.65
2004	9,004.6	3.53
2005	9,053.7	0.55

Source: Ghana Statistical Service, 2005

Number of benefits (claims) paid

Benefits payable under the scheme are old-age pensions, invalidity pensions and survivors' lump sum. Table 6 shows the number of claims paid by type of benefit. The Trust paid benefits in fulfilment of its mission which states that, SSNIT is committed to providing cutting-edge income replacement scheme to Ghanaian workers and their dependants in the event of old age, permanent

The SSNIT pension scheme is a social insurance scheme providing three main benefits. These are old age pension, invalidity pension and survivors' lump sum benefit. In addition, there is a health care provision under the National Health Insurance Scheme (NHIS). The following are the qualifying conditions of the benefits stipulated under old age, death/survivors and invalidity.

A reduced pension is paid to an insured person who has contributed for a minimum of 240 months (20 years) and has attained the minimum age of 55 years and above but has not reached 60 years. A full pension is paid at age 60. The pension payment varies from 50 percent for the minimum contribution period of 240 months to a maximum of 80 percent of the average of the best three years of insurable income of the contributor. After the initial 240 months contribution, which guarantees the contributor 50 per cent of the pension, every additional 12 months of contribution earns an additional 1.5 per cent of the benefit (Adjei, 2000).

To qualify for an invalidity pension, a contributor should have paid a minimum of 12 months contribution within the last 36 months of membership before the contingency occurs. In addition, certification of a medical board for total and permanent invalidity is also required. The benefits vary from 50 percent of the insured person's three best years' average insurable income or whatever he/she has earned, whichever is higher.

The qualifying conditions for survivors' benefits are the same as for the invalidity pension but the benefits differ in structure. The benefits are paid as a lump sum instead of a pension, to nominees of the contributor. Deviation from the

normal survivors' pension mode became necessary because of the refusal of contributing persons to accept a system that did not, in their opinion, conform to the traditional inheritance system which is predominantly matrilineal, especially in the Akan areas. This was a serious example of adapting the prototype to suit public demand.

Benefits paid ratio and dependency ratio

The payment of benefits is an important function of SSNIT as enshrined in its mission and vision statements. The proportion of contributions paid as benefits had been increasing over the period (1995-2005) as shown in Table 7. The percentage of contributions paid as benefits increased from 1995 to 2005. Though this proportion increase might be high, it only represent 33.07% of the total contributions received without taking into account other incomes from investment. This represents an improvement in the management of the SSNIT pension scheme.

However, the method of computing the pensionable income which eventually lead to the payment of benefits (i.e., average of the three best annual incomes based on the annual contributions throughout the member's working life) may be argued as reflecting the generosity of the scheme. For a state pension scheme, this method is an indication of poor scheme design because it can easily expose the scheme to abuse by inflation of salaries in the final years of employment.

Table 7: Benefits paid ratio and dependency ratio

Year	Benefits to Contributions Ratio (%)	Dependency Ratio (%)
1995	11.71	
		2.52
1996	12.23	
		3.22
1997	15.79	
		3.69
1998	19.29	
		4.03
1999	16.72	
		4.40
2000	20.81	
		4.85
2001	18.33	
		5.20
2002	19.43	
		5.48
2003	22.54	
		5.75
2004	27.40	
		6.27
2005	33.07	
		7.67

Source: Field Data, 2008

First, the state does not fix the salaries of members of the scheme who operate in the private sector, and secondly, change in employment could result in substantial variation in insurance contributions to the scheme. By the current method, the value of the pensionable income would in most cases depend on the annual incomes in the last three years prior to retirement, resulting in relatively high pensionable incomes. In Ghana for instance, earnings in the civil service are generally far less than those in the private establishments (SSNIT, 2005). Employed in a private institution, the member may be earning salaries that may be about three times the highest salary that would be earned in the civil service. By

the present method, his/her pensionable income will be based on the salaries earned from his/her job at the private institution only. Thus, the pensionable income will far exceed what he/she would have earned had he/she spent all the working life in the civil service. Similarly, members who can set their own salaries can inflate their annual insurable incomes within the last three or few years prior to retirement to ensure that their pensionable incomes are quite high. These views are in line with Barr (2002); McGill et al. (2005); Mishkin and Eakins (2006) and Whitehouse (2007), who posits that in a DB scheme, employees contribute percentage of their earnings to help fund the benefits.

The dependency ratio (ratio of pensioners to contributors) had also increased over the period under review (Table 7). Though the number of pensioners is relatively small, the number of contributors is changing. The dependency ratio increased from 2.52% in 1995 to 7.67% in 2005. It had been on the steady increase during the period under the study. This is not too good for SSNIT since according to Kumado and Gockel (2003), the social security scheme under PNDC Law 247 is self-financing and self-sustaining through the contributions of members.

Benefits processing time

The processing of benefits took a relatively long period. The processing time had reduced from 80 days in 1995 to 28 days in 2005. This is significant but could not meet the target of processing claims within 14 working days. Over the

period from 1995 to 2005, the processing time for pensions averaged 43 days (Table 8) after reception of application. The reasons are partly due to:

- Incomplete and inaccurate data on members;
- Difficulty in releasing students' loan guarantors; and
- Difficulty faced by applicants in assembling documents in respect of death benefits.

When an interviewee was asked if the Trust sometimes ask members who put in benefit claims to re-submit records of their contributions to the scheme from their respective employers before their claims are paid, the answer was yes. A prospective claimant may find it difficult to obtain the required data, especially where the member has changed several employers. In most cases, such members have been heavily charged for services rendered by schedule officers at their places of work. Also, any member whose past employers are no longer in business virtually has no means of proving his/her contributions to the scheme during the periods of employment with these employers. In this case, SSNIT resorts to using the contribution records it holds in its database relating to the member and the period in question and where it holds no contribution records in respect of this member for the period in question, estimate of monthly contributions are generated to replace the missing contributions to the scheme. The difficulties and frustrations in getting the required contribution records for re-submission to SSNIT often force some claimants, especially survivors of deceased members, to abandon the benefit claims completely.

Table 8: Benefits processing time

Year	Days
1995	80
1996	73
1997	48
1998	48
1999	30
2000	46
2001	46
2002	46
2003	30
2004	25
2005	28
Average	43

Source: Field Data, 2008

Pensioners

Promptness and certainty in pension payments are a mark of good pension administration. Pensions are paid on the 3rd Thursday of every month. Tables 9 and 10 show the trends of pensions, as well as the monthly distributions of pensioners over the period 1995-2005.

From Table 9, the percentage increase in active pensioners from 1995 to 1996 is 34.30%. The year 2005 recorded the lowest rate of increment of 2.92%. A

total 7,569 new pensioners were awarded in year 2005 compared to 5,476 in 1995. The percentage of active pensioners had been on a steady increase over the period under review but with a decreasing rate. The number of new entrants to the SSNIT pension scheme had also increased.

Table 9: Pensioners (1995-2005)

Year	New Awards	% Change	Active	% Change
1995	5,476	-	16,214	-
1996	5,561	1.55	21,775	34.30
1997	4,890	-12.07	26,665	22.46
1998	4,930	0.82	30,936	16.02
1999	5,528	12.13	35,533	14.86
2000	6,632	19.97	41,301	16.23
2001	6,205	-6.44	46,493	12.57
2002	6,447	3.90	51,576	10.93
2003	7,450	15.56	57,447	11.38
2004	7,256	-2.60	66,971	16.58
2005	7,569	4.31	68,925	2.92

Source: SSNIT Annual Reports (Various years)

Table 9 shows that from 1995 to 2005, the year 2000 recorded the highest growth rate of 19.97% for new pensioners. The years 1997, 2001 and 2004 recorded negative growth rates of 12.07%, 6.44% and 2.6% respectively. Indexation of pensions is undertaken annually by the Trust to maintain the purchasing power of pensions paid and to ensure a reasonable standard of living

for pensioners. The highest indexation factor of 30% was applied in 1996 while the lowest, recorded in 1995, was 10%. Pension benefits are tied to the earnings history of its beneficiaries. Due to the economic difficulties faced by a fragment of pensioners on the scheme, the SSNIT Board of Directors approved of a redistribution methodology in the indexation of pensions and payment of lump sums. This raised minimum pension expenditure and that of the lump sums above what should have been the real payments SSNIT should incur. Table 10 shows the monthly number and growth rate of active pensioners. The number of pensioners on the SSNIT pension showed that every month a member of the scheme goes on retirement.

