

# Old Age Retirement Benefit

**What is old-age retirement benefit?**

**What are the types of Old-Age retirement benefits?**

## **Old Age Retirement monthly Pension**

**What are the types of Old-Age Retirement Pension?**

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Example 1

Example 2

### Q. What is old-age retirement benefit?

#### Answer

Old-Age Retirement Benefit is a cash benefit paid to a member of the scheme who has retired from work due to old age.

There are two types of retirements under old-age; namely

- ✚ Compulsory Retirement at age 60; and
- ✚ Voluntary Retirement at age 55 years and above but below 60 years

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### Q. What are the types of Old-Age retirement benefits?

#### Answer

There are two types of Old-Age Retirement Benefits; namely

- ✚ Old Age Retirement Pension
- ✚ Old Age Retirement Lump Sum

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### A. Old Age Retirement monthly Pension

#### Q. What are the types of Old-Age Retirement Pension?

##### Answer

There are two kinds of Old Age Retirement monthly Pension:

- ✚ Full (compulsory) Retirement monthly pension
- ✚ Early (voluntary) Retirement monthly pension or (a Reduced Pension)

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### Q. How do I qualify for an Old-Age Retirement Pension?

#### Answer

To qualify for an Old-Age Retirement monthly pension you must satisfy two conditions.

##### (a) Age at retirement condition

##### (b) Contributions payment period condition

#### Age at retirement condition

- (i) To qualify for a **Full Retirement Pension** you must be at least 60 years of age and in normal or self-employment OR at least 55 years old and has worked in a hazardous employment such as an underground mineworker, quarries, steel works or any other industry and is likely to contract industrial diseases as defined in Section 12 (2) of the Factories Offices Act, 1971 (Act 328).
- (ii) To qualify for an **Early Retirement (Reduced) Pension** you must be 55 years and above but below 60 years of age.

#### **Contributions payment period condition**

- (a) The contributions payment period condition does not affect the choice of a Full or a Reduced pension option.
- (b) The contributions payment period is used in determining if a member qualifies for an old-age pension or not.







However, the contributions payment period condition differs depending on which Law is applicable to you.

- (i) Under PNDCL 247:  
*You must pay social security contributions to the scheme for a total minimum period of **240 months** or **20 years** during your working life prior to retirement (irrespective of whether there are breaks in your employment or not).*
- (ii) Under ACT 766:  
*You must pay social security contributions to the scheme for a total minimum period of **180 months** or **15 years** during your working life prior to retirement (irrespective of whether there are breaks in your employment or not).*

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#### **Q. How do I apply for an old Age Retirement Benefit?**

##### **Answer**

-  Contact the nearest SSNIT Branch with your letter of retirement from your employer if you are employed or if you are a voluntary contributor, write a letter to SSNIT about your retirement.
-  The SSNIT Branch will provide you with a Pension Application Form for completion.
-  Complete the Form and attach two of your recent passport-size photographs.
-  Provide an active bank account number that bears your name as pertains to that on SSNIT records. (Please, note that Pensions are paid to Bank Accounts only)
-  Submit the completed Form, the passport-size photographs and the letter of retirement from your employer (where applicable) to the SSNIT Branch.
-  The Branch will inform you when the Claim is finally approved and paid.




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#### **Q. How is the monthly Pension calculated?**

##### **Answer**

The amount of your monthly pension at retirement is based on the following key parameters:

##### **Key Parameters**

-  Age at Retirement (i.e. Full or Reduced Pension)
-  Earnings/Salaries on which contributions were paid
-  Actual total number of months of social security contribution payments to the scheme prior to retirement.

## Procedure for the computation of your Monthly Pension

Follow the five-step procedure below to estimate/calculate your monthly pension at retirement.

### STEP 1: Decide on the age when you plan to retire

Your monthly pension amount may be affected by the age at which you retire or plan to retire.

