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The politics of retirement income security policy in Ghana: Historical trajectories and transformative capabilities

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The study of pensions, retirement or old age income support policies in the developing world has been relegated to the background largely because such programs are limited in scope and cover only a small fraction of the population, mostly formal labour market employees. However because pension policies address issue relating to income security at the latter stages of life, it is crucial that we understand how they were developed over time by policy makers while paying special attention to the domestic political factors that shaped their decisions. This paper analyses the development and transformation of retirement income policy in Ghana. Contrary to the conventional wisdom in which social security policies were framed as by-products of development and industrialization, this paper argues that formal retirement income policies in Ghana have often been designed to promote socio-economic and political development in various ways Beyond the exigency of retirement income security, the paper shows that while old age income support policies, which focused mostly in the formal labour market were used to encourage, promote labour productivity in the colonial service, the postcolonial trajectories of such policies emphasized capital accumulation and mobilization of political support.

Key words: Pensions, retirement age, labour market employees, retirement income securities, Ghana.

INTRODUCTION

Social security is defined to include the institutions societies design to guarantee or protect individuals against the lost of income due to old age and other unforeseen contingencies such as workplace injury, unemployment, and death of a family's breadwinner among others. Protection against these contingencies was originally performed by families and charity organizations in all societies prior to the development and expansion of the modern state (Schmidt, 1995). In most developed countries, the provision of old age income support and care by the family members and charity organizations has faded into history as modern states evolved especially in the postwar years to established new institutions with vested responsibilities of protecting individuals citizens (Vrooman, 2009).

Over the past three decades, power resources theory has provided one of the most influential accounts for the

development and variation in state welfare programs. At its center, it asserts that working class power achieved through organization by labor unions or left political parties produces more egalitarian social policies. Studies by Stephens (1979); Korpi (1983); Esping-Andersen and Korpi (1984); Hicks (1999); Ruschemeyer et al. (1992); and Esping-Andersen (1990) suggests that there is a positive correlation between the influence of unions and labour parties and social policy development across countries. The thrust of their argument is that economic progress produces an industrial working class, which develops a capacity for self-organization through trade unions that bargain for improved incomes, working conditions and social protection.

Other social classes and groups, including farmers (Sheingate, 2003), health professionals (Immergut, 1992), state actors (Hecllo, 1974) and employers

(Baldwin, 1990; Mares, 2003) have a stake in welfare development and often play an important part in shaping social policy making although the scope and depth of protection may vary depending on factors such as the level of industrialization, the relative strength of labour unions, as well as unions' relations to parties in government. Some of the founders of modern social policy analysis have also argued economic progress creates new demands for increased spending on social services because of the gradual breakdown of traditional support systems based on kinship (Kerr, Dunlop, Harbison, and Myers, 1960). Thus, dependence on wage labor creates new social risks for those with little or no labor to sell, such as the sick, the old, and the young (Pampel and Weiss, 1983). Therefore, the state is compelled to take on an expanded role by providing social services to the vulnerable as well as coordinating the complexities of urban society (Kerr et al., 1960). Lenski (1966) also argued that democratic politics creates the possibility for ordinary people to combine against the elites or the wealthy and use the state to claim a larger share of social surplus through the power of franchise.

Much of the empirical evidence used in developing theoretical models for explaining the development and expansion of state social protection programs comes from the advanced industrialized countries. Because the industrial base of developing countries is limited in scope, and civic identity from which power resources theory developed its class-based analysis is weak, and class itself is often subordinated to ethnic identity in Sub-Saharan Africa, explanations provided by both power resources and industrialization theories cannot account for the development and transformation of formal retirement income policies in Sub-Saharan Africa countries.

This paper analyses the politics and historical trajectories of the development and changes in formal old age income support programs in Ghana. It shows that the initial development of old age income support program was motivated by a concern to cultivate and sustain a sense of loyalty among the colonial civil servants to the crown as a strategy to mute growing nationalist agitations against the colonial regime. Subsequently governments in Ghana have view old age income or pension policies beyond the provision of income support for pensioners by designing and using it as an instrument for dealing with other socio-political and economic challenges including as a means for generating resources for socio-economic development and for building political support.

Thus, unlike in developed countries where the explanation for the emergence and expansion of social policy is framed as an end product of the process industrialization, policy makers in Ghana have deliberately used social policy especially old age income policies both as a means and an end. As a means, old age income support policy was directed towards nation building, galvanizing support for political elites and for

socio-economic development; and as an end, it is used as a mechanism for providing old age income support for individuals who have previously participated in the formal labour market. Especially in the post-colonial era, policy makers have used retirement income policy as a strategic policy choice designed to utilize social policy's potential for economic (Kwon et al., 2009) political and social transformation.

The rest of the paper illustrates this argument by analyzing the major trajectories of pension system development and transformation in Ghana in the sequence in which they occurred.