Composition of SSNIT investments

The investment-assets according to the SSNIT (2002) are broadly categorized into fixed-income portfolio and non fixed-income portfolio. Fixed income investments are those whose returns are predetermined or known at the time of making the investment. The fixed income investment may include the following category of investments: treasury bills/notes, fixed deposits call monies social security bonds, bank deposits, corporate loans, registered stocks, HFC index-linked bonds, and students' loan. Non-fixed income investments have long gestation periods and are more susceptible to fluctuations in the economy's performance. However, these investments which can lead to appreciation in the values of the investment asset are development oriented and can assist with job creation.

Table 10: Monthly numbers and December growth rate of active pensioners (1995-2005)

MONTH	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
JAN	10,961	16,726	22,142	27,082	31,375	35,613	41,887	46,801	52,134	58,003	63,007
FEB	11,334	17,197	22,507	27,189	31,435	35,482	41,835	46,602	51,546	56,983	63,906
MAR	11,551	17,632	22,950	27,578	31,808	35,892	42,468	47,207	52,190	57,989	64,392
APR	11,987	18,233	23,276	27,963	32,180	36,527	42,951	47,811	53,153	58,338	64,657
MAY	12,383	18,577	23,597	27,908	32,518	37,132	43,476	48,309	53,731	58,867	65,307
JUN	12,904	19,012	23,828	28,680	32,844	37,645	44,032	48,655	54,210	58,399	65,778
JUL	13,588	19,472	24,377	29,029	33,291	38,024	44,503	49,277	54,783	60,508	66,378
AUG	14,023	19,865	24,843	29,389	33,535	38,255	44,699	49,214	54,714	60,148	66,830
SEP	14,628	20,449	25,398	29,773	34,107	38,785	45,159	49,961	55,506	61,282	67,385
OCT	15,024	20,833	25,878	30,066	34,733	38,518	45,586	50,753	56,497	62,981	67,809
NOV	15,617	21,320	26,247	30,418	35,155	40,313	46,235	51,303	57,044	62,617	68,592
DEC	16,214	21,775	26,665	30,936	35,533	40,903	46,493	51,576	57,447	66,971	68,925
% CHG.		34.30	22.46	16.02	14.86	15.11	13.67	10.93	11.38	16.58	2.92

Source: SSNIT Annual Reports (Various years)

The following are classified under this portfolio: properties, commercial and residential buildings, equities (both listed and unlisted), special economic and social utility schemes.

Table 11 shows the composition of the investment portfolio of SSNIT. A critical look at the investment portfolio showed that there had been a shift from what ought to be. Short term investments are supposed to be 32% (SSNIT, 2002) but the actual figure was 33.3; long-term investments are supposed to be 51% (SSNIT, 2002) but the current figure was 42.4%; fixed income was to be 29% (SSNIT, 2002) but the current figure was 13.7% and properties was to be 15% (SSNIT, 2002) but is now 10.6%.

Investment is the productive employment of capital (Marfo-Yiadom, 2006). Productive only means the return on the capital to the investor and does not refer to the nature of the particular use of capital. This means that an investment should necessarily produce income and therefore investments should be considered a process with the aim of producing income/return. Thus all the actions and decisions of the investor will be directed towards producing income. Alternatively it can also be stated that the investor will take all possible actions to reduce the risk that can result in loss to capital and ensure its safety and stability, so that gain is assured. There are a number of ways and means in which an investment is made; one of them is through the means of a pension fund (SSNIT, 2002, 2003, 2005).

Table 11: Composition of SSNIT's investment portfolio (%) (1995-2005)

Year	Short-term Investments	Long-term Investments	Student Loans	Associated Units	Properties
1995	12	64.3	3.5	0	20.2
1996	8.2	70	4.8	0	17
1997	8	68	6	1	17
1998	6	68	12	4	10
1999	9	67	14	3	7
2000	7	57	19	1	16
2001	18	58	15	1	8
2002	27	49	15	1	8
2003	37.9	35.4	12.9	0.5	13.3
2004	32.6	44.9	10.7	1.5	10.3
2005	33.3	42.4	12.3	1.4	10.6

Source: SSNIT Annual Reports (Various years)

Over the years the Trust has maintained investments that span the various sectors of the Ghanaian economy. The investments are guided by the fundamental principles of safety, adequate yield, liquidity and diversification (SSNIT, 2002). Investments are also guided by the principle of economic and social utility, which ensures that investments contribute to the socio-economic well being of Ghanaians. Dei (2001) asserts that, this aspect of the investment recognises that SSNIT operates in a developing country and the contributions are collective savings of the population. This savings should be directed towards improving

some basic provisions of service that will generate some return as well as benefit the population. Dei (2001) also notes that the Trust needs to maintain an optimum fund ratio and positive rates of return to ensure:

- The safety of selected investments by not investing in high risk ventures;
- The return on the investment is appreciable;
- Liquidity for meeting obligations when due;
- Diversification of the portfolio;
- Harmony with public interest and
- Maintenance of assets value.

SSNIT Investment on the Ghana Stock Exchange (GSE)

As at the end of 2005, there were 29 companies listed on the Exchange, with a total of 2,928.45 million shares. SSNIT had 576.59 million shares in 20 companies. Table 12 shows the breakdown of the number of SSNIT shares with those listed on the GSE.

Of the twenty (20) companies that SSNIT had shares in, only three (3) recorded gains in their share prices. One (1) company recorded a loss in its share price, while the remaining companies remained stagnant during the period under review.

Table 12: Comparative analysis of the number of SSNIT shares with GSE

Year	No. of Companies Floated on GSE	No. of Shares Available (000,000)	No. of Companies SSSIT has Shares in	No. of SSNIT Holdings (000,000)
1999	21	1026.72	16	93.49
2000	21	1487.21	17	206.28
2001	22	1504.83	17	225.12
2002	23	1568.75	17	232.68
2003	25	3077.05	18	439.44
2004	29	3663.42	20	453.37
2005	29	2928.45	20	576.59

Source: Field Data, 2008

Cal Bank Ltd. (CAL) recorded the highest percentage gain of 13.33% as its share price rose from ¢3,000.00 to ¢3,400.00 at the end of 2005. This resulted in a capital gain of ¢160 million. Mobil Oil Ghana Ltd. (MOGL) recorded the second highest percentage gain of 2.04%. Its share price rose from ¢38,220.00 to ¢39,000.00 during the period resulting in a capital gain of ¢285.05 million. Ghana Commercial Bank Ltd. (GCB) recorded the third highest percentage gain of 1% as its share price rose from ¢10,050.00 to ¢10,150.00 resulting in a capital gain of ¢212.23 billion.

Home Finance Company Ltd. (HFC) made a loss of 0.99% in its share price as it fell from ¢10,100.00 to ¢10,000.00 resulting in a capital loss of ¢2.12 billion. The shares prices in the remaining sixteen (16) companies were stagnant during the period under review.