- (i) If you plan to retire at the compulsory retiring age of 60 years or later you would be entitled to a full pension.
- (ii) If you plan to retire earlier than the compulsory retiring age of 60 years (i.e. if you retire or plan to retire between age 55 years and 59 years) you would be entitled to a reduced pension. That is, your pension benefits would be subjected to a reduction.
  - Under the Reduced Pension, your monthly pension would be subjected to an **Early Retirement reduction**. That is, your monthly pension would be affected or reduced by a factor called "**Early Retirement Reduction Factor**".
  - The purpose of the Early Retirement Reduction Factor is to ensure that the amount of benefit entitlement to a member retiring prior to the Normal Retirement Age of 60 years is actuarially equal in value to that which would be payable at the Normal Retirement Age.

### How to determine your Early Retirement Reduction Factor

Your **Early Retirement Reduction Factor** is obtained from an **Early Retirement Reduction Factor Table** as follows:

- (i) Determine your age in complete years and months (rounded to the nearest whole month).
- (ii) Select the "years" part of your age from the "Age" column of the **Early Retirement Reduction Factor Table**.
- (iii) Select the "months" part of your age from the "Months" column of the **Early Retirement Reduction Factor Table**.
- (iv) The value in the cell where the selected row and column meet is the applicable **Early Retirement Reduction Factor** for the age you plan to retire.

Early Retirement Reduction Factor Table

Early Retirement Reduction Factor Table													
Years	Additional Months												
	Age	0	1	2	3	4	5	6	7	8	9	10	11
	55	0.600	0.6063	0.6125	0.6188	0.6250	0.6313	0.6375	0.6438	0.6500	0.6563	0.6625	0.6688
	56	0.6750	0.6813	0.6875	0.6938	0.7000	0.7063	0.7125	0.7188	0.7250	0.7313	0.7375	0.74375
	57	0.7500	0.7562	0.7625	0.7687	0.7750	0.7812	0.7875	0.7937	0.8000	0.8062	0.8125	0.81875
	58	0.8250	0.8312	0.8375	0.8437	0.8500	0.8562	0.8625	0.8687	0.8750	0.8812	0.8875	0.89375
	59	0.9000	0.9083	0.9167	0.9250	0.9333	0.9417	0.9500	0.9583	0.9667	0.9750	0.9833	0.9917
	60 and above	1.0000											

**Note:** If you plan or decide to retire at age 60 years (or later) your Monthly pension would not be subjected to an **Early Retirement Reduction** and your **Early Retirement Reduction Factor** would therefore be given a value of **1.000** (one).

- Example A:** If you plan to retire exactly at age 56 years 6 months; your early retirement reduction factor is 0.7125
- Example B:** If you plan to retire exactly at age 60 years; your early retirement reduction factor is 1.0000

## STEP 2: Calculate your pension right

- You earn or accrue pension credits called "**PENSION RIGHT**" (expressed as a proportion or percentage) for the number of months you have contributed to the scheme.
- Your pension right build-up depends on the type of scheme (i.e. PNDCL 247 or ACT 766) that is applicable to you.

### PNDCL 247

- ❖ Under PNDCL 247, you begin to earn a credit only if you pay social security contributions for a minimum period of **240 months** in total (irrespective of whether there are breaks in your employment or not).
- ❖ You earn a "pension right" of **50% (or 0.50)** if you pay social security contributions for a minimum period of **240 months** in total.
- ❖ Every additional month of social security contribution payment over the minimum period of **240 months** attracts an additional percentage of **0.125%**.
- ❖ You can earn a pension right up to a maximum value of **80% or 0.80** (which is equivalent to 480 months of social security contribution payments in total).

### ACT 766

- ❖ Under ACT 766, you begin to earn a credit only if you pay social security contributions for a minimum period of **180 months** in total (irrespective of whether there are breaks in your employment or not).
- ❖ You earn a "pension right" of **37.5% (0.375)** if you pay social security contributions for a minimum period of **180 months** in total.
- ❖ Every additional month of social security contribution payment over the minimum period of **180 months** attracts an additional percentage of **0.09375%**.
- ❖ You can earn a pension right up to a maximum value of **60% or 0.60** (which is equivalent to 420 months of social security contribution payments in total).

## How to calculate your Pension Right

### Under PNDCL 247

- (i) Add up the actual number of months of your social security contribution payments or the estimated number of months of your social security contribution payments at retirement.