Retirement income as reward for loyal service

The development of formal retirement income policy in Ghana has its origins in the colonial era. The first program was designed as a means of encouraging loyalty and efficiency within the colonial civil service. Thus, it was not based on the notion of deferred income which perceives retirement income as portions of retirees own income that was set aside to address problems of income security at old age. Rather, colonial old age income security policies were designed as instruments for rewarding civil servants who served the crown in honesty. Thus, public servants had no entitlement to such programs unless they were judged by colonial administrators as meeting eligibility requirement of loyalty (Government of Ghana, 2006). Like most programs introduced during this era, old age income protection policies were limited to urban dwellers especially Europeans and a few Africans working in the colonial bureaucracy (Asamoah and Nortey, 1987). The first old age income security program in the country came with the introduction of the Colonial Development and Welfare Act in the 1940s (Darkwa, 1997).

Following this, the British government enacted the Pensions Ordinance to replace and unify the Pension (European officer) Ordinance (CAP-29, 1936) and Pensions (Non-European Officers) Ordinance (CAP-30, 1936) into a single and non-discriminatory pension scheme that offered equal benefits to both expatriates and local workers in the colonial administration. (Government of Ghana, 2006). In its unified form, the scheme was referred to as CAP-30. This name was derived from chapter 30 of the 1950 Pension Ordinance (Kumado and Gockel, 2003). Because this scheme was designed as reward, it was non-contributory and provided benefits for individuals who were deemed to have provided loyal service by working in the colonial administration for at least ten years without any blemish. Under this scheme, employees could voluntarily retire at age 45 or at the compulsory retirement age pegged at 50 years. The intention of the scheme was to promote efficiency and loyalty within the colonial administration. Section 6 (1) of the Pension Ordinance that established

the program stipulates that “pension and other benefits under the scheme are not a right” (Government of Ghana, 2006: 31). This gave the colonial government exclusive rights and control over decisions relating to pensions.

In 1955, a similar program was created to extend benefits to other public servants such as teachers who were not included in the CAP 30 scheme. For instance, there was a separate pension scheme for university staff known as the Ghana Universities Staff Superannuation Scheme (GUSSS), which was modelled on the CAP 30 scheme, and seen as an off-shoot of the Federated Superannuation Scheme for Universities and University colleges in the United Kingdom (Government of Ghana, 2006). The emergence of this scheme coincided with the rise in nationalists agitations against foreign rule. This development evoked a sense of apprehension in the colonial administration about the sincerity and loyalty of Africans working in the colonial civil service. The colonial regime feared that if nothing is done to consolidate the loyalty to the few Africans working in the colonial administration, they would undermine the regime by joining forces or providing vital information to the nationalists in their agitations for independence. The scheme was therefore designed to guarantee a “a reasonably comfortable and decent life, as well as the economic and social security of both pensionable and non-pensionable officers retiring from the colonial civil service, though the payment of pensions, gratuities and annual allowances” (Government of Ghana, 2006: 30). The intended purpose was to mute any agitations within the colonial civil service and encourage productivity, life-long career development, through a life-time flow of income from the state.

This pension scheme was popular among civil servants, and as a result, was resistant to major changes attempted by successive post-colonial governments. Because the scheme finances retirement income from general revenues, post-colonial governments found it difficult to meet the promises inherent in the scheme to retired civil servants due to pressure on public finances. Nonetheless, the most significant change made to this program in the post-colonial era was a substitution of its non-contributory element for employer (government) and employee (civil servants) contribution formula. The scheme continued to operate as an unfunded scheme, paid out of general revenues, and by the close of 2008, it had about 39, 500 active members and 101,000 retirees on its payroll (Government of Ghana, 2006). The shift from non-contributory to contributory effectively changed retirement income policy theoretically by eliminating the notion of pension benefits premised on loyalty to one based on right of all individual workers as contributions could since been as deferred income.

As noted, the CAP 30 has since its inception been limited in scope. Due to the financial burdens inherent in the scheme, policy makers in the immediate post-

independence years opted for establishing a new and different pension scheme known as provident funds in 1965 for all categories of workers that were not covered by the CAP 30 scheme.

Development capital accumulation through retirement savings

The establishment of provident funds as a new retirement scheme was based on concerns for both old age income security and broader developmental considerations in the early post-independence years. The term provident fund refers to a pension plan under which retiring workers receive lump sum benefits in the form of financial assets build up over a period of time through membership contributions and investment returns (Dixon, 1989, 1993, 2000). Under this arrangement “an individual’s pension is annuity whose size, at any given life expectancy and rate of interest, is determined only by the size of his or her lifetime pension accumulation” (Barr, 2002: 4). Funding of defined contribution schemes is based on contributions made by the employer and the employee on behalf on the latter. These contributions are invested and when the employee reaches retirement age, becomes permanently incapacitated or dies prior to retirement; the total contributions together with returns on the investment are paid as a lump sum to the employee or his/her dependants (Barbone and Sanchez, 1999; Dixon, 1989, 1993, 2000).

