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**Extending social security coverage:
The Ghanaian experience**

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Introduction

Types of schemes

Ghana, since the colonial era, has sought to provide social security particularly to its workers. Although not intended, coverage has been more successful for workers in the civil and public sectors of the economy. This has created an unwanted exclusivity in coverage, which has arisen mainly because of the ease with which workers in the aforementioned sectors can be covered.

Although the colonial government instituted a pension scheme in 1940, it was limited in scope to only a category of employees referred to as pensionable staff. A statutory scheme was, therefore, established in 1965 by an Act of Parliament to provide for all categories of workers in the event of retirement, unemployment, sickness, invalidity and survivorship. This scheme was expected to be the national social security scheme.

The pension scheme

The social security scheme, upon its establishment, operated as a Provident Fund from 1965 until 1991 when it was converted into a Pension Scheme. The Pension Scheme is a defined benefit and partially funded scheme. Financing is based on a combined contribution rate of 17.5 per cent (12.5 per cent by employers and 5 per cent by employees) of insurable earnings. The Pension Scheme provides benefits to cover three types of risks: old age, invalidity and survivorship. The Social Security and National Insurance Trust (SSNIT) administers the national pension scheme.

Other schemes - public service

However, there are other social security provisions, apart from the SSNIT scheme, that are exclusively designed for certain classes of workers; these include the Civil Service Pensions, an inheritance from the colonial period, which is paid out of general taxes for some civil servants. Superannuation schemes also exist for university lecturers and senior members of other research institutions with analogous qualifications.

Health insurance scheme

Although there is no health insurance provision on a universal basis at the present time, the national health service is developing a National Health Insurance Scheme for the country. Civil society, particularly non-governmental organizations, are presently, however, very active in the creation of community and district wide mutual health organizations.

The International Labour Office (ILO) has undertaken a feasibility study under the Ghana Social Trust Project aimed at supporting the establishment of a pluralistic national social protection system in Ghana. This, it seeks to do in collaboration with the emerging National Health Insurance Scheme as a vehicle for combining the schemes that service the formal sector workforce and workers in the informal sector of the economy.

Administrative organization - national pension scheme

The SSNIT, as an institution, was established in 1972 by Decree to be responsible for the administration of the national social security scheme. In order to achieve this objective, it has established a very effective administrative network that covers the entire country through 46 district offices and two agencies, which are supervised by seven area offices. The head office provides policy and monitoring guidelines as well as centralized services such as records and data management, finance, investment and human resource management.

Limitation in coverage

Although the statutory scheme is by law mandated to “provide social protection for the working population”, achieving the universal coverage intended has been difficult. Coverage is mandatory for all persons working in establishments with one or more employees and voluntary for the self employed. As at the end of 2002 there were 941,782 active members comprising 10 per cent of the working population. Of this number, 5,423 were voluntary contributors although the self-employed make up 70.8 per cent of the working population.

Measures adopted for extending coverage over the past five years

Specific features in the treatment of special categories - the self-employed

Apart from the provision in the Social Security Law for the self-employed, SSNIT has introduced various measures aimed at attracting this category of persons. These measures include the following:

- Making the payment of contributions more flexible: under this policy, the self-employed have the choice between a number of payment methods - monthly, quarterly, bi-yearly, or yearly.
- No penalty is levied on late payments.

Results of these concessions

- To date, the total number of people covered through this scheme is negligible.
- Members often stop contributing after a while.
- Most of the members have contributions from formal sector employment that they wish to merely top up in order to meet the eligibility criteria for an old age pension.

Problems encountered in extending coverage to the new sector through the present statutory programme

The problems encountered are enumerated below; these problems have led to low coverage of this sector.

- The statutory scheme requires that contributions be paid monthly, based on a prescribed percentage of the monthly income of the worker and within a prescribed deadline. Workers in the informal sector considered this arrangement too rigid due to the irregularity of their income.
- Since workers in the informal sector lack the relative higher job and income security that formal sector workers possess, they are more amenable to short-term financial provisions than to the long term.
- There is a perception among workers in the informal sector that the benefits provided under the statutory scheme do not meet their immediate needs.
- According to the administrative procedures of the statutory programme, members of the social security scheme are required to make payment of contributions personally at the nearest social security office. Most persons in the informal sector, however, find this procedure tedious and inconvenient because it leaves their businesses unattended during the period that they have to make the payment.
- Workers in the informal sector also possess an ingrained mistrust for bureaucratic structures, which to them have procedures that are cumbersome, time wasting and confusing. This mistrust is evident in their preference for transactions with institutions that have simple processes and are familiar to them such as rotating savings and credit schemes.

