

**ANASSESSMENT OF THE RETURNS ON EMPLOYEE PENSION FUND
INVESTMENTS AND THEIR IMPACT ON FUTURE BENEFIT PAYMENTS;
A CASE STUDY OF SOCIAL SECURITY AND NATIONAL INSURANCE TRUST
(SSNIT)**

KNUST

BY

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I hereby declare that this submission is my own work towards the MBA and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any degree of the University, except where due acknowledgment has been made in the text.

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ABSTRACT

The Social Security and National Insurance Trust (SSNIT) was established to administer the National Social Security Scheme in 1972 under the NRCDC 127. The trust started the scheme as a provident fund until 1991 when it was converted into a pension scheme under the Social Security Law (PNDC Law 247). SSNIT has a primary responsibility to collect contributions to pay pensions and other benefits as they fall due. In fulfilling this responsibility, the funds collected are invested to generate additional income to augment the contributions of members. The payments provide income for members who are unable to continue working due to invalidity, old age, and in the event of sickness or death of the breadwinner.

In recent times some doubts have been expressed on the ability of the scheme to pay pensions in the future because its investments have yielded low returns. This research sought to analyze the various investments returns made by SSNIT over a specified period and assessed their impact on the capacity of the fund to make future benefit payments.

The case study approach was used in this research and the results showed that the returns on SSNIT investment were generally below the returns achieved by other investment funds over the study period. The effect of inflation on the returns of the fund was significant with the fund recording negative real return in some years. It was also found that inadequate investment expertise at SSNIT may have contributed to the low returns recorded by the organization. Though the benefits paid grew steadily, the contributions received also increased on yearly basis and were always higher than the benefits paid. High returns on the excess funds that are invested would enable the pension fund meet its future obligation to workers.

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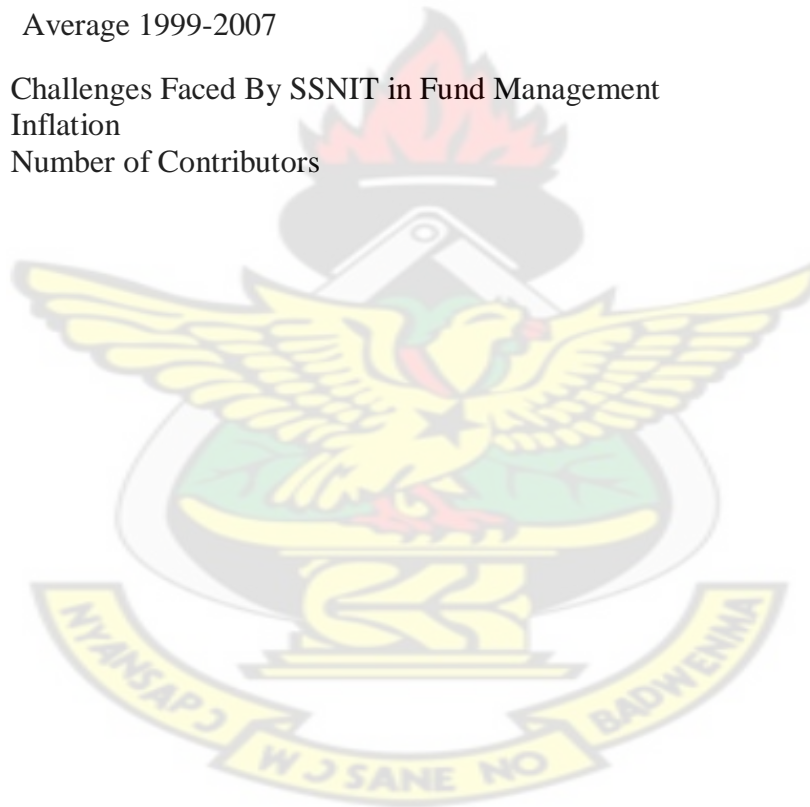
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DEFINITION OF TERMS

SSNIT	-	Social Security and National Insurance Trust
PNDC	-	People's National Defense Council
CAP 30	-	Capitation grant
ILO	-	International Labour Organization
NSITF	-	Nigeria Social Insurance Trust Fund
NSSF	-	National Social Security Fund
PSPF	-	Public Service Pension Fund
PPF	-	Parastatal Pension Fund
LAPF	-	Local Authorities Provident Fund
NHIF	-	National Health Insurance Fund
UK	-	United Kingdom
RSA	-	Retiree Savings Account
GRE	-	Guardian Royal Exchange Assurance Group
GREG	-	Guardian Royal Exchange Assurance (Ghana) Limited



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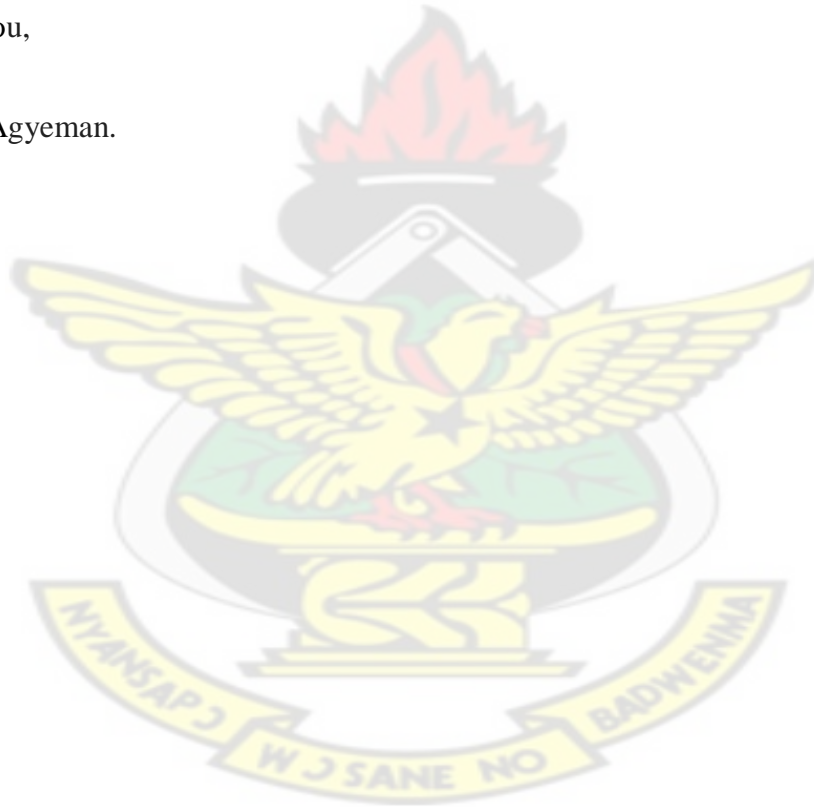
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Thank you,

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND

In many countries, governments recognize the need to provide pension funds to take care of the ageing population, the dependants of a breadwinner in case of his or her death or the breadwinner in case of invalidity through accidents at work, etc. Pension funds in most countries are managed by government institutions or private firms. Pension fund (according to investopedia.com) is defined as “a fund established by an employer to facilitate and organize the investment of employees' retirement funds contributed by the employer and employees. The pension fund is a common asset pool meant to generate stable growth over the long term, and provide pensions for employees when they reach the end of their working years and commence retirement”. Pension funds are commonly run by a financial intermediary for the company and its employees, although some larger corporations operate their pension funds in-house. Pension funds control relatively large amounts of capital and represent the largest institutional investors in many nations.

There are two main types of pension funds management that are widely used-namely defined benefit plan and defined contribution plan. The International Accounting Standards (IAS) 19, states that “For defined benefit plans, the amount recognized in the balance sheet should be the present value of the defined benefit obligation (that is, the present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods), as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, and reduced by the fair value of plan assets at the balance sheet date. [IAS 19.54]” This means that the risk remains with the employer and the

employee's obligation is to provide the agreed amount of benefit to current and former employers. In a defined contribution pension plan, a company pays a fixed pension contribution into a separate entity (fund) and has no legal or constructive obligation to pay further contributions if the fund does not have sufficient assets to pay employees benefits relating to employee service in the current or prior periods.

In Ghana, The Social Security and National Insurance Trust (SSNIT) is the statutory public organization charged with the administration of Ghana's National Pension scheme known in common terms as social security. The Social Security and National Insurance Trust was established to administer the National Social Security Scheme in 1972 under the NRCD 127 System. The trust administered a provident fund until 1991 when this was converted into a pension scheme under the Social Security Law (PNDC Law 247). Prior to establishment of SSNIT, the fund was jointly administered by the department of pensions and the State Insurance Corporation (www.ssnit.com). The Social Security and National Insurance Trust is an example of a contribution pension plan. The primary responsibility of the Trust is to replace part of income due to old age, invalidity or loss of life. The Social Security and National Insurance Trust operates a contributory social insurance scheme where members contribute to a pool of funds throughout their working lives and receive pay outs when they satisfy the qualifying conditions. The Social Security and National Insurance Trust has a primary duty to collect contributions and to pay pension as they fall due. The social security scheme is financed from the contributions of members and the investment income on the assets held by the Trust.

Social security is considered essential and many societies and governments work to ensure their people have it. Usually the pressure of life leads people to focus on providing for their

immediate needs such as food, clothing and shelter. Only a small group can set aside some money to take care of future bills in their old age. However accidents do happen which may render a person unable to work for the rest of his or her life. Eventually old age also catches up with people. The challenge is for the society to provide the health and material needs of those rendered disabled through accidents or sickness, the dependants of breadwinners in case pre – mature death as well as the needs of the senior citizens through their old age without putting much constrain on the working populace.

Societies should be concerned with providing social security to ensure that the future income needs of their citizens can be met when that need arises. Without this arrangement, many stand to suffer severe hardships and embarrassment in the future. Governments are actively involved in the provision of social security in an effort to meet the future needs of vulnerable groups in society. Historically, in Ghana there existed a traditional system of social security among our rural folk that ensured that the extended family had the responsibility of taking care of the aged and the infirm. The development of modern societies with migrant population and changing perceptions has disrupted this traditional extended family system of care, as we now know it.

It is therefore necessary for the authorities to establish and manage a fund that is financially sustainable in the long term to provide pensions to its workers in their old age or in case of accidents that may render a contributor disabled. Most importantly the resources should be invested in viable projects with high returns to secure the future of workers. In line with this objective SSNIT invests in many areas of the economy such as the financial sector, real estate development, the hospitality industry, building of modern markets etc in the country.

The introduction of pension payments in Ghana dates back to the colonial times when government introduced pension for a select group of civil servants who were known as pensionable officers. In the early 1960's government established a more national scheme to cover all workers both in the private and public sectors.

In 2004 the government initiated a major reform of the pension scheme in Ghana. A Presidential Commission on Pensions was set up to work on the project. The Presidential Commission made some recommendations for implementation in a report to the government in March 2006. The government after reviewing the report issued a white paper in July 2006 accepting most of the commission's recommendations.

The 8 member Pension Reform Implementation Committee as part of its mandate submitted proposals for National Pension Reform Bill to Government in 2007. Cabinet subsequently approved the bill which was passed by Parliament and received Presidential assent in December 2008.

This brought into effect a new pensions law, The National Pensions Act, 2008 (Act 766). The new pension law provides for the creation of a contributory three-tier pension scheme with a Pension Regulatory Authority in Ghana

1.2 STATEMENT OF PROBLEM

The Social Security and National Insurance Trust (SSNIT) has the mandate to invest employees and employers contributions in order to pay adequate post-employment benefits such as pension.

However, in recent times it has been reported that inadequate returns generated from their investments have undermined the profitability and utility of the scheme. An article in the Daily Graphic titled Workers' future in danger dated 19th February 2010 quoted the following, “The Social Security and National Insurance Trust (SSNIT) had invested GH¢51,600,000 of Ghanaian workers' money and earned only GH¢820,000 out of it as of 2004 has raised eyebrows and concerns about the fate of the trust.” It is stated that, “Their investments were made in 40 unlisted entities, with only six of them being able to declare and pay dividends.”