**Result 1: Total number of months of contributions**

- (ii) Take the first 240 months of your **Total number of months of contributions** and assign a starting **PENSION RIGHT** of 0.50 or 50%

**Result 2: 0.50**

- (iii) Subtract 240 from **Result 1** (i.e. total number of months contributed)

**Result 3: [Total number of months of contributions - 240]**

- (iv) Multiply **Result 3** by 0.00125

**Result 4: [Total number of months of contributions - 240] x 0.00125**

- (v) Add **Result 2** to **Result 4** to obtain your final **PENSION RIGHT**

**PENSION RIGHT = 0.50 + [Total number of months of contributions - 240] x 0.00125**

#### **Example**

*A Total number of months of contributions of 250 would give a pension right equal to*

**PENSION RIGHT = 0.50 + [250 - 240] x 0.00125 = 0.50 + (10 X 0.00125) = 0.5125 or 51.25%**

### Under ACT 766

- (i) Add up the actual number of months of your social security contribution payments or the estimated number of months of your social security contribution payments at retirement.

**Result 1: Total number of months of contributions**

- (ii) Take the first 180 months of your **Total number of months of contributions** and assign a starting **PENSION RIGHT** of 0.375 or 37.5%

**Result 2: 0.375**

- (iii) Subtract 180 from **Result 1**

**Result 3: [Total number of months of contributions - 180]**

- (iv) Multiply **Result 3** by 0.0009375

**Result 4: [Total number of months of contributions - 180] x 0.0009375**

- (v) Add **Result 2** to **Result 4** to obtain your final **PENSION RIGHT**

**PENSION RIGHT=0.375 + [Total number of months of contributions - 180] x 0.0009375**

#### **Example:**

*A Total number of months of contributions of 250 would give a pension right equal to*

**PENSION RIGHT = 0.375 + [250 - 180] x 0.0009375 = 0.375 + (70 x 0.0009375) =0.440625**

### STEP 3: Determine the average of three best years' annual salary

The pension amount is based on the **average of your three best years' annual salaries** on which social security contributions were paid.

To determine the **average of your three best years' annual salaries** do the following:

- (i) Select the three best years' annual salaries from your SSNIT statement of account

<b>[Salary1]:</b>	<i>The highest annual salary</i>
<b>[Salary2]:</b>	<i>The second highest annual salary</i>
<b>[Salary3]:</b>	<i>The third highest annual salary</i>

- (ii) Calculate the average of the three (3) best years' annual salaries.

$$\text{Average of three best years annual salaries} = \frac{\text{Salary1} + \text{Salary2} + \text{Salary3}}{3}$$

### STEP 4: Compute the Annual Pension

Compute your Annual Pension using the formula below.

$$\text{Annual Pension} = \text{Average of three best years' annual salaries} \\ \times \text{Pension Right} \\ \times \text{Early Retirement Reduction Factor}$$

### STEP 5: Determine the Monthly Pension

Divide the Annual Pension by 12 to obtain the Monthly Pension.

$$\text{Monthly Pension} = \frac{\text{Annual Pension}}{12}$$

#### Q. How is the monthly Pension paid?

##### Answer

- The monthly pension is paid through the member's designated bank which he/she wishes to receive his/her pension benefits.
- A member must submit his/her bank account number and a photocopy of his/her bank details from the Cheque book or a copy of bank statement bearing the account number upon filing of the application form.
- Upon approval of the claim, SSNIT will inform the member when to withdraw the benefit from the bank.

**Q. What will happen to the monthly pension of a pensioner in case of death?**

**Answer**

The pension stops when the pensioner dies.

However, under PNDCL 247 if the pensioner dies, before reaching the age of 72 years, the remaining monthly pension payments up to age 72 years is commuted to cash and paid to the pensioner's beneficiaries.

However, under Act 766 if the pensioner dies, before reaching the age of 75 years, the remaining monthly pension payments up to age 75 years is commuted to cash and paid to the pensioner's beneficiaries.

**NB:** Please note that you will continue to receive pension payments beyond age 72 year (under PNDCL 247) and 75 years (under Act 766) if you are still alive.

