December 2023, ACRR Publication Number 23 - 4

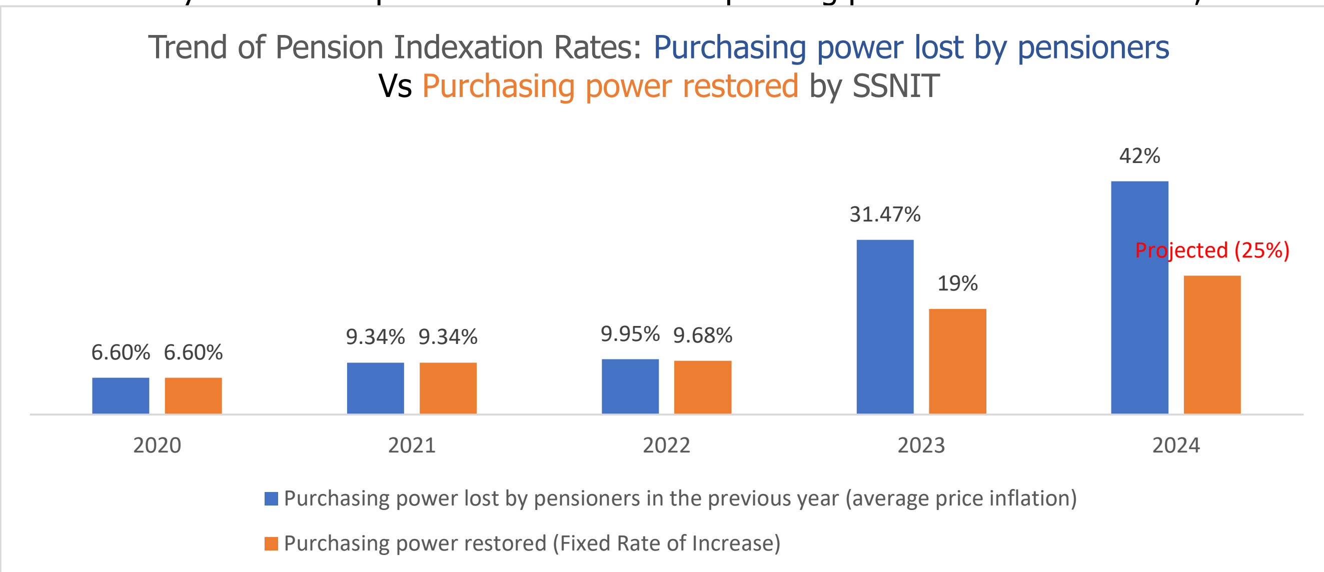
COMMUNIQUE:

ANALYSIS AND PROJECTION OF THE 2024 SSNIT PENSION INDEXATION RATE

EXECUTIVE SUMMARY

Section 80 of the National Pension Act, 2008, (Act 766) provides for upward review of pensions in payment ostensibly to maintain retirees' purchasing power. The basis of the review is therefore largely dependent on the annual average of price inflation rates, as it measures the purchasing power that pensioners have lost in the previous year and which needs to be restored.

Below is a 4-year trend of price inflation and corresponding pension indexation rates;



Projected Fixed Rate of Increase

As you may recall, price inflation averaged 31.47% in 2022 and each pensioner was awarded a fixed rate 19% in 2023. Price Inflation averages **42%** as at November 2023. Based on the provisions of Act 766, and the practice of SSNIT over the years, coupled with the economic and demographic trends in 2023, ACRR is projecting that pensions in payment could increase by at least a Fixed Rate of **25%** for each Pensioner in January 2024.

Minimum Pension

The minimum pension amount currently stands at GHS430.58. This represents 60% of the value of the national poverty threshold. In line with global trends and best social security administration practices, it is expected that the Government, in its effort to practically sustain the economic well-being of the poor pensioners in 2024 will ensure that SSNIT increases the minimum pension.

1.0 BACKGROUND

January is the most important time of the year for pensioners and their dependents, primarily because it is the time when the Social Security Administration announces the new rate by which pensions in payment would be increased for the current year*.*

It is therefore expected that in January next year, SSNIT, in consultation with the National Pensions Regulatory Authority (NPRA) will announce the new pension indexation rate for 2024, as required by Section 80 of the National Pension Act, 2008, (Act 766).

