American Journal of
Finance
(AJF)

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American Journal of Finance
ISSN 2520-0445 (Online)
Vol. 8, Issue 1, pp 21 - 30, 2023
www.ajpojournals.org

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Article history

Submitted 29.03.2023 Revised Version Received 15.04.2023 Accepted 21.04.2023

Abstract

Purpose: The study examined the level of knowledge of Tier III pension scheme among public sector employees in the New Juaben Municipality.

Methodology: The descriptive research design was employed. Data were collected, using self-administered questionnaire from 300 randomly selected employees. Data collected were analysed using means, standard deviations and Explanatory Factor Analysis.

Findings: The results showed that eight dimensions account for about 78% of the variance in level of knowledge of Tier III pension scheme. Furthermore, generally, the level of knowledge of Tier III pension scheme among employees was low. It was concluded that employees were agitated because they had low level of knowledge of the Tier III pension scheme.

Recommendations: It was recommended that the immediate superiors of employees should, from time to time, organise seminars to take employees through all that the employees need to know about the Tier III Pension Scheme.

Keywords: *Tier III, Pension Scheme, Employees, Level of Understanding*

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1.0 INTRODUCTION

According to the United Nations Development Programme (1994), the concept of human security is specifically tailored to the well-being of society, and is required for all aspects of human life. Fundamentally, human security is a life lived free of fear and desire (Asiamah, 2022). Employee social security, on which this study is based, is a basic human right that enables an individual to fulfill other rights and live a dignified life, particularly in old age. Consequently, employee social security is critical for alleviating poverty while building resilient and equitable societies.

Due to the uncertainty of what life holds after retirement, employees worldwide are constantly in fear of life prospects after pension. A study by Ikeji, Agba and Ogaboh (2011) established that this emotion of fear associated with life after pension exists among many people within the working class in Africa. In developed countries, this fear syndrome appears to be absent, to some extent (Afari, 2022).Various governments around the world, particularly in Africa, thus have established structures, including legislation, to encourage the creation of various retirement-related packages, particularly for those serving in public offices, in order to ensure a better future for them (Anku-Tsede, Amertowo & Amankwaa, 2014; Amarku, 2019).

Most African governments, including Ghana, have reformed their pension systems to function as either defined benefits, contributions, or both (Ayi-Bonte, 2013; Amarku, 2019). More specifically, there are three types of pension schemes in Ghana: Tier I, Tier II, and Tier III (optional and voluntary scheme). Whilst Tiers I and II are mandatory for government employees and some private sector institutions, Tier III is voluntary. This study focuses on the third type (Tier III). Before delving deeper into this, it is necessary to briefly explain the mandatory types of the pension schemes.

The Tier I pension scheme is a mandatory scheme managed by the Social Security and National Insurance Trust (SSNIT). The contribution amount is 13.5% of the employee's basic monthly salary, where the employer pays 13% and the employee pays the remaining 0.5%. Specifically, of the 13.5%, 11% is for monthly pensions managed by SSNIT and 2.5% for the National Health Insurance Scheme (NHIS). Contributions to Tier I are defined as benefit plans; thus, monies paid for this purpose are tax exempt. Upon the retirement of the beneficiary (an employee on whose behalf monies are paid), this scheme will pay the retired employee benefits on a monthly basis. This exercise is empowered and regulated by the National Pension Act (2008) (Act 766).

The Tier Two (Tier II) scheme is a mandatory 5% deduction of each government employee's basic salary, which contributes to a regulatory programme on a monthly basis. Contributions to Tier II are defined as plans that are privately managed by Private Pension Service Providers (PSPs) authorised by the National Pensions Regulatory Authority (NPRA). Monies deducted are free from taxation. Upon retirement of the employee, the scheme gives the contributor a lump-sum pay-out made up of all contributions made under the plan and all returns that would have been accrued on those contributions (Kpessa, 2011).

The Tier Three (Tier III) Pension Scheme

This is a voluntary contribution plan that allows employees from both the government and private sectors to contribute up to 16.5% of their basic salary each month. Tier III is privately run by NPRA-licensed PSPs. Tax exemption also applies to Tier III contributions at the time of making the 16.5% of the basic salary contribution. Employees who have regularly and satisfactorily made contributions for ten years or more are qualified to demand a termination or abrogation of that contract so that all contributions made for that period, in addition to returns that have been received due to investment in their contribution, are paid to them. However, the holders in trust of the contribution make it known to beneficiaries that a marginal 15% tax is levied on the total amount.

Evolution and Administration of the Tier Three Pension Scheme

The retirement package that public sector employees received prior to 2004 was considered unsatisfactory and inadequate to support pensioneers live a respectable economic life. This led to the expression of concerns and agitations, after several complaints to improve this retirement package failed to yield a positive response from the fund operators. In 2004, concerns heightened about the same pension benefits as other civil and public servants under the CAP 30 of the Colonial Ordinances (Pension Ordinance No. 42) appeared to be covered and offered more attractive retirement packages (Kpessa, 2011).