There are different ways of organizing defined contribution arrangements. These include central and privately managed defined contribution (DC) schemes. This type of pension scheme has recently surfaced in global social security reforms debates and is known as Retirement Saving Plan (RSP) in Canada, Notional Defined Contribution (NDC) scheme in Sweden, 401/k Plans in the United States, and Individual Retirement Accounts (IRAs) in Latin America. The distinguishing features of defined contribution pension plans is that they are encouraged through tax incentive, but they are not tax financed, and benefits are directly linked to contributions (Barr, 2006). Typically, benefits are paid in the form of one-off lump sum payment (Dixon, 2000) although some make room for the purchase of annuities. The use of one time lump sum was based on the notion that defined contribution plans (a) are simple to operate and “easy to explain the scheme to all workers, even those who are illiterate or poorly educated” (Gerdes, 971: 573); contributors can “identify their social security savings” and “claim proprietary rights over” in the future (Dixon, 1993, p. 197); and (c) allow contributors to acquire “income generating assets so as to avoid subsequent recourse to any form of public assistance (Dixon, 1993, p. 199). They are therefore not based on inter-generational transfers, and there is little consideration for collectivism, risk pooling and solidarity.

Beyond the provision of old retirement income, the primary objective of Ghanaian policy makers in adopting this policy in 1965 was to use accumulate funds from the provident funds to fund the ambitious social development projects promised during the independence struggle. The choice of provident funds in Ghana was made possible by third factors. First, Ghana, like most Sub-Saharan African countries had youthful population, and which implies that there was no immediate reason to worry about retirement (Gerdes, 1965; Kpessa, 2009). It meant that policy makers had significant time to focus on other areas of development. Second, the notion of pension or retirement itself was foreign to African worldview on life (Apt, 1992, 1997, 2002); and third, the practice of familial care based on the principles of reciprocity was very strong (Kpessa, 2010). Specifically, however, Ghana opted for provident fund because that scheme was perceived as an effective strategy to develop domestic pool of financial resources to fund socio-economic development in the short-term. The desire of Ghanaian policy makers to use savings in the provident funds to finance national development projects was the main reason why such schemes were favoured over social insurance (Gerdes, 1971). The initial "stage of economic development and the multiplicity of demands on limited financial resources support the contention that social security in Africa tends to develop in accordance with the availability of financial resources that can be tapped rather than merely because persons need protection against want and risks of insecurity" (Gerdes, 1965: 459). Dixon (1993) argued that many policy makers in Ghana and other African countries over the years considered the transformation of the provident funds to social insurance schemes to fit their overall developmental trajectory but the thought of "possible reduction in the supply of developmental finance, and the almost inevitable need for government subsidies, inhibit all but the most adventurous from taking definite steps towards establishing a social insurance system" (p.202).

The investment of monies accrued from the provident funds in government securities in Ghana constituted the largest source for "marshalling large amounts of essential resources for the economic development of the country" and "the government is thus assured of a regular source from which to borrow and finance the building of the country's infrastructure and the provision of amenities like good drinking water, electricity, road construction, schools and health facilities" by the mid 1970s (Ofori, 1976: 256). The use of funds from provident funds to develop public infrastructure such as hospitals, schools and road, also meant that policy makers indirectly introduced redistributive elements into operations of such plans given that most of the social services that were funded through investments from retirement contributions were common pool or provided on the basis of social citizenship and paid for by the state. The important point to note here is the transformative role of social policy in

economic development. Policy makers deliberately used the social security funds to meet the industrial needs of workers by giving priority to "economic and political concerns" (Kwon et al., 2009: s3) while addressing at the same time investing in other social programs.

Dei (1997) and Ofori (1976) argued that originally, the provident funds were designed to operate for a period of five years to serve as mechanisms for capital accumulation before being converted into pension schemes but this delayed in all the SSA countries in question for various reasons. One major reason was that the lump sum component of the schemes becomes popular among employees who resisted changing it (Dixon, 1993). For instance, in the 1970s when the Ghanaian economy was performing well, retirees received generous lump-sum benefits comprising their contributions and accrued interest. This situation led to the popularity of the scheme among governments and social partners some of who demanded that the defined contribution element in SSA pensions be maintained. As Dixon, (1993) noted, provident funds "are popular with their members and participating employers, as well as with their sponsoring governments. Employees see them as a compulsory savings scheme accumulating their savings, which should be reasonably, readily accessible. Employers see them as the means by which their moral obligation to the welfare of their employees is fulfilled at a known and stable cost. Governments see them as a self-help vehicle for providing basic social protection and quality-of-life improvement, and as a readily available source of cheap finances for social and economic development" (p. 207). Although the ILO expressed preference for social insurance, and opposed the idea of provident funds in the 1960s (McKinnon et al., 1997) on the grounds it is "highly seductive to governments which feel that they can solve the problem of social insecurity, or wish to give the impression that they have solved it, without being put to ...spending tax money" (Parrott, 1968: 545), Ghana policy makers adopted it and by the end 1960s it became the dominant form of old age income security in most English-speaking Sub-Saharan Africa countries (Bailey, 2000, 2004; Bailey and Turner, 2002; Cichon and Karuna, 2000; Gerdes, 1971).