Pension indexation is a policy for the upward review of pensions in payment as a means of preserving the purchasing power of pensioners or restoring the purchasing power lost by pensioners in the previous year. Pension indexation also presents the opportunity for the Social Security Administration to redistribute pension wealth from the rich to the poor, as required by the Social Security principle of solidarity. Indexation policies, in recent times, have, therefore, been used by most countries to improve the redistribution of pension wealth to provide more financial protection for the poor.

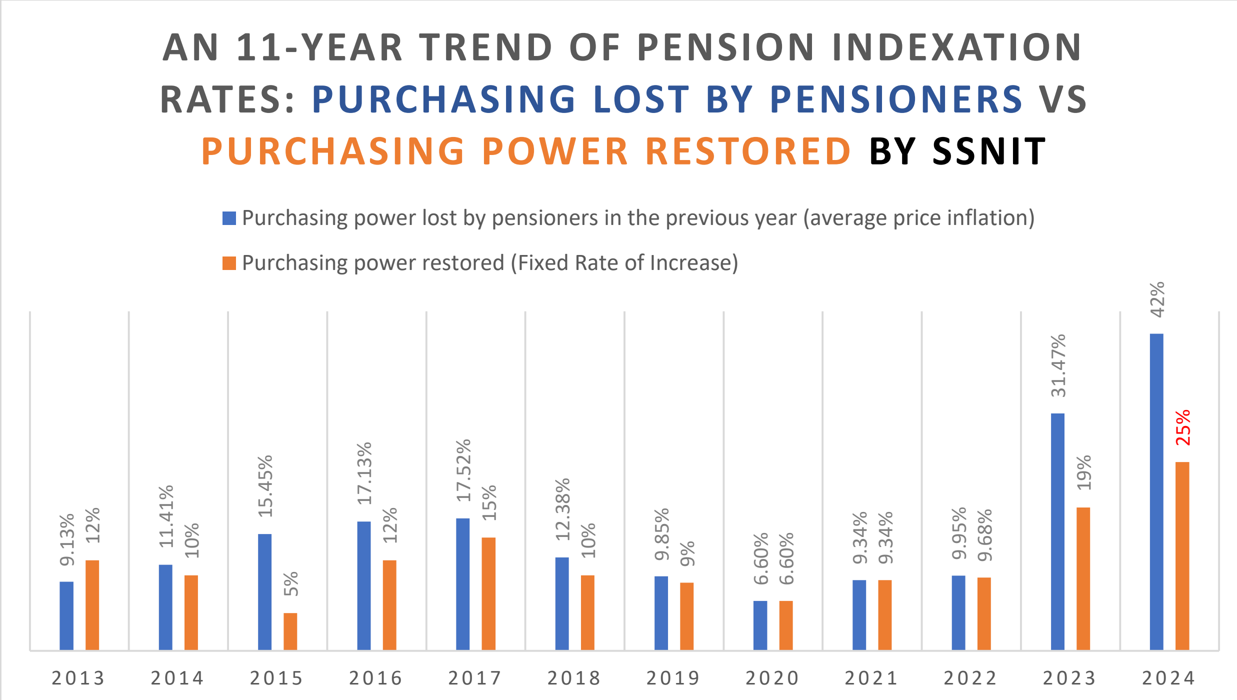
2.0 PENSION INDEXATION PROVISION UNDER ACT 766

Section 80 of the National Pension Act, 2008 (Act 766) provides that "the Trust shall annually review the pension payment which shall be indexed to **wage inflation rates** of active members or another rate determined by the Trust in consultation with the Board of the Authority".

2.1 How is this Provision Implemented by SSNIT?

In practice, SSNIT and the National Pensions Regulatory Authority (NPRA), based on analysis of several variables agree on what is termed as the **'Overall Rate'** by which pensions will increase for the coming year. Given the overall indexation rate, a 'Fixed Rate' of increase for each pensioner and an equally distributed 'Flat Amount' are determined. **The Fixed Rate is equivalent to the Annual Average Price Inflation Rate** of the previous year.