Out of the 29 companies listed on the GSE in 2005, the Trust had no shares in nine (9) of them. These are: PZ Ghana Ltd., CFAO Ghana Ltd., CLYD Ghana Ltd., Camelot Ghana Ltd., TBL Ghana Ltd., Metalloplastica Ghana Ltd., Pioneer Aluminum Factory Ltd., SWL and TBL. B. See Appendix C for the performance of SSNIT on the Ghana Stock Exchange.

Portfolio returns and investment income

Investment securities include debt and equity securities which management intended to hold until maturity. Interest earned on investment securities is reported as interest income. Dividends received were included separately in dividend income. Table 13 depicts the trends in the investment income and portfolio returns, real rate of return as well as average inflation and t-bill rates during 1995-2005.

An examination of SSNIT's investment history from 1995 to 2005 shows that some equity holdings out-performed t-bill rates which are assumed to be risk free. Inflation had eaten into the size of the returns and this does not mean that SSNIT had made bad investments. Inflation had declined from a peak of 58.5% in 1995 to 15.0% in 2005. This had been a significant progress in the economy. The years 1999, 2002 and 2004 had seen considerable progress in stabilising the economy when the inflationary rates were 12.4%, 14.8% and 12.6% respectively. Generally the rate of inflation had fluctuated over the period under review.

Table 13: Trends in portfolio returns and investment income (1995-2005)

Year	Investment Income (¢'M)	Nominal Returns (%)	Real Returns (%)	Average Inflation (%)	T-Bill Rates (%)
1995	37,321	46.6	-8.0	58.5	33.0
1996	75,723	35.3	-7.7	46.6	43.0
1997	117,511	25.5	-1.6	27.9	42.8
1998	169,909	26.1	5.8	19.3	30.7
1999	212,124	16.4	3.5	12.4	26.5
2000	178,484	33.5	6.7	25.2	42.0
2001	264,601	26.7	-5.1	32.9	27.0
2002	387,218	22.7	6.9	14.8	23.6
2003	680,479	45.1	14.5	26.7	26.1
2004	817,443	34.4	19.2	12.6	16.5
2005	765,619	5.4	-8.4	15.1	15.4
Average		25.57	6.64	23.37	28.14

Source: SSNIT Annual Report (Various years)

Some of the investments have lost value. The real rates shown in Table 14 might be low. The five year return on investment showed a positive return. This implies that over a long period of time, SSNIT had performed creditably. There are some exogenous and endogenous factors that impact on the financial security of all investments within the environment over which SSNIT had absolutely no control.

Table 14: Five years average return on investment

Years	Nominal Return %	Average Inflation %	Real Return %
1995-1999	29.6	31.9	(1.8)
1996-2000	27.2	25.7	1.2
1997-2001	25.4	23.3	1.8
1998-2002	24.9	20.7	3.5
1999-2003	28.4	22.2	5.1
2000-2004	32.2	22.2	8.1
2001-2005	26.1	20.2	4.9

Source: SSNIT Annual Report (Various years)

Figure 3 depicts the trends in the inflationary rates from 1995 to 2005. Real rates of return on SSNIT investments may prove unsatisfactory because of inflation or poor economic growth rates.

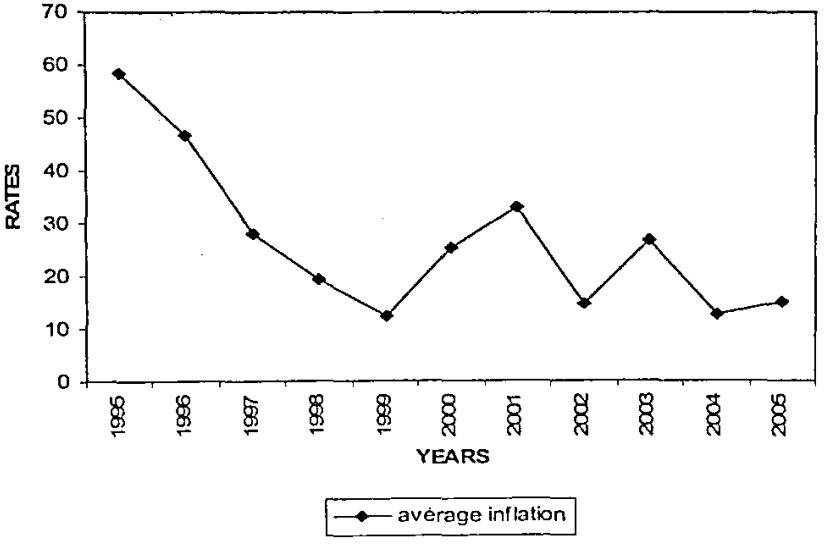

Figure 3: Inflation rates 1995-2005
Source: Drawn from data collected from Ghana Statistical Service

Contributions

Table 15 depicts the contributions collected from 1995 to 2005 by type of establishments. From the Table, a total amount of ¢1,888.06 billion was collected in 2005 as against ¢115.64 in 1995 representing an increase of 1,532.7%. The total contributions received from the private sector also increased by 1912.3% from ¢60.95 billion in 1995 to ¢1,226.52 in 2005. Total contributions received from the Controller and Accountant Generals' Department followed the trend and also increased from ¢46.06 billion in 1995 to ¢604.52 billion in 2005, representing an increase of 1,212.5%. Subvented organisations also contribute substantial amount to the SSNIT scheme over the period. The total contributions continue to increase over the years.

The private sector accounts for the highest contributions. This reflects the level of salaries paid at the private sector. Respondents noted that though the contributions continued to increase over the period under review, lack of enforcement of the minimum wage laws allowed certain employers/employees to under declare their salaries. This affected their contribution amounts to the Trust. Other reasons given are the absence of a National Identification System (NIS) that would facilitate the identification and tracking of potential employers, contributors and inactive members, the low level of growth of the formal economy and its impact on the growth of new members from the formal sector and the continued exemption of certain group of workers from the SSNIT scheme.

Table 15: Annual contributions (in ¢'b) received by type of establishment (1995-2005)

Year	Private	Government	Subvented	Total
1995	60.95	46.06	8.63	115.64
1996	93.75	67.15	9.13	170.03
1997	130.25	60.80	14.58	205.63
1998	172.05	84.70	12.11	268.86
1999	222.22	141.09	12.03	375.34
2000	300.41	142.27	18.78	461.46
2001	412.93	287.24	23.03	723.20
2002	539.66	471.97	29.85	1,041.48
2003	723.72	576.25	40.21	1,340.18
2004	926.66	649.63	56.24	1,632.53
2005	1,226.52	604.52	57.02	1,888.06

Source: SSNIT Annual Reports (Various years)

With the passing of the National Health Insurance Act, 2003 (Act 650), it became mandatory for the Trust to transfer 2.5% of the 17.5% social security contributions of the scheme. Section 78, subsection 1b of the National Health Insurance Act, 2003 specifically provides that "two and one half percent of each person's seventeen and one half percent contribution to the social security and pension scheme fund should be transferred to the National Health Insurance Fund". Accordingly, in 2005, ¢272.3 billion was transferred from SSNIT to the

National Health Insurance Fund as required by law. In 2004, ¢233.2 billion was transferred to the National Health Insurance Fund.

Table 16 represents the average monthly salaries and minimum wages of contributors to the Trust from 1995 to 2005. The average salary of contributors for 2005 was ¢1,533,759 recording an increase of 19.03% over 2004. For private establishments, the minimum salary was ¢1,709,159 and that of government establishments was ¢1,316,536. The minimum wage had also increased over the period under review.