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**The 25% Lump sum Option under PNDCL 247**

Once you qualify for Old-Age Retirement Pension under PNDCL 247, you are automatically guaranteed Pension payments for a period of 12 years (or 144 months) at the time of retirement. You can exercise the option to collect 25% of the 12 years (or 144 months) guaranteed Pension payments as a lump sum whether you qualify for a Full or Reduced Pension.

**How to calculate your 25% Lump sum Option under PNDCL 247**

The 25% Lump Sum is calculated as follows:

$$\text{25\% Lump Sum} = 0.25 \times \text{Annuity Factor} \times \text{Monthly Pension}$$

$$\text{Annuity Factor} = \frac{\left[ 1 - \left( 1 + \frac{\text{Discount Rate}}{12} \right)^{-144} \right]}{\frac{\text{Discount Rate}}{12}}$$

The Annuity Factor value is dependent on a Discount Rate (based on the 91-Day Treasury bill rate or 10% whichever is smaller) at the time of computation.

**Note:** Annuity Factor value for a period of 144 months at a discount rate of 10% is 83.67653

$$\text{Annuity Factor} = \frac{\left[ 1 - \left( 1 + \frac{0.1}{12} \right)^{-144} \right]}{\frac{0.1}{12}} = 83.67653$$

$$\text{25\% Lump Sum} = 0.25 \times 83.67653 \times \text{Monthly Pension}$$

**Note:** It must be noted that the smaller the discount rate the larger the Annuity factor and the larger the discount rate the smaller the Annuity factor.

Due to the inconsistencies of the 91-day Treasury bill rates a discount rate of 10% has been used since 1991.



### **Residual Monthly Pension**

Note that if you opt to collect the 25% lump sum, your monthly pension payments would be reduced by 25%. You will thereafter receive a RESIDUAL MONTHLY PENSION calculated as follows:

$$\text{Residual Monthly Pension} = 0.75 \times \text{Monthly Pension}$$

**Note:** Please, note that contributors under Act 766 are not entitled to the 25% Lump sum.

## **B. Old Age Retirement Lump sum**

*The Old-Age retirement lump sum is a one-time cash payment equivalent to the total contributions payments made by or on behalf of the member plus the interest on the contributions.*

*The Old-Age retirement lump sum is paid to a member who has retired but has not satisfied the contribution condition required to qualify for a pension (i.e. has not paid at least, the applicable minimum number of months of social security contributions to the scheme). That is, 240 months of social security contributions under PNDCL 247 and 180 months under Act 766.*

### **Applicable Interest Rates on Contributions**

#### Under PNDCL 247

The interest on contributions is computed using one-half of the prevailing 91-day Government Treasury bill rates.

#### Under Act 766

The interest on contributions is computed using three-quarters of the prevailing 91-day Government Treasury bill rates.

## **Q. How is the Old-Age Retirement Lump sum computed?**

### **Answer**

The methodology for the computation is as follows:

- (i) *Accumulate each contribution payment using the applicable interest rate up to the month of last contribution payment prior to retirement.*
- (ii) *Sum up the **Accumulated amount** for each contribution payment to obtain the Old-Age Retirement Lump Sum.*

$$\text{Old-Age Retirement Lump Sum} = \text{Sum of Accumulated value of Contribution Payments}$$

**Example 1**

A member plans to retire at age 56 years 2 months under PNDCL 247 and has contributed for a period of 250 months with the following three best annual salaries of GH¢60,000, GH¢58,000 and GH¢44,000.

- (i) Calculate the monthly pension
- (ii) Calculate the 25% Lump sum and the Residual monthly pension

**STEP 1: Determine the age the member plans to retire**

The member plans to take an early retirement at age 56 years 2 months and therefore shall be entitled to a **reduced pension**.