Progress made in the coverage of the new sector - the informal sector

The SSNIT, due to its concern about the continued low coverage of the informal sector, carried out a number of studies into the factors leading to low coverage. The findings from these studies provided the institution with the basis for a consultancy project that was sponsored in 1997 by the Government of Ghana, SSNIT and the Non Bank Financial Institution (NBFI) unit of the World Bank and was entitled "Widening Social Security Coverage to the Informal Sector". The primary task of the team of consultants was to design a social security scheme that would be attractive to workers in the informal sector.

The team of experts who undertook the study made recommendations for a separate package for workers in this sector, which was meant to address their specific needs and characteristics.

Major findings in the studies of the informal sector revealed that workers in the sector did not feel comfortable with the statutory scheme because it did not:

- address their immediate needs for funds to run their businesses;
- help them to take care of their children's needs; and
- help them meet the cost of their medical needs.

To address these issues, the team recommended that the scheme for workers in this sector should have a savings component that could be withdrawn while the member is still working.

The Money Purchase Scheme that was recommended is essentially a defined contribution scheme in which contributions made are split into two equal portions. One part may be withdrawn while the other portion is maintained to pay pensions for old age and invalidity as well as the survivors' lump sum.

The informal sector project

The SSNIT formed a team in June 2002 to review the recommendations made by the World Bank team and to design the appropriate administrative structure to implement the scheme.

On their fact finding mission, the team found that, five years after the initial study by the World Bank team of consultants, the issues raised in the study were still pertinent and that workers in the informal sector were more receptive to the proposed scheme than to the existing scheme.

The social security scheme for the informal sector

The basic scheme design proposed by the World Bank team of consultants has been adopted with some additions made in order to widen the scope of the scheme.

The informal sector scheme is therefore:

A voluntary scheme for:

- informal sector workers;
- Ghanaians resident abroad; and
- informal sector employees who wish to enhance their pensions.

A defined contribution scheme administered in two parts:

- a withdrawable portion referred to as the Occupational Scheme Account; and
- a non-withdrawable portion referred to as the Retirement Account.

Covers the following contingencies:

- old age;
- invalidity (only accident);
- survivorship.

Implementation of the scheme: The Long Term Savings Act

In order to implement the scheme, SSNIT has to do one of the following:

- review the existing pension legislation to accommodate the scheme; or
- incorporate a new autonomous administrative body.

While considering these options, the government proposed the creation of a long-term savings scheme for the nation. The long-term savings scheme encourages contributions, on a voluntary basis, into a retirement, housing and education plan from which members could withdraw after a vesting period of ten years for the retirement plan and five years for the housing and education plans.

The SSNIT is presently studying the bill to determine its relationship with the social security scheme for workers in the informal sector. What is clear, however, is that the bill, if passed, would facilitate the implementation of the scheme by setting up an autonomous administrative body without the need to review the existing Pensions Law.

Methods of financing the scheme

Sources of financing and shares of the contributors

The income sources for financing the scheme are derived mainly from:

- contributions from members;
- investment returns.

Table 1 and Figures 1 and 2 below show the expected coverage for the scheme during the first year of operation (the pilot phase).

Table 1. Expected coverage and contribution - pilot period

Case 1 Daily coverage												
Initial membership of 2500 and a growth rate of 100 % and a daily contribution of ₵5000.00*												
Month	1	2	3	4	5	6	7	8	9	10	11	12
Members	2500	5000	7500	10000	12500	15000	17500	20000	22500	25000	27500	30000
Contributions (million)	312.50	625.00	937.50	1,250.00	1,562.50	1,875.00	2,187.50	2,500.00	2,812.50	3,125.00	3,437.50	3,750.00
Death*	11	22	33	44	55	66	77	88	99	110	121	132
Case 2 Monthly coverage												
Initial membership of 1250 with additional 1250 members every month and a monthly contribution of ₵50,000.00												
Members	1250	2500	3750	5000	6250	7500	8750	10000	11250	12500	13750	15000
Contributions (million)	62.50	125.00	187.50	250.00	312.50	375.00	437.50	500.00	562.50	625.00	687.50	750.00
Death*	5	10	15	20	25	30	35	40	45	50	55	60
Total number of deaths for cases 1 and 2												
Month	1	2	3	4	5	6	7	8	9	10	11	12
Members	3750	7500	11250	15000	18750	22500	26250	30000	33750	37500	41250	45000
Death*	16	32	48	64	80	96	112	128	144	160	176	192
Case 3 Ghanaians abroad												
Initial membership of 10 with additional 10 members every month and a monthly contribution of £20.00**												
Month	1	2	3	4	5	6	7	8	9	10	11	12
Members	10	20	30	40	50	60	70	80	90	100	110	120
Contributions (£)	200.00	400.00	600.00	800.00	1,000.00	1,200.00	1,400.00	1,600.00	1,800.00	2,000.00	2,200.00	2,400.00
Death*	-	-	-	-	-	-	-	-	-	-	-	-

* Rate of exchange in September 2003: 1USD = GHC8,550.00.

