AXIS
Pension Administration Services Limited

*……….Your Reliable Partner in Pension Funds Administration*

# A GUIDE FOR EMPLOYERS ON THE 3-TIER PENSION SCHEME

This information guide has been designed to explain the National Pensions Act 2008 (766) to employers and to assist them to select an appropriate pension strategy. Employers can either create schemes or join master-trust schemes. Whichever strategy you select for your company, we can assist you. **Contact us NOW!**

For more information
Call: 0302-543287 / 024-338 3850 / 020-490 4487 or e-mail admin@axispension.com

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## 1. Overview of the 3-Tier Pension Scheme

The National Pensions Act, 2008 (766) was passed into law on 12th of December 2008 to introduce major reforms to Ghana's pension sector. The reform was initiated in recognition of the need for a universal pension scheme for all workers and to further address concerns about the inadequacy of the state-run pension schemes. The main objectives of the pension law are to provide pension benefits that will ensure retirement income security and to establish rules, regulations and standards for the operations of pensions.

Act 766 has introduced a 3-tiered pension system that offers one defined benefit scheme and two defined contribution schemes. The first tier, funded with a contribution rate of 13.5%, constitutes a restructured SSNIT and is designed solely for paying enhanced retirement benefits under a defined benefit arrangement. The second tier, funded by 5% contribution rate is a mandatory privately managed defined contribution scheme designed to pay lump sum benefits. This has replaced SSNIT gratuity payments. The third tier, with tax relief of up to 16.5%, is made up of voluntary occupational provident and pension fund schemes intended to provide supplementary retirement income for workers. Under the law, benefits in the first and second tiers cannot be accessed until retirement. The third tier can however be accessed after ten years of tax qualified contributions. The running of the privately managed schemes is undertaken by approved Trustees (i.e. a Board of Trustees or a corporate Trustee). Approved Trustees may create employer-sponsored schemes, personal group schemes or master-trust schemes for workers in both formal and informal sectors.

## 2. Responsibilities of the employer

Pension is a major employee welfare issue. Employers should therefore take keen interest in pension matters concerning their employees. The primary responsibility of employers, under the law, is to make the needed arrangements for their employees to join approved pension schemes. This includes designating schemes that employees can join and putting in place the necessary administrative systems for enrolling eligible employees.

Employers have a continuous obligation to make monthly contributions to employees' schemes latest by the $14^{th}$ day of the following month. If employers allow employees to join any scheme of their choice, there may be a preponderance of schemes, thus making it cumbersome for the Finance and Human Resource departments to perform their payment and monitoring roles. It is therefore expedient for employers to either provide an employer-sponsored scheme for all employees or enroll all eligible employees on the same master-trust scheme.

Employers are also responsible for keeping accurate records of contributions remitted to schemes. To achieve this, payroll systems should be customized to allow for the maintenance of electronic audit history. Employers should therefore ensure that payment advice slips and contribution records are properly archived.

Though not a legal obligation, employers have a moral duty to ensure the continued success of their employees' pension arrangements. This may be achieved through the monitoring of the performance of service providers and providing regular education to help employees' select appropriate investment options that meet their objectives and risk tolerance. Such employer involvements enhance service delivery, prevent costly problems, improve member understanding and offer a collective voice for dealing with Trustees or service providers. One effective way to attain employer involvement is the creation of an oversight committee.

## 3. Setting up an Employer-sponsored Scheme

An employer-sponsored pension scheme is an occupational pension scheme established solely for employees of a given company or organisation. Membership is restricted to the workers of the sponsoring employer. They offer better management control, flexible investment options and are often at lowest cost to the employee. The establishment of employer-sponsored schemes is prudent for companies with the requisite economies of scale in terms of the number of employees as well as the size of pension contributions. It is not recommended for companies with less than GH¢50,000 monthly contributions to set up their own schemes. It will be more efficient for such companies to join master-trust schemes to help build more diversified portfolios and to reduce operational cost.

