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SSNIT IS IN NEED OF REFORMS

By

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Introduction

The Social Security and National Insurance Trust (SSNIT) is the trustee of the social security scheme in Ghana. It is the sole legally authorised institution that manages a pension scheme for workers in Ghana. This is in accordance with PNDC Law 247, which requires Ghanaian employees of companies operating in Ghana to be members of the scheme. The primary responsibilities of SSNIT include:

- 1) Administration of membership records
- 2) The collection and payment of contributions into a fund
- 3) The payment of benefits
- 4) The management of assets of the scheme.

Discussions on SSNIT have been rekindled in recent months following the government's decision to use 2.5 per cent of the 17.5 per cent workers contributions to SSNIT as seed money to support the National Health Insurance Scheme (NHIS). According to the government, it has the assurance of SSNIT

that Benefit Entitlements and long-term solvency will not be affected by this policy. This conclusion is based on an actuarial review of SSNIT which suggests that the scheme's sustainability is assured through 2050. This conclusion is based on the following assumptions:

- The contribution rate will remain at 17.5 per cent
- There will be a steady population growth rate of at least 3 per cent per annum
- The Trust's investments will yield a real rate of return of at least 2 per cent
- The Administrative and Operational costs will be kept within a reasonable limit.

A key question regarding the sustainability of the scheme is the validity of the aforementioned assumptions, given the way SSNIT is managed. For example, the 3 per cent population growth rate is not a reasonable assumption to make given that there has been a downward trend, with the population growth rate averaging 2.4 per cent between 1990 and 2001¹. The higher

¹ Calculated from the 2003 World Bank African Database.

than average population growth rate implicitly assumes that the cohort of the working-age population will remain high relative to that of potential pensioners. In other words, a relatively high ratio of contributors to pensioners is assumed, and this biases the estimate in favour of long-term solvency. The last two assumptions are directly affected by the mismanagement of SSNIT. The paper presents a discussion of management issues that invalidates these assumptions, especially the last two, and therefore renders the conclusion of the actuarial review tentative at best. It draws on evidence from the Auditor-General's Reports (1994 and 1997) and, to a lesser extent, the 2002 Annual Report of the Serious Fraud Office.

Expenditure trends and composition

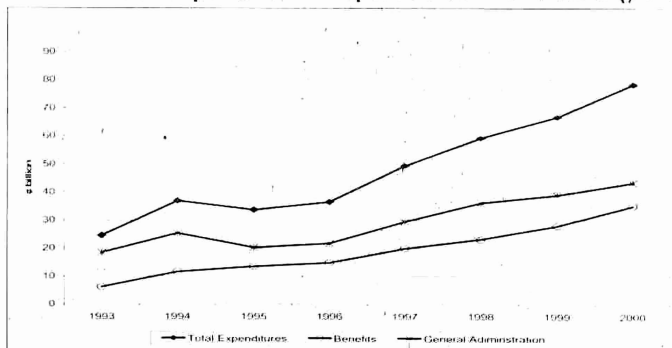
Between 1993 and 2000, the annual growth in real expenditures of SSNIT averaged 19.3 per cent. In real terms expenditures increased from the 1993 level of about

¢24.67 billion to about ¢78.53 billion in 2000. While this increase may seem like a positive development, it must be seen in the light of the fact that SSNIT has consistently spent more on General Administration than it has on payment of benefits (I am not sure I would want to say that this is necessarily a positive thing). On average, general and administrative expenditures of SSNIT were about 1.73 times its expenditures on the payments of benefits. We look at both components, and provide an assessment of how mismanagement of SSNIT has adversely affected these expenditures.