Table 16: Average monthly salaries and minimum wages (1995-2005)

Year	Government Establishments. (¢)	Private Establishments. (¢)	Combined (¢)	Minimum Wage (¢)
1995	125,424	74,548	97,710	1,200
1996	129,846	207,094	166,165	1,700
1997	187,048	290,410	281,029	2,000
1998	238,108	355,629	344,055	2,900
1999	237,563	443,831	336,743	2,900
2000	333,924	524,603	431,535	4,200
2001	546,538	722,301	636,418	5,500
2002	768,879	950,306	858,897	7,150
2003	1,052,883	1,249,184	1,153,412	9,200
2004	1,122,469	1,429,808	1,288,518	11,200
2005	1,316,536	1,709,159	1,533,759	13,500

Source: SSNIT Annual Reports (Various years)

Amount of benefits (claims) paid

Table 17 shows the amount of claims paid by type of benefit. Under the PNDC Law 247 of 1991, only three benefits were to be provided by SSNIT. These benefits were superannuation/old age pension, death/survivors' lump sum benefit and invalidity benefit.

Table 17: Amount of claims paid (in ¢'b) by type of benefit (1995-2005)

Year	Old Age Lump Sum	Old Age And Invalidity Pension	Survivors	Total	Growth Rate
1995	2.25	0.87	3.18	6.30	
1996	2.08	1.30	5.83	9.21	46.19
1997	2.11	22.28	9.53	33.92	268.30
1998	2.73	19.93	11.17	33.83	-0.27
1999	5.05	28.82	14.94	48.81	44.28
2000	6,58	45.17	22.94	74.69	53.02
2001	8.15	67.90	30.78	106.83	43.03
2002	10.08	105.90	44.32	160.30	50.05
2003	11.36	166.51	70.37	248.24	54.86
2004	16.12	338.97	110.43	465.52	87.53
2005	30.49	465.60	143.28	639.37	37.35

Source: SSNIT Annual Reports (Various years)

The benefits provided by SSNIT fall short of the contingencies presented in the ILO Convention 102 of 1952 as stated in Chapter 2. In reaction to the issue on why the Trust had not added any benefits to the existing ones, management

indicated that it would consider any addition on its own merit as and when its financial resources would allow. A total of ¢639.37 billion was paid in 2005 as compared with the 1995 figure of ¢6.3 billion. Of the benefits paid in 2005, superannuating lump sum amounted to ¢30.49 billion, old age and invalidity pension (including 25% lump sum) amounted to ¢465.6 billion and survivors accounted for ¢143.28 billion. In 1997, the benefits payment increased by 268.3% over that of 1996 however, in 1998 it dropped by 0.27%. The amount of benefits paid as a proportion of contributions received as at 2005 stood at 11.71%. According to Kaseke (2005), social security programmes used in industrialised countries cannot easily be adopted by developing countries, for the need of people in industrialised communities is not the same as those in the other parts of the world. Each country should develop its own programmes; determine its own needs in the light of resources available. This is the case of the social security pension scheme in Ghana.

The minimum pension has been substantially reviewed over the period. This effort had been aimed at improving the lot of pensioners who earn low pensions on account of low salaries earned while they were in employment. The practice gives meaning to the principle of equality which is one of the cardinal principles of social insurance on which the SSNIT scheme is founded (Whitaker, 1998).

The Trust also introduced minimum lump sum benefit payments to address the situation where contributors who do not earn a pension right are guaranteed a minimum amount. Table 18 contains details of highest, lowest and

average monthly pensions (AMP) paid from 1995 to 2005 under the SSNIT pension scheme. Whereas the highest monthly pension (HMP) had increased from ¢775,260.00 in 1995 to ¢66,803,192.99 in 2005, the average and minimum monthly pensions (MMP) had not seen any such comparable increases. There was, however, a vast difference between the lowest and highest monthly pensions. The annual changes in pension payments favoured those in the higher income brackets more than those in the lower income brackets.

Table 18: Pension statistics

Year	HMP (¢)	AMP (¢)	MMP (¢)
1995	775,260	54,283	5,000
1996	1,032,926	55,121	5,000
1997	3,976,764	76,388	8,500
1998	4,533,511	68,174	8,500
1999	4,073,207	84,583	8,500
2000	10,438,539	114,112	10,000
2001	12,009,114	153,445	15,000
2002	10,876,585	220,472	50,000
2003	21,880,465	310,244	90,000
204	10,480,465	675,098	100,000
2005	66,803,193	551,271	125,000

Source: SSNIT Annual Report (Various years)

Agency problems in the operations of SSNIT

The second objective of the study is to ascertain if agency problem exist – particularly government interference in the operations of SSNIT. The issues addressed include: students loan, reconstitution of the Board of Directors and directives to SSNIT.

Student loan scheme

Under the students' loan scheme, SSNIT gave out loans to tertiary students at a rate of interest shared between students and government. While SSNIT continued to put large sums of money into the students' loan scheme annually, the loan repayment rate was very low. Dei (2001), comments that the student loan scheme has become a burden for SSNIT. Amid concerns that the students' loan scheme might collapse the SSNIT pension scheme, the government established the Ghana Education Trust Fund in the year 2000 to finance the students' loan scheme. However, the administrative cost of running the students' loan scheme is still borne by SSNIT. Little attempts have been made to raise the loan recovery rate for loans given out to past students, most of whom are now employed.

Mitchell (2002) notes that government may desire to use the plan's assets to further other government objectives such as making investments to help the local economy. Hess and Impavido (2003) state that in politically based agency problems, trustees may fund local initiatives for its social benefit without giving appropriate weight to the risk-return characteristics of the investment.

Reconstitution of SSNIT Board of Directors

Good governance in social security schemes is critical for the viability and sustainability of the scheme (Musenge, 2003). The analysis of the operations of SSNIT from 1995 to 2005 indicates that the Board of Directors were reconstituted whenever there is a change of government. During the period under consideration, the board was reconstituted four times in 1997, 1998, 1999 and 2000. Seven members of the fourteen members Board of Directors are appointed by government. The Director-General is also appointed by the President. Barbone and Sanchez (2000), Musenge (2003) and Oliver (2003) note that governments often control the composition and appointment of governing boards.

Government directives to SSNIT

Although the SSNIT scheme does not provide any medical care benefits, a government directive require SSNIT to pay 2.5% of contribution income into the Ghana health insurance fund. In 2004, ¢233.2 billion was transferred to the National Health Insurance Fund. In 2005, ¢272.3 billion was transferred from SSNIT to the National Health Insurance Fund as required by law.

Another case of political interference is that SSNIT is at times called upon at times to pay defaulted loans guaranteed by the government, and subsequently take over the management of the company involved or become a shareholder in the company. A typical example is the takeover of the management of La Palm Royal Beach Hotel by SSNIT. GAO (1995) and Hess and Impavido (2003) note that political involvement in the investment choices of public pension funds is

well known. This involvement comes in the form of government passing laws based on the initiative of trustees, and it can involve mandates to make certain investments or prohibitions on other investments.

Weaknesses and problem areas in the operations of SSNIT

The third objective of the study was to identify weaknesses and problem areas in the operations of SSNIT. Data from the field was analysed using Microsoft Excel and tables. Issues addressed include general and administrative expenses, compliance rate, debtor days and default rate, coverage rate, risk and lack of effective public education on the SSNIT scheme.

General and administrative expenses

General and administrative expenses as a proportion of contributions averaged (harmonic average) 22.76% between 1995 and 2005 (Table 19). The general and administrative expenses include depreciation of fixed assets, auditors' remuneration, directors' emoluments, operating expenses and staff cost. The administrative expenses had been increasing over the period. The recommended standard for SSNIT by the International Social Security Association and the Actuarial Department of the United States is 10%. The target set by the Trust is 14%. The economy of Ghana, the performance of investment portfolio, and social factors were considered by SSNIT when setting out this target (SSNIT, 2002). Both the recommended standard and the set target had not been met.