Below shows an 11-year trend of year-end average inflation rates and the corresponding Fixed Rates by which pensions increased;



Comment

The purchasing power restored by SSNIT is almost always lagging behind inflation, thus making the pensioner worse off in terms of purchasing power. Our projection of the Fixed Rate of increment (25%) is also lagging behind price inflation because we have considered the Scheme's financial sustainability issues especially during periods of high inflation, nonetheless our projection is the minimal that may be possible.

3.0 EXPECTED PENSION INDEXATION RATES IN 2024

3.1 Projected Fixed Rate of Increase

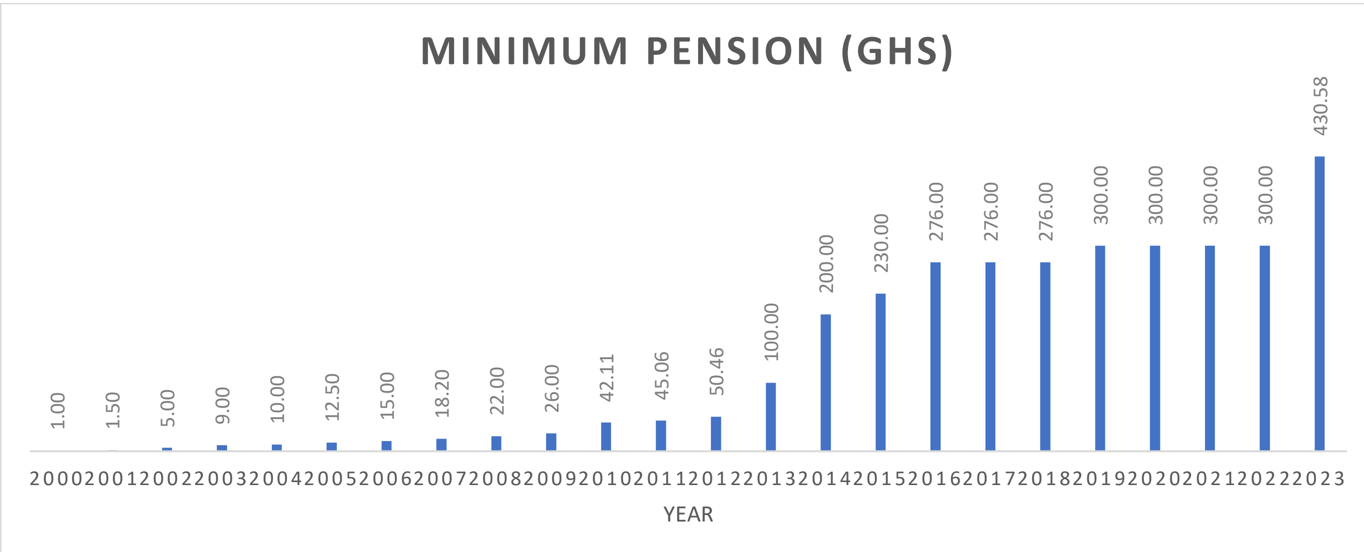
In 2023, inflation is averaging 42% as at November. Based on the provisions of Act 766, and the practice of SSNIT over the years, coupled with the economic and demographic trends in 2023, we are projecting that pensions in payment could increase by at least a Fixed Rate of **25%** for each Pensioner in January 2024.

3.2 Minimum Pension

Generally, the provision for a minimum pension by a National Pension System, the level of the minimum pension, and its frequency of increment are used to assess the efficiency of the system - an efficient pension system is deliberate about providing more protection for the poor.