Payment of benefits

In nominal terms, total benefits paid by SSNIT in 2000 amounted to ¢99.46 billion, compared to ¢3.32 billion in 1993. These high increases in the nominal benefits paid mask the high inflation over the period. As a result, the average annual growth in nominal benefits of 65.5 per cent translates into an increase of 30.1 per cent in real terms in 1993-2000. The largest component of benefits is for old age

Figure 1 SSNIT expenditure components in 1995 Prices (¢ Billion)



Sources: Data for 1993 – 1996 obtained from 1994 and 1997 issues of the Auditor General's Report and 1997 – 2000 from Kumado and Gockel (2003)

and invalidity, which amounted to ¢13.32 billion, approximately 64 per cent of total benefits.

A major problem identified in the Auditor-General's reports, and which opens the Trust to serious allegation of fraud, is SSNIT's inability to confirm the total amount of benefits

paid by the Trust (A-G Report, 1997: p.57). For instance, the report highlighted that in 1996 an unaccounted discrepancy of about ¢964.9 million existed between the Accounts and the Claims Departments. The report notes that this discrepancy resulted from processed but unpaid claims which were not taken into account by the Accounts Department. This

indicates a lack of regular reconciliation between these two key departments, which in turn suggests improper, or even lack of, supervision by management. This observation is clearly worrying, as lack of bank reconciliations between these departments lends itself to fraud. There are two interpretations that one could assign to this particular finding in the Auditor General's report. One is that management does not appreciate that these lapses in supervision can lead to a loss of workers' contributions held by the Trust. A second interpretation is that management does not care about this potential loss to the Trust. Both interpretations highlight serious management problems associated with the running of the SSNIT scheme.

Administrative expenditure

General and Administrative Expenditures form the largest component of SSNIT's expenditure. In 2000 these expenditures represented 55.3 percent of total Trust expenditures. This actually represents a decline from the 1993 level of about 75 per cent. The General and Administrative expenditures of SSNIT reflect its extremely high operational and running costs, and therefore provide ample evidence regarding the extent of inefficiencies inherent in its operations. In 1993, the Trust was using 11.5 per cent of all contributions it received on General and Administrative expenses, but this increased sharply to 26.8 percent by the year 2000. There is no doubt that this level of Administrative Expenditure by SSNIT is on the high side. In Canada, for instance, it is estimated that the Administrative costs for large pension plans in the private sector averaged about 5 per cent of expenditures over the 1999-2000 fiscal year (Canada Pension Plan Annual Report for 1999-2000).

A major contributory factor to this very high

level of expenditure is the high salaries and allowances paid by SSNIT, particularly to the Management and Board. Wages, salaries and allowances constituted 51 per cent of expenditure in 1995, and 43 per cent the year after². This level of inefficiency, driven by the high expenditures on wages and salaries, is implicitly alluded to by the Trust in its Medium-Term Strategic Plan, 2002-2006. In the report, it is noted that the staff structure is top heavy, indicating an inefficient use of personnel.

Collection and payments of contributions into the fund

Cash contributions represent the major source of SSNIT's income, and thus it is expected that every importance is attached to the collection of worker contributions. This is not to suggest that the collection of contributions is the most important function of the Trust. However, it is these contributions which finance the operating costs of the Trust, the payments of benefits and investments which are made for the future sustainability of the scheme. Evidence from the Auditor-General's reports suggests that even this function has not been discharged effectively.

The nominal cash contributions received by SSNIT increased from ¢86.10 billion in 1993 to ¢458.84 billion in 2000. Almost all this increase in cash contributions is accounted for by increases in general price levels over the years. In real terms, the cash contributions received by SSNIT declined from the 1993 level of ¢160.26 billion, to ¢115 billion in 1995, but thereafter increased to ¢161.84 billion. Either one of two reasons may account for this inertia in real cash contributions. First, given that membership number increased, it could be argued that there was a decline in the real income of the average contributing worker over this period. This however, is not a very likely cause, given that the majority of SSNIT members are urban-based, and there is

²The wages, salaries and allowances referred to here includes social security contributions made on behalf of the employees of the Trust

evidence that there was a decline in the incidence of urban poverty between 1992 and 1998 (GLSS 3 & 4). A second, and more plausible explanation for the inertia in real cash contributions to SSNIT, has to do with increasing levels of outstanding contributions, that is to say, uncollected contributions or arrears.