This and other factors such as increases in pensions contribution pay out, increases in private pension fund management, low enrollment, lack of contribution by some private companies and small & medium scale enterprises highlight the need for good investment decisions and returns by the scheme to maintain the confidence of the people. Thus, this research seeks to study the returns on the investments made by SSNIT over the period from 1999 – 2008.

1.3 PURPOSE OF THE STUDY

The research seeks to accomplish the following;

1. Examine the return on the investments made by SSNIT, compare with the prevailing market rates of return at the time to ascertain their profitability or otherwise.
2. To assess the returns on investments and their impact on the expected future benefit payments by the pension fund (would the fund be able to pay the benefits?)
3. Evaluate the actual results achieved by the institution by matching them against the performance of other companies in the industry.

1.4 RESEARCH QUESTIONS

1. What are the options available to SSNIT as per their mandate?
2. What rates of returns are made on the pension funds invested?
3. Are the returns made by SSNIT satisfactory when weighed against those made by other companies in the sector?
4. Comparing the benefits paid with contributions received and return on investments, would the income be able to cover future payouts?
5. Are workers contributions in danger?

1.5 SIGNIFICANCE OF THE STUDY

The rationale behind conducting this research is

- To determine whether the company would be able to pay benefits based their returns since the national pension fund serves as the financial support for most workers in the formal sector after their retirement.
- To determine how the returns on the institution's investments compared with other financial institutions in similar areas of operation.
- The research on the investments would guide future decisions by employers and employees on whether to invest all their pension contributions with SSNIT or invest some portion with other private pension fund managers.
- To contribute to knowledge in pension fund management.

1.6 METHODOLOGY

There are various types of methodologies in undertaking a research into the investment portfolio of institutions. However a case study approach was adopted in this study since, until recently SSNIT has been a major pension fund scheme for most employees and a key investor on the Ghana Stock Exchange. Also there are other pension fund managers in the country and therefore the research had to be restricted to SSNIT alone.

The study involved a desk research on issues relevant to the returns on the investments made by SSNIT. Primary and secondary data as well as other relevant data gathered were used in this research. The data collected from the various sources was analyzed to draw the necessary conclusions.

1.7 SCOPE AND LIMITATION

This study covers mostly the period of 1999 to 2008.

It is stated categorically that, the study will be limited to audited end of year financial figures provided by the SSNIT and other financial institutions.

Several problems and constraints are envisaged, considering the direct inquiry from officials of the SSNIT and the other financial institutions. This is because the information is dependent on the goodwill of the persons involved, and whether the relevant information and data are available.

Another problem is that data might not be sufficient in order to answer the questions.

Time factor and other problems that underlie the use of ratio and trend analysis cannot be glossed over.

Despite the limitations, the researcher was determined to gather data and information with tact so as to maintain validity and relevance.

1.8 ORGANISATION OF STUDY REPORT

This is where the structure of the final project is described.

This study looked at the financial performance of SSNIT. It is divided into 5 chapters. Chapter one opens the report and covers the background to the study, problem statement, the objectives of the research, methodology, significance, scope and limitations, and organization of the chapters.

The second chapter examines the literature review and acknowledges what other authors have said about management of pension funds and their performance measurement tools. In Chapter Three, the research methodology has been discussed.

Data Presentation and Analysis is found in the fourth chapter. It presents the analysis of performance selected companies using ratios, trend analysis and graphs.

Chapter Four also focuses on the discussion of findings. An examination of the financial performance of SSNIT was also carried out in this chapter. The findings, conclusions and recommendations were then given in chapter five.

CHAPTER TWO

LITERATURE REVIEW

2.1 OVERVIEW OF PENSION FUNDS

Traditionally, welfare of the elderly was the role of the family unit. However as world population grew rapidly the issue of care for the elderly became a serious problem for the state. Various countries at different points in time could no longer provide the necessary support to the elderly because of improvements in medical care, standard of living etc which increased the cost. This led to the creation of pension funds some which are among the largest financial institutions in many developing and developed countries.

Pension funds were started in 1875 in the United States of America by the American Express Company. Although established in the 1800's real growth in retirement programs came after world war two. The rapid growth was attributed to high-profit taxes imposed on corporations which encouraged some of them to establish pension plans; since the employer's contributions to qualified pension plans were not tax-deductible and therefore could be funded inexpensively.

Another factor that made the people in America conscious of the need to provide for their future economic security was the Depression of the 1930's. The depression swept away the life savings of millions of people and created a feeling of insecurity (www.investmentsandincome.com).

Pension funds have existed in the United Kingdom since the early 1900's. Lloyd George, the Chancellor of the Exchequer under the government of Herbert Asquith introduced the very

first state pension. To pay these pensions, he had to raise government revenues by an additional £16million per year. The 1909 budget known as the People's Budget included increases in taxation. It was originally designed to help the poor and payable by age 70 (<http://www.incipit.co.uk/state-pensions>).

By 1936, active membership of private pension funds had risen substantially. This was associated with a shift in benefit design from defined contribution to final salary defined benefit (Avrahampour, 2006). An additional State Pension payable on top of the Basic State Pension was introduced and came into effect from April 1978. It was an earnings related pension. The Guarantee Minimum Pension was also introduced to provide guarantee with respect to the adequacy of pension funding.

By 1891, it was possible for people in Germany who were over 70 years of age to obtain an old age pension. The imperial insurance code in 1911 introduced additional benefits. A few decades later the pension scheme was reformed – specifically in 1957. The pay-as-you-go scheme was introduced as well as a pension formula which calculated the earnings during old age based on the earnings obtained during the years a person was in gainful employment. Further changes in 1970 allowed the self-employed, students and housewives to profit from pension cover (www.ansahl.com/Altersvorsorge/pension-scheme-FRG/German-History.html).

By an Act of Parliament in 1961, Nigeria established the National Provident Fund. It was set up to provide income loss protection for employees to meet the requirements of the International Labour Organization (ILO) Social Security (Minimum Standards) Convention 102 of 1952. The National Provident Fund which initially covered only the private sector

workers was converted to a limited social insurance scheme in 1993. The new scheme was administered by the Nigeria Social Insurance Trust Fund (NSITF). The institution is self-financing and sustains itself from revenue generated from its operations. It has branches covering all states.

In 2004, the Federal Government passed a law which assigned the administration, management, and custody of pension funds to private sector companies; that is private pension fund administrators and pension fund custodians. The Act mandated the Nigeria Social Insurance Trust Fund (NSITF) to set up its own pension fund administrator to compete with other fund administrators in the emerging pensions industry, and also to manage the accumulated pension funds of current NSITF contributors for a transitional period of five years. As a result the NSITF incorporated the Trustfund Pensions Plc as a pension fund administrator in collaboration with other institutional investors and social partners.

The pension scheme in Tanzania was established during the colonial era and covered only a few people who were in colonial employment. After independence, the new government introduced a number of policies and measures to reverse the situation that prevailed during the colonial era; a move that led to the establishment of statutory social security schemes. The National Provident Fund was among those established by an Act of Parliament in 1964 and amended in 1975. It was again repealed and replaced by the National Social Security Fund Act of 1997. In all, there are five pension funds for various categories of workers in Tanzania. These are National Social Security Fund (NSSF), the Public Service Pension Fund (PSPF), the Parastatal Pension Fund (PPF), the Local Authorities Provident Fund (LAPF) and the National Health Insurance Fund (NHIF). About eighty – five percent of employees in the formal sectors are covered by one of these pension funds (<http://www.tanzania.go.tz>).

In Ghana as discussed earlier, SSNIT was established to administer the National Social Security Scheme in 1972. The institution administered as a provident fund until 1991 when this was converted into a pension scheme. A new reform bill has been passed which will allow the participation of private funds managers in the industry.

2.2 TYPES OF PENSION FUNDS

There are different types of pension funds depending on who instituted them and the benefits derived. The process that each type of pension fund uses to decide on policies relating to investing and financing etc is different from other competitors.

Pension funds can be classified as a defined benefit plan or a defined contribution plan. A defined benefit plan is a pension plan that defines a benefit for an employee upon retirement. The pension paid to the retiree under this plan is calculated taking into consideration certain factors such as the number of years a person works, the members salary at retirement, age at retirement and a factor known as the accrual rate.

Where the pension plan allows for early retirement, payments are often reduced to reflect the fact that retirees will receive pension payments for longer periods. A defined benefit plan may be funded or unfunded. A funded plan is one which invests the contributions of both employers and members towards meeting the benefits to be paid in later years. On the other hand, an unfunded defined benefit pension sets no assets aside for investments. The benefit is paid for by the pension sponsor as and when they fall due. Most state pensions in the world are unfunded with benefits directly paid out of workers contributions and taxes. In a defined benefit plan any investment risks or rewards are assumed by the sponsor and the individual takes no responsibility for it.

In a defined contribution plan, the contributions made by each member are paid into his or her individual account. The contributions are then invested on money markets and other viable sectors of the economy. The returns on the investment which may be positive or negative are also credited to the members account. Upon retirement therefore, the benefits are paid based on the sum accrued to the individual member.

Defined contribution plans have become widespread all over the world. In these plans, investments risks and rewards are assumed by the employee and not the sponsor. Many employers are avoiding the large expenses associated with using a defined plan and are instead offering a defined contribution plan to employees.

An occupation or employer pension is one created by an employer (company) for the benefit of its employees. Open pension funds support at least one pension plan with no restrictions on membership while a closed pension fund supports only pension plans that are limited to certain employees.

A public sector pension fund is regulated under public law while a private pension fund operates under private sector law. Public sector sponsored defined benefit plan covers employees working for federal states and local governments. Private sector sponsored pension plans are employment based plans established by firms such as IBM, General Motors and AT&T. Government-sponsored pension plans are countrywide, compulsory programs such as the social security system in the United States and the Canada and Quebec pension plans in Canada (Masulem and Palacios, 2003).

However, both the public and private sector pension plans are subject to the same financing, investment and organizational principles. It is process that each type uses to decide and

implement its policies that differ. For example investment policy decisions for public sector plans are made at public forums while the same decisions for private sector plans are made behind closed doors by individuals with strong investment background.

2.3 FEATURES OF VARIOUS PENSION FUNDS

“The publicly provided pension benefit in the United States, known as social security has a progressive benefit formula. There is also a means-tested top payment available for low income pensioners” (Whitehouse, 2007).

“The current normal retirement age in the United States is between sixty five (65) and sixty seven (67) years. Eligibility depends on the number of years of contribution, with a minimum requirement of 10 years. Early retirement is possible from age 62 but with lower benefit. The first \$592 a month of relevant earnings attracts a 90 percent replacement rate. Earnings between \$592 - \$3567 a month are replaced at 32 percent. The ceiling for contributions and benefits is \$84,900 a year” (Whitehouse, 2007).

The United Kingdom has a two tier pension scheme as well as a large private pension sector. The two tier pension is made up of a flat rate basic pension and an additional earnings related pension. An income related pension targeted at helping the poorest pensioners was also introduced.

The pensionable age is sixty five (65) and people need to pay social security for approximately nine-tenths (44 years) of their working lives to qualify for state pension. There is a reduced pension available to those who do not meet the full condition. “The full basic state pension for a single pension was £3896 for the calendar year of 2002” (Whitehouse, 2007).

In Germany, the pensionable age is sixty five (65). One can retire at age sixty three (63) with thirty five years of contribution. Germany has a single tier pension.

“A year’s contribution at average earnings earns one point. Contributions are levied on monthly earnings between €325 and €4500 (2002 values). The floor and ceiling are equivalent to 12% and 163% of average earnings, respectively. The ceiling also applies to the number of points earned. Average covered earnings were €28,626 in 2002 equivalent to 86% of the earnings of the average production worker. For social assistance the benefit values is determined regionally. The government pays the health and long term care contributions of older social assistance recipients” (Whitehouse, 2007).