Following this state of affairs, the Tier Three pension was introduced in 2009 to address inequalities and provide a well-coordinated process in the retirement benefit computation (Kpessa, 2011). The third tier, thus, was an optional (voluntary) retirement saving programme intended to persuade employees in both the public and private sectors by making the contribution tax-exempt. Similar to the tier two scheme, this is equally a defined contribution scheme that affords contributors the laxity of receiving a lump-sum payment after a satisfactory ten-year contribution. Unlike the Tier I where employee contributions are managed by SSNIT, contributions made by employees in both the Tier I and II are managed by fund managers and trustees who are duly registered as pension service providers by the National Pensions Regulatory Authority (NPRA). It is helpful to explain that under the voluntary tier three pension scheme, employee contributions are invested in bonds, debentures, and instruments listed on the Ghana Stock Exchange supervised and guaranteed by the government of Ghana through the Bank of Ghana as a means of developing the domestic investment and capital market (Amarku, 2019).

Statement of the Problem

Although tax incentives serve as an enticement with dotted financial service providers for the Tier III pension scheme across the country, voluntary supplementary contributions are typically weak. It is unclear whether publicity about the voluntary tier is inadequate or whether potential contributors are generally adamant, even in cases where the sense of setting aside additional funds for long-term savings is made clear. What is apparent however is that the first two layers of employee pension schemes (Tiers I and II) are insufficient to address the economic and financial burden of old age after retirement. Having reluctantly resolved to codify into law, the operationalisation of the Tier III pension scheme needs to appeal to workers to gain support.

Despite being operationalised as an enhanced alternative and panacea for improved and attractive retirement benefits, this has not gained complete acceptance, as employees are witnessed engaging in panic withdrawals from their contributions (Business & Financial Times Online [B&FT], 2022). In the pension sector, analysts call on regulators to issue guidance aimed at slowing down the withdrawal rate from Tier III pension coffers (B&FT, 2022). *"Speaking at the 2022 Pension Conference, Andrews Agblobi – a pension and investment expert – raised concerns about the risk of withdrawals if current conditions prevail till 2023, 2024 and 2025 when most schemes will have to reach their 10th anniversary for tax purposes"* (B&FT, 2022).

Ghana has relatively weak market institutions, with frequently high and unpredictable inflation rates and the possibility of investor fraud, making it risky and uncertain for employees to allow their voluntary contributions or retirement funds to be invested in the private market without providing them with guaranteed minimum benefits to protect them from adverse market conditions (Afari, 2022). Contributors feel that there is ineffectiveness in compelling fund managers to ensure that retirees are given the requisite benefits regardless of market conditions. In addition, under the Tier III paradigm, there are too many institutional suppliers of services related to Tier III pensions. The duties entrusted to the managers of Tier III frequently overlap.

Specifically, in regions where the duties or activities of institutional providers overlap, the number of intermediaries between contributors and their contributions in retirement savings accounts raises concerns about institutional ambiguity. In fact, this worsens the low trust held by the contributors and their eventual acceptance of the scheme in good faith (Antolín & Whitehouse, 2009). According to Asiamah (2022), it all boils down to the level of employees' understanding of the Tier III and how it operates. This implies that there is the need to empirically investigate the level of employees' knowledge of the Tier III scheme, as this may help in policy formulation and subsequent implementation for the benefit of all employee contributors (Kwasi-Bannor et al., 2022). Nonetheless, to the best of knowledge of the present researchers, this area has not yet been explored (Afari, 2022; Amarku, 2019), despite the relevance of this scheme to the life and retirement period of employees. Consequently, the study sought to specifically investigate:

1. Employees' understanding of the Tier III pension scheme in Ghana.

2.0 METHODOLOGY

This section presents the research design employed, the target population, the sample size, data collection instrument and procedures, as well as the techniques used for data processing and analysis. In respect of design, the descriptive research design was employed, as the study sought to describe employees' level of understanding of the Tier III scheme (Saunders et al., 2019). Saunders et al. (2019) averred that this design ensures that all elements of a concept are accounted for. The target population was all the public sector workers in the New Juaben Municipality. This number comprised only employees who were contributors to the Tier III scheme. A total of 340 employees were identified in the public institutions in the Municipality. Fortunately, the researchers had access to all the 340 employees; thus, the census sampling technique was used to include all in the sample for the study.