The provident fund scheme was the first major post-independence initiative aimed at broadening the scope of the Ghanaian pension system to establish a single pension structure for all categories of workers. Its establishment led to the emergence of various versions including of End-of-Service Benefits (ESB) in the private sector. Similarly, many State-owned enterprises also created their own provident funds financed through employers-employees deduction. These were managed by banks, professional fund managers, insurance companies and stock brokers (Government of Ghana, 2006). Mining and other companies, particularly, in the service sector set up provident funds to provide

lump-sum cash benefits to their employees upon retirement. Private companies including Unilever Ghana Ltd., Ghana Breweries Ltd (now Guinness Ghana Ltd.), and Ghacem Ltd among others, created their own retirement income programs modelled on the national provident funds (Government of Ghana, 2006). The provident funds were designed to cover contingencies like retirement, invalidity, survivors' payments broadly classified as primary contingencies; and sickness, maternity and emigration as subsidiary contingencies (Gerdes, 1971; Government of Ghana, 1982; Ofori, 1976).

The establishment of provident funds had significant positive impact on the country's economy. Mkandawire (2001) argued that between the late 1950s and the early 1970s, the state was a developmental one in the sense that it was unified; it demonstrated autonomy from social forces, and prioritized human welfare over digitally measured growth by harnessing domestic resources for development. Madavo (2005) also noted in the 1960s, economies in Africa including Ghana witnessed robust growth, and infrastructure, education and health were given maximum priority. Kwon, Mkandawire and Palme (2009) argued that the key feature of the approach adopted by the early nationalist leaders "notwithstanding its different forms, is a strategic policy choice which aims to utilize social policy's potential for economic development" (p. S5). The adoption of mandatory centrally managed individual retirement accounts in Ghana was instrumental in demonstrating the transformative capabilities of social policy in relation to economic development. Dixon (1989; 1993), Gerdes (1965; 1971), and Parrott (1968) averred that the lump-sum payment made the provident fund arrangements very popular between their establishments in the 1960s to the late 1970s. For instance, one study in 1973 showed that about 76.9% of Ghanaian workforce preferred the provident funds plans because of the lump sum benefits (International Social Security Association, 1975).

Although this type of program was popular among all the stakeholders for different reasons, it was dependent on market conditions and this became obvious by the late 1980s when series of economic crisis hit the country. Between the mid 1970s and 1982, the rate of domestic savings fell from 12 to 3%, the rate of investment fell from 14 to 2% of GDP, the government deficit increased from 0.4 to 14.6% of total government spending, the volume of import fell by two-thirds, real export earnings did not only drop by one-half, the ratio of Ghana's export to GDP fell from 21% to a low of 4%, income per capita dropped by 30%, and real wages by 80% (Boafo-Arthur, 2001). The cumulative impact of all these losses on the economy led to a hyperinflation over 123% in 1983 (Dorkenoo, 2006; Konadu-Agyemang, 2001). Inflation thus, eroded the value or the purchasing power of the income of retirees to such an extent that, as they save for retirement, their accumulated savings became worthless with the passage of time because the

rate of inflation exceeded interest rates. This naturally deprived the provident fund of its initial popularity.

This problem was exacerbated by the religious implementation of currency devaluation and labour force retrenchment policies in particular in response to the festering economic crisis had disastrous effects on the provident funds, and escalated the predicaments of the retirement income policies (Adésinà, 2009; Laird, 2007; Olukoshi, 2000). In spite of the challenges, Ghanaian policy makers continued to perceive the provident funds primarily as a means for socio-economic development. In 1989, the Provisional National Defence Council (PNDC) government introduced a national student loan scheme that drew on workers' accumulated savings in the provident to finance tertiary education (Nortey, 1992). Under this program, the social security funds were used a resource pool for human capital development. Students were allowed to borrow money from the funds to finance their tertiary education, and repay such loans upon completion.

The key transformative role here is not only about making it possible for the majority of qualified individuals to obtain tertiary, but also the fact that skills obtained at this level of education has the potential to improve the overall productive capacity of the labour as well as national output. Following the negative impact of the economic crisis on the provident funds, the labour unions demanded the conversion of the provident funds to pay-as-you-go (PAYG) social insurance that to pay regular monthly benefits to retirees.