The level of outstanding contributions declined in real terms from ₵16.22 billion in 1993 to ₵4.22 billion in 1994, but increased again to reach ₵11.21 billion in 1996. The increasing level of outstanding contributions is a worrying trend, and one that is alluded to in the Auditor-General's report. In the presence of high inflation, the real value of these outstanding contributions declines very quickly and so the real value of what contributors end up paying is less than what they should actually have paid, had they paid on time. These outstanding contributions are therefore a loss to SSNIT.

For instance, the level of outstanding contributions stood at ₵15.67 billion in 1996, in current terms. If the defaulting 'members' held these outstanding amounts for three months then the lost income to SSNIT is the foregone interest on 91-day Treasury-bills. At the average 91-day Treasury bills rate of 41.9 per cent in 1996, the lost income would have been about ₵1.64 billion. This is therefore a gain to the defaulting organisations/corporations. Clearly there is an incentive to hold back on the contributions if the law relating to default is not enforced. It is important to note that workers do not pay contributions directly to SSNIT. Rather, employers deduct 5 per cent from workers' salaries at source, add their share of 12.5 per cent, and pay the total of 17.5 per cent to SSNIT on behalf of their workers. It is therefore the employers, which invariably includes the government, which are cheating the Trust by not paying worker contributions on time.

Corporate loans

In a country with underdeveloped financial institutions, loans to corporations might present an attractive investment tool to a Social Security Scheme. However, in the case of Ghana, the large proportion of loans in total investments has been a major contributory factor for the low rates of return on SSNIT's investments. The key problem has been the decision to allocate loans according to criteria that are not strictly financial. Total loans increased from ₵16.9 billion in 1993 (8.7 percent of total investment assets) to ₵182.8 billion (34.1 percent of total investment assets) in 1996. In 1996 83.3 percent of all SSNIT loans were corporate loans, and over 95 percent of these were long-term facilities.

The section on Corporate Loans in both the 1994 and 1997 editions of the Auditor-General's Reports lends support to the hypothesis that some of the loans to corporate bodies had 'political undertones'. In the 1994 report it is noted that "... as at 31st December, 1994, there were fifteen loans given to corporate bodies and agreements for all these loans were available except loans granted to Makola Market Ltd., Golden Beach Resort, and Ghana Toll Road Management Ltd". Giving loans to corporate bodies in itself is not necessarily a problem if the beneficiaries pay back these loans and interest on them at the prevailing market rates. It becomes a problem when "certain beneficiaries of corporate loans from the Trust did not adhere to the repayment terms of the loans granted", as noted in the 1997 Auditor-General's Report. In fact in the 1994 Report it was also noted that loans were disbursed without loan agreements having been completed with the beneficiaries.

Bank reconciliations

Another major problem identified in the Auditor-General's Reports relates to the issue of irregular and infrequent preparation of bank reconciliation statements. It is noted in the 1997 report that "Of the 44 reconciliation statements, we noted several issued cheques, amounting to ₵3,220,404,508.04, some dating as far back as 1994, which had not been presented and therefore remained stale and invalid. No entries had been made in the records of the Trust to reflect the invalidity of these un-presented cheques". These lapses were a result of inadequate preparation and review of bank reconciliation statements by supervisors and managers. They reflect a generalized lackadaisical attitude towards reconciliations and investigations, resulting from problems identified while conducting reconciliation exercises.

This highlights an incentive problem that bedevils the SSNIT scheme. The incentive problem arises because, unlike other financial institutions, the incentive for SSNIT to make sound investments is low as a result of the 'guaranteed' net inflows in the form of contributions net of benefits paid. The irony is that this 'guaranteed' net inflow cannot be guaranteed in the long-run because the age structure of Ghana's population is bound to change. Therefore the long-term viability of the scheme depends on sound financial management policies now, which invariably includes sound investments with positive real rates of return.