The general and administrative expenses as a proportion of investment income had been extremely high showing an average of 50.24%. This confirmed the findings in a report by N'Doumi (2002) that a problem faced by many low-income countries is administrative expenditure.

Table 19: General and administration expenses from 1995-2005

Year	Amount ¢'Million	Admin. Exp. to Contributions Received	Admin. Exp. to Investment Income	Admin. Exp. to Total Assets
1995	20,299	17.55%	54.39%	3.85%
1996	30,500	17.93%	40.28%	4.01%
1997	49,479	23.41%	42.11%	4.81%
1998	70,846	30.13%	41.70%	5.56%
1999	86,788	23.28%	40.91%	5.43%
2000	123,172	26.84%	69.01%	5.96%
2001	184,670	25.35%	69.79%	6.44%
2002	223,817	22.34%	57.80%	5.45%
2003	266,505	19.89%	39.16%	4.15%
2004	369,163	22.61%	45.16%	4.08%
2005	401,033	21.04%	52.38%	4.16%

Source: SSNIT Annual Report (Various years)

The amount of general and administrative expenses has been increasing over the period under review. The historical trend of general and administration expenses together with administration ratios are shown in Table 19.

Compliance

In order to facilitate the collection or payment of contributions, the Law provides that deductions must be done at source by an employer of the workers' portion of the contributions, and monthly payment into the scheme by the employer of both the workers' and the employers' portion of the contribution must be made by the 14th day of the following month (S.22 (3) of Social Security Law, 1991). However, employers were sometimes found falling into arrears in the payment of social security contributions of their workers, which in some cases run into several millions of cedis.

The compliance rates as shown in Table 20 had improved over the years under review. There have been increased compliance rates of employees (though some employers have no choice because they are deducted at source, the self-employed have a choice), while employers' compliance had deteriorated over the period.

When an interviewee was asked why this situation exists? The response was that employers have taken advantage of the penalty system. Since penalty rates in respect of non-compliance and late payment of contributions fall below general lending rates, employers find it quite profitable, even with the penalties, to use workers' contributions as loans to run their businesses and to transfer the contributions later.

Table 20: Compliance rates of establishments and employees (1995-2005)

Year	Compliance Rate of Employers (%)	Compliance Rate of Employees (%)	Contributions to Contributions Receivable (%)
1995	57.8	81.4	89.87
1996	57.2	87.1	91.45
1997	65.4	91.4	82.74
1998	67.3	92.6	84.80
1999	73.3	93.2	84.15
2000	66.9	92.6	83.06
2001	70.3	88.2	87.34
2002	70.8	89.3	86.37
2003	70.5	87.7	87.28
2004	76.5	89.9	86.73
2005	74.8	90.8	85.16
Average	69.69	89.41	86.23

Source: Field Data, 2008

If they are lucky, they may even obtain a waiver on the penalty. Some other causes of non-compliance by both employers and employees alike, include the following:

- Lack of employment avenues in the economy made both employers and employees conspire to evade payment of contributions or under-declare the contributions payable.
- Poor record-keeping:

- Employers consider the payment of contributions as a drain on their scarce resources;
- Employers' lack of appreciation of the Law governing the scheme;
- Inadequate monitoring of both employers and employees by SSNIT;
- Informal sector contributors were unable to keep proper accounts on their earnings.

Debtor days

From Table 21 it takes SSNIT, on the average, 49 days to recover outstanding contributions from both employers and employees. In the year 2000, it took SSNIT 61 days to recover its debts. This is due to the relatively low performance of the national economy. The outstanding contributions had also increased from ¢13.04 million in 1995 to ¢329.10 million in 2005. This affirms the fact that the default rate of outstanding contributions had been high and SSNIT is doing less to recover the debts.

Table 21: Debtor days

Year	Outstanding Contributions (¢'Million)	Contributions Receivables (¢'Million)	Contributions Received to Receivables (%)	Debtor Days
1995	13.04	128.68	10.13	36
1996	15.90	185.93	8.55	31
1997	42.90	248.53	17.26	62
1998	48.20	317.06	15.20	55
1999	70.70	446.04	15.85	57
2000	94.10	555.56	16.94	61
2001	104.80	828.00	12.66	46
2002	164.30	1,205.78	13.63	49
2003	195.40	1,535.58	12.72	46
2004	249.80	1,882.33	13.27	48
2005	329.10	2,217.16	14.84	53
AVERAGE	79.38	589.53	13.46	49

Source: SSNIT Annual Report (Various years)

Coverage ratio

Coverage rates of the SSNIT scheme vary between 8.5 and 11.3 percent (Table 22) of the working population of Ghana. The year 2004 recorded the highest coverage rate of 11.3% but this dropped to 9.2% in 2005. About 90 percent of the population was generally not covered. Coverage rates in most-low income countries vary between 10 and 25 percent of the working population and

their dependants (Van Ginneken, 1999). In Sub-Saharan Africa and South Asia, more than 90 percent of the population is generally not covered (Van Ginneken, 1999).

Table 22: Coverage ratio

Year	Ratio
1995	8.5
1996	8.7
1997	9.3
1998	9.6
1999	9.9
2000	9.9
2001	10.2
2002	10.5
2003	10.8
2004	11.3
2005	9.2

Source: SSNIT Annual Report (Various years)

The low coverage rate (Van Ginneken, 1997; Kaushik, 1998) was due to the fact that the SSNIT scheme is only mandatory to the formal sector workers. Membership of the scheme is, however, voluntary for workers in the informal sector. The informal sector employed about 90 percent of the working population of Ghana and most of the workers in this sector are not members of the scheme.

Risk

After a careful analysis of the operations of SSNIT, the Trust is exposed to default risk, expense risk, political risk, currency risk, investment risk and inflation risk. The main risks that DB pension funds are exposed to are investment, inflation, and longevity risk (Blome et al., 2007). These risks, according to Barr (2002) threaten the viability of all pension systems because they undermine output, or generate price inflation or both. The Ghanaian cedi had been unstable against the leading international currencies especially the US dollar. In 2000, the currency literally collapsed.

Lack of effective public education on the SSNIT scheme

Comments from the media and individuals in Ghana give a clear indication that the majority of the citizens lack an understanding of what the SSNIT pension scheme is actually meant for. This can be attributed to the fact that SSNIT failed to adequately educate the public on the arrangements and provisions underlying the pension scheme. As at now, there are few leaflets or publications available to the public, to systematically explain what the pension scheme is actually meant for, the rights of members and their entitlements. Failure to adequately inform the public has invariably created some basic social problems for SSNIT as follows. First, many contributors consider their contributions to the scheme as a savings portfolio instead of contributions towards a social insurance programme. As a result, their expectations of the scheme far exceed what the scheme can actually provide. Low levels of earnings coupled with the extended

family support system means that many workers retire without any substantial savings to acquire valuable assets. On retirement, many such members expect the pension scheme to offer them lump sum payments (25% of pensionable income) large enough to afford such properties as houses and commercial vehicles.

Secondly, most contributors see themselves as part owners of social and commercial properties of SSNIT and so do not understand why they should pay economic rates for the use of such properties. For instance, members according to respondents, residing in apartments rented by SSNIT do not seem to agree with the decision that they should pay commercial rents just as non-members of the scheme who occupy such apartments. Others feel that members of the scheme should be given priority when it comes to the sale of properties of SSNIT. Such social hindrances have forced SSNIT to significantly reduce its social investments, which already do not seem to produce positive returns. The third problem is general apathy towards the SSNIT pension scheme. Many employees and employers in Ghana did not seem to be interested in the business of the SSNIT pension scheme. Hence, in transactions requiring the use of social security numbers, the numbers have often been quoted with the least care resulting in the use of invalid social security numbers. Similarly, the payroll systems in some establishments either truncate the 13-digit numbers or add leading zeros to the 8-digit numbers, making them invalid social security numbers.