Social insurance for solidarity and political mobilization

In the early 1990s Provisional National Defence Council (PNDC) converted the provident funds to social insurance to ensure pensioners receive periodic benefits as opposed to one time lump payment. This move helped in appeasing the unions who broke ranks with the government when economic restructuring programs. The transitional arrangements for this shift were discussed earlier in 1982 to 1983 between the government and the social partners. The implementation was however suspended because social insurance was inconsistent with the World Bank sponsored structural adjustment programs. Faced with imminent democratic presidential and parliamentary elections, in which the PNDC had planned to contest as National Democratic Congress (NDC), the government transformed the provident funds to PAYG social insurance in a strategic move intended to mobilize and galvanize the support of the unions and retirement.

The major change from the provident funds to social insurance was the shift from lump-sum payment to monthly payment of retirement benefits and a reduction in the number of contingencies covered (Government of

Ghana, 1982). The employer-employee financing formula under the provident funds was maintained under the social insurance program (Darkwa, 1997; Osei, 2004). The administration of the scheme remained under the reconstituted tripartite management board that comprises government official, representatives of employers and employees called the Social Security and National Insurance Trust (SSNIT) (Adjei, 2000; Darkwa, 1997; Dorkenoo, 2006). Under the social insurance scheme participants must demonstrate at least 240 months of contribution to the scheme to qualify for retirement benefits. Individuals who retire before the mandatory retirement age are paid reduced benefits (Darkwa, 1997; Government of Ghana, 2006; Kumado and Gockel, 2003). With the transformation, every employee participating in the provident funds automatically became a member of the social insurance scheme. Individuals who attained the retirement age at the on the exact date of the transition were given the option to choose between monthly benefits and lump sum payment, and pension entitlements were extended to employees who aged 55 (the retirement age under the provident funds) with less than 240 of months participation but more than 180 months contribution to smoothen the transition process (Dei, 1997). The scheme was designed for three main contingencies: old age/retirement, invalidity/disability and dependents/ survival's benefits. Old age benefits were based on employment history. Employees qualify for full pension when they attained 60 years and participated in the scheme for at least 20 years.

Voluntary retirement is permitted from age 55 but the right to early retirement can only be exercised after contributor willing to do so meets the conditions of 240 months of participation in the scheme. Benefits are calculated on the basis of 50% of the average of an employee's three best years' salary. Employees are awarded an additional 1.5% on top of the 50% minimum base pension formula for every additional year of contribution or participation in the scheme beyond the 240 months up to a maximum pension benefit of 80% of the best three years' income (Adjei, 2000; Dei, 1997; Dorkenoo, 2006). Employees who were not able to contribute for the total of 240 months prior to retirement receive their accumulated contributions with interest computed at half the rate of government treasury bills (Adjei, 2000; Osei, 2005).

The social insurance plan also provided disability benefit for contributors below the pensionable age who were incapable of any normal gainful employment as a result of physical or mental disability. To qualify, an employee must participate in the scheme for not less than 3 years prior to the disability; and must have his/her health status certified by a medical board including a medical practitioner appointed by the management of the scheme. Disability benefits are paid in the form of monthly income to beneficiaries (Adjei, 2000; Dorkenoo, 2006; Osei, 2005). Lump sum benefits were paid to a

nominated dependant of a contributor upon the death of the latter. Dependants of deceased employees who contribute to the scheme for a total of 240 months or more receive lump sum benefits equivalent to twelve years monthly retirement income. Under the social insurance scheme, if an employee passed away before reaching the 240 month contribution threshold, the dependant receive a lump sum benefit equivalent to 12 years retirement income proportional to the contributions made. In the event that a pensioner passes away before age 72, his/her dependent are paid lump sum benefit calculated up to the age 72 of the deceased retiree while dependents of a deceased pensioner aged 72 and over are not entitled to any benefit (Dei, 1997; Dorkenoo, 2006; Osei, 2005).

Since the shift to social insurance participants were classified into active members, inactive members and retirees. Active membership referred to employees who have maintained and contributed to the scheme consistently for two years or more. Members of the scheme whose social security accounts had not been credited with contributions for a period of two years or more were described as inactive members. These were mostly students on study leave and other individuals who have not been active in the labour market for a period of two years or more. Retirees were participants of the plan who no longer participate in formal employment for reasons of old age or disability and were thus paid monthly benefits from the scheme (Government of Ghana, 2006). The number of active members of the scheme has been increasing annually since the 1990s (Government of Ghana, 2006; IEA, 2004). As a partially funded scheme, the main sources of funds were contributions from members and returns on investment. Active membership of the scheme has been increasing steadily since the 1990s.