Government bonds

It is reported in the 1994 Auditor-General's Report that an outstanding amount of about ₵51 billion in government indebtedness to the Trust was offset by the issue of Bank of Ghana Bonds with a 1993 redemption date. Interest rates on these bonds were set at 10 percent and 15 percent respectively for ₵33 billion and ₵18 billion worth of the Bond issue. These

interest rates were far lower than the 32 percent interest rates widely prevailing at the time. In addition, the annual rate of inflation averaged about 23 percent over 1990–1994. What this means is that SSNIT was making an investment, possibly with some persuasion by the government, in assets that could only have a negative rate of return. Observations made by J. B. da Rocha (1999: p-4) support this view. He noted that "there are indications that money from the fund is being spent on the directions of the government for purposes which are not directly for the benefit of beneficiaries". This practice is totally unacceptable, as it affects the viability of a scheme that is, by design, supposed to provide social security for workers by making judicious financial investments.

Asset Management

Probably the biggest question mark that has been raised in relation to the primary functions of SSNIT is how its assets have been managed. SSNIT's investment have persistently yielded negative real rates of return, and this admission is made in its Medium-Term Strategic Plan 2002 – 2006, where it is noted that '... the Trust's investment portfolio yielded -25.9 percent, -11.1 percent and -3.1 percent in 1996, 1997 and 1998 respectively. It recovered in 1999 posting a real return of 4.4 per cent and declined to -1.4 per cent at the close of 2000 ...' (Kumado and Gockel, 2003, p-35).

Accepted objectives of social security investments must meet the following criteria (ILO, 1997):

- *Safety* – ventures that protect the real value of the investments over time.
- *Yield* – a rate of return that exceeds the current rate of inflation.
- *Liquidity* – easily converted into cash to ensure that benefits are paid promptly to those who qualify

Economic and societal utility -- provides a positive impact on the economic planning and strategy of the country.

Evidence from both the Auditor-General's Reports and also the Serious Fraud Office Annual Report of 2002 suggest that these criteria have not been met. The admission made by SSNIT in their medium-term strategic plan, and quoted above, is an indication that the second criterion is not being met. The ideal rate of return on a long-term investment must be at least 3 to 4 percentage points above the rate of inflation (Plamondon and Osborne, 2001).

An example that supports the assertion that some of SSNIT investments tend to violate the safety and liquidity criteria is given in the Serious Fraud Office 2002 Annual Report. In particular, the Serious Fraud Office investigation into SSNIT's investments in Bortianor Land acquisition in 1997 mention a court action that started in May 2001 challenging the title of SSNIT to the land on grounds of fraud, among other things. The report notes that there were lapses in the system by which the solicitors of SSNIT verified the authenticity of the land title documents before it entered into the transactions. It hypothesized that SSNIT could end up losing the case and therefore the land.

The last criterion, which suggests that social security investments should be able to influence the performance of the economy, should not be misconstrued. In fact this criterion is by no means suggesting that a national development strategy should take precedence over the goals that inform the establishment of a social security scheme. Rather, this criterion recognizes the fact that sound investments have the potential to advance the interests of the social security scheme as well as the national development strategy. In other words, if necessary government can borrow from social security funds provided it pays back at interest rates

that are at least higher than the prevailing interest rates. However, it cannot take money from SSNIT at will, to finance its development strategies. Good examples of SSNIT investments that violate the last criteria are ventures such as the Student Loan Scheme, and the Golden Beach Hotels or the Tolls Roads projects. In the last two instances the Serious Fraud Office Report suggests that the main beneficiaries were private individuals who were connected to government, either directly or indirectly.