In Morocco, there are three separate schemes to cover civil servants, the military and other public sector workers. The pensionable age is sixty (60) years for both sexes. People who want to retire early can do so at age fifty five (55) but the employer must pay their pension between ages 55 and 60. Miners have a pension-eligibility age that is lower than sixty (60) years. To qualify for a pension, one must have contributed for 3,240 days.

“Morocco's pension system currently includes a number of funds. There is a fund for public workers in civil and military fields (Moroccan pension fund, or CMR); a fund for private sector workers (CNSS) complemented by a scheme managed by the CIMR (Moroccan inter professional pension fund); and an organisation for those on State contracts (RCAR). Added to this are the various internal funds owned by certain public enterprises such as ODEP, ONCF, OCP and others” (Touahri, 2008).

In Ghana, SSNIT operates a retired contribution plan with each member having a separate account. The scheme is financed by a combined contribution from employers and employees. Membership is compulsory for people who are not self-employed and work for companies or other employers and voluntary for the self-employed. It excludes members of the Armed

forces, Diplomatic missions and Universities as these institutions have different schemes to cover the retirement needs of their members.

Currently the Trust pays old age pensions, invalidity pensions, survivors' benefits or health insurance benefits. The retirement age is between 55 and 60; one needs 180 months contribution to qualify for a pension. The lump sum is paid to members who would have qualified for a pension but did not meet the number of month's contribution required. The survivors benefit is paid to nominated or dependent members of the family of a deceased member who was receiving an invalidity or retirement pension or was still a contributing member before his or her death.

Under the new three-tier system which became operational on 1st January, 2010 SSNIT now manages the first tier. The second and third tier will be privately administered by approved Trustees licensed by the National Pensions Regulatory Authority. The Trustees will appoint pension fund managers who will be required to achieve the best returns on the funds within specific investment parameters set by the Trustees.

2.4 INVESTMENTS OF PENSION FUNDS

Pension funds invest in capital markets to make profit. They need a future economic recovery that lasts and as such most of them invest for the long term. In many countries pension fund resources are the domestic sources of long term capital. Initially the pension funds are channeled into safe investment areas. As the funds mature some turn towards "alternative investment vehicles, which in general have had better returns than pension fund portfolios, albeit with greater risk" (Vives,1999).

"The case of Chile, with its longer history, is illustrative of the possible evolution as funds mature and tends toward riskier portfolios, even within the very conservative limits set

by regulations. At the beginning, most assets were invested in essentially risk free securities, as is the current case in Mexico. As time went by and capital markets developed, funds started to invest in mortgage bonds and corporate securities, to the point that in 1994 these represented a proportion similar to public securities.” (Vives, 1999).

In the United Kingdom pension plans have increased their investments in hedge funds by significant proportions since the year 2006. They often outperform the broad stock market by wide margins. The pension funds in Canada, Portugal, Holland, Switzerland, the United States and many others have also invested in hedge funds for profit. “Though estimates vary, up to 20% of European and American pension funds and 40% of Japanese pension funds are thought to invest in hedge funds” (Stewart, 2007).

“Two prime examples: As of January 2, 2009, the two largest (United States) government pension funds investing in hedge funds were the California Public Employees Retirement System with a total market value of \$188 billion and the Ontario Teachers Pension Plan with \$108 billion in net assets” (Agarwal, 2010).

Other pension funds have taken to socially responsible investments and invest in areas like the energy sector. These are investment strategies that seek to maximize both financial return and social good. They have the potential to yield the higher returns than those earned from investments in capital markets.

“PensionDanmark and PKA, two of Denmark’s biggest pension funds, acquired a 50 per cent stake in the Anholt wind park to be built by Dong Energy, the Danish utility, off the country’s north-east coast. The deal highlights growing interest in the investment opportunities surrounding renewable energy as well as the increasing importance of pension funds as a source of funding for the sector. Claus Stampe, chief investment officer of PensionDanmark, says green energy infrastructure is becoming an attractive asset in an era of low fixed income returns and volatile equity markets. Mr. Stampe says average annual

returns from Anholt are expected to be at least double current Danish bond yields of just above 3 per cent over the wind farm's 20-year lifespan" (Ward, 2011).

In March 2009, the Danish labour market pension scheme, ATP invested \$400 million in the Hudson Clean Energy fund adding that investment in clean energy could grow to 2 to 3 percent of the portfolio. Denmark has been involved in clean energy research and technical development and its wind turbine technology is highly rated and used all over the world (www.reuters.com).

About 7 per cent of Danish teachers' pension fund Lærernes Pension was invested in forestry by the last quarter of 2009; this is expected to produce a stable annual return of 10 per cent.

"Pension funds are increasingly moving into new asset classes in a search for yield. Infrastructure is a type of investment being frequently discussed, given its potential to match long-term pension assets and provide diversification. Previously, pension funds exposure to infrastructure has been via listed companies, or via real estate portfolios. However, some larger funds globally are beginning to invest via private equity funds, or occasionally even directly. Australian, Canadian and Dutch pension funds may be considered leaders in this field" (Inderst, 2009).

"In Canada, the Ontario Municipal Employees Retirement System (OMERS) has several billions of Can\$ invested in infrastructure through its subsidiary Borealis Infrastructure set up in 1998. The big US pension, CalPERS, adopted a new investment policy in 2008 with a target of 3% allocation of assets, or US\$ 7.2bn in infrastructure. Other US pension funds with infrastructure allocations or intentions include CalSTERS, the Washington State Pension Plan, Alaska Permanent Fund Corporation, Oregon PERD, the World Bank. In the UK, a number of big pension funds have announced going into infrastructure in recent years: USS, BT, RailPen" (Inderst, 2009).

Argentina, Columbia and Chile allow their pension funds to invest in infrastructure projects. “Pension fund managers in those countries are able to participate in infrastructure development programs and public services only indirectly by purchasing paper issued by specialized infrastructure investment funds or títulos securitizados” (Vives,1999). According to Vives, the investments in infrastructure provide higher returns for the pension funds than what is obtained by portfolios. Although the higher returns are achieved in the long run, pension funds can wait for them to mature because their liabilities are for the long term.

The Social Security and National Insurance Trust has for a couple of years been involved in the real estate’s sector. From their 2009 annual report, SSNIT also invests in the manufacturing sector, hospitality industry, services, the banking industry, other financial houses, private equity funds, economically targeted investments and listed equities.

2.5 PERFORMANCE OF PENSION FUNDS

Pension funds all over the world usually invest in equities. When the stock markets are doing well pension funds tend to post strong results. In Ghana SSNIT has invested in majority of the companies listed on the stock exchange. Pension funds rank among the largest institutional investors in developed countries by assets under management. Recent years have witnessed the creation of new public pension funds in several countries, and the modernization of existing ones in others, with special emphasis placed on upgrading their investment policy framework and strengthening their governance structure.

Over 10 years to December 2009, pension funds in most industrialized countries posted varied results. Pension funds in the United Kingdom made good returns in some years and not so good returns in others. Majority of the United Kingdom’s pension funds posted

double-digit investment returns for the year 2009 but the results were not that positive between the years 2005 and 2008. In 2008, the average UK pension fund achieved a weighted average return of -13.6% (<http://bnymellon.mediaroom.com>). Irish pension funds lost 30% of their value in 2008. The world's largest pension scheme is the Japanese Government retirement pension plan and it posted positive results at the end of March 2004. The Japanese public pension fund is said to be worth \$379bn and has more assets than the total GDP of Switzerland. However during the period when the Japanese economy witnessed economic stagnation, the government pension fund scheme suffered serious setbacks as resources continued to diminish, in direct relation to the weakness in the Japanese stock markets (www.hedgeco.net). In 2008, most pension funds in the United States lost some value with a number of them posting poor results. The retirement savings account alone lost US\$2trillion in 2008.

The global financial crises hit the economies of nations across the world hard with pension funds in different countries coming out as major casualties. However Germany seemed to have escaped these losses. They did so by investing a higher proportion of their pension funds in bonds. In Africa, Nigeria's pension fund also lost a significant portion of its value. In an article on the allafrica.com website entitled Nigeria: Pension Asset and Global Meltdown dated 6th April, 2009 Abubakar Buba states that

“In Nigeria, 7% of the total contribution to the Retiree Savings Account (RSA) which stood at N471.77 billion was lost due to crash in the equities market. Pension Fund Asset which had accumulated to an estimated value of N1.1 trillion as at December 2008 was ordinarily supposed to call for celebration for all stakeholders in the pension industry including the apex regulatory body but, the meltdown ensured they never did. In addition, RSA investment in equities which was 15.93% in 2007 crash landed to 9.52% as at the end

of December, 2008. Unlike Germany, Nigeria had only about 32% of its total pension funds invested in Federal Government securities/bonds and 11% in real estate”.

There have been reports of inadequate returns generated from the investments of Ghana’s pension funds. In February 2010, SSNIT was reported to be making low returns on monies invested with only six out of forty companies the Trust had invested in being able to declare and pay dividends as of 2004. An article written by Frank Dewotor of the data bank group under the caption “Towards A Sustainable National Pension System” also buttressed the fact that the returns on investments were unsatisfactory. He stated that “Other problems include SSNIT’s record of investing in many projects that have yielded negative real returns over the years due to political interference, lack of competition and probably inadequate investment expertise at SSNIT.” The nine-member Presidential Commission on Pensions also discovered that the SSNIT Pension Scheme had been mismanaged through, “reckless investments which have undermined the profitability and utility of the Fund and the Scheme. SSNIT in its present form will have to change. The governance has to change” (Ghanaweb.com). This was Thomas Ango Bediako, Chairperson of the Commission, speaking at an Editors Forum in Accra. Many other people have expressed similar opinions on the organizations investments.

2.6 IMPACT OF PENSION FUNDS ON SOCIETY

Pension funds have been set up in many countries to provide support for members of society who have suffered some disability or became too old to work and therefore are threatened by economic deprivation and sometimes even social isolation. The payments received by pensioners help them to meet their needs a take care of children who may not have reached a mature age to enable them gain employment by the time the parent retires. This support to

families through social systems prevents the breakup of family lives and leads to the stabilization of life and intensification of psychological links among family members.

Many developing countries have reformed their pension plans from a defined benefit to a defined contribution plan. One of the reasons for this shift is that it is beneficial for the development of domestic financial markets. In defined contribution plans, the accumulation of assets by pension funds bolsters the domestic market, which in turn leads to more efficient allocations of monies to productive investments in the domestic economy. Theoretically, this will lead to increases in productivity and growth.

“Pension funds could trade frequently, increasing the liquidity of the domestic stock markets, and thus crowding in savings and new investors. Similarly, the intense trading of stock by pension funds and their large size may induce them to seek the introduction of innovations and new financial instruments to lower transaction costs, again attracting additional savings and new market participants” Catalan (2004).

Pension funds are also used to aid development in many countries. From investments in housing to roads and even the educational sectors they have served as a medium for bringing development to the people. After equities and bonds, property has played an integral role in balancing the asset allocation and providing a longer term element in investment strategies. Given the shrinking equity premium of the public securities market, pension funds are seeking new kinds of investments where there is reward for expertise and returns consistent with the long term objectives of such institutions.

In Ghana, SSNIT's involvement in the real estate's sector has resulted in the development of new estates in major towns of the country. The Social Security and National Insurance Trust provides affordable housing to many ordinary workers. The commercial properties built by the organization provide office accommodation and trade outlets which have brought further improvements in the country's infrastructure and employment opportunities.

The circumstance of the family one is born into has a large effect on that person's economic well-being. The economic circumstances of one's birth family can seriously influence their personal development and opportunities for upward mobility. Social security can insure against the economic risks associated with being born into a poor family by providing income transfers to retirees who have had low lifetime earnings.

This is a way of redistributing income in society as the less privileged people get an additional income to improve their lot. Redistribution of income is an effective measure to reduce income differences and to stabilize the lives of the low-income class in the situations in which the market economy alone cannot ensure social fairness. Money is also transferred from people who can earn income to those who no longer have means to earn income. The funds received by these families can be used to improve the lives of their younger ones granting them better opportunities for upward mobility.