In 1991 when the social insurance program was introduced, total number of active members was about 647, 712 (Government of Ghana, 2006) however by the close of 2006, this number has increased to 1, 211, 620 members (SSNIT, 2006). This represented about 87.06% increase in contributing members within a fifteen years period. The increase in active membership has positively impacted rates of contribution to the scheme. At the close of 2006, the scheme collected a total of 2, 868 billion cedis representing 50.47% over the previous years total of 1,906 billion, and about 3224.04% increase over the total of 86.10 billion cedis collected at the end of 1993 (IEA, 2004; SSNIT, 2006). The average monthly contributions received by the scheme in 2006 exceeded average annual contributions in the 1990s. Membership contributions constitute about one-third of the scheme's total source of funds hence investment remains an essential element in the sustainability of the scheme (SSNIT, 2006).

Membership contribution to scheme increases on the average by 32% annually and it constitutes the corpus of

the scheme. The most distinguishing feature of the social insurance plans has to do with the fact that it ensures inter-generational transfers and designed to ensure solidarity and collectivization of risks. The shift to social insurance strengthened the transformative role of the social security as a strategy policy choice for development. Funds or contributions were invested in various ventures within the domestic economy as a partial funding strategy (SSNIT, 2006). The scheme's investment policy is guided by safety, yield, liquidity, diversification, social and economic utility as well as an objective to maintain a sustainable long-term optimal fund (Osei, 2005; SSNIT, 2006). Funds from the scheme have therefore been invested in several sectors including the financial, manufacturing, services, residential (real estate), and commercial properties.

The scheme's investments are mostly in the local economy. Due to problems associated with capital flight, the scheme's offshore investment is limited to minimal fixed deposits. Generally, the scheme's investment portfolio is split between fixed income and non-fixed income ventures. Fixed income investment in this respect include registered stocks, home finance company index-linked bonds, fixed deposits, call monies, student loans, corporate loans, treasury bills and government bonds. Most these fall into the scheme's category of short-term investment. Non-fixed income investments are economically targeted investment such real estate, commercial and residential, development and equities. These usually have long gestation period and are vulnerable to market fluctuations. In 2006, the scheme had equity holdings in more than 53 Ghanaian companies, (Osei, 2005; SSNIT, 2006), and had shares in 23 of the 31 companies listed on the Ghana Stock Exchange (SSNIT, 2006). The investment decisions of the scheme were also guided by market conditions. As a result, the percentage of portfolio invested in each of the various ventures varies from year to year. As indicated in table 7.2, however, investments in short-term projects have consistently been on the rise since the 1990s.

On the other hand, within the same period investment in associated units, health and other facilities managed by the scheme, has been going down. Investment in long-term projects remained higher however; percentage of portfolio had declined since the 2000. Similarly, while 7% of investment went into property in 1999, this was increased to 16% in 2000, reduced to 8% in 2001 and 2002; rose again to 13.3% in 2003 and by 2006 it was reduced once more to 9.5%. Overall since the 1990s, the scheme's investment in both fixed and non-fixed investment portfolios have increase significantly resulting in an annual average investment returns of 14.6% between 1999 and 2006 (SSNIT, 2006). The total returns on investment in 2006 was 1,313.3 billion cedis representing 71.5% increase over 765.6 billion recorded the previous year, and 31.15% of total funds that accrued to the scheme (SSNIT, 2006). Actuarial evaluation of the

scheme in 2004 projected that, at 2% rate of returns on investment and 3% annual increase in contributors; the scheme can be sustained over a fifty-year (2004-2054) period. For over a decade, returns on investment and percentage of new members joining the scheme far exceeded this projection. According to the 2006 annual report issued by the management of the scheme, the size of fund had not only increased by 27.2% from 9.29 trillion cedis in 2005 to 11.82 trillion at the close of 2006, the corpus fund of the scheme remains intact due to higher returns on investment (SSNIT, 2006). Benefits related spending has been increasing steadily since the 1990s due to increases in the number of retirees. In 2005, the total number of pensioners under the scheme was 68,925, and a total of 630.91 billion cedis were used in paying for benefits. This amount went up by 26.73% (798.71 billion cedis) by the end of 2006 (SSNIT, 2006).

Since the transition to social insurance, funds from the scheme has been invested industrial and residual properties thereby generating additional income and assisting in solving the housing problems in the country (Henry Dei, 2001). The transition from provident fund to PAYG social insurance was instrumental in the electoral success of the NDC in the 1992 general elections. The unions considered the payment of regular monthly retirement benefits to pensioners in an era of permanent austerity as a remarkable achievement and thus mobilized in support of the party at the polls. The NDC, which was an offshoot of the PNDC that implemented series of tough economic policy largely seen as labour unfriendly, used the transition of the pension system and the electoral victory that followed to rebrand itself as a social democratic party primarily to retain organized labour and the Ghanaian left as its core constituency.