*Commencement Committee*

The establishment of a pension scheme begins with the setting up of a commencement committee to design the scheme. Scheme design involves the drafting of Trust Deed and Rules, determination of contribution rates, preparation of scheme brochure and the setting up of internal administration systems. The commencement committee is also responsible for overseeing the selection of an independent Board of Trustees. The commencement committee usually consists of HR, Finance and labour union representatives who have the requisite knowledge and skill to design the scheme. It may sometimes be necessary to hire an independent advisor (such as Axis Pensions Trust) to manage this process.

*Board of Trustees*

After the scheme has been designed, the Board of Trustee should be constituted to continue the process leading to the registration of the scheme. Employers should ensure that fair representation is given to all special interests in the company in the appointment of the Board of Trustees. The Board of Trustees shall consist of an independent Trustee, employer-nominated Trustees and member-nominated Trustees (member-nominated Trustees should make up at least one-third of the total number). The Trustees will hold the assets, invest and distribute investment gains for the benefit of members.

Following the selection of Trustees, the Trust Deed is executed between the sponsoring employer and the Trustees. The Trustees will provisionally appoint service providers (Custodians, Fund Managers, Administrator, and Auditors) pending the approval of the National Pensions Regulatory Authority (NPRA). The selection of service providers should be preceded by the registration of Trustees with the Pensions Authority. The successful registration of Trustees should then be followed by the registration of the scheme.

Following the successful registration of the scheme, administrative procedures for enrolling new members and collecting contributions should be put in place by the employer to set the pace for the start of the fund.

The NPRA has introduced very stringent system requirement for Trustees. The cost of these systems may be too high for a single scheme. *Trustees of schemes should either consider outsourcing administration services to an independent company such as Axis Pension Administration Services Ltd* or use a hosting service. A hosting service allows Trustees to administer schemes in-house by subscribing to an online hosting software and database. Axis Pensions Systems Ltd provides such a hosting service that allows for normal administration and document management functions without incurring any setup cost. All that is needed is a computer connected to the internet or our Wide Area Network (WAN).

## 4. The Voluntary Scheme as a Labour Retention Tool

The desire of most employees is to achieve income security when they retire. It is also the interest of every employer to attract and retain skilled employees. It is therefore imperative to align employer interests with employee interests. Over the years, employers have used provident and pension schemes as human resource tools for attracting, motivating and keeping employees for long service. The pension law allows some of these methods in the voluntary scheme. Below are some of the methods.

1. One of the approaches used is contribution-matching where the employer contributes the same amount of money the employee contributes into the latter's pension account. Employers can incentivize longer serving employees by making more contributions on their behalf.

2. Employers can introduce vesting clauses to limit the proportion of employer's contributions employees can benefit from when leaving the service of the company before the end of the vesting period. This is an effective employee retention tool especially where the amount to forfeit upon early exit is substantial.

3. Employers can also absorb the management and administration fees on the fund to improve overall returns to fund members.

4. In some instances, employers distribute forfeited amounts as additional investment gains (in case of employer-sponsored scheme) or as additional contributions (in case of group scheme) for the remaining members in the fund. This helps to increase overall pension benefits of workers.

## 5. Essential Elements of a Trust Deed & Scheme Rules

The information below has been adapted from an NPRA transitional document (i.e. Requirements and Standards No. NPRA/STND/PRS.VS/01/10). It details the relevant provisions of Trust Deed and Scheme Rules.

| No. | Provision | Relevant Sections |
|---|---|---|
| | Requirements and Standards No. NPRA/STND/PRS.VS/01/10 | |
| 1. | Additional Voluntary Contributions | Paragraph 4 |
| 2. | Member's statement of account | Paragraph 7 |
| 3. | Amendment to governing rules | Paragraph 9 |
| 4. | Expenses of the scheme | Paragraph 12 |
| 5. | Accounting and other records | Paragraph 13 |
| | | |
| | NATIONAL PENSIONS ACT, 2008 (ACT 766) | |
| 6. | Portability (transfers into and from approved schemes) | Section 100 |
| 7. | Income on contributions | Section 108(3) |
| 8. | Vesting schedule | Section 108 (4) |
| 9. | Benefit on leaving service | Section 108(6,7) |
| 10. | Death benefit | Section 108 (8) |
| 11. | Withdrawals from scheme and tax implication | Section 110, 112 |
| 12. | Assignment of benefit | Section 114 |
| 13. | Termination of the Trust / Winding-up | Section 118 |
| 14. | Accounts and Audit, Annual Report | Section 116, 167 |

Axis Pensions Group has designed standard scheme rule templates (tiers 2 and 3) that conform to the above requirements and the pension law. You can adapt them for your scheme with any necessary modifications. You may contact us for a free template of the Trust Deed & Rules as well as the Scheme Brochure if you have any business relationship with Axis Pensions Group.