As a result, a large volume of contribution data is submitted on invalid social security numbers and so cannot be credited to members' accounts. This has led to gaps in the affected members' contribution records with the consequence

reduction in the integrity of the scheme's database. Lack of up-to-date social contributions records has made it impossible as at now for SSNIT to process benefit claims using the scheme's database, a situation that has resulted in undue delay in processing benefit claims.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Introduction

The provision of state pension in Ghana is an issue that has attracted major concerns from politicians, social groups and individuals. They complained of the adequacy of benefits and the quality of services provided by SSNIT, coverage of the working population, misuse of pension funds by SSNIT and government and inability of management to control the very high administrative cost of SSNIT's operations.

The study reviewed and assessed the performance of SSNIT pension scheme from 1995 to 2005, examined the existence or otherwise of agency problems in SSNIT's operations and examined weaknesses and problem areas in the operations of SSNIT. Evaluative research design was adopted in the study. Documentary secondary data which include written materials such as notices, correspondence, minutes of meetings, reports to stakeholders, diaries, transcript of speeches, books, journals, magazine articles and administrative and public records were used.

The findings from the analysis of the performance of SSNIT are summarised in this chapter, drawing on information from the interviews conducted and from literature to support the explanations. The implications of the findings are also outlined in the conclusions. The final sections comprise recommendations to combat the problems identified. This is done in line with the last objective of the study to proffer suggestions for the improvement of the operations of SSNIT. Limitations of the research and directions for future research are also included in this chapter.

Summary of findings

The first objective addressed in this study was the review and assessment of SSNIT pension scheme from 1995 to 2005. The main finds under this objective are:

- The social security pension scheme in Ghana had recorded some success from 1995 to 2005. The scheme's funded status improved during the period under review. New members are always admitted to the scheme every year and this had been on a steady increase. The total number of establishments covered over the period continued to increase. High administrative expenses remain practically unchanged. Despite the target set to reduce administrative cost to 14.3% of contributions, the figure still remained high at 21.04%. Also the target set to process and pay benefits within 14 working days had not been met. The target to increase coverage

to 30% of the country's working population and achieve a 4% real rate of return on investment still remained a dream.

- Contributions to the SSNIT scheme have been increasing over time as a result of increase in the number of contributors as well as increases in remunerations of contributors' overtime. The private sector contributors had so far remained the highest contributor to the scheme. Contributors in the public sector account for only about a third of contributions made. The service sector remained the main and highest provider of contributions to the SSNIT pension scheme.
- Monthly payments of pensions to beneficiaries have also increased over the period 1995-2005. The annual changes in pension payments favoured those in the higher income brackets than those in lower income brackets. This discrepancy between lowest and highest pension is suggestive of the fact that there exists a wide gap between earnings of employees in various sectors of the economy. The increase in the payment of benefits represents an improvement in the management of SSNIT.
- The dependency ratio had increased over the period under review and this is not good since SSNIT is self-financing and self-sustaining.
- The investment income of SSNIT had been very low. This suggests that, the scheme invested in portfolios which were non-performing and that there may be pressure to invest in ETIs. ETIs are investments in which the fund managers take into consideration not only the investment return but also the economic benefits to the local community.

- There has been growth in employment in the service sector of the country at the expense of a decline in agricultural employment. With the exception of mining and construction, employment in other areas of industry has been virtually stagnant.
- The Trust is currently the largest financial institution in Ghana and the leading source of funds for long term projects.
- Approximately, it takes SSNIT on the average 45 days to process completely and pay claims submitted by members or their dependants. The major cause of the delay is the fact that SSNIT at the moment does not process claims using its database of contributors to the pension scheme. Some members were required to re-submit records of their contributions to the scheme from their respective employers before their claims were paid. This is very embarrassing given the fact that the employer's primary responsibility is not to keep social security contribution records.

The second objective focused on agency problems in the operations of SSNIT, particularly government interference. The key findings are:

- Political interference is reflected in some investment decisions whose negative impacts on the social security funds are quite obvious. A typical case is the students' loan scheme operated by SSNIT. Little attempts have been made to raise the loan recovery rate for loans given out to past students most of whom are now employed.

- Although the SSNIT scheme does not provide any medical care benefits, a recent government directive requires SSNIT to pay 2.5% of contribution income into the Ghana health insurance fund, which is a clear indication of political interference in the management of the pension fund.
- Another case of political interference is SSNIT being called upon at times to pay defaulted loan guaranteed by the government and subsequently take over the management of the company involved or become a shareholder in the company. A typical example is the takeover of the management of La Palm Royal Beach Hotel by SSNIT.
- The Board of Directors were also reconstituted whenever there is a change in government. The President appoints the Director-General of the Trust.

The third objective in the study was to identify weaknesses and problem areas in the operations of SSNIT. The core findings under this objective are that:

- There have not been any significant improvements in major key indicators and most of the targets set by the management had not been achieved. For example, high administrative expenses remain practically unchanged. Despite the target set to reduce administrative cost to 14.3% of contributions, the figure still remained high at 21.04%. Also the target set to process and pay benefits within 14 working days had not been met. The processing and payment days still remain high at 28 days. The target to increase coverage to 30% of the country's working population and achieve a 4% real rate of return on investment still remained a dream.

- The SSNIT Trust is exposed to currency risk, default risk, expense risk and political risk. Until recently the Ghanaian cedi had been unstable against the leading international currencies, especially the US dollar. In 2000, the currency literally collapsed. This had adverse effects on the investment returns in certain investments.
- Lack of up-to-date social contributions records has made it impossible as at now for SSNIT to process benefit claims using the scheme's database, a situation that results in undue delay in processing benefit claims.
- Majority of the citizens lack an understanding of what the SSNIT pension scheme is actually meant for. This can be attributed to the fact that SSNIT actually failed to adequately educate the public on the arrangements and provisions underlying the pension scheme. Many contributors consider their contributions to the scheme as a savings portfolio instead of contributions towards a social insurance programme.
- The method of computing the pensionable income (i.e., average of the three best annual incomes based on the annual contributions throughout the member's working life) may be argued as reflecting the generosity of the scheme. However, for a state pension scheme, this method is an indication of poor scheme design because it can easily expose the scheme to abuse by inflation of salaries in the final years of employment especially the self-employed.
- The causes of non-compliance especially by employers and the self-employed include the following: (i) Lack of employment avenues in the

economy make both the employers and employees conspire to evade the payment of contributions completely or to under-declare the contributions payable. (ii) Poor record-keeping also contributed to evasion of the Law. (iii) Many employers actually consider the payment of contributions on behalf of their workers a drain on scarce resources and therefore found such payments extremely distasteful and went every length to evade them. (iv) Inadequate monitoring of both employees and employers alike by SSNIT was also a contributory factor in non-compliance. And finally, contributors in the informal sector of the Ghanaian economy were unable to keep proper accounts on their earnings. Their incomes were also unpredictable. These factors culminate in a situation where they are unwilling or unable to join the scheme, especially when it is not compulsory for them to do so.

Conclusions

The first objective is to review and assess the performance of SSNIT from 1995 to 2005. The performance of the SSNIT pension scheme from 1995 to 2005 has been mixed. This is because while funded status, membership of the scheme, contributions received, and benefits paid have improved over the years, other indicators like investment income, coverage rate, dependency ratio and processing time have not fared as well.

The second objective is to ascertain if agency problems exist in the operation of SSNIT. Based on the summarised findings it can be concluded that

agency problems exist in the operations of SSNIT. This is due to the fact that there are political interferences that negatively affect the choice of investment and investment income.