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN

A number of different research strategies can be identified, comprising experiment, survey, case study, grounded theory and action research. A research strategy has to contribute to answer the particular research questions and should help to meet the objectives of the study.

In this research work, the research strategy used was a case study. This research method was used because there are other pension fund managers in the country and therefore the research had to be restricted to SSNIT alone. Also until recently SSNIT was the only organization with the mandate to administer the Social Security Scheme in Ghana. Moreover case studies emphasize detailed contextual analysis of a limited number of events or conditions and their relationships. It is a kind of qualitative research method that most social scientists including business oriented researchers use to analyze real-life situations to provide the basis for applying new ideas. Yin defined the case study research method as “an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used” (Yin, 1984). The research mainly focused on return on investments of SSNIT from the year 1999 to 2008, and its effects on the future benefit payments expected from the fund. This period was chosen mainly for availability of data. It was most likely that information for these years would be available.

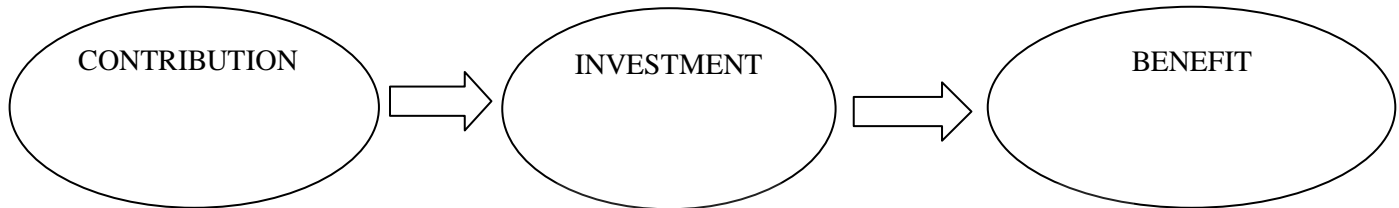
The research utilized the exploratory research method through the use of literature searches which yielded information on the current challenges SSNIT faces in the management of its investment. The search results helped to better explain the extent of the problems the organization had with return on its investments. The data for this information was gathered from news reports, articles on the investment problems by the various writers and SSNIT's website.

The returns received by SSNIT as per their financial statements were also analyzed. These returns were compared to the general rates that were prevailing in the ten years to draw conclusions on their adequacy.

The various articles by concerned individuals which were sampled and discussions among the general populace showed the worry of people about the future of the fund, noticeable among them was the one by Frank Dewotor (2004). Although the scheme is a contribution pension plan and therefore pension payments to retirees do not depend entirely on the profits made by SSNIT, it is important to many people that it is financially sound. They argue that the fund must be financially sound over the long term to meet its future obligations and therefore issues affecting the organization usually generate a lot of public interest among people.

Finally in line with assessing its impact on future benefit payments, the inflows of funds into the SSNIT fund and the payouts made over a period of ten years were considered. The organization receives funds from workers salary which it is expected to invest in low risk ventures with appreciable returns made on them. The money coming from the salary deduction or contribution is the input into the fund. The investments made out of the

accumulated funds constitute the process of managing the fund. The output is the benefit paid to retirees at the end of their lives. This is illustrated as follows:



The contributions received as well as the returns made on its investment were compared with the benefits paid to meet their obligations to the beneficiaries. The effect of this process on the future benefit payments by the fund was analyzed.

3.2 AREA OF STUDY

The study was done on the returns on SSNIT investments in Ghana. The financial performance of SSNIT as indicated in their annual reports was compared with the performance of other companies in the sector. Other economic indicators such as inflation rates and yields on treasury bills during the period of study were considered in assessing the returns on investments. The annual enrolment and contributions made to the scheme was analysed. Also the expected pay out rate and the number of people going into pension were also studied to determine the fund's capacity to pay benefits to the contributors in the future. A detailed analysis of the study area is done in chapter four.

3.3 INSTRUMENTS FOR DATA COLLECTION

Primary data and secondary data were used for the research. Data from other relevant sources was gathered. Through this medium, the researcher was able to gather information on the

return on investments made by SSNIT within the specified period and the impact it would have on the payment of benefits by the pension fund in the long term.

Questionnaires were administered to gather the primary data. The questionnaires were administered to finance and treasury staff of the five insurance companies whose data were selected for analysis in chapter four and SSNIT. The secondary data used was mainly excerpts from academic publications by various authors to explain and justify the techniques employed in this research work, as well as data from annual reports of Bank of Ghana, SSNIT and the National Insurance Commission. The data collected from other relevant sources include those obtained from books on pension funds, news reports, journals etc. The research involved the review of already existing data.

Purposive sampling technique was used in selecting respondents. The validity and generalizing of research findings is very important, but so is the method for arriving at the representative sample. Maximizing the credibility of a piece of research demands a good research sample (Kvale, 1995). Purposive sampling is a technique that involves selecting certain units or cases “based on a specific purpose rather than randomly” (Tashakkori and Teddlie, 2003). Their choice is dependent on the type of information the researcher expected from them.

A sample size of fifteen was chosen. This included nine finance officers and six treasury officers (at least two people from each of the selected companies) who could give reliable information on the return on investment and other information relevant to the research. The research was on a pension fund and therefore it was important to have other fund managers’ assessment. Also the respondents were both male and female.

3.4 METHOD OF DATA ANALYSIS

Different forms of data were applied for both descriptive and explanatory purposes during the conduction of the research. The secondary data was from the source named above while the primary data was gathered through the use of a questionnaire. Other data relevant to the topic was reviewed. The yearly gains made by the pension fund were weighed against those of other companies operating in the industry as a way of assessing its performance. Particularly, the rates of return on the investments of the different insurance and life assurance companies for a period of ten (10) years were compared and the movements analysed.

Also the rate at which people joined the scheme and the general number of retirees going on pension annually, as well as the contributions received by the fund and the benefits paid were analysed as a basis of determining whether the company can make future benefit payments when they fall due. Again the effect of inflation on the fund was examined in the determination of the capacity of the national pension fund to meet its obligation to pay pensions to retirees in the future. SSNIT is to ensure that the value of the investments is not eroded by an inflationary economic environment and also the returns on the investments should be appreciable. The questionnaires were administered to people who were thought to be knowledgeable in finance field in a bid to obtain credible information.

3.5 ANALYSIS OF DATA AND PRESENTATION

Data collected from the various institutions was edited and processed using Microsoft Excel and Word. Tables and charts were used in presenting the various variables earmarked to be

measured. The presentation of the data collected were put to an in depth analysis using appropriate statistical tools such as line graphs and bar graphs.

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CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATIONS

4.1 INTERPRETATION OF DATA

This chapter discusses the analysis of data that was gathered from the study. One objective of this analysis was to examine the performance of the investments made by SSNIT. The data used for this analysis is of both primary and secondary sources. In order to achieve this objective data from National Insurance Commission reports was obtained (see appendices 1, 2 and 3). In addition, data on economic indicators from Bank of Ghana was obtained for the analysis.

The assessment of the performance of SSNIT investments was considered in context of the general economic performance of Ghana. The treasury bill rate was used in the analysis because the risk free rate is a bench mark that one expects all investments to outperform. Again inflation reduces purchasing power and also and it is used to adjust the nominal return to arrive at the real return of a company.

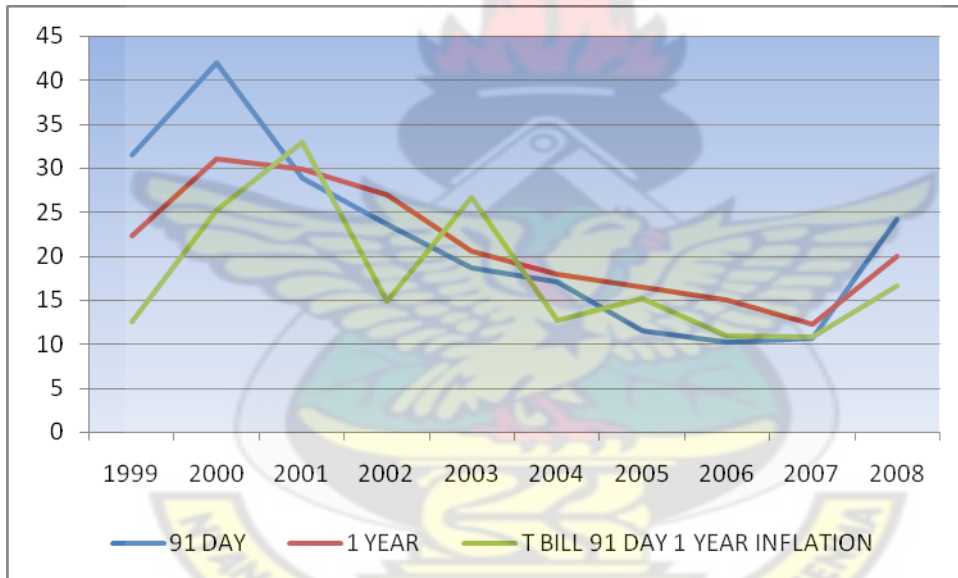
TABLE 1: ECONOMIC INDICATORS (1999-2008)

YEAR	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
91 DAY BILL	31.5	42	28.9	23.6	18.7	17.1	11.5	10.2	10.6	24.7
1 YEAR TREASURY NOTE	22.3	31	29.9	27	20.5	17.9	16.5	15.0	12.3	20.0
INFLATION	12.41	25.19	32.91	14.82	26.67	12.62	15.12	10.92	10.73	16.52

Source: Bank of Ghana

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FIGURE 1: ECONOMIC INDICATORS (1999-2008)



Source: Bank of Ghana

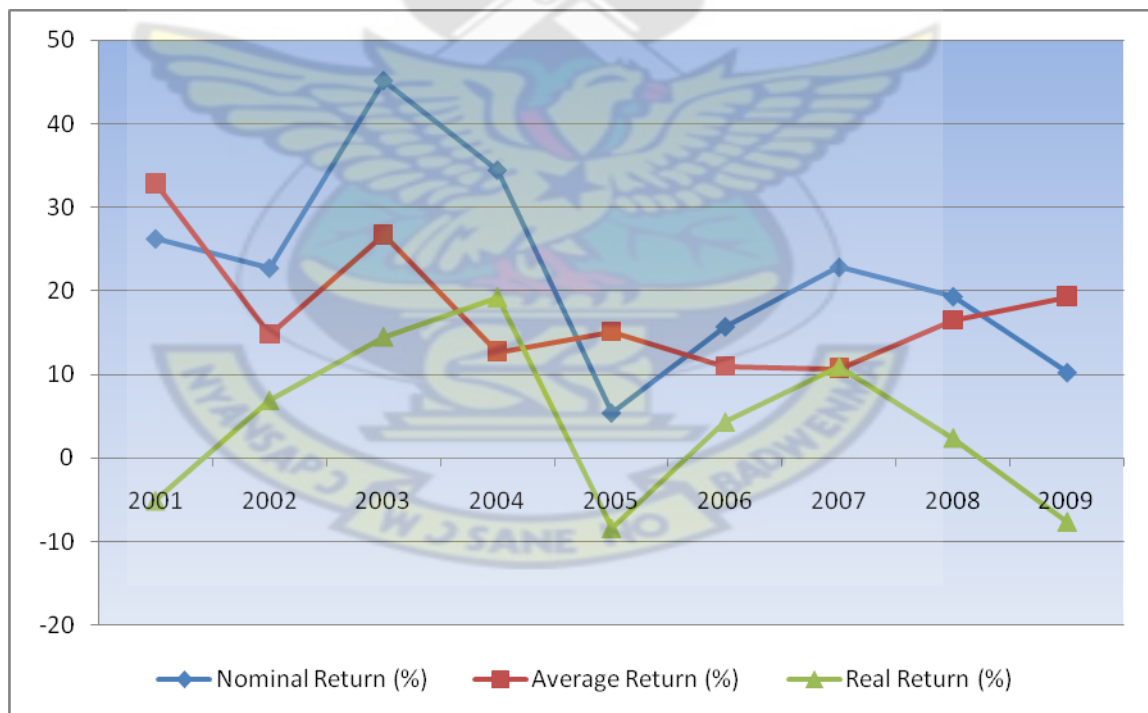
The graph shows an upward movement in treasury bill rates from 1999 to 2000. However, from 2001 there was a continuous decline in the rates until 2007. The rate for both the 91 day bill and one year treasury note rose in 2008. The inflation rate on the other hand had been volatile over the same period with the highest rate being 32.91% and the lowest being

10.73%. As observed, the treasury bill yield moved largely in line with inflation over the period.