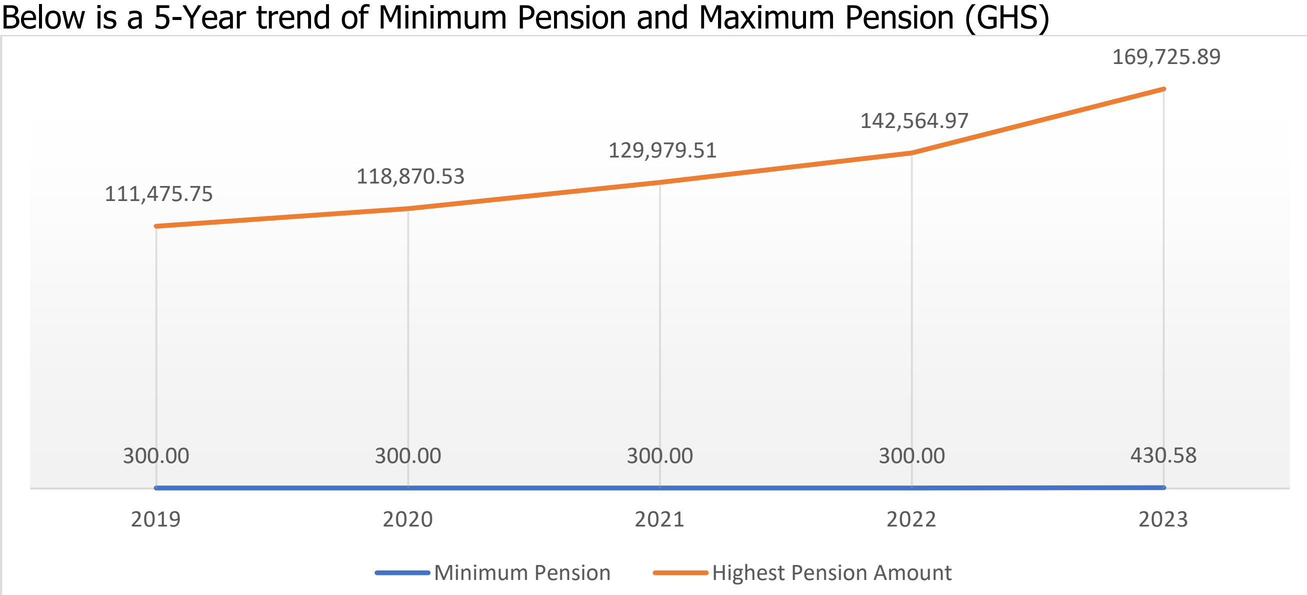
A Trend Analysis of the minimum pension

- A trend analysis of the Minimum Pension shows that the Minimum Pension has consistently increased each year since 2000 until 2017, and in some cases doubled (2013 and 2014).
- The minimum pension amount, however, remained at GH¢300.00 for four successive years (2019, 2020, 2021, and 2022) and was only increased in 2023 to GHS430.58.
- The current minimum pension amount represents 60% of the value of the national poverty threshold – a case that poor pensioners are still worse off.



- The SSNIT Scheme's method of reviewing pensions could be improved to slow down the growing economic inequalities between the rich and the poor.

Below is a 5-Year trend of Minimum Pension and Maximum Pension (GHS)



Comment

Pension indexation presents the opportunity for Social Security systems to redistribute pension wealth from the high-earners to low-earners. The above figure shows a classic case of ever-growing socio-economic gap between the 'rich' and the 'poor' on the pension payroll. The current global trend is that countries are vigorously undertaking pension indexation policy reforms to improve benefits for the poor.

3.3 Suggestions for Increasing the Minimum Pension

To practically sustain the economic welfare of pensioners, the government, represented by the Ministry of Employment and Labor Relations and Pensions together with the NPRA must see to it that SSNIT increases the minimum pension come January next year, in line with the current global trends and best Social Security Administration practices.

The Trust must adopt deliberate and innovative policy measures to improve benefits to low-earners and to slow down the growing socioeconomic gap between the rich and the poor. Generally, if the level of benefits provided by a pension system is insufficient in terms of minimum living standards, or are not deliberately designed to protect the poor, the efforts to reduce old age poverty will be jeopardized.

4.0 CONCLUSION

There is a need for stakeholders to ensure that pensions are not reviewed based on discretion or on an ad hoc basis, but must be based on economic development in each year and in conformity with provisions of the legislation. In particular, and as best practices require, pension increment rates must be in lock-step with the general changes in prices of goods and services (inflation). This will guarantee that the socio-economic well-being of retirees is sustained.

Generally, if the level of benefits provided by social protection systems is insufficient in terms of minimum living standards, or are not deliberately designed to protect the poor, and to minimize the social and economic inequalities between the rich and the poor the effort to reduce old age poverty will be jeopardized.

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