** £ = GBP (Pound Sterling).

Figure 1. *Expected coverage - pilot period*

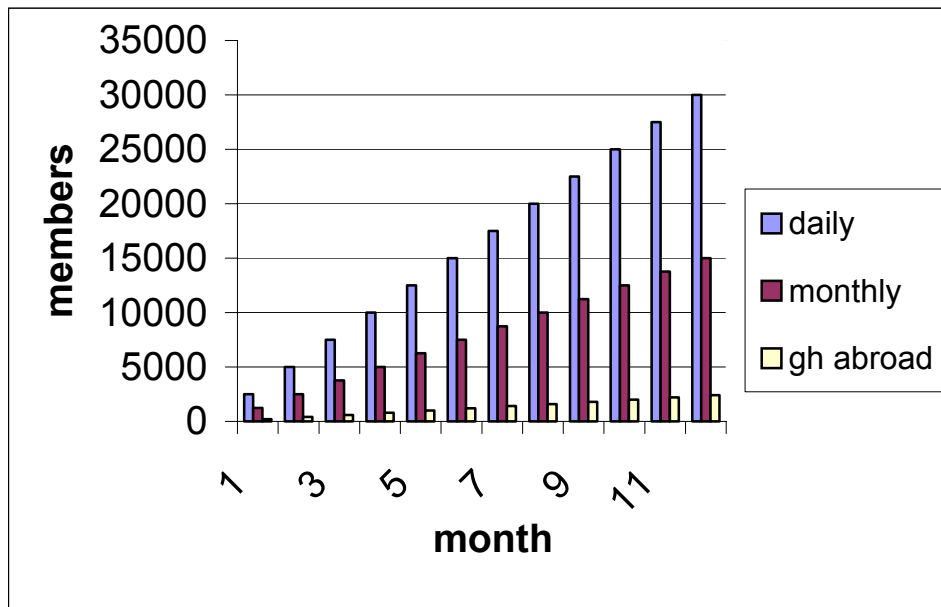
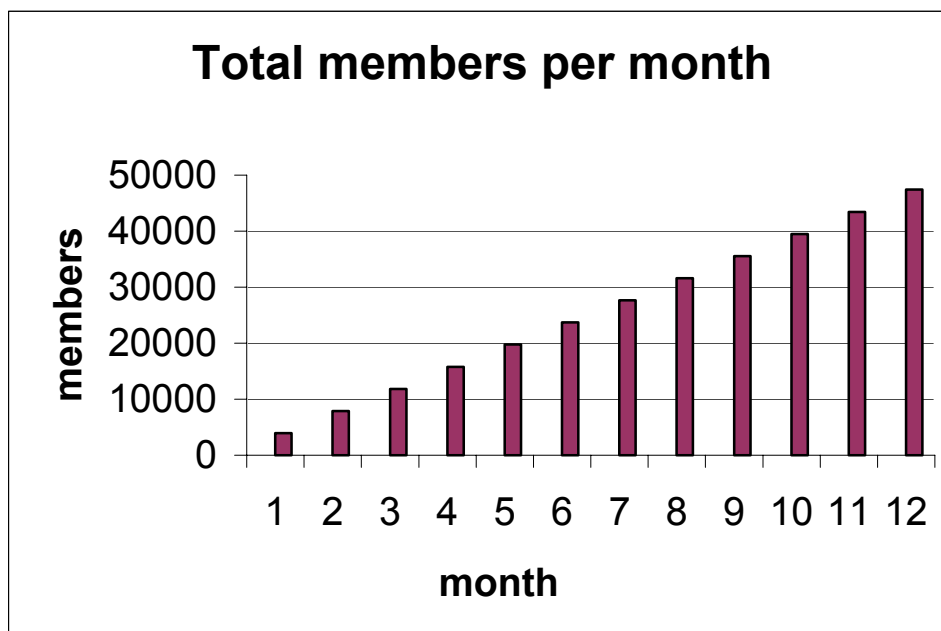


Figure 2. *Expected coverage - pilot period*



Contribution collection

Method of contributions

Members have the option to contribute daily, weekly, bi-monthly, monthly, quarterly, annually, and seasonally.

