



Pension reform, retirement dignity in Ghana: Rethinking the system for inclusive security

BY NANA DR SIFA TWUM

PRESIDENT John Dramani Mahama's directive to review Ghana's pension structure—particularly to accommodate participation by the informal sector and guarantee dignity in retirement—comes at a critical moment. Across the country, millions of workers approach old age with uncertainty, not because they failed to work hard, but because the pension system has not fully evolved to reflect the realities of Ghana's labour market.

At the heart of this policy direction lies a simple but powerful principle: every worker, regardless of sector, deserves to retire with confidence, comfort, and dignity. Achieving this requires a clear understanding of the current pension structure, its strengths, its limitations, and the strategic reforms needed to make it truly inclusive.

The current pension structure in Ghana is a result of the first major pension reforms, which gave birth to the three-tier contributory pension system now in operation, introduced under the National Pensions Act, 2008 (Act 766), to replace the older fragmented schemes.

1. Tier One – Basic National Social Security Scheme

This is a mandatory defined benefit scheme managed by SSNIT. It provides monthly pensions to retirees based on their contributions and years of service. Contributions are drawn from a combined employer-employee contribution of about 18.5 per cent of salary, with 13.5 per cent directed to Tier One.

Workers who contribute for at least 15 years qualify for a pension, and those who contribute longer receive higher benefits, up to about 60 per cent of their average salary.

2. Tier Two – Occupational Pension Scheme

This is also mandatory but privately managed. It is a defined contribution scheme designed mainly to provide a lump-sum payment at retirement. About 5 per cent of the worker's salary is allocated here.

3. Tier Three – Voluntary Personal Pension Scheme

This tier is voluntary and flexible. It is specifically designed to support self-employed and informal-sector workers, allowing them to contribute voluntarily to build

additional retirement savings.

The core problem is the limitation in including the informal sector. Despite the apparent comprehensiveness of the three-tier system, a major structural gap persists: low participation by the informal sector, which constitutes approximately 80–85 per cent of Ghana's workforce.

Research shows that many informal workers either lack awareness of pension schemes or find the system difficult to access and sustain.

Several factors contribute to this challenge:

- a) Irregular incomes, making fixed monthly contributions unrealistic.
- b) Limited awareness and financial literacy about pensions.
- c) Accessibility barriers, including a lack of simple digital or mobile contribution systems

- Trust deficits in pension management institutions.
- Absence of tailored products for informal workers.

As a result, a large segment of Ghana's working population remains excluded from structured retirement security, undermining the goal of universal pension coverage.

This current structure has some weaknesses. Beyond informal sector exclusion, the current pension system faces broader challenges:

1. Inadequate benefit levels

Even for contributors, the pension received under Tier One may not be sufficient to maintain a decent standard of living. Inflation adjustments are not automatic,

leaving retirees exposed to rising living costs.

2. Lump-sum risk in Tier Two

While Tier Two provides a lump sum, there is no guarantee that retirees will manage these funds sustainably. Many retirees exhaust their savings prematurely, leading to financial distress.

3. Weak integration across Tiers

The three tiers operate with limited coordination, creating inefficiencies and confusion among contributors.

4. Compliance and coverage gaps

Although SSNIT aims to increase coverage to 90 per cent by 2026, many employers still fail to fully comply with their contributions.

President Mahama's policy direction could be best described as a timely intervention. His call to review the pension structure signals a shift toward a more inclusive and humane pension system. The emphasis on dignity, confidence, and comfort in retirement reframes pensions not merely as a financial tool, but as a social contract between the state and its citizens.

To achieve this vision, reforms must go beyond incremental adjustments and address systemic gaps.

The best way forward to help enhance this strategic reform is to:

1. Deepening informal sector inclusion

The most urgent reform is to

design pension products tailored to informal workers.

- a) Introduce flexible contribution models (daily, weekly, or seasonal payments).
- b) Leverage mobile money platforms for easy contributions.
- c) Deploy field agents and digital platforms to collect contributions.
- d) Simplify registration processes.

Evidence shows that informal workers are willing to contribute modest amounts (e.g., GH¢ 50–100 monthly) if systems are accessible and flexible.

2. Strengthening public education and trust

A pension system is only as strong as the confidence people have in it.

- a) Launch sustained national sensitisation campaigns.
- b) Integrate pension education into financial literacy programmes.
- c) Ensure transparency in fund management and reporting. Trust will drive participation, especially in the informal sector.

3. Enhancing benefit adequacy

To ensure dignity in retirement:

- a) Introduce automatic indexation mechanisms to adjust pensions for inflation.
- b) Review contribution rates and benefit formulas.
- c) Consider minimum pension guarantees for vulnerable workers.

Retirement should not mean a decline into poverty.

4. Reforming Tier Two and Tier Three structures

To improve outcomes:

- a) Allow for partial annuitisation of Tier Two funds to provide a steady income instead of only lump sums.
- b) Provide investment education to help retirees manage funds wisely.
- c) Strengthen the regulation of private corporate trustees and other stakeholders.

5. Digital transformation of pension systems

Technology must be at the centre of reform.

- a) Expand SSNIT's digital platforms and USSD services for nationwide access.
- b) Integrate pension contributions with mobile wallets and fintech solutions.
- c) Use data systems to track contributions across sectors.

Digital access is key to scaling participation.

6. Policy and regulatory innovation

Government must consider bold policy interventions:

- a) Develop a dedicated informal sector pension framework.
- b) Provide tax incentives or matching contributions for low-income workers.
- c) Enforce stricter compliance mechanisms for employers.

There is no doubt that Ghana needs a giant step toward a pension system that reflects the nation's reality.

Ghana's pension system is structurally sound in design but limited in reach. It reflects a formal economy that no longer represents the majority of workers. President Mahama's directive is, therefore, both timely and necessary.

The future of pensions in Ghana lies not in preserving the status quo, but in reimagining the system to align with the realities of the informal economy. A truly effective pension system must be flexible, inclusive, transparent, and sustainable.

Retirement should not be a period of anxiety and dependence. It should be a season of rest earned through years of contribution. For that to happen, Ghana must move decisively toward a pension system that allows every worker, formal or informal, to retire in dignity, confidence, and comfort.

That is not just policy reform. It is social justice.

“ Retirement should not be a period of anxiety and dependence. It should be a season of rest earned through years of contribution. ”