TABLE 2: TREND IN PORTFOLIO RETURNS (2001-2009)
(FROM SSNIT ANNUAL REPORTS - 2005, 2008, 2009)

Real Return on Investment (RROI)	2001	2002	2003	2004	2005	2006	2007	2008	2009
Nominal Return (%)	26.2	22.7	45.1	34.4	5.4	15.7	22.8	19.3	10.23
Average Return (%)	32.9	14.8	26.7	12.7	15.1	11	10.7	16.5	19.30
Real Return (%)	-5.1	6.9	14.5	19.2	-8.4	4.3	10.9	2.4	-7.60

FIGURE 2: TREND IN PORTFOLIO RETURNS (2001-2009)



SOURCE: SSNIT ANNUAL REPORTS (2005, 2008, 2009)

This line graph shows a fall in the nominal returns from 2001 to 2002. It rose sharply in 2003; then fell through 2004 and 2005. The trust then recorded an increase in its nominal returns in 2006 but not up to the levels seen in 2003 or 2004. The nominal return rose again in 2007 but the values fell in both in 2008 and 2009.

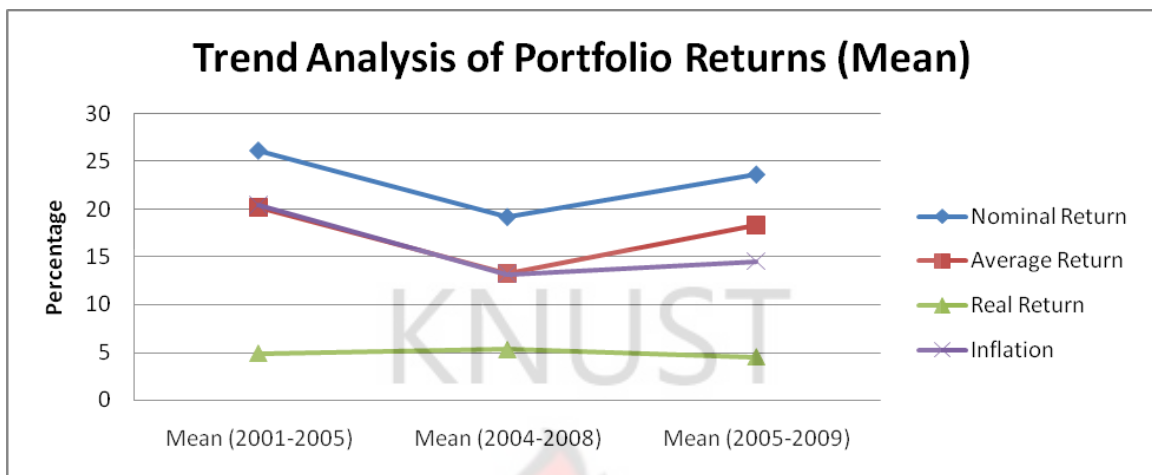
The average return recorded its highest value of 32.9 in 2001. From that height in 2001, it fell in 2002 and the same trend of the value rising in one year and decining in the next year continued till the year 2009.

The values of the real return on the investment of SSNIT also kept fluctuating in the period under consideration. In 2001, the return was negative; it rose to 6.9 the next year and this rise continued till it reached a peak of 19.2 in 2004. From then, there was a steep decline with the trust recording a negative real return in 2005. The value of the real return rose for the next two years, fell in 2008 before recording another negative value in 2009. The fluctation in real return was caused in part by the fluctuations in the inflation rates. The effect of inflation on the returns was significant and this resulted the rather low real returns for the trust.

**TABLE 3: TREND IN PORTFOLIO RETURNS –MEAN
(FROM SSNIT ANNUAL REPORTS - 2005, 2008, 2009)**

Real Return on Investment (RROI)	Mean	Mean	MEAN
	(2001-2005)	(2004-2008)	(2005 - 2009)
Nominal Return (%)	26.1	19.2	23.62
Average Return (%)	20.2	13.2	18.28
Real Return (%)	4.9	5.3	4.51
Inflation (%)	20.43	13.18	14.52

FIGURE 3: TREND ANALYSIS OF PORTFOLIO RETURNS (MEAN)



SOURCE: SSNIT ANNUAL REPORTS (2005, 2008, 2009)

The fluctuations in the mean values of the nominal, average and real returns for five year periods are illustrated in the line graph above. The five year mean in the period of 2001 – 2005 was higher than the five year mean in the period of 2004-2008 for both the nominal and average return. The mean value of both returns increased in the period of 2005-2009. On the other hand the five year mean of the real returns was higher for the period 2004 – 2008 than for 2001 - 2005. The value declined for 2005-2009. This reflects the higher values for inflation in the first five year period and the third five year period. The mean values for inflation covering the period indicated above follows the same trend as the nominal, average and real returns.

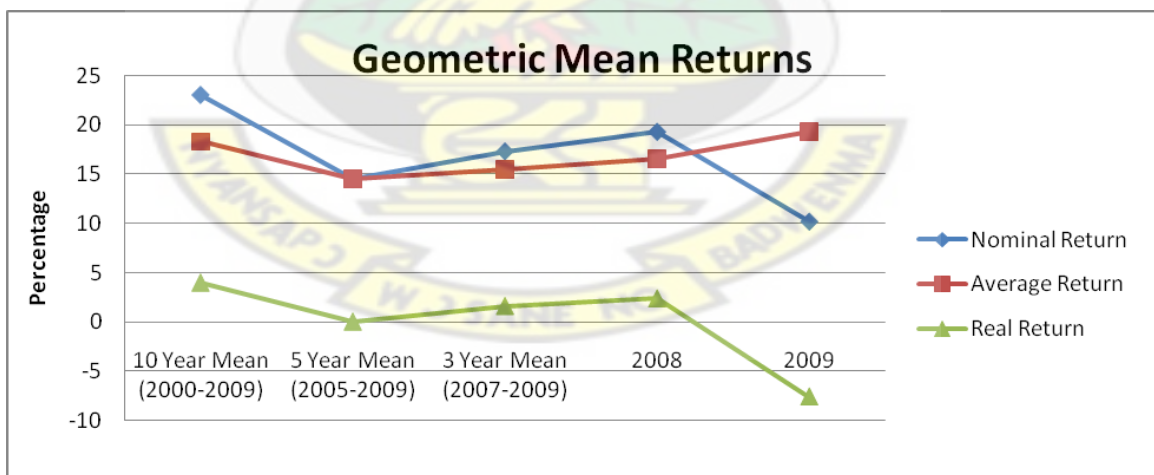
**TABLE 4: MEAN PORTFOLIO RETURNS– TREND ANALYSIS
(FROM SSNIT 2009 ANNUAL REPORT)**

The ten, five, and three-year **geometric mean returns** presented in Table 4 provide the short, medium and long-term views of the investment portfolio performance.

ITEM	10-Year Mean (2000-2009)	5 -Year Mean (2005 -2009)	3 -Year Mean (2007 -2009)	2008	2009
Nominal Return %	23.02	14.51	17.32	19.30	10.23
Average Return %	18.28	14.47	15.44	16.50	19.30
Real Return %	4.01	0.04	1.63	2.40	-7.60

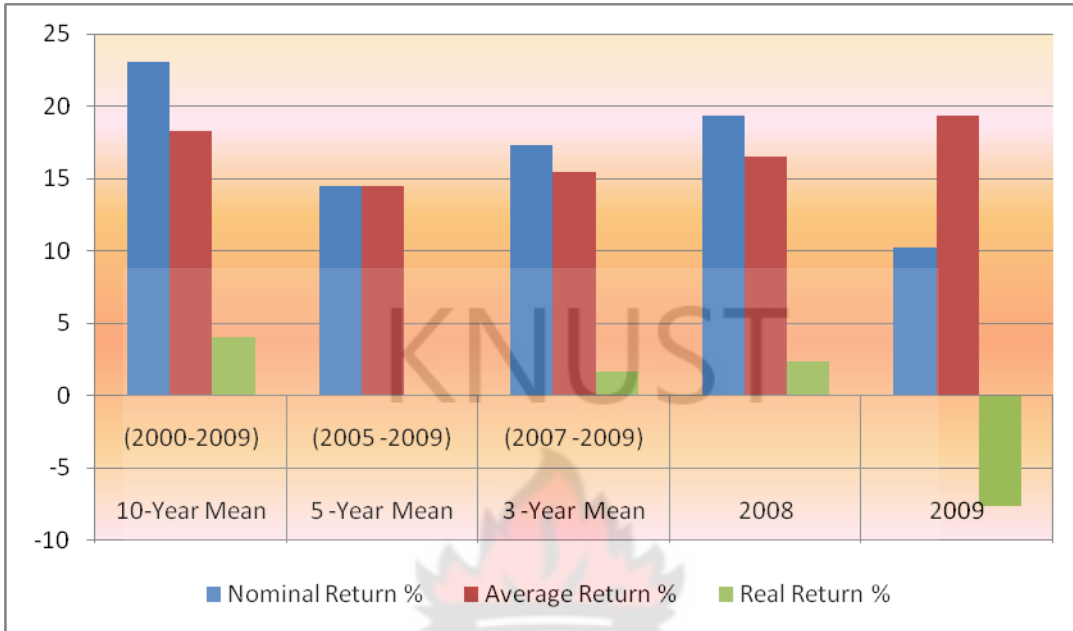
SOURCE: SSNIT ANNUAL REPORTS (2009)

FIGURE 4: MEAN PORTFOLIO RETURNS– TREND ANALYSIS (2009)



SOURCE: SSNIT ANNUAL REPORTS (2009)

FIGURE 5: MEAN PORTFOLIO RETURNS– TREND ANALYSIS (2009)



SOURCE: SSNIT ANNUAL REPORTS (2009)

Note: At 2.25% positive real return on the investment per annum, the Scheme would be sustainable over a 50-year period (i.e, 2003-2053), if the number of contributors were to be increased at a minimum of 3% per annum: **Source:** 2004 SSNIT Pension Fund Actuarial Valuation.

On average, the investment portfolio real returns have exceeded the minimum actuarial sustainability benchmark of real return (+2.25%) only over the long – term (positive 4.00% Refer to table 4). The portfolio recorded performance, in the medium and short terms, of 0.04% and 1.63%, respectively. For both terms the performance fell below the benchmark. (FROM THE SSNIT 2009 ANNUAL REPORT).

4.2 COMPARATIVE ANALYSIS WITH SELECTED FINANCIAL INSTITUTIONS

The second part of this analysis as per the third objective compares SSNIT's investment performance with other financial institutions. The figures in table 5 below were culled from appendix 1 of this study which is an excerpt from the National Insurance Commission Report , 2007 : "Investment income as a percent of total investment: 1999 – 2007" for comparative analysis of the SSNIT's returns on investment with those of the selected financial institutions.