In all cases, members would be required to contribute on amounts that are at least equal to the national minimum wage.

- members will be issued with passbooks or receipts on payment;
- in addition, statements of account would be issued quarterly;
- data storage and retrieval will be through electronic services.

Due to the working conditions of the informal sector and the heterogeneity in the target groups for the informal sector scheme, there is a need for various methods by which contributions could be paid conveniently.

Contributions from informal sector workers

This group of contributors has the option to pay either through their trade associations or directly to an accredited collector who would approach them at their workplace to collect the contributions.

Contributions from formal sector workers

This group of members can pay their contributions in any of the following three ways:

- at the branch office personally;
- deducted at the source with the agreement of the employer; and
- by bank standing order.

Ghanaians resident abroad

Ghanaians resident abroad shall pay their contributions to the scheme's account through designated banks in their countries of residence.

As a control measure regular monitoring shall be carried out through the banks.

Strategy in overcoming non-participation - the role of marketing personnel

Since the scheme is voluntary, it is imperative to adopt strategies to attract and retain membership. In this regard, understanding the operations of the scheme by members is crucial.

The role of the marketing personnel will, therefore, include the following for members of the scheme:

- continue educating both old and new members;
- provide near to perfect customer service;
- timely distribution of accurate statements of account;
- intelligence information gathering to generally improve operations of the scheme and in particular, services to members.

Mechanism for maintaining the real value of benefits: Financial instruments

The funds would be invested in:

- Government of Ghana: 91-Day Treasury Bill.
- Government of Ghana: 182-Day Treasury Bill.
- Government of Ghana: 1-Year Note.
- Ghana stock exchange.
- Short term bank deposits.

Major problems in the financial administration of the scheme

Like any other new scheme, there are challenges and problems to be encountered in the administration of the scheme.

The very fact that extension of the pension scheme to workers in the informal sector under the defined benefit scheme has not been possible over the years clearly indicates the challenges ahead.

Other challenges may arise from the following factors:

- high illiteracy rate;
- low earnings;
- poor savings habit;
- unwillingness to save for long periods;
- desire for loans, etc.;
- data management.

These clearly call for effective and committed personnel to market the scheme.

Record keeping

An important aspect of social security administration is the effective and efficient manner of keeping data on insured persons and employers.

The challenge for SSNIT lies in maintaining records on members that should be more current than it is used to, due to the higher variations in the mode of contribution payment and the administration of the occupational scheme.

Effective and efficient record keeping would, therefore, demand maintenance of a comprehensive working manual detailing procedures and processes involved in the:

- registration of workers and employers in both the formal and informal sectors as well as the self employed;
- registration of Ghanaians resident abroad who opt to join;
- collection of contributions;
- monitoring of contributions collected;
- withdrawals from the occupational scheme account;
- benefit payments.

Features of the record keeping systems

The focus of the record keeping system is to support the business operations of the informal sector organization to provide optimal customer services through a reliable corporate database.

The main databases to be maintained are:

Members' personal information

This consists of members' personal and employment details and beneficiaries' records.

The members' thumbprint, which would serve as the main source of member identification is maintained manually on paper. However, steps would be taken to move towards electronic maintenance of the members' thumbprint through appropriate technology in order to automate member identification.

Records would also be maintained on registered associations or groups. A member may belong to one of these groups. A member may also be assigned to an informal sector collector. Thus the trade associations and the informal sector collectors serve as agents for the informal sector organization to link up with members.

Contribution accounts

The system would maintain the following accounts for the member. These are the:

- retirement fund account;
- occupational scheme account;
- agent account;
- collectors account;
- withdrawals account; and
- loans account.

The **Agent Control Account** is to be maintained to keep records of collections and payments made by agents. This would serve as a control account to monitor receipt from trade associations and informal sector collectors. This account is designed to monitor the collection performance of trade associations and informal sector collectors and would be set to simulate the option chosen by the group for payments such as daily, weekly, monthly, biannual and annually.

The methods of payment of benefits

Old age retirement

- A member of the scheme could qualify for an old age pension by purchasing a pension annuity at age 55 to 60 or could defer the purchase of a pension from age 60 to 65 in order to enhance his/her pension.
- Members would be allowed to take a portion of their accruals as a lump sum payment on retirement, provided that a meaningful amount remains to provide for an adequate pension.