Despite the overall remarkable performance of the social insurance scheme in Ghana since the shift from provident funds, there are series of institutional and operational challenges in the country's pension system that threatens its sustainability. These challenges include limited coverage, political interference, mismanagement, inequity, inadequate benefits, and institutional fragmentation. The fragmentation refers to the existence of two public pension programs, the CAP 30, and the social insurance scheme managed by SSNIT, and the fact that this schemes are embedded with different eligibility requirements as far as benefit levels, types of benefits and retirement age are concerned. Kumado and Gockel (2003: 14 to 15) captured the disparity between the two schemes in the following words:

Clearly, retirement benefits under CAP 30 are undoubtedly better than those under the SSNIT scheme, which is why those who can keep themselves in the plan do so, and others outside it are fighting to get on it. The problem is not only that there is great dissatisfaction among those workers who do not enjoy the superior coverage of CAP 30; it is also that the largely unfunded nature of the plan is a drain on general revenue. This is

more so when it is noted that even for those who make the 5% contribution, the funds are not available as long term saving for further productive purpose that would promote employment to increasing union membership... There is no justification for two teachers to have gone through the immesmerizing process of life with one having to enjoy better after service conditions. Injustice prevails when equals are treated unequally.

Trades Union Congress (TUC) in Ghana for instance argued that institutional fragmentation, differential treatment and the lack of coordination of the existing pension programs, were the main reasons why social security reform was forced to the government's policy agenda in 2004 (Personal Interview, Accra, March, 2008). Thus, while the country was preparing for a presidential and parliamentary elections, the unions led by Ghana National Association of Teacher (GNAT) and TUC embarked on industrial action to demand a comprehensive reform of social security system. In a specific public demonstration organized by the unions to draw public attention to the issue, demonstrators consisting of workers and pensioners expressed the view that the Ghanaian pension system symbolizes disrespect, and insult for a segment of the public service (The Chronicle, 2004).

The timing of this industrial action left the New Patriotic Party (NPP) government with no option than to prioritize the issue on the national policy agenda by initiating the reforms in order to avoid the opposition parties from assuming ownership of this issue in the election year. Subsequent to the protest by workers, the government in 2004 established a presidential commission to examine the existing institutional arrangement of the old age income support system and make recommendations for reform. The commission's report which recommended a three-tier pension scheme was accepted by the government and passed into law after brief parliamentary debate (Government of Ghana, 2008).

Harnessing the development potential of social security funds

The institutional configuration of Ghana's current pension system consists of a three-tier plan comprising two mandatory schemes: a social insurance scheme managed by the state; a mandatory fully funded defined individual retirement savings accounts in the form of the previous provident funds managed by private fund managers; and a voluntary fully funded scheme also managed by fund managers solve the problems of institutional dualism inherent in the country's public pension scheme. The reformers argued that to address the problems relating to fairness and inequity, the CAP 30 plan must be collapsed into the SSNIT social insurance plan, and all members of the latter plan be automatically enrolled into the restructured social insurance scheme. The social

insurance plan was to remain a public PAYG scheme, and serve as the first and major pillar of the three-tier arrangement.

The scheme was to remain a mandatory contributory, and partially funded plan restructured to provide only defined benefits to retirees on monthly basis. The social partners argued keeping the social insurance scheme as a defined benefit plan would help to ensure that concerns raised by various stakeholders about the need for risk-pooling, solidarity and collectivist mechanisms in the nation's pension plan were built into the new arrangements. Officials of the reform commission also argued that the PAYG arrangement would help to satisfy ILO stipulation on social security, which were long rectified by the country (Personal Interviews, Accra, March, 2008). Under this reform, the 11% of the total 17.5% of employer-employee contributions will be invested in the first tier. In other words, the contributions to the SSNIT social insurance plan were reduced by 6.5% to make funds available for investment in the other tiers (Personal Interviews, Accra, March, 2008).

The second pillar was a mandatory individual retirement savings account. All the major actors who participated in the reforms shared the view that this tier was inspired by lingering ideas, and nostalgia for lump sum benefits that prevailed under the provident funds arrangements. Thus, rather than having the social insurance scheme pay both lump sums and monthly benefits under certain circumstances, as was the case, the reformers recommended a separation between the two to enable private sector pension fund operators to invest portions of retirement income under a defined contribution scheme. Under the second tier, benefits were directly linked to contributions and interest accrued on investment. In terms of financing, each employee was given the right to decide where and how to invest 5% of their total social insurance contributions within the framework of the second tier. The 5% was legislated to prevent future labour disputes (Government of Ghana, 2006). Although inspired mainly by the provident fund ideas, this pillar was also designed to formalize and incorporate existing occupational pension plans into the broader national pension system. According to the reformers, like the third tier, the second tier would also help to address questions about end-of-service benefits (Personal Interviews, Accra, March 2008).