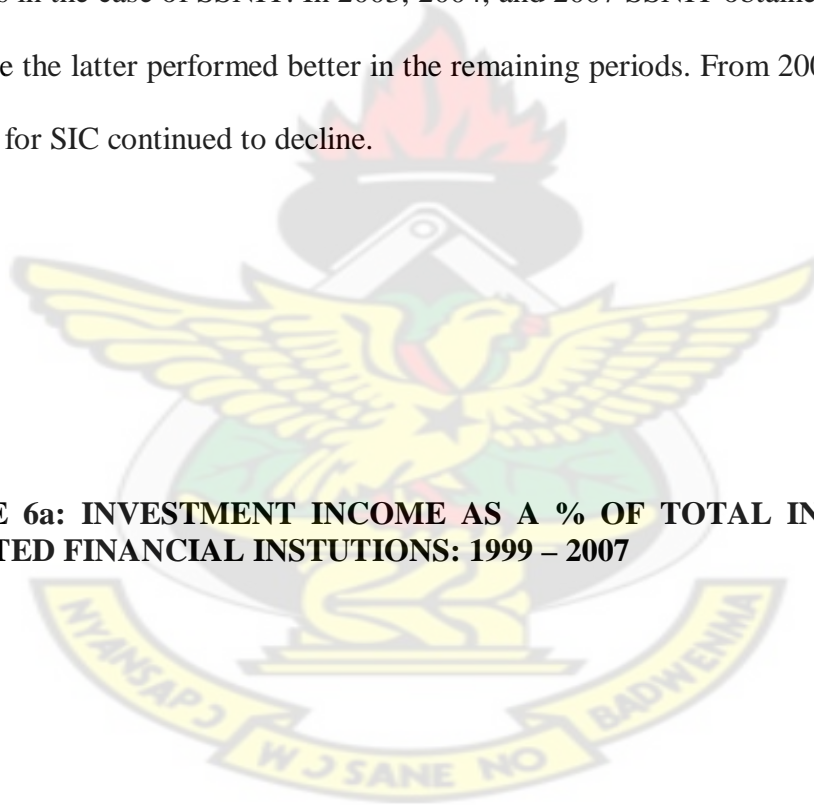
TABLE 5: INVESTMENT INCOME AS A % OF TOTAL INVESTMENT FOR SELECTED FINANCIAL INSTITUTIONS: 1999 - 2007

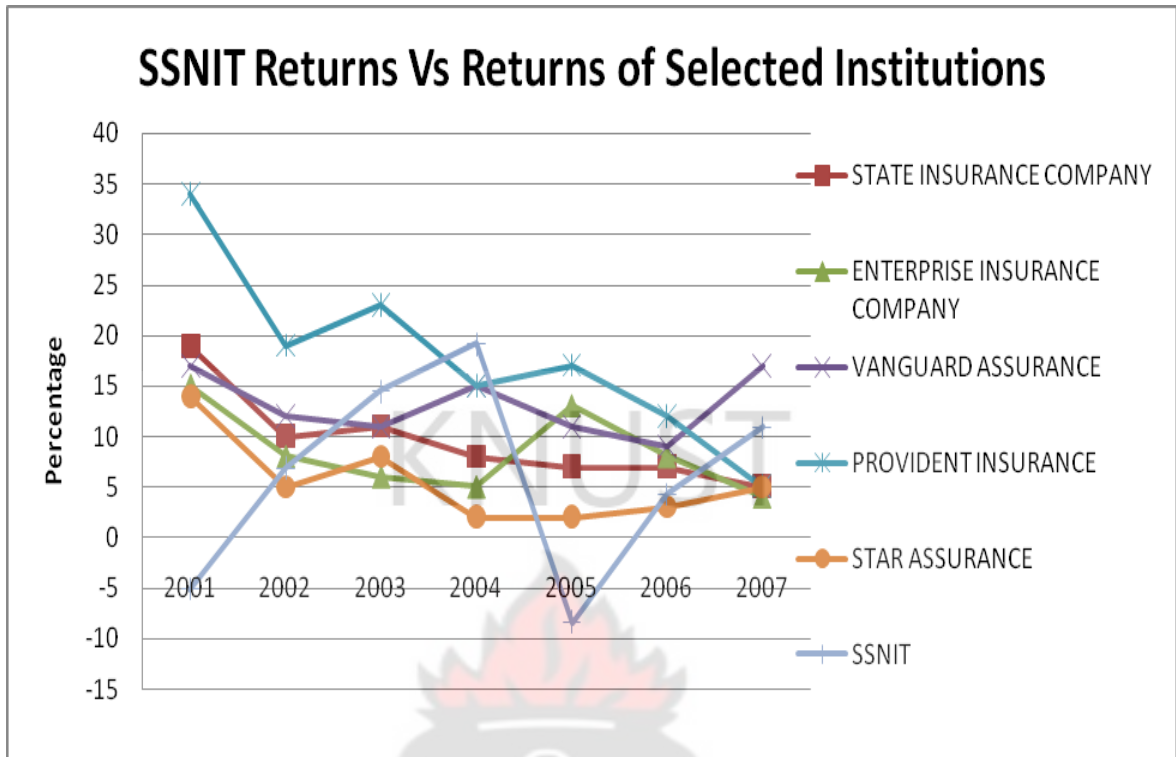
FUND	1999	2000	2001	2002	2003	2004	2005	2006	2007
INDUSTRY AVERAGE	18	18	22	16	17	17	11	11	10
STATE INSURANCE COMPANY	16	18	19	10	11	8	7	7	5
ENTERPRISE INSURANCE COMPANY	22	23	15	8	6	5	13	8	4
VANGUARD ASSURANCE	14	20	17	12	11	15	11	9	17
PROVIDENT INSURANCE	22	28	34	19	23	15	17	12	5
STAR ASSURANCE	12	9	14	5	8	2	2	3	5
SSNIT			-5.1	6.9	14.5	19.2	-8.4	4.3	10.9

Source: National Insurance Commission Report (2007)

Table 5 has been represented in a pictorial form to aid the analysis (Figure 6a). In line with the above objective, an analysis was done on the returns of SSNIT and the five selected companies. Generally all the five insurance companies posted higher returns from 1999 – 2003 than for 2004 – 2008. In the period under consideration, the State Insurance Company (SIC) recorded returns that were close to the industry averages. Although their returns were not exceptionally high ranging between 5% and 19%, they did not record any negative figures as in the case of SSNIT. In 2003, 2004, and 2007 SSNIT obtained higher returns than SIC while the latter performed better in the remaining periods. From 2004 onwards, the rates of return for SIC continued to decline.

FIGURE 6a: INVESTMENT INCOME AS A % OF TOTAL INVESTMENT FOR SELECTED FINANCIAL INSTITUTIONS: 1999 – 2007





Source: National Insurance Commission Report (2007)

The investment income as a percent of total investment for Vanguard Assurance within the period of 1999 – 2008 were generally below the industry average but often higher than the values obtained by SSNIT. Vanguard Assurance did not belong to the group of companies posting the highest returns. However with the exception of 2003 and 2004 the investment income as a percent of total investment was always higher what was obtained by SSNIT.

From the table 5 it can be observed that the investment income made by Provident Insurance as a percent of their total investment was generally high. After reaching the height of 34% the values kept fluctuating but the company was not able to achieve the previous levels of return. In most cases, the values were above the industry average and the company recorded higher returns in 2000, 2001 and 2003. Despite the fall in the rates of return for the second

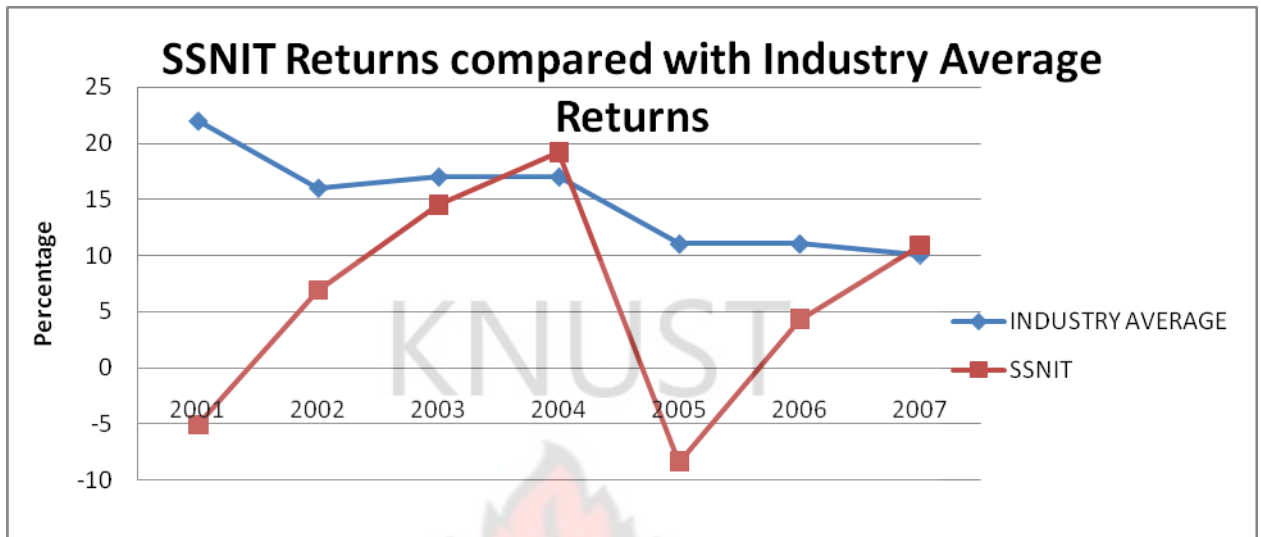
half of the period, the investment income in percentage terms were still higher than those obtained by SSNIT in 2005 and 2006.

Enterprise Insurance recorded its highest investment income as a percent of total investment in 1999 and 2000. There was a decline in the rate in 2001 and this trend continued until 2004. 2005 saw the company increase its return and then fall again in subsequent years. For most years their return was below the industry average with the lowest being 4% in 2007. With the exception of 2001, the values obtained by Enterprise Insurance were generally not much higher than those obtained by SSNIT.

Star Assurance also obtained its highest returns in the first three years from 1999 – 2001. Subsequently there was a general decline in the returns. From 2002 the returns were generally lower than those obtained by SSNIT but not negative. Again their performance was always below the industry average.

The contributions to the SSNIT fund increased annually throughout the period under consideration. The same trend of a consistent increase was also observed in the amounts of benefits paid. However the benefits paid were lower than the contributions received. This is partly due to the fact that the total number of pensioners is always a fraction of the number of contributors to the fund. Both the number of pensioners and new members joining the fund increased annually. The number of active contributors also increased for all the years except in 2005 when the number fell.

FIGURE 6b: INVESTMENT INCOME AS A % OF TOTAL INVESTMENT FOR SSNIT AND THE INDUSTRY AVERAGE: 1999 – 2007



Source: National Insurance Commission Report (2007)

Overall, it can be observed that during the period under consideration, the selected financial institutions performed better than SSNIT. Besides, the returns for SSNIT were relatively volatile. This is evidenced in Figure 6b. Though SSNIT is better resourced than all these other insurance companies, in 2001 and 2005, the company recorded negative values. It may be an indication of problems with investment decisions taken for those years.

4.3 ANALYSIS OF PERSONAL INTERVIEWS WITH RESPONDENTS

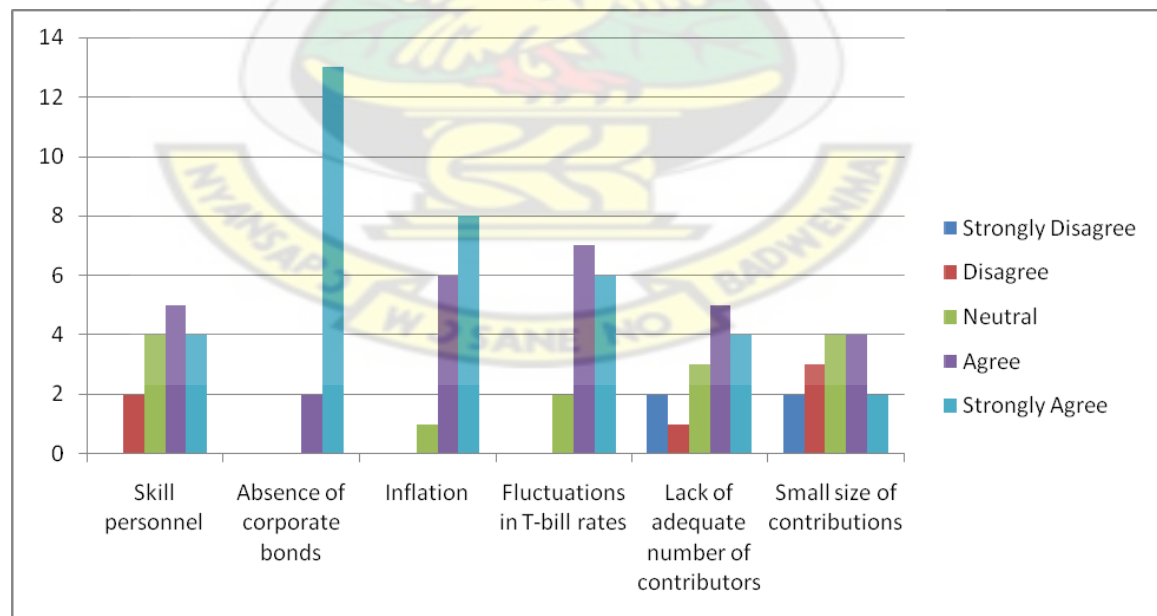
This section deals with primary data gathered from interviewed personnel from SSNIT and the selected financial institutions.