- If the money accrued in the member's retirement account is sufficient to provide adequate pensions and if the member so wishes, he/she could be allowed to withdraw the entire amount in the occupational scheme account at retirement. The balance in the two accounts would, however, be merged for those members who on retirement do not have enough funds in the retirement account to provide meaningful pensions. Such members would not have the option to withdraw the balance in the occupational scheme account at the time of retirement.

Lump sum benefit

Members who have other pensions would be allowed to withdraw the entire amount accrued in the two accounts on retirement as a lump sum. Such members include formal sector employees who opt to join the scheme, members from the armed forces, universities and any other group of workers who are known to have other provisions for pensions.

Accident induced invalidity pension

An invalidity pension shall be paid where a member is certified by a medical board to be totally incapacitated as a result of an accident.

In addition, the member must have made 60 months regular contribution.

There shall be an invalidity programmed withdrawal or lump sum in the event a member does not have enough in his/her retirement account to earn an adequate annuity or has not contributed for the number of months specified above.

Survivors' benefit

The survivors' benefit shall be paid, on the death of a member, to his/her survivors as the life insurance amount, plus the returns on the retirement fund that have accumulated over the years until death.

The balance in the occupational account at death shall be transferred into the retirement fund.

Waiting period for withdrawals

The waiting period for withdrawals is fixed at five months after joining the scheme.

Terms upon which to grant loans

Due to the varying needs of workers in the informal sector, it will be very difficult to have standardized terms for granting loans.

However, the following could form the basis for granting loans:

- accumulation level that has to be achieved in order to receive loans;
- a threshold, that is what percentage above the amount accumulated in the occupational scheme; and
- length of attachment feasible for loans.

Minimum guaranteed interest rate

This would be fixed slightly above the maximum interest rate being offered by the banks.

Expected practical problems to be encountered by the scheme and the beneficiaries in claims processing

Old age retirement

- high rate of illiteracy in the informal sector will definitely cause a serious problem in processing claims;
- maintaining accurate records of payments of contributions;
- low levels of accumulated contributions;
- bureaucracy in processing claims; and
- uncertain age of claimant.

Invalidity pension

- assembling the medical board when there is a pending case;
- maintaining accurate records of payments of contributions;
- low levels of accumulated contributions; and
- bureaucracy in processing claims.

Survivors' benefits

- no feedback from those who report the death of a member upon realization that they may not have been nominated as beneficiaries;
- invalid nominations e.g. friends, fiancés, deceased beneficiaries, etc.;
- traditions and customs;
- forged death certificates;
- when a member has children of school going age not nominated; and
- the law courts will have to intervene if the nominations are contested.

Special social security schemes

National Health Service

The government has set up a National Health Service as a vehicle to implement a National Health Insurance Scheme, which is at a pilot stage at the present time. The National Health Insurance Scheme is eventually intended to cover all communities in the country. All citizens would then be required to join the National Health Insurance Scheme, which would replace the cash and carry system currently in place. The cash and carry system had excluded a large sector of the population from receiving medical care.

An inherent problem in the National Health Insurance Scheme concerns the payment of contributions by workers in the informal sector. The payment of an actuarially sound schedule of contributions by the various groups of the population such as formal sector employees, informal sector employees, students, pensioners and orphans has to vary due to the income sources. Indications are that there may be wide variations in the ability of workers in the informal sector to pay the required contributions depending on location and the type of activity engaged in.

Ghana Social Trust Project

The **Ghana Social Trust Project** is under the umbrella of SSNIT within the framework of the ILO feasibility study.

The Ghana Social Trust project serves a double purpose:

- it seeks to support the establishment of a pluralistic national social protection system in Ghana; and
- it will provide experience for the development of the overall Global Social Trust concept.

The Global Social Trust was developed by the ILO's International Financial and Actuarial Services as an innovative concept for a Global Social Trust Network, which is aimed at connecting the global, national and community levels of financing for social security.

An initial feasibility study on this concept was conducted following a tripartite meeting held in May 2002 to decide on the way forward.

The establishment of a pluralistic national social protection system in Ghana will combine schemes that cover the formal sector workforce and schemes that predominantly cover the workforce and their dependants in the informal economy.

The approach pursued is to link the formal and informal sector schemes in a 'hub-satellite relationship.' This concept, envisages in general, that an established public agency acts as a partner and sponsor of smaller community based social security schemes for workers in the informal sector.

The project expects to establish full compatibility with the emerging overall national vision on the National Health Insurance Scheme.