

## **A PROPOSED ALTERNATIVE PENSION INDEXATION MODEL:**

- TO BRIDGE SOCIO-ECONOMIC INEQUALITIES AMONGST GHANAIAN PENSIONERS, AND
- TO IMPROVE THE MEDIUM TO LONG-TERM FINANCIAL SUSTAINABILITY OF THE FIRST-TIER (SSNIT) SCHEME

### **The Key Point**

- The recent ACRR project recommended to stakeholders to consider reviewing the method of pension indexation. The recommendation was based on a detailed examination of the social, economic, and financial impact of the existing method of indexation.

### **Why review the pension indexation provision?**

- The current basis of indexation has the shortcoming of increasing the economic gap between the rich and the poor (income inequalities), leading to high poverty incidence.
- The existing method is increasing the financial pressure on the scheme (undermining financial sustainability efforts) as evident in recent actuarial valuation reports

### **Key Recommendation**

We recommended that stakeholders adopt a variation-based model – a pension redistribution method that varies the Fixed Rate (year-end average inflation rate) based on the members' monthly pension amount. This is a means-based approach that gives a good balance between effective benefits redistribution (adequacy) and protects the scheme from financial pressure. In addition, this model will make the poverty relief measures more effective (minimum pension trend)

### **Further Justification for the Variation-Based Model**

- The variation-based model is a policy innovation that is transparent, has an inbuilt financial sustainability factor, and will distribute benefits fairly and equitably.
- Fully applies the social security principle of solidarity. It takes into account the diversity of circumstances and needs of heterogeneous subgroups (e.g., income groups) in the population.

- ***Represents a more Transparent method of indexation:***

Price inflation averaged 31.47% in 2022 and pensioners received a fixed rate of 19% in January 2023. The 19% fixed rate awarded in January 2023 lifted many retirees out of the poverty zone. This, however, increased cost of indexation by 343% (37 million in 2022 to 164 million in 2023).

The reverse also holds – benefits increments that fail to match price increases will deteriorate retirees’ living standards and will push them into poverty over time.

In 2023, inflation averaged 40.28% and pensioners were given a far lower fixed rate of 10% in January 2024. In this case, many pensioners will have considerable challenges meeting their pre-consumption levels.

## Conclusion

The propose method, if adopted, will impact some important United Nations SDGs (Goals 1, 8, and 10). The method will also be in line with the government plans to protect poor pensioners.

## Further Notes

According to the Ghana Statistical Service Inequality Report, **earnings inequalities amongst Ghanaian workers are large**, depending on the sector and type of work. The variations in earnings during active service translate into old-age pension income inequalities. **Income disparities among Ghanaian retirees is thus seen as a major development challenge!**

Strong redistribution policy measures are required to close the income gaps among retirees, and this can be achieved through the Social Security structure and its provisions.

**Social security financing worldwide has come under extensive strain** due to changes in demography and recent economic crisis.

The last three (3) actuarial valuations of the SSNIT Scheme have given a strong indication that the scheme’s medium to long-term financial sustainability is in doubt. The ACRR has been analyzing the demographic and financial trends in the last three valuation reports.

- The Scheme’s liabilities (expenditure on benefits and administrative costs) are closing up with revenues (contributions plus investment incomes).
- The proportion of income used for expenditure increased from **37% in 2014 to 65% in 2017, and then to 79% in 2020**.
- The excess revenue over expenditure has **declined from 4.0 billion in 2014 to 2.4 billion in 2017, and then to just 760 million in 2020**.
- These have reflected in the declining growth rates of the reserves; the reserves increased by **32%** between 2014 and 2017 and then by **8%** between 2018 and 2020, and could be lower between 2021 and 2023.

As stakeholders, we now know we have a two-edge problem whose solution requires innovation and deliberate policy measures to improve benefits provisions and to promote sustainable benefits financing.