The third objective is to identify weaknesses and problem areas in the operations of SSNIT. The study showed that there are some weaknesses and problem areas in the operations of SSNIT. High administrative expenses remain practically unchanged, processing and payment days of benefits still remain high, the Trust is exposed to currency risk, default risk, expense risk and political risk. Majority of the citizens lack an understanding of what the SSNIT pension scheme is actually meant for. The method of computing pensionable income is an indication of poor scheme design because it can easily expose the scheme to abuse and there had been non-compliance especially by employers and the self-employed.

The principles of social security state that social security can be used as a tool for poverty reduction and for this to be achieved there is the need for a broader coverage of the population in Ghana. The current coverage rate cannot allow the social security scheme in Ghana to be used as a tool for poverty reduction. The principle of equity – conservative, to preserve living standards and the principle of equality – standard flat rate – social democratic welfare system seem to be guiding SSNIT in its operations.

Recommendations

Based on the above conclusions, it is recommended that management should:

- Embark on major membership drive, supported by incentives, to improve employer compliance and encourage participation by workers in all sectors and thereby ensure the speedy increase in the number of formal contributors and the self-employed in the informal sector.
- Review the use of the best three years average to ensure a more equitable system. The average of the total years of contribution should be used.
- Approach government to review the legal and regulatory framework of the SSNIT scheme. A review of the law would allow for improved management controls and a large measure of equity for beneficiaries. The review would also help resolve the politically based agency problem eminent in the running of the scheme. The researcher recommends the review of the SSNIT Law to:
    - Reduce the "over bearing" government presence on the SSNIT board and the de facto control of the funds by government;
    - Redefine the responsibility of the board, in line with best practices in corporate governance;
    - Introduce a statutory reporting system;
    - Allow for the creation of new projects such as the Informal Sector Scheme;
- Approach government to allow SSNIT to be controlled by a Board of Trustees instead of a Board of Directors. The Board of Trustees should

The use of heads of departments also represented a limitation. The selection of members who participated in the interview were based on purposive sampling approach which may have introduced some bias in that they were not representative of the population. However, some of the views were consistent with findings from other publicly available documents.

Directions for further research

The findings of the current research provide the following avenues for future research. There should be a study to determine how much revenue government could potentially lose through amending the tax code to provide tax incentives for contributors to those in the informal sector.

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APPENDICES

APPENDIX A: SSNIT INCOME STATEMENTS

INCOME STATEMENTS

	2005 ¢million	2004 ¢million	2003 ¢million	2002 ¢million	2001 ¢million	2000 ¢million	1999 ¢million	1998 ¢million	1997 ¢million	1996 ¢million	1995 ¢million
INCOME											
Contributions received	1,905,767	1,632,531	1,340,220	1,001,718	728,349	458,838	372,782	235,146	211,371	170,062	115,685
Investment income	765,619	817,443	680,479	387,218	264,601	178,484	212,124	169,909	117,511	75,723	37,321
Other income	12,119	41,850	20,517	33,742	45,906	30,425	3,227	1,407	3,399	1,117	416
Exchange gain	0	0	0	0	0	0	0	0	0	2,736	868
	2,683,505	2,491,824	2,041,216	1,422,678	1,038,856	667,747	588,133	406,462	332,281	249,638	154,290
EXPENDITURE											
Lumpsum under old provident fund scheme	0	0	12,180	9,702	7,491	5,931	4,429	2,960	2,370	2,499	2,010
Benefits paid-pensions	630,240	447,351	289,874	184,933	125,993	89,531	57,918	42,409	31,014	18,301	11,535
General and administrative	401,033	369,163	266,505	223,817	184,670	123,172	86,788	70,846	49,479	30,500	20,299
National reconstruction levy	0	0	0	0	15,000	0	0	0	0	0	0
Exceptional item	0	0	0	0	0	0	120,908	126,791	0	0	0
	1,031,273	816,514	556,379	408,750	333,154	218,634	270,043	243,006	82,863	51,300	33,844
SURPLUS	1,652,232	1,675,310	1,484,837	1,013,928	705,702	449,113	318,090	163,456	249,418	198,338	120,446
Transfer to NHS	(272,252)	(233,219)	-	-	-	-	-	-	-	0	
	1,379,980	1,442,091	1,484,837	1,013,928	705,702	449,113	318,090	163,456	249,418	198,338	120,446
Net decrease/(increase) in the value of investments	(868,032)	1,123,119	872,206	143,875	51,038	42,262	(16,882)	47,282	(13,721)	0	0
NET CURRENT YEAR MOVEMENT	511,948	2,565,210	2,357,043	1,157,803	756,740	491,375	301,208	210,738	235,697	198,338	120,446

APPENDIX B: SSNIT BALANCE SHEETS

BALANCE SHEET

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
ASSETS	¢'million	¢million	¢million	¢million	¢million	¢million	¢million	¢million	¢million	¢million	¢million
Property, plant and equipment	85,650	96,898	78,923	71,345	76,217	72,204	38,507	26,633	22,098	20,348	96,935
Long term investments	5,497,451	5,225,178	3,340,632	2,371,303	1,771,237	1,370,158	954,374	805,573	679,873	491,299	394,045
Real estates under construction	706,372	621,204	508,224	438,631	374,289	382,040	374,054	286,840	188,659	151,673	-
	6,289,473	**5,943,280**	**3,927,779**	**2,881,279**	**2,221,743**	**1,824,402**	**1,366,935**	**1,119,046**	**890,630**	**663,320**	**490,980**
CURRENT ASSETS											
Stock	5,956	4,940	4,003	3,000	1,896	2,083	1,007	539	574	296	238
Debtors	190,898	138,173	123,732	137,117	100,867	94,898	93,503	84,909	70,834	51,445	33,338
Short term investments	3,105,378	2,953,311	2,349,987	1,075,769	523,111	107,488	117,787	60,436	47,529	44,252	-
Cash & bank balances	55,922	7,127	15,609	10,414	21,725	37,971	18,009	8,591	18,186	1,180	3,290
	3,358,154	**3,103,551**	**2,493,331**	**1,226,300**	**647,599**	**242,440**	**230,306**	**154,475**	**137,123**	**97,173**	**35,866**
CURRENT LIABILITIES											
Creditors	(91,417)	(72,349)	(43,383)	(81,727)	(53,183)	(71,673)	(123,447)	(99,056)	(56,406)	(34,342)	(18,776)
Bank overdraft	-	-	-	-	-	-	-	(1,879)	(9,499)	-	-
Ghana education trust fund	(264,180)	(194,400)	(162,855)	(155,842)	(94,250)	(30,000)	-	-	-	-	-
	(355,597)	**(266,749)**	**(206,238)**	**(237,569)**	**(147,433)**	**(101,673)**	**(123,447)**	**(100,935)**	**(65,905)**	**(34,342)**	**(18,776)**
WORKING CAPITAL	**9,292,030**	**8,780,082**	**6,214,872**	**3,870,010**	**2,721,909**	**1,965,169**	**1,473,794**	**1,172,586**	**961,848**	**726,151**	**509,070**
REPRESENTED BY											
Net assets at 1 January	8,780,082	6,214,872	3,870,010	2,721,909	1,965,169	1,473,794	1,172,586	961,848	726,151	509,070	296,534
current year movements	511,948	2,565,210	2,344,862	1,148,101	756,740	491,375	301,208	210,738	235,697	217,081	212,536
net assets at 31 December	**9,292,030**	**8,780,082**	**6,214,872**	**3,870,010**	**2,721,909**	**1,965,169**	**1,473,794**	**1,172,586**	**961,848**	**726,151**	**509,070**

APPENDIX F: LETTER TO HEAD OF PUBLIC AFFAIRS, SSNIT

University of Cape Coast
School Of Business
Department Of Accounting and Finance
Cape Coast

February, 2008.