In respect of the instrument to collect data from the employees, a self-administered questionnaire was used. The questionnaire was divided into two parts, viz., knowledge of Tier III scheme, and socio-demographic information of informants. Regarding the "knowledge of Tier III scheme", 10 items anchored on a five-point Likert-type scale, ranging from strongly disagree (1) to strongly agree (5), were formulated based on the provisions describing the scheme. The second section elicited data on the employees' demographic characteristics such as age and gender.

Next, data collection procedures were carried out. The procedures were carried out in all the public institutions in the Municipality, between 1st January, 2023 and 5th February, 2023. Questionnaires were distributed among all the employees. Out of the sample size of 340 employees, 300 questionnaires were retrieved and found suitable for the analysis. This number was deemed appropriate as it has even been recommended by Hair et al. (2010) that a minimum sample size of 100 is suitable for conducting descriptive analysis, among others.

A pre-test of 50 questionnaires was done outside the New Juaben Municipality prior to the main data collection so as to evaluate appropriateness of the survey instrument (Cooper & Schindler, 2006). This gave the opportunity to obtain feedback from respondents regarding the clarity of the questions as well as to determine the reliability of the scale employed.

Furthermore, after processing the data into a form suitable for analysis, a descriptive analysis was conducted to provide the statistics of the demographic information of the respondents – using frequencies and percentages. This was followed by an Explanatory Factor Analysis (EFA), and then a reliability analysis was conducted. Next, means and standard deviations were used to assess the level of employees' understanding of the Tier III scheme.

3.0 FINDINGS

This section presents the analysis of demographic characteristics of employees, the explanatory factor analysis, reliability analysis, and a subsection that focuses on the main objective of the study. The results in Table 1 showed that majority of employees at public institutions were between the ages of 30 and 49 years (138, 46%), and surprisingly, most of them are females (234, 78%), as females are mostly seen taking up more reserved positions compared to their male counterparts. Also, most of them were revealed to have never been married at the time of this study (150, 40%). Moreover, whilst only 48 were 50 plus years old, 114 were less than 30 years old. Again, it was shown that 42% were married whereas 8% claimed they have been divorced.

Table 1: Demographic characteristics of respondents (N = 300)

Characteristics	Frequency	Percent
Age		
<30	114	38.0
30-49	138	46.0
50+	48	16.0
Gender		
Male	66	22.0
Female	234	78.0
Marital status		
Never married	150	50.0
Married	126	42.0
Divorced	24	8.0

Source: Field Survey (2023)

Additionally, an Explanatory Factor Analysis was conducted on the scale data using the principal component analysis (PCA) with Varimax factor rotation. The Bartlett's Test of Sphericity showed a score of X^2 = 30123.005, which was statistically significant at the 0.05 level. Also, Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy was 0.804, which is higher than the suggested minimum score of 0.6 (Shrestha, 2021). Considering these, the data were deemed appropriate for factor analysis. Two items that had loadings lower than 0.40 were expunged from the data set – based on the exclusion criterion defined by Lorenzo-Seva (2022), and were subsequently excluded from further analysis. The emerging eight factors were named "Knowledge of Tier III Pension Scheme", and they cumulatively explained about 78% of the variance. The analysis is shown in Table 2.

Table 2: Varimax Rotated Factor Analysis of Determining Factors of Knowledge of Tier III Pension Scheme

SN	Factors	Loadings	% of variance explained	Eigenvalue	Cronbach's Alpha
KT3PS_1	Tier III is a voluntary provident fund.	0.67	12.08	6.00	
KT3PS_2	Tier III is a personal pension scheme.	0.81	11.33	5.46	
KT3PS_3	Tier III is supported by tax benefits to provide additional funds for employees who want to make voluntary contributions to enhance their pension benefits.	0.69	11.01	3.51	
KT3PS_4	Contribution amount in excess of 16.5% of basic salary is considered taxable income.	0.81	10.71	2.89	
KT3PS_5	Tier III is managed by Private Pension Service Providers, not SSNIT.	0.76	9.22	2.44	
KT3PS_6	Interest is earned on the Tier III contributions.	0.83	8.96	1.96	
KT3PS_7	I can stop the contribution when I wish.	0.75	7.89	1.88	
KT3PS_8	I can withdraw all contributions even before retirement.	0.89	7.02	1.54	
O_KT3PS	***Knowledge of Tier III Pension Scheme***		***78.02***		***0.86***

Note: KMO = 0.804; Bartlett's test of sphericity (approx X^2 = 30123.005; $p < 0.001$); only items with factor loadings of 0.40 and above were shown in Table 2.

Source: Field Survey (2023)

Furthermore, as shown in Table 2, the level of internal consistency in knowledge of Tier III Pension Scheme scale was acceptable with Cronbach's Alpha of 0.86, which exceeded the cutoff point of 0.70 – indicating internal consistency of the measured items (Amirrudin, Nasution & Supahar, 2021). The next table, Table 3, displayed results in relation to the objective of the study which sought to determine the level of knowledge of Tier III Pension Scheme among employees.