## 6. Selecting a Master-Trust Scheme

The Ghanaian pension law puts the responsibility for designating schemes for employees on employers. Most small and medium-size companies do not have the requisite economies of scale for running viable employer-sponsored schemes. This leaves SMEs with one option - i.e. joining a master-trust scheme.

There are two types of master-trust arrangements. The first type is where a corporate Trustee provides pension products for other institutions to enroll their members in. *With this option, the Board of directors of the Trust company determines the policies of the fund. The investor or the participating company does influence decision making directly.* The second type of master-trust involves two or more institutions teaming up to establish a multi-employer (group) scheme for the mutual use of their employees. This option promotes member involvement in decision making through their representatives on the Board of Trustees.

Whatever master-trust strategy you select, ensure that target schemes have wide product offering, transparent management, low cost and administrative efficiency. At Axis, we encourage small scale employers to either join umbrella schemes or partner other employers to create multi-employer schemes whose policies and processes they can influence.

You may contact Axis Pensions Trust Ltd. for assistance in choosing and implementing a pension strategy for your employees. We administer a number of sector-based schemes you can select for your employees. If you wish to team up with other companies to create a common fund, Axis Pensions Group can help you find suitable partners. You can also subscribe to products offered by Axis Pensions Trust or any other corporate Trustee if you do not want to be directly involved with the management of your employees' pensions.

## 7. Differences between Tier 2 and Tier 3 Schemes.

| | Mandatory (Tier 2) Scheme | Voluntary (Tier 3) |
|---|---|---|
| **Vesting** | Contributions are vested in member | Employer contributions may vest in the employer subject to vesting rules |
| **Redemptions** | Pre-retirement redemptions are not allowed except on grounds of death or medical incapacity. | Tax qualified withdrawals are allowed after 10 years of contributions. |
| **Voluntary Contributions** | Additional Voluntary Contributions are not allowed | Additional Voluntary Contributions are allowed. |
| **Company Contributions** | Member accounts are solely funded by the mandatory 5% contribution. | Member accounts may be funded by either member contributions, company contributions or both. |
| **Preservation of benefits** | Benefits are preserved till retirement | N/A |
| **Attachment of Benefits** | Member benefits cannot be attached. | A contributor may create a charge against his benefits but must not assign. |
| **Tax** | N/A | Benefits withdrawn before ten years of contributions or retirement are subject to tax. |

## 8. About Axis Pension Administration Services Ltd

Axis Pension Administration Services Ltd is a lead provider of cutting-edge administration and pension management services to third-party defined-contribution pension schemes in Ghana. Our primary goal is to deliver simple solutions to espouse best practices in the operations of pension schemes. To this end, we offer the following solutions:

- Scheme design and registration assistance to help employer-sponsored schemes get started on a solid foundation.

- Tailor-made Pension Administration Suite (with full accounting, multi scheme, multi-employer and real-time reporting functionalities) for corporate Trustees.

- Scheme Hosting Solution (with fully deployed online administration software, database hosting and maintenance support) designed to assist self-administered employer-sponsored schemes meet the IT requirements of the Pensions Authority without incurring any software or hardware cost.

- Third-party Administration services for large employer-sponsored and group schemes to help Trustees focus on the core business of their employers.

- Development, Management and Distribution of group pension products for SMEs.

- General Pensions Consultancy and Advisory services.

For details, Contact your preferred Scheme Administrator:

**AXIS PENSIONS ADMINISTRATION SERVICES LTD**
No. 385 Lagos Avenue,
East Legon Residential Area, Accra
Tel: 0302-543287
Direct: 024-338 3850 / 020-490 4487
Email: admin@axispension.com
Web: http://www.axispension.com