The Head
Public Affairs Department
SSNIT, Pension House
Accra

APPLICATION FOR ASSISTANCE FOR MY RESEARCH

I am a post graduate student of the University of Cape Coast and offering Master of Business in Finance and I am writing to ask for help with my research on the analysis of the performance of Social Security and National Insurance Trust from 1995 to 2005.

I would be grateful if you could permit me to collect data from the following departments in SSNIT: Investment, Research, Benefits, Operations, IT, and the Library. I would also appreciate it so much if the heads of the above departments could be notified. It is expected that the findings of this research will have implication for economic development, policy formulation and programme support especially the three-tier proposed pension scheme in Ghana.

Thank you for your valuable time and input.

Please if you have any queries about my research or its use, you can contact:

Dr. E. Bondzi-Simpson
Senior Lecturer
School of business
University of Cape Coast
Tel: 020-8178080

Mr. E. Marfo-Yiadom
Senior Lecturer
School of Business
University of Cape Coast
Tel: 024-4515162

This project has been approved by the Board of Graduate Studies of the University of Cape Coast. Should you have any complaints, please contact the Board of Graduate Studies of the University of Cape Coast.

.....
Kawor Seyram

APPENDIX G: MEMORANDUM FROM HEAD OF PUBLIC AFFAIRS

MEMORANDUM

From: Head of Public Affairs — Our Ref: SS/PAD/062

To: See Below — Date: 25th February, 2008

INTRODUCTORY LETTER

This is to introduce Mr Kawor Seyram, a student of the University of Cape Coast pursuing a Master of Business in Finance.

Mr. Kawor Seyram needs the Trust's assistance in the area of data collection as part of his project work.

We shall therefore be grateful if you could give him the necessary assistance to enable him complete his project work.

Thank you.

K. OSEI BIMPONG

DISTRIBUTION

1. Portofolio Manager, ETI & FI
2. Head of Equities
3. Head of Research
4. Head of Benefits
5. Operations Co-ordinator
6. Head of Information Technology
7. Officer-in-Library
8. Mr. Kawor Seyram

S.S.N.I.T

APPENDIX H: MEMORANDUM FROM OPERATIONS DEPARTMENT

M E M O R A N D U M

From: Operations Co-ordinator — AC/002/2/V.15/35

To: Head, Public Affairs Dept. — 24th January, 2008

RE: INTRODUCTORY LETTER

Your memo no. SS/PAD/062, dated 25 February, 2008 refers.

Attached is the requested information for your next necessary action, please.

Thank you.

J. M. ASSANA
for OPERATIONS CO-ORDINATOR

Attd.

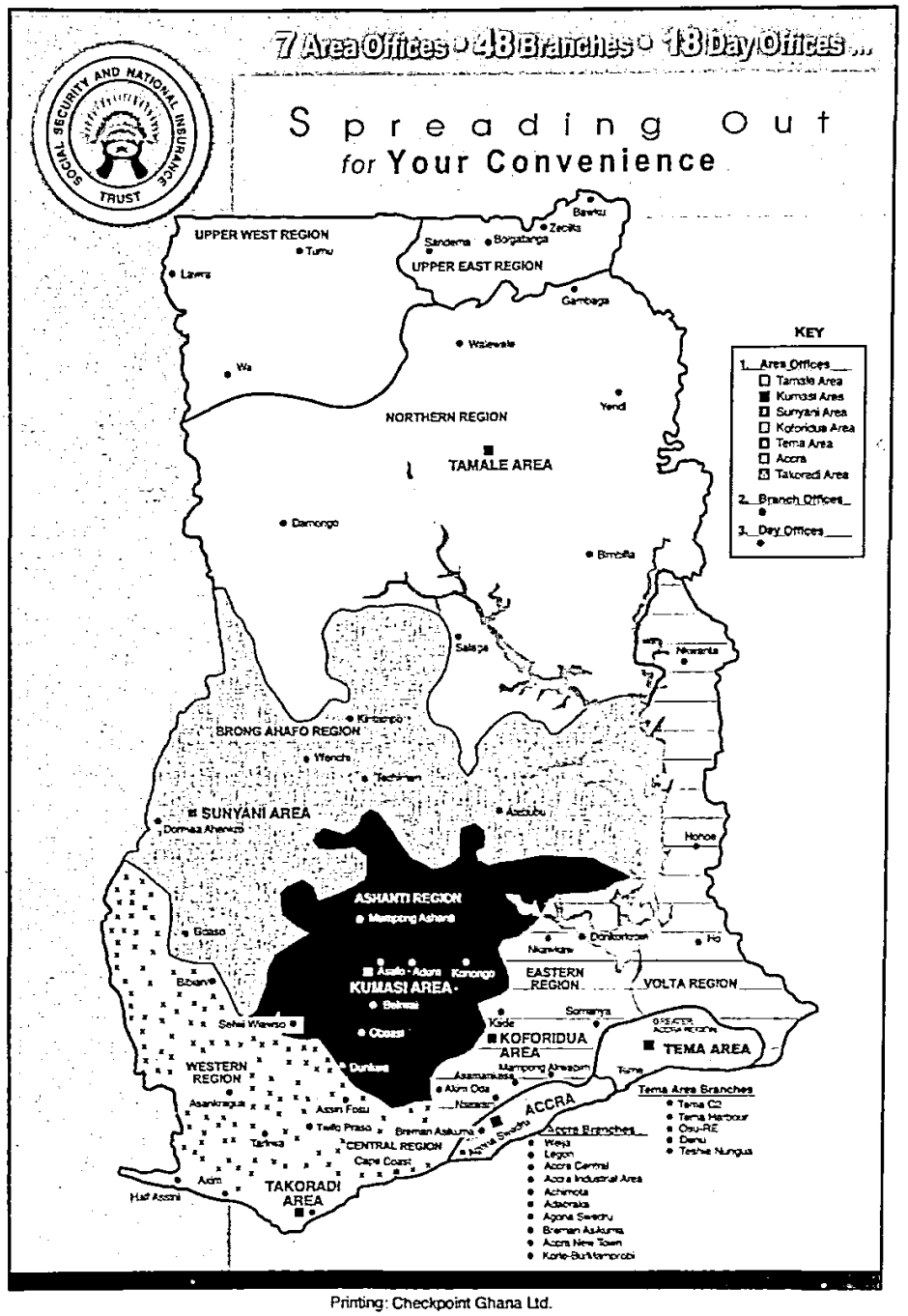
*etm

S.S.N.I.T

APPENDIX I: INTERVIEW GUIDE

1. How is business?
2. How do you see the performance of SSNIT?
3. What factors influence the performance of SSNIT?
4. Are there experts/professionals on the SSNIT Board?
5. Has there been any serious cause of fraud or scandals that resulted in formal investigation during 1995-2005?
6. What was the total value of the pension fund from 1995-2005?
7. Does the Board produce a written investment policy?
8. How often are major revisions made?
9. What was the gross and real returns on all investment assets of SSNIT from 1995-2005?
10. What proportions of the investment portfolio is managed externally?
11. Is performance monitored against explicit benchmarks for each type of assets? What are these benchmarks if any?
12. Do you sometimes require members who put in benefit claims to re-submit records of their contributions to the scheme from their respective employers?
13. What reasons accounted for the delay in processing claims?
14. What was the minimum and maximum pensions paid from 1995-2005?
15. Do you know the most frequent reasons for claims denials in your practice?
16. Do you have claims that have been denied due to missing or inaccurate information supplied on the claim form?

APPENDIX J: MAP OF GHANA SHOWING SSNIT OFFICES



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