The applicable **Early Retirement Reduction Factor** at age 56 years 2 months is **0.6875**

**STEP 2: Calculate the Pension Right**

A Total number of months of contributions of 250 (under PNDCL 247) would give a pension right value equal to

$$\text{PENSION RIGHT} = 0.50 + [\text{Total number of months of contributions} - 240] \times 0.00125$$

$$\text{PENSION RIGHT} = 0.50 + [250 - 240] \times 0.00125 = 0.5125 \text{ or } 51.25\%$$

**STEP 3: Determine the three best years' annual salaries**

The three best years' annual salaries given are:

[Salary1]: GH¢60,000

[Salary2]: GH¢58,000

[Salary3]: GH¢44,000

The average of the three best years' annual salaries is computed as:

$$\text{Average of three best years' annual salaries} = \frac{\text{Salary1} + \text{Salary2} + \text{Salary3}}{3}$$

$$\text{Average of three best years' annual salaries} = \frac{60,000 + 58,000 + 44,000}{3} = 54,000$$

**STEP 4: Compute the Annual Pension**

$$\begin{aligned} \text{Annual Pension} &= \text{Average of three best years' annual salaries} \\ &\quad \times \text{Pension Right} \\ &\quad \times \text{Early Retirement Reduction Factor} \end{aligned}$$

$$\text{Annual Pension} = 54,000 \times 0.5125 \times 0.6875 = \text{GH¢}19,026.60$$

**STEP 5: Determine the Monthly Pension**

$$\text{Monthly Pension} = \frac{\text{Annual Pension}}{12} = \frac{19,026.60}{12} = 1,585.55$$

The Monthly Pension is **GH¢1,585.55** (Reduced Pension)

(ii)

(a) **25% Lump sum amount**

*The 25% Lump sum amount of the monthly pension of **GH¢1,585.55** at a discount rate of 10% is calculated as follows:*

$$\text{25\% Lump Sum} = 0.25 \times 83.67653 \times \text{Monthly Pension}$$

$$\text{25\% Lump Sum} = 0.25 \times 83.67653 \times \text{GH¢1,585.55} = \text{GH¢33,168.33}$$

(b) **Residual Monthly Pension**

*The monthly pension amount of **GH¢1,585.55** gives a residual monthly pension of:*

$$\text{Residual Monthly Pension} = 0.75 \times \text{Monthly Pension}$$

$$= 0.75 \times \text{GH¢1,585.55} = \text{GH¢1,189.16}$$

That is, if the member opted for a 25% lump sum the member would have received a 25% lump sum amount of **GH¢33,168.33** and a residual monthly pension of **GH¢1,189.16**

**Example 2:**

A member plans to retire at exactly age 60 years under Act 766 and has contributed for a period of 250 months with the following three best annual salaries of GH¢60,000, GH¢58,000 and GH¢44,000. Calculate the monthly pension

**STEP 1: Determine the age the member plans to retire**

The member plans to retire at exactly age 60 years and therefore shall be entitled to a **full pension**. Retirement at age 60 years or later does not constitute an early retirement and therefore the member shall be entitled to an **Early Retirement Reduction Factor of 1.000**

**STEP 2: Calculate the Pension Right**

A Total number of months of contributions of 250 (under Act 766) would give a pension right value equal to:

$$\text{PENSION RIGHT} = 0.375 + [\text{Total number of months of contributions} - 180] \times 0.0009375$$

$$\text{PENSION RIGHT} = 0.375 + [250 - 180] \times 0.0009375 = 0.440625 \text{ or } 44.0625\%$$

**STEP 3: Determine the three best years' annual salaries**

The three best years' annual salaries given are:

[Salary1]: GH¢60,000

[Salary2]: GH¢58,000

[Salary3]: GH¢44,000

The average of the three best years' annual salaries is computed as:

$$\text{Average of three best years' annual salaries} = \frac{\text{Salary1} + \text{Salary2} + \text{Salary3}}{3}$$

$$\text{Average of three best years' annual salaries} = \frac{60,000 + 58,000 + 44,000}{3} = 54,000$$

**STEP 4: Compute the Annual Pension**

$$\begin{aligned} \text{Annual Pension} &= \text{Average of three best years' annual salaries} \\ &\quad \times \text{Pension Right} \\ &\quad \times \text{Early Retirement Reduction Factor} \end{aligned}$$

$$\text{Annual Pension} = 54,000 \times 0.440625 \times 1.000 = \text{GH¢}23,793.75$$

**STEP 5: Determine the Monthly Pension**

$$\text{Monthly Pension} = \frac{\text{Annual Pension}}{12} = \frac{23,793.75}{12} = \text{1,982.81}$$

The Monthly Pension is **GH¢1,982.81** (i.e. Full Pension)