
WHAT YOU NEED TO KNOW ABOUT THE THREE-TIERED PENSION SCHEME

Q: HOW DID GHANA'S PENSION REFORM BEGIN?

The Pension reform in Ghana was in response to agitations from organised labour and pensioners on the inequalities in retirement benefits among public sector workers as well as inefficiencies in the SSNIT system (the then sole quasi-state pension manager). The Government in 2004 established the Presidential Commission on Pensions (PCP) with a mandate to submit a proposal for Pensions reform. Subsequently the PCP's white paper was accepted by government and a Pensions Reform Implementation Committee (PRIC) was set up. The work of the PRIC resulted in the promulgation of the new pensions law, the National Pensions Act, 2008 (Act 766) on December 12, 2008.

Q: WHAT ARE THE MOST SIGNIFICANT HIGHLIGHTS UNDER THE NATIONAL PENSIONS ACT, 2008 (ACT 766)?

The most significant highlights under the new pension's reform under Act 766 are the creation of a contributory three-tiered scheme and the establishment of a Pension Regulatory Authority with the mandate to license, supervise, regulate and monitor service providers.

Q: WHAT IS THE THREE-TIER CONTRIBUTORY SCHEME?

The three-tier contributory scheme, a hybrid of the defined benefit and defined contribution schemes, is made up of the following:

- **Tier 1: A mandatory contributory scheme with monthly contributions of 13.5%** (11% towards monthly pensions and 2.5% contribution to NHIS) on the basic salary of all employees. Tier 1 is a defined benefit scheme and contributions are fully tax-exempt and are managed by SSNIT. This scheme will pay monthly benefits to employees upon retirement.
- **Tier 2: A mandatory contributory scheme with monthly contributions of 5%** on the basic salary of all employees. Tier 2 is a defined contribution scheme and contributions are fully tax-exempt and are privately managed by National Pensions Regulatory Authority (NPRA) licensed service providers. The scheme will pay out a lump-sum benefit to individuals upon retirement, which is comprised of all contributions made under the scheme plus all returns earned on their contributions. There are two types of Tier 2 schemes: Employer Sponsored Scheme (ESS) and Master Trust Scheme (MTS). If the membership of the scheme is limited to the employees of a specific company, it is deemed to be an Employer Sponsored (ESS). On the other hand, if membership of the scheme is opened to employees of different companies, the scheme is referred to as a Master Trust Scheme (MTS).

- **Tier 3: An optional contributory scheme with monthly contributions of up to 16.5%** of the employee's basic salary on the basic salary of all employees and informal sector workers. Tier 3 is also a defined contribution scheme and is privately managed by NPRA licensed service providers. The contributions for Tier 3 are also tax exempt. If an individual has been in the scheme for 10 years or more, he or she will receive all contributions made under the scheme in addition to all returns earned on their contributions at the time of exit. In the event of an exit prior to the contributor's tenth anniversary, a marginal tax rate of 15% will be applied to the contributor's total redemption amount.

Q: HOW ARE PENSION SCHEMES MANAGED?

The management of the three-tiered schemes has been entrusted to different service providers with varied roles to ensure transparency and efficiency in the management of the schemes. NPRA is the apex/regulatory body and there are three main types of service providers:

- The Trustee
- The Pension Fund Manager
- The Custodian

Q: WHAT IS THE ROLE OF THE TRUSTEE?

The Trustee is a company or an individual licensed by the NPRA, with the overall responsibility for the administration and management of the Tier 2 and Tier 3 schemes. The Trustee is separate from the Fund Manager and the Custodian. The Trustee is an independent third-party, responsible for ensuring that the investment objectives of the contributors are adhered to. Trustees are mandated by Act 766 to register pension schemes and appoint pension fund managers, custodians and other service providers to assist them to manage the schemes. The Trustees are to ensure that proper accounting records and a members' register are kept, that all service providers comply with regulatory requirements, and that transfer and payment requests are processed. *Trustees do not have access to pension funds.*

Q: WHAT IS THE ROLE OF THE PENSION FUND MANAGER?

The Pension Fund Manager is licensed by the Securities & Exchange Commission (SEC) and registered by the NPRA. The Fund Manager is *independent* of the Trustee and the Custodian. The Fund Manager makes investment decisions as guided by the NPRA and mandated by the Trustee. The Fund Manager maintains records and statements of account on transactions related to the pension funds and assets, and reports monthly to the Trustee and quarterly to both the Trustee and the NPRA. *The Fund Manager does not have direct access to pension funds and assets.*

Q: WHAT IS THE ROLE OF THE CUSTODIAN?

The Custodian is licensed by the Securities & Exchange Commission (SEC) and registered by the NPRA. The Custodian receives contributions of the scheme from Employers and is responsible for the safe keeping of the pension fund and assets. Payments from the scheme's account are for the direct settlement of transactions and the payments of claims. The only payment made directly from the Custodian to Trustees, Fund Managers and other service providers are for the payment of their fees. The Custodian is independent of the Trustee and the Pension Fund Manager. They maintain records and statements of account on transactions related to the pension funds and assets, and report monthly to the Trustee and quarterly to both the Trustee and the NPRA.

Q: WHAT IS DATABANK'S ROLE AS A SERVICE PROVIDER?

Databank acts as a Pensions Fund Manager through its asset management arm, Databank Asset Management Services Limited (DAMSEL), which is an investment advisor licensed by the SEC and registered by the NPRA.

Q: WHY IS DATABANK THE PENSION FUND MANAGER OF CHOICE?

Databank's Pensions team is the leading retirement solutions provider in Ghana with a successful history and a strong presence in the pensions fund industry. The team focuses not only on managing institutional pension funds and assets, but also on creating tailored solutions and services for pension funds and employers.

Databank is also the leading investment firm in Ghana, with an excellent track record in investment advisory and fund management spanning two decades. We continue to be instrumental in transforming the lives of thousands of retirees in Ghana through sustainable fund management.

Our flagship mutual fund Databank Epack Investment Fund returned 84% to its shareholders for the year ended December 31, 2013 and 40% year-to-date for the period ended October 31, 2014. This return can be attributed to a well-trained and experienced asset management team (with a rich tradition in the research and analysis of capital markets and economies). Databank offers a variety of products and services, including Mutual Funds, Asset Management, Brokerage, Research, Wealth Management and Private Equity.

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