SEVERANCE PACKAGES: ADDITIONAL LIABILITY ON THE GEPF

With further reference to our letter dated 3 February 2006 regarding the processes within the Government Employees Pension Fund (GEPF) in terms of severance packages, addressed to all Heads of departments, we wish to give specific guidance on the processes to follow in calculating the additional liability on the GEPF as a result of the severance packages.

When the DPSA announced the introduction of an employee-initiated severance package for public servants in the circular ref.no 1 / 6 / 21 dated 16 January 2006, they specifically informed all employers in paragraph 4 of the said letter, to take cognisance of the fact that the granting of severance packages might cause an additional liability on the GEPF and that employers will be liable to reimburse the Fund in such instances. The Actuaries of the GEPF have been consulted for an opinion on whether the proposed severance package results in an additional financial liability for the GEPF and they concluded that all severance packages for members over the age of 55 indeed cause an additional liability on the Fund.

The pension benefits for severance packages are payable in terms of Rule 14.8 of the GEPF. This rule states at section b) that:
“b) Payment of such benefits shall be subject to the provisions of section 17 (4) of the Law, read with rule 20”

Section 17 (4) of the GEPF reads: (This Section should be read in conjunction with Rule 20 of the GEPF.)

“If any action taken by the employer or if any legislation adopted by Parliament places any additional financial obligation on the Fund, the employer or the Government or the employer and the Government, as the case may be shall pay to the Fund an amount which is required to meet such obligation.”

The Actuaries explained that the current severance package for members over 55 provides more favourable benefits than those provided elsewhere in the GEPF rules. For example, in terms of rule 14.3.3 (b) a member who retires after attaining age 55, with at least 10 years of pensionable service, is entitled to a gratuity and an annuity which are both reduced (scaled down) by one third of a percent for each month between the member’s actual retirement date and his or her pension retirement date. However, this reduction does not apply to the member’s benefits in terms of the severance package. This penalty waiver is causing the increased liabilities on the Fund because the value of the benefits awarded is greater than the amount currently held in the Fund to meet the member’s termination benefits.

Regarding members younger than 55, the severance package is neutral (no additional liability) to the Fund as it pertains to the payment of actuarial interest where no reduction of service is applicable in terms of the Rules.

The Actuaries were furthermore requested to indicate the applicable formula to be used to calculate the specific additional liability and since this liability emanates as a result of the non-down scaling of the benefits, the additional liability can be approximately calculated as the difference between the value of the pension benefits awarded in terms of the severance package and each member’s actuarial interest (with scaling down as per Rule 14.3.3 (b)) in the Fund.

The actuarial interest for members aged 55 and over (with scaling down) is calculated as follows:

\[
\text{Actuarial Interest} = G + [A \times A(X)]
\]

Where:

\[
G = 6.72\% \times \text{final salary} \times \text{years of pensionable service},
\]

\[
A = (1/55 \times \text{final salary} \times \text{years of pensionable service}) + R360,
\]

\[
X = \text{age of member}, \text{and}
\]

\[
A(X) = \text{factor at age X determined by the actuary of the GEPF}
\]
G and A above are reduced (scaled down) by 1/3 of a percentage for every month prior to the member’s normal retirement date.

The difference between the above benefit with scaling down and the above benefit without scaling down reflects the additional liability on the Fund. (This is applicable irrespective whether the member over 55 chooses the gratuity equal to the actuarial interest OR the option to receive a gratuity and annuity.)

Employers would therefore need to consider the affordability of the severance packages as a result of the additional liability on the Fund when considering the applications for the members over 55. Employers are however reminded that the GEPF has no jurisdiction over the approval of such packages and that any such questions must be directed to the DPSA.

All employers are reminded that the GEPF specifically implemented the GEPF Pension Benefit calculator to allow for the calculation of estimated pension benefits and the calculator specifically provides for the calculation of the actuarial interest of members with down scaling and without down scaling of pension benefits. The calculator therefore enables all employers to calculate the additional liability on the Fund as a result of severance packages. The GEPF will not perform any estimated pension benefit calculations or entertain any requests to calculate these additional liabilities.

The calculator is available on the web sites www.gepf.gov.za and www.gepf.co.za. The options available on the calculator are for resignations, retirements, and severance packages. The actuarial interest calculation with down scaling is available at the resignation option and the actuarial interest calculation without the down scaling is available at the severance package option. If anything in this regard is not clear, kindly forward your questions to calculator@gepf.co.za.

Employers are however reminded that:

- The calculator merely gives an estimate of the expected benefit and is reliant on the information provided by the user. The information inserted by the user will therefore not be validated against the pension data and records at the GEPF.
- The calculator is only applicable to GEPF members and does not provide for calculations in terms of the Associated Institutions Pension Fund or the Temporary Employees Pension Fund.
- The calculator does not account for any interest payable or receivable, taxation, purchase of service (POS) debt, or service period's adjustments as a result of the amalgamation. Purchase of service may however be loaded as a separate period on the period table provided in the calculator.
Whilst every effort has been made to ensure the accuracy of the formulae on the calculator, the GEPF gives no guarantee, as to the accuracy, reliability and completeness of any information provided through the use of the calculator, and does not accept any liability for any loss or damage which may be suffered as a result of reliance on and use of the calculator.

All approved severance package terminations that will be submitted to the GEPF for processing of the pension benefits, will be subject to all the current procedures and requirements of the GEPF. Only correctly completed documentation will be accepted and erroneous documentation will be returned to the employer departments. All attachments that are required for the severance packages were attached in the circular from the DPSA (see www.dpsa.gov.za) and are also available on the GEPF website.

These approved severance package exit documentation should be sent to the GEPF as soon as they are complete. The additional liability on the Fund for members over the age of 55 will be handled as a separate issue. Employers will receive formal claims from the GEPF during the course of the year where all the details of the claims and the processes to pay these liabilities, would be explained.

Since all members and employer departments of the GEPF are treated equally, all terminations will be processed on a “first-come, first-serve” basis. The severance package benefits will therefore not receive preference over any other termination documentation.

Yours sincerely

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