TABLE 6: CHALLENGES FACED BY SSNIT IN FUND MANAGEMENT

Problems	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Skilled personnel		2	4	5	4
Absence of corporate bonds				2	13
Inflation			1	6	8
Fluctuations in T-bill rates			2	7	6
Lack of adequate number of contributors	2	1	3	5	4
Small size of contributions	2	3	4	4	2

Source: Interview Data (2011)

FIGURE 7: CHALLENGES FACED BY SSNIT IN FUND MANAGEMENT

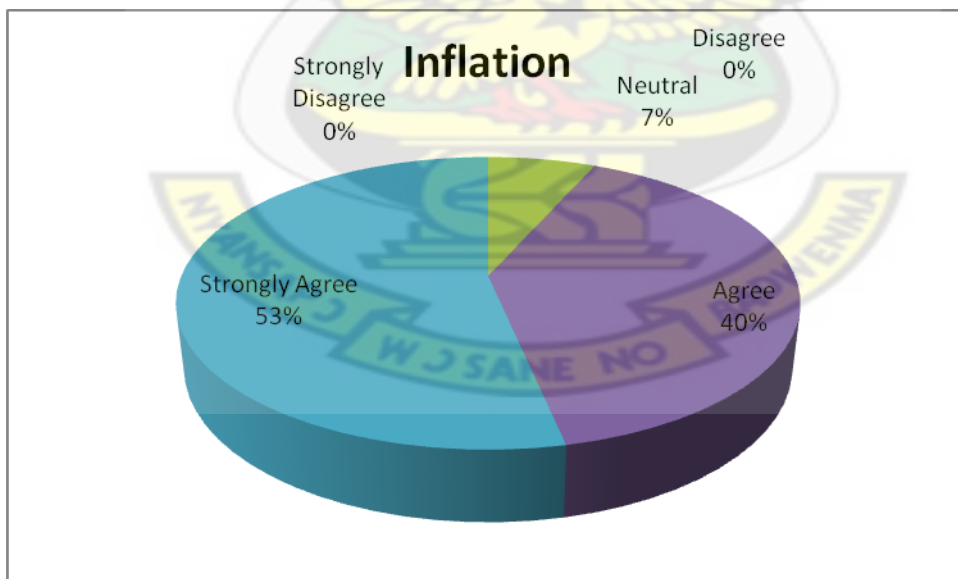


This chart is a graphical representation of the various responses received from the interviewed personnel. The respondents were unanimous on some issues such as inflation representing problems for SSNIT while they expressed mixed views on some other matters.

The first section of the questionnaire was used to gather information on the respondents to confirm that they were people working in the treasury and finance departments of insurance companies and SSNIT who were knowledgeable in the area of study. The purpose was to ensure the reliability of the information obtained. The research sought the opinions of this select group on the problems of SSNIT.

Specifically on the issue of inflation being a problem for SSNIT, 53 % strongly agreed. A study of the returns of SSNIT showed that when nominal returns are adjusted by inflation figures, the resulting real returns are quite low. Another 40% agreed that inflation was a problem for SSNIT. This result is illustrated in the figure below

FIGURE 8: INFLATION



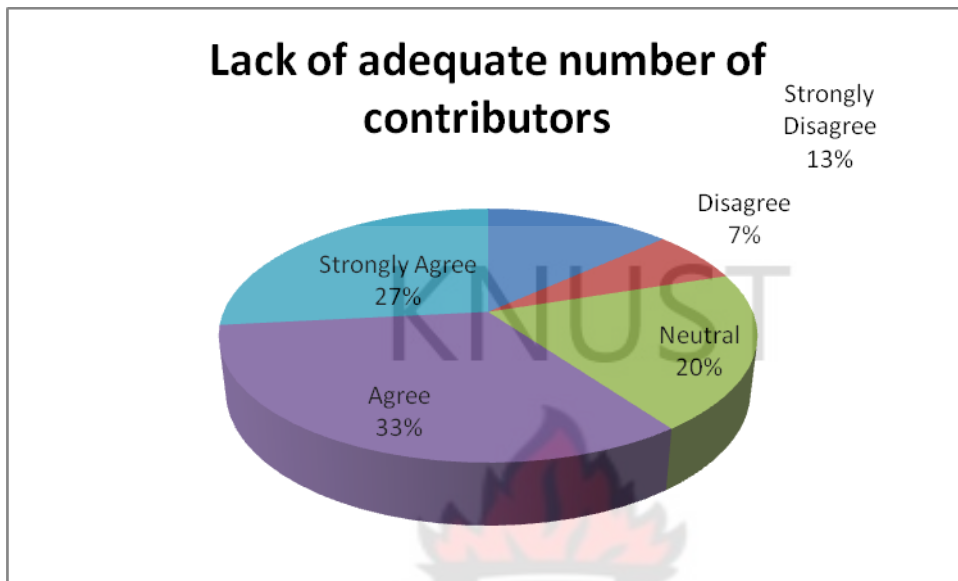
However, the trust investment policy states that SSNIT is to ensure, “that the values of the investments are not eroded by an inflationary economic environment”. Therefore although it is a challenge, they are also expected to find ways of dealing with such issues.

More than half of the respondents agreed that SSNIT lacked skilled personnel. Frank Dewotor mentioned “inadequate investment expertise at SSNIT” as part of the problems of the organization. There have also been complains of over staffing from several quarters. In recent times, the organization has offered its old staff early retirement packages while recruiting new, younger men and women with relatively higher education levels. Hopefully these measures will ultimately help to improve the caliber of staff working in the organization.

Thirdly, not many people agreed with the issue that the small size of contributions was negatively affecting the company. SSNIT is better resourced than any other company in the insurance industry. The monthly contributions received by SSNIT are highest in the industry. Again some insurance companies with fewer resources were posting relatively higher returns in the period under consideration.

Sixty percent of the respondents accepted that lack of adequate number of contributors was a problem for SSNIT as shown in figure 8.

FIGURE 9: NUMBER OF CONTRIBUTORS



Source: Interview Data (2011)

From the company's own analysis carried out in 2009 and shown in table 4, the company will survive for the long term, if the number of contributors to the fund increased at a minimum of 3% per annum and it earned 2.25% positive real return on the investment per annum. In the period from 1999 to 2009, the growth rate of active contributors was always above 3%. It is critical for new members to join but the scheme at present should not collapse.

CHAPTER FIVE

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter is about the findings, conclusions and recommendations on the assessment of the returns on employee pension contributions and their impact on future benefits payment and evaluation of SSNIT's investment performance in relation to other companies in the industry; a case study of SSNIT.

5.2 FINDINGS

From the case study it was noticed that the performance of the investments made by SSNIT was quite bad in terms of industry average as compared with the prevailing market rates of return at the time to ascertain their profitability.

However, in 2007 SSNIT recorded 10.9% investment income above the industry average which shows a significant improvement over its previous performance. Enterprise Insurance in the same year recorded an investment income of 4%, SIC 5%; Vanguard 17%, Provident 5% and Star Insurance also recorded 5% returns on investment. This is probably due to the relatively low level of inflation recorded that year. In previous years the general investment performance of SSNIT in terms of the value of its returns had been fluctuating with the company recording negative returns on its investment in 2001 and 2005. From 2002 however, the company also recorded positive returns (returns real) with the maximum return recorded over the period being 19.2%.

Although in 2005 there was again a drop in returns the company picked up but started falling again in 2008. Compared to the insurance industry average and in particular returns from

companies such as State Insurance Company, Enterprise Insurance, Vanguard Assurance over the previous years, SSNIT could however do much better. For example in 2002, while SSNIT recorded a return of 6.9%, the industry average was 16%. State Insurance Company also recorded a return of 10%; Enterprise Insurance recorded 8%, Vanguard Assurance 12%, Provident Insurance 19%. Especially where the company only has to invest readily available funds, better choices of investments could have been made to help maximize their returns.

In 2008, the returns on investment dropped to 2.4%. In the daily graphic report of 19th February 2010 the writer states that “Their investments were made in 40 unlisted entities, with only six of them being able to declare and pay dividends.” The company must make certain that its investments as much as possible are in profitable ventures and areas to ensure they constantly make good returns.

It can be observed from the data that for 2008, most life insurance companies improved on their performance in 2007. The Social Security and National Insurance Trust is in a similar area of operation and given its advantage in terms of readily available funds, the company must work to continually increase their returns to meet the needs of their clients.

The treasury bill rates increased from 1999 to 2000. Subsequently the rates kept declining until 2007 (both the 91 day bill and the one year treasury bill). With the reduction in the interest rates, the returns on the investment in treasury bills would also reduce and would negatively affect the returns for SSNIT. However SSNIT is expected to diversify its portfolio of investments to make up for such shortfalls and as the largest non-bank financial institution in the country and the largest single institutional investor on the Ghana Stock Exchange the company has adequate funds for this purpose.

The Social Security and National Insurance Trust (SSNIT's) investment policy provides guidelines for investment which include investments in low risk ventures with appreciable returns and ensuring that the values of investments are not eroded by inflation. The real returns (used in this analysis) shows that when inflation is taken into consideration, the returns obtained SSNIT are not very high. These returns may be acceptable for other companies with different circumstances but for SSNIT which receives mandatory payments with the managers of the fund not having to worry about inflows but only ensuring that the monies are invested, the company could do much better.

From 1999 – 2008, though the number of contributors and pensioners both increased on a yearly basis, the number of contributors were always higher than the number of pensioners. The number of active contributors decreased only from 2005 to 2006. For all other years, the number of active contributors to the fund for each year increased over that of the previous year.

It was also found that inadequate expertise may be a contributory factor to the constant low returns recorded by the organization. About sixty percent of the respondents agreed that SSNIT staff possibly lacked the expertise necessary to operate the pension fund profitably.

Also the contributions received by the fund were always higher than the benefits paid. The company will have its own expenses such as the salaries of workers and other administrative expenses to pay. However the monies received are large and SSNIT should have enough funds left for investment; and high returns made on such investments should enable them maintain the fund in the future. In that case, the future of workers would not be in danger.

5.3 CONCLUSIONS

From the comparisons of the findings and the objectives of the research, a number of conclusions could be drawn:

Generally, SSNIT is better resourced than all the insurance companies because of the mandatory payments received from employers and employees. The insurance companies on the other hand have to compete with others in the industry to find clients who will pay in contributions to their funds.

Hence, all things being equal, it can be inferred from the more diversified portfolio undertaken by SSNIT to mitigate risk should reflect on customers fund investments being made through the best strategic approach. SSNIT must be able to invest in areas and in companies where it can achieve appreciable returns.

While the number of pensioners increased, the new and active contributors equally grew in size. Taking other expenses the company might incur in into consideration, the fund will still have substantial funds which if properly invested will enable it to meet its obligations in the long term.