It can therefore be argued that some portions of SSNIT investments have not satisfied acceptable financial, accounting, and auditing standards as should be the case for social security investments. The examples referred to illustrate the generalized and pervasive problems of mismanagement of SSNIT. These mismanagement problems are exacerbated, and sometimes driven, by the undue influence of government in the running of SSNIT. Various references made in the SFO Report support this argument. For instance, on SSNIT's participation in the privatization and rehabilitation of the Ambassador Hotel, it is noted that 'SSNIT never deliberately decided to participate in this project. It is clear from investigations that, informal backroom dealing between Henry Dei, then Director-General of SSNIT, and Ato Ahwoi, who was Chairman of Grace Investments, led SSNIT to pay off Samed on behalf of Grace Investments' (SFO, 2000: p. 24-25). With respect to SSNIT's investments in Bortianor Lands, the report notes that '*...one cannot discount the influences outside SSNIT that may have promoted this venture despite the flaws in title...*' (SFO 2002, p. 31). These examples amply demonstrate that the 'invincible hand of government' has been a significant contributory factor to the low returns on investment and general mismanagement of the Trust.

Conclusion and recommendations

The primary role of a Social Security Scheme is to provide security for the working people against the reduction in earnings associated with old age, death, and invalidity. Ghana's social security scheme is no exception to this rule. However, gross mismanagement and negligence has placed considerable stress on the Trust's current financial performance. As this paper has argued, there is compelling evidence from the Auditor-General's Reports that SSNIT has been mismanaged to various dimensions on a series levels. The levels of mismanagement of the scheme highlight a serious problem that could be described as one of incentive, and which relates primarily to the fact that the Trust has a guaranteed net-inflow of funds. Unfortunately, this 'guaranteed' net-inflow is not assured in the long-run, so, in effect, the long-term viability of the scheme will depend ultimately on the sound financial management policies implemented in the present. At a bare minimum, this requires sound financial investments with positive real rates of return.

The incentive problem is exacerbated by excessive government interference, and contradicts the optimism that the management of SSNIT has with respect to the long-term viability of the scheme. One instance of government interference is manifested in the recent decision to take 2.5 percent of workers' contributions as seed money for the NHIS. In addition, there is the enactment of a law that makes it mandatory for SSNIT to lend to every Ghanaian enrolled in a tertiary institution. Lending to needy students is never an issue in dispute. What is wrong, however, is to force workers to lend to students. Both these instances reveal that SSNIT has been used as an easy and cheap source of government funding. Yet SSNIT is not a slush fund for the government, and should not be used as such.

It is therefore imperative that any solution to the current management problems plaguing SSNIT must include the mitigation of government influence in the running of the scheme. This paper therefore concludes with the following recommendations:

- ④ The composition of the SSNIT board, which by design has 8 of its 14 members appointed by the government, is inappropriate and needs to be reconstituted to reduce government influence.
- ④ SSNIT's annual report and financial accounts must be made available to all contributors. Also the unnecessarily long time-lag between when the Auditor General's Reports are finished and when they become available in the public domain should be reduced to, at most, 6 months³. Breaking the myth surrounding the financial accounts of SSNIT can only inject increased efficiency into the management of the Trust.
- ④ There must be a cap on the ratio of administrative expenditures to contributions. This could be set at about 10 per cent, which is still high considering that some private pension managers in the UK have a ratio of about 0.1 per cent.
- ④ Private pension schemes must be created to run alongside SSNIT. Pension schemes must remain compulsory for all workers, but workers should have the option of joining either the SSNIT scheme or a private one. This will help reduce the incentive problem associated with SSNIT, and also inject increased levels of efficiency through the ensuing competition. This recommendation of running private pension schemes

³This will be consistent with article 187 (5) of the Constitution, which requires that a report from the Auditor-General's Office on an institution such as SSNIT (Article 187(2)), be made available to Parliament within 6 months after the end of the immediately preceding financial year.

alongside, as opposed to replacing SSNIT, is to get around the argument that there are not enough avenues for investments to encourage the full adoption of a full blown, Chilean-style private pension scheme.

- ④ An independent regulatory body must be set up to oversee the operations of all pension schemes in Ghana. This regulatory body must exclude individuals directly involved in politics, so as to purge pension schemes in Ghana from undue political influence.

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*Note: Nothing written herein is to be construed as necessarily reflecting the views of
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