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Department:
Public Service and Administration
REPUBLIC OF SOUTH AFRICA

Private Bag X916, PRETORIA, 0001 Tel: (012) 336 1000, Fax: (012) 326 7802
Private Bag X9148, Cape Town, 8000. Tel: (021) 467 5120, Fax: (021) 465 5484

Enquiries : Phopho Thwala
Telephone : (012) 336 1394
Email address : phopho@dpsa.gov.za
File : 17/13/P

TO ALL HEADS OF NATIONAL AND PROVINCIAL DEPARTMENTS AND PROVINCIAL ADMINISTRATIONS

IMPLICATIONS OF EMPLOYEES RESIGNING FROM THE GOVERNMENT EMPLOYEES PENSION FUND IN ORDER TO ACCESS PENSION BENEFITS WHEN TRANSFERING FROM ONE STATE DEPARTMENT TO ANOTHER

1. It has been established that some departments and employees are engaged in the undesirable practice of resigning from one government department and are re-appointed in another without a break in service in order to claim pension benefits from the Government Employees Pension Fund (GEPF).
2. Employees are reminded that a retirement fund serves as a savings repository to which employees and their employer contribute, either voluntary or by virtue of a binding employment arrangement, with a view to the members receiving financial benefits when exiting the Fund. In the Public Service, membership of the Government Employees Pension Fund (the GEPF) is a condition of employment for employees appointed on permanent basis. The GEPF serves the purpose of a retirement fund and payment of related benefits for public service employees on exit.
3. As a result of this undesirable practice, the GEPF is exposed to unnecessary workload and costs associated with collection of contributions and payment of benefits on time to deserving members. PERSAL on the other hand, faces the challenge of duplication of payroll numbers which complicates the accuracy of the payroll database.
4. The premature resignations negatively affect the individual employee in that-
 - (a) premature pension withdrawal brings prejudice to the employee's future welfare and saving for retirement. Resignation benefits incur enormous costs that include taxation and as a result the withdrawal benefits are

generally less favourable. Therefore, the employee would retire with lesser benefits and as a result, be forced to become dependent on the State for survival at retirement.

- **Example:** On withdrawal of retirement savings before retirement, the tax law requires that the first R22 500 is tax-free and the rest is fully taxable. This means that the employee will lose a substantial portion of retirement savings on tax. The employee therefore will retire poorer as savings is a lifelong plan.
- (b) In terms of legislation that is currently under consideration, any pre-retirement withdrawal from a retirement fund (like the GEPF) after 1 March 2009, will reduce the member's tax-free portion of the lump sum on retirement or death.
- (c) Employees that are resigning forfeit accrued leave and on re- appointment, will qualify for leave accrual applicable to those who are less than ten years in service. The Determination on Leave of Absence provides for payment of accrued leave only in the event of death, retirement and medical boarding. Furthermore, other benefits like the awards for long service as per provisions of the Determination on Long Service Recognition in the Public Service are affected as they are determined from the date of appointment.

5. Heads of Departments and HR Managers are requested to strictly adhere to the contents of this circular and to ensure that the information is disseminated to all employees.


DIRECTOR-GENERAL

DATE: 24.08.2009