Other insurance companies working without the substantial funds available to SSNIT, and having to find their own clients as well as being subject to the same economic factors such as inflation etc. are performing relatively better than SSNIT in the same environment. This situation needs to be checked and appropriate measures taken to ensure an improvement in performance. As stated by Thomas Ango Bediako, Chairperson of a nine-member Presidential Commission on Pensions “The governance has to change.” The authorities

responsible for overseeing the activities of SSNIT must ensure the fund is able to gain appreciable returns on the monies deducted from the salaries of hard working Ghanaians.

5.4 RECOMMENDATIONS

The following recommendations have been proposed:

The board and other stakeholders should ensure better management of the pension fund so that adequate returns are obtained on the monies received and invested by the fund. This could be in the form of holding top management accountable and also ensuring an effective supervision of the company's activities. The company must ensure that qualified professionals are recruited to manage the fund at all times. This will help the company meet its obligation to its clients and regain the confidence of the people.

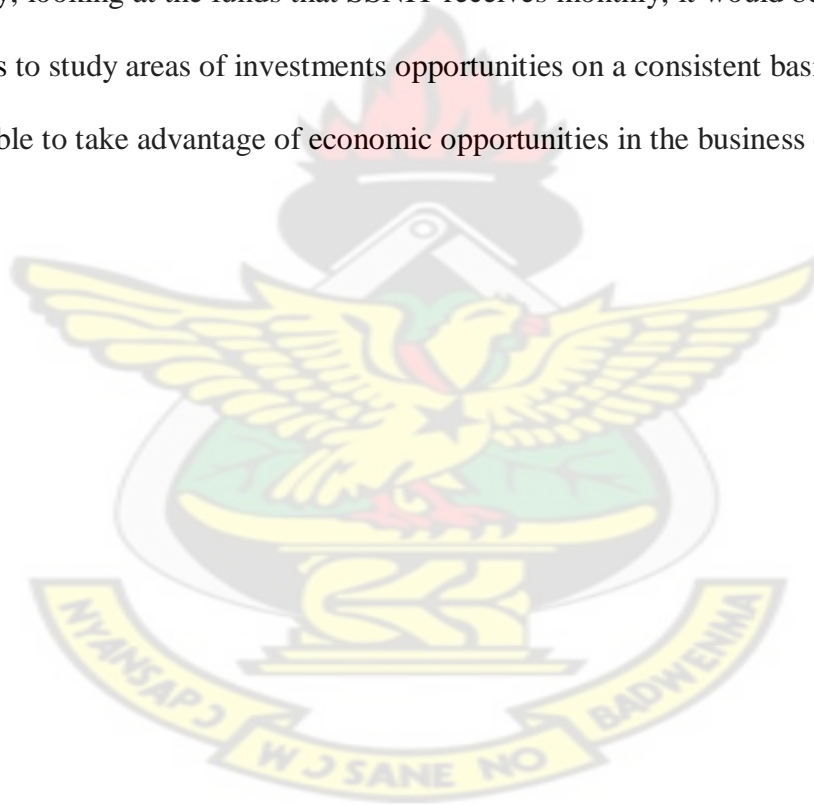
It is also recommended that a swift implementation of the contributory three- tier pension scheme which will give workers the option to have other fund managers manage a part of their contributions towards their future upkeep be carried out. This will ensure SSNIT will soon have adequate competitors who will take away a part of their funds where they are not able to satisfy their clients and compel them to improve their performance.

It is also recommended that the authorities responsible to ensure that any internal changes required including administrative, staffing et cetera are carried out at the earliest to ensure the company meets its obligation and primary responsibility to collect contributions to pay pensions and other benefits in the future.

The Social Security and National Insurance Trust cannot control the rates of inflation but can work for higher returns which will not be impacted heavily by inflation. There may be

instances of poor investment decisions but this should not be a frequently recurring problem for good fund managers. Frank Dewotor of the data bank group under the caption “Towards A Sustainable National Pension System” stated that “Other problems include SSNIT’s record of investing in many projects that have yielded negative real returns over the years due to political interference, lack of competition and probably inadequate investment expertise at SSNIT.” These are factors to be seriously considered and adequate steps taken in ensuring that the national pension scheme improves its performance.

Generally, looking at the funds that SSNIT receives monthly, it would be good for the fund managers to study areas of investments opportunities on a consistent basis. In this way they will be able to take advantage of economic opportunities in the business environment.



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APPENDICES

APPENDIX 1: INVESTMENT INCOME AS A % OF TOTAL INVESTMENT: 1999 - 2007

FUND	1999	2000	2001	2002	2003	2004	2005	2006	2007
INDUSTRY AVERAGE	18	18	22	16	17	17	11	11	10
STATE INSURANCE COMPANY	16	18	19	10	11	8	7	7	5
ENTERPRISE INSURANCE COMPANY	22	23	15	8	6	5	13	8	4
GHANA UNION ASSURANCE	19	20	21	7	9	10	7	8	10
NETWORK ASSURANCE	14	14	14						
IGI COMPANY LIMITED					18	13	18	12	2
VANGUARD ASSURANCE	14	20	17	12	11	15	11	9	17
PROVIDENT INSURANCE	22	28	34	19	23	15	17	12	5
STAR ASSURANCE	12	9	14	5	8	2	2	3	5
CDH INSURANCE	6	14	16	12	10	6	8	7	7
BEACON INSURANCE	20	20	20	21	23	-	16	13	-
UNIQUE INSURANCE	0	75	37	19	17	17	14	7	7
DONEWELL INSURANCE	20	29	30	13	30		12	11	21
METROPOLITAN INSURANCE	19	13	17	18	18	26	11	4	6
PHOENIX INSURANCE	12	8	27	24	27	5	9	15	6
QUALITY INSURANCE	22	21	25	23	21	12	11	8	13
INTER-LIFE & GENERAL	12	12	12						
BENEFITS INSURANCE					-	-	-	10	-
GEMINI LIFE	25	21	28	26	18	17	15	7	6
GHANA LIFE	19	30	36	20	26	16	16	15	16
ENTERPRISE LIFE	-	-	-	21	15	8	7	10	7
GHANA REINSURANCE	13	14	16	14		11	9	10	9

MAINSTREAM INSURANCE	11	18	16	14	14	14	14	12	14
STAR LIFE ASSURANCE COMPANY					-	3	4	6	9
METROPOLITAN LIFE COMPANY LIMITED					-	-	-	10	13
GLICO GENERAL COMPANY					-	-	-	10	10
GLOBAL ALLIANCE COMPANY					-	-	-	7	107
PRIME INSURANCE COMPANY					-	-	-	-	31
SSNIT			-5.1	6.9	14.5	19.2	-8.4	4.3	10.9

APPENDIX 2: INVESTMENT INCOME AS A PERCENTAGE OF TOTAL INVESTMENTS RATIO; 2007-2008

FUND	2007	2008
INDUSTRY AVERAGE	10	9
CDH INSURANCE	9	10
DONEWELL INSURANCE	6	5
ENTERPRISE INSURANCE COMPANY	10	6
EQUITY ASSURANCE	-	13
GHANA UNION ASSURANCE	9	8
GLICO GENERAL COMPANY	10	12
GLOBAL ALLIANCE COMPANY	0	0
IGI COMPANY LIMITED	2	7
INTERNATIONAL ENERGY INSURANCE COMPANY	-	8
METROPOLITAN LIFE COMPANY LIMITED	6	13
PHOENIX INSURANCE	7	10
PRIME INSURANCE COMPANY	31	22
PROVIDENT INSURANCE	5	6
QUALITY INSURANCE	14	14
REGENCY ALLIANCE INSURANCE COMPANY	-	11
SIC INSURANCE COMPANY	4	5
STAR ASSURANCE COMPANY	5	9
UNIQUE INSURANCE	7	7

VANGUARD ASSURANCE	27	12
GHANA REINSURANCE	9	10
MAINSTREAM INSURANCE	14	11

APPENDIX 3: PERFORMANCE INDICATORS OF LIFE COMPANIES

INVESTMENT INCOME AS A PERCENTAGE OF TOTAL INVESTMENTS RATIO; 2007-2008

FUND	2007	2008
INDUSTRY AVERAGE	6	11
CAPITAL EXPRESS ASSURANCE (GHANA LIMITED)	-	-
CDH LIFE INSURANCE COMPANY LIMITED	2	2
DONEWELL LIFE INSURANCE COMPANY LIMITED	-	11
ENTERPRISE LIFE INSURANCE COMPANY LIMITED	7	8
GHANA LIFE INSURANCE COMPANY LIMITED	16	11
GHANA UNION LIFE ASSURANCE COMPANY LIMITED	1	17
GLICO LIFE INSURANCE COMPANY LIMITED	6	6
IGI LIFE ASSURANCE LIMITED	2	6
METLIFE LIFE COMPANY LIMITED	15	28
PHOENIX LIFE ASSURANCE COMPANY LIMITED	6	10
PROVIDENT LIFE ASSURANCE COMPANY LIMITED	5	17
QUALITY LIFE ASSURANCE COMPANY LIMITED	12	13
SIC LIFE INSURANCE COMPANY LIMITED	7	9
STARLIFE ASSURANCE COMPANY LIMITED	9	9
UNIQUE LIFE ASSURANCE COMPANY LIMITED	7	16
VANGUARD LIFE ASSURANCE COMPANY LIMITED	9	14

APPENDIX 4: PENSIONERS, MEMBERS, ACTIVE CONTRIBUTORS

YEAR	PENSIONERS	NEW MEMBERS (contributors)	ACTIVE CONTRIBUTORS	GROWTH RATE% (active contributors)
1999	36,010	54,122	807,540	5.2
2000	42,548	60,944	850,778	5.4
2001	46,493	57,851	894,220	5.1
2002	51,576	64,154	941,782	5.3
2003	60,637	72,366	998,393	6
2004	63,030	88,561	1,068,728	7
2005	68,925	95,628	898,368	-
2006	73,311	90,906	784,294	-
2007	80,952	102,567	803,582	-
2008	88,857	119,748	843,676	-
2009	98,658	116,625	880,676	4.4

APPENDIX 5: CONTRIBUTIONS RECEIVED AND BENEFITS PAID.

YEAR	CONTRIBUTION	Converted Rates	GROWTH RATE%	BENEFIT PAID	Converted Rates	GROWTH RATE%
	RECEIVED (¢'B)	GHC'm		(¢'M)	GHC'm	
1999	372.78	37.278	58.53	62,347	6.235	37.4
2000	458.84	45.88	23.09	95,462	9.546	53.1
2001	728.35	72.835	58.74	133,484	13.348	39.8
	(¢'B)	GHC'm		(¢'B)	GHC'm	
2002	1,002	100.200	37.64	160.3	16.030	50.1
2003	1,340	134.00	33.73	248.24	24.824	54.9
2004	1,633	163.300	21.87	447.35	44.735	80.2
	GHC'm	GHC'm		GHC'm	GHC'm	
2005	190.6	190.60	16.7	63.02	63.02	40.9
2006	286.8	286.80	50.5	79.87	79.87	26.7
2007	384.97	384.97	34.2	117.08	117.08	46.6
2008	418.75	418.75	8.8	163.43	163.43	39.6
2009	667.6	667.60	59	223.24	223.24	37

APPENDIX 6

Questionnaire to Respondents

This research is to analyze the financial performance of Social Security and National Insurance Trust (SSNIT). Your participation is cordial and voluntary yet critical to the success of the project. Any information you provide will solely be used for academic purpose, and any information provided would be treated with utmost confidentiality.

1. Demographic Characteristics

Please tick spaces that applies to you

Male

Female

2. State the highest qualification

3. What is the name of your employer?

4. Which department/unit do you work?

5. How many years have worked for this company?

6. To what extent do you agree to the following factors as challenges your organization faces in the management of funds.

Problems	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Lack of Skilled personnel					
Absence of corporate bonds					
Fluctuations in T-bill rates					
Inflation					
Lack of adequate number of contributors					
Small size of contributions					

Thank you.

KNUST