The third layer is a voluntary retirement saving scheme to be in conformity with existing legislations such as long-term retirement savings act. Because participation in this scheme is voluntary, the reformers made incorporated attractive tax incentives to serve as mechanism to encourage individuals who intend to undertake additional savings towards retirement. The third tier was a compromise between the unions and the employers association on issues relating to the end-of-service benefits but was largely inspired by efforts to harmonize already existing legislations designed to encourage long-term saving

among workers in general with the new arrangement (Personal Interview, Accra, March, 2009). In addition, the third tier was also inspired by complains from workers in the informal sector workers unions such the Ghana Cocoa, Coffee and Sheanut Farmers Association (GCCSFA), the Ghana Private Road Transport Union (GPRTU), the Greater Accra Markets Association (GAMA) and the Ghana National Association of Garages that they have been persistently been marginalized and underserved by formal arrangements for old income security (Government of Ghana, 2006).

The challenges as well as the circumstances under which the reforms were initiated suggest that the overall objective of policy makers was to use retirement income policy as a means to achieve multiple objectives including socio-economic development, old age income support for pensioners and for political purposes. The government was compelled to push old age income policy to the policy agenda because the unions had embarked on protest against the existing social security system a few months to presidential and parliamentary elections. By responding to demands of the unions immediately with the establishment of a commission to consult with the public and stakeholders and advice on the appropriate modalities for reforms, the government eliminated the possibility of making pension reforms an electoral issue. Thus, the symbolic gesture of acknowledging the inherent flaws in the social security system and committing to reforms convinced the unions and other stakeholders that the government is concerned about the plight of their members. In addition, the idea of three-tier social security plan involving two private pillars based on defined contribution schemes echoes the concerns of the government to ensure social security contributions continue to play vital role in socio-economic and capital market development while keeping to its core function of income replacement.

For the social partners, the addition of two private pillars to the social insurance plan managed by SNNIT worked to their advantage because the new layers serve as mechanism for diversifying the sources of retirement income; and provides a modicum of assurance against relying solely of the PAYG social insurance scheme. Thus, for both government and the social partners, the introduction of the three-tier pension scheme was a win-win situation.

For instance, beyond the expectations that contributions in the private tiers would boost investment in the domestic economy, portions of social security funds (that is 2.5 % of each workers basic salary) have also been set aside to finance a new national health insurance program designed to provide coverage for all Ghanaians (Mensah et al., 2009). By the end of 2009, a total of \$ US 546.4 was raised from this contributions for the "provision of basic healthcare to all Ghanaian children under the age of 18, and citizens over the age of 70 who could neither pay health insurance premiums nor afford private

healthcare (Nelson-Cofie, 2009, slide 14).

CONCLUSION

In a nutshell, the development and transformation of income security policies in Ghana has been guided by multiple policy objectives that often subordinate provision of retirement income security to the quest for nation building, socio-economic development and political mobilization. The transitions from the parallel public pension programs (SSNIT and CAP-30) to a three-tier model designed to incorporate both defined benefit and defined contribution in Ghana was an attempt to re-organize (restructure) the nation's pension system on the basis of existing old age income support ideas and institutions in a manner that addresses the problem of institutional fragmentation. Ghanaian policy makers argue that the three-tier pension framework was a reflection of a synthesized version of the preferences expressed by stakeholders within the context of what is known about social security and retirement income in Ghana (Personal Interview, Accra, March, 2008). In their view, the content and institutional arrangement of the new scheme were determined by actors' understanding of the policy challenges in a collective problem-solving arena; and within the context of domestic politics and policy legacies. However, like the previous reforms, the shift to three-tier pension plan continue to reflects the legacies of a minimalist approach to formal old income protection, reinforcing interest of urban working class.

Policy makers argue that informal sector workers could take advantage of the voluntary third tier of the current arrangement to save towards their old age income security needs. This arrangement raises several questions. First, because most of the informal sector workers lacked knowledge of the operations of the capital market and an understanding of investment, it is unlikely that competitive private old age income security plan based on defined contributions would address their needs. Secondly, the current system is fraught with inequality against informal sector workers, in the sense that the problem of myopia, which was addressed through a mandatory second tier for formal sector workers, has not addressed for informal sector workers. In others words, it is assumed that employees in the formal sector may undervalue the future old age income security needs hence both the mandatory first and second tiers were designed to prevent that possibility for these category of workers. Yet, the third tier which policy-makers claim was designed for informal sector workers is a voluntary savings scheme, and being voluntary means the questions of myopia for informal sector workers is ignored. This point is important because (a) Ghana is a signatory to international conventions that recognize the need to ensure income security of all the aged; (b) the country's own constitution clearly specified that the "state

shall provide social assistance to the aged such as will enable them to maintain a decent standard of living” (Republic of Ghana, 1992, article 37, section 6b). On this issue, Ghanaian policy makers seem to have taken the view that, considering the financial constraints, it is wise to grant privileges to groups whose cooperation in the socio-economic and political transformation of the state is indispensable. It is possible that such exclusive rights could potentially become the basis for transforming such privileges into citizenship rights. Overall, retirement income policy in Ghana over the years has not been about retirement alone, it has for the most been used strategically for the purposes of economic development and reforms across time retained this approach.

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