Table 3: Level of Knowledge of Tier III Pension Scheme (N = 300)

SN	Statements	Mean±SD
KT3PS_1	Tier III is a voluntary provident fund.	2.77±0.85
KT3PS_2	Tier III is a personal pension scheme.	3.51±0.80
KT3PS_3	Tier III is supported by tax benefits to provide additional funds for employees who want to make voluntary contributions to enhance their pension benefits.	2.97±1.22
KT3PS_4	Contribution amount in excess of 16.5% of basic salary is considered taxable income.	2.59±1.05
KT3PS_5	Tier III is managed by Private Pension Service Providers, not SSNIT.	2.69±1.16
KT3PS_6	Interest is earned on the Tier III contributions.	2.99±0.95
KT3PS_7	I can stop the contribution when I wish.	2.97±0.74
KT3PS_8	I can withdraw all contributions even before retirement.	2.87±0.93
O_KT3PS	*Knowledge of Tier III Pension Scheme*	2.92±0.96

Note: SD = standard deviation

Source: Field Survey (2023)

As could be seen in Table 3, overall, the average level of knowledge of the Tier III pension scheme among employees in the New Juaben Municipality was low (Mean = 2.92±0.96SD), relative to a neutral knowledge level of 3.00 on the Likert-type scale. Specifically, apart from the employees' knowledge that the Tier III is a personal scheme (Mean = 3.51±0.080SD), their knowledge as to whether it is a voluntary provident fund is not remarkable (Mean = 2.77±0.85SD). Moreover, majority of the employees showed that they had no idea that the Tier III pension scheme contributions are exempt from tax (Mean = 2.97±1.22SD). Also, the employees did not know that contributions in excess of 16.5% of their basic salaries are taxed (Mean = 2.59±1.05SD). Surprisingly, the results also revealed that the employees did not know their funds are managed by an authorised private pension service provider and not SSNIT (Mean = 2.69±1.16SD). Again, most of the employees did not know that their contributions generate some returns periodically (Mean = 2.99±0.95SD). Besides, they did not know that since it is a voluntary scheme, they could stop whenever they wish (Mean = 2.97±0.74SD), and as well withdraw their contributions before retirement (Mean = 2.87±0.93SD).

4.0 DISCUSSION AND CONCLUSION

The study was concerned with finding out the level of knowledge of Tier III pension scheme among public sector workers in the New Juaben Municipality. This was against the backdrop that prior studies had reported that employees seemed to be concerned about how the Tier III pension scheme works. Among other things, it was revealed that eight factors of Knowledge of Tier III Pension Scheme account for more than 78 per cent of variance in Knowledge of Tier III Pension Scheme among employees (Table 2). Moreover, assessment of the level of Knowledge of Tier III Pension Scheme showed that, generally, the employees' level of Knowledge of Tier III Pension Scheme was low. This finding suggested that most public sector employees were contributing to funds they did not have enough knowledge about. This could also mean that they were simply contributing because they thought it was mandatory. It could further be stated that the level of education, as far as pension schemes are concerned, was low among public sector employees.

These imply that a lot of education will be required to bring public sector employees to the requisite level of knowledge and understanding of the Tier III Pension Scheme, in order to allay their confusions and concerns. This finding aligns with the assertions of a number of prior studies that touched on pension scheme issues (Amarku, 2019; Anku-Tsede, 2014; Kpessa, 2011).

5.0 RECOMMENDATIONS

Based on the foregoing findings, the following recommendations are made:

- The immediate superiors of employees should, from time to time, organise seminars to take employees through all that employees need to know about the Tier III Pension Scheme.
- Private Pension Service Providers should enhance their sensitisation activities among employees contributing to the Tier III scheme.
- Government, through the Ministry of Finance, should enact a policy which ensures that monthly public education on pension schemes is given on national televisions and radio stations. This will ensure that all and sundry is reached with the information and knowledge about pension schemes.

It should, however, be stated the study was limited to only the New Juaben Municipality; thus, it is recommended that further studies cover public institutions across Ghana. Also, further studies can investigate the relationship between level of Knowledge of Tier III Pension Scheme and educational background of employees.

Funding: This research received no external funding.

Institutional Review Board Statement: Because of the nature of the study, and in the absence of any involvement of medication, no formal approval of the Institutional Review Board of the local Ethics Committee was required. Nevertheless, all subjects were informed about the study and participation was fully on a voluntary basis. Participants were assured of confidentiality and anonymity of the information associated with the survey. The study was conducted according to the guidelines of the Declaration of Helsinki.

Informed Consent Statement: Informed consent was obtained from all subjects involved in the study.

Conflicts of Interest: The authors declare no conflict of interest.

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