the dpsa

Department:
Public Service and Administration
REPUBLIC OF SOUTH AFRICA

Frequently Asked Questions (FAQ) on Early Retirement without reduction of pension benefits

1. Who qualifies for Early Retirement (ER) without a reduction in pension?

Public servants from the age of 55 who have not yet reached the age of 60 who wish to retire may apply for early retirement without reduction of pension benefits. Educators and the members of the Services (Police, Defence, Correctional and Intelligence Services) also qualify in terms of their own legislation. Any public servant who meets the criteria of age and criteria set by each sector department may apply.

However, approval of ER is not automatic. Employees who choose to retire ***without the approval*** of ER may do so but will have to absorb the pension reduction themselves. The amount of reduction payable to GEPF is one third of a percent for each month between the employee's retirement date and his or her 60^{th} birthday, e.g. If an employee elects to retire at 55 with a reduction in benefits this would amount to 0.33% x 60 months =…% reduction.

2. When does this offer to apply begin and when does it end?

The offer for ER without pension reduction runs from **1 April 2019 until 30 September 2019.** No further applications will be accepted after 30 September 2019.

3. Which groups will be eligible for funding?

3.1 Those identified in terms the DPSA Guideline Document titled "**CRITERIA FOR EARLY RETIREMENT APPROVALS FOR EMPLOYEES 55-60 YEARS EMPLOYED IN TERMS OF SECTION 16(6) OF THE PUBLIC SERVICE ACT, 1994**";

3.2 Employees who are permanently employed who are between the age cohort of 55 and 60 years at the time of application, during the MTEF period;

3.3 Those employees on contract or temporarily employed, are **excluded**, from applying, as well as those who do not fall within this age cohort during the MTEF period of applicability;

3.4 Employees of government departments (including Defence, Education, Police, and National Intelligence) and components at both national and provincial spheres of government, **excluding** public entities and municipalities. It is to be done in line with functional requirements from individual Departments' legislations, and

3.5 Have applied within the prescribed timeframe.

4. What components of ER-related costs are eligible for financing from the fiscus (by National Treasury)?

National Treasury will be responsible for the payment of the following costs:

4.1 **Pension reduction** (0,33% per month up to the age of 60 years) applicable to early retirement;

4.2 Capped ***leave to the maximum of 160 days*** (the balance if exceeded, is to be paid by each respective department); and

4.3 Compensation ***for Medical Assistance***, as per the latest *Determination on Medical Assistance* available on the DPSA website (www.dpsa.gov.za

5. What components of ER-related costs will my department cover?

Departments will be responsible for the payment of the following costs:

5.1 Pro-rata Service Bonus Pay;

5.2 Balance of the Capped leave, *which is over and above 160 days*; the balance if exceeded, is to be paid by each respective department

5.3 Unused current annual/vacation leave; and

5.4 Resettlement Costs, where applicable, in line with the departmental policy.

6. Will National Treasury also pay for my pension and leave benefits until I reach the age of 60?

NO. National Treasury will only pay the pension reduction applicable to early retirement to the Government Employees Pension Fund (GEPF) and nothing will be paid to the ER applicants. The amount of pension benefits payable to the employee will be calculated at the time of retirement of the employee and will be paid by GEPF as pension.

Benefits are calculated and payable based on actual years of contributory service (pensionable service) as at the date of exit.

Only encashment of accrued (capped) leave (up to160 days) will be paid by National Treasury. If an employee has more than 160 days, the department pay the balance of the accrued leave days. If for example an employee retires at the age of 58, then GEPF will pay that employee his or her pension benefits calculated at the time that the employee exits and not as if the employee is retiring at 60, because he or she will not be retiring at 60 but at the age of 58.

7. **Will I pay tax on early retirement?**

YES. The applicable tax regime will apply.

8. **Will my Department pay me a severance package?**

NO. A severance package is payable only when one is being retrenched. Early retirement, as the word implies, is about retirement and not retrenchment.

9. **Which groups will be eligible for funding?**

9.1 Those identified in terms the DPSA Guideline Document titled "**CRITERIA FOR EARLY RETIREMENT APPROVALS FOR EMPLOYEES 55-60 YEARS EMPLOYED IN TERMS OF SECTION 16(6) OF THE PUBLIC SERVICE ACT, 1994**";
9.2 Employees who are permanently employed who are between the age cohort of 55 and 60 years at the time of application, during the MTEF period;
9.3 Those employees on contract or temporarily employed, are **excluded**, from applying, as well as those who do not fall within this age cohort during the MTEF period of applicability;
9.4 Employees of government departments (including Defence, Education, Police, and National Intelligence) and components at both national and provincial spheres of government, **excluding public entities** and municipalities. It is to be done in line with functional requirements from individual Departments' legislations, and
9.5 Those who have applied within the prescribed timeframe.

10. **What is the extent of the savings each department should realise through implementation of the programme?**

The extent of savings each Department should make will vary. In principle, net savings originate from the difference between cost of exit and savings associated with earnings of employees who left, plus any savings that may be effected from other items of expenditure related to compensation of employees overtime.

Institutions provided with funding will have their baselines reduced upfront by the extent of anticipated savings as per the motivation.

11. **What is the duration of the ER programme?**

Funding for the programme will be made available for the period 1 April 2019 to 31 March 2021.

12. **When does the 3 months' notice period starts?**

In terms of section 16 (b)(iv) of the Public Service Act 1994, it's starts 3 months before the employee turns 55. Due to the fact that NT has to approve funding of

ER without reduction of pension benefits, the 3 months' notice will start after approval by EA.

13. **<u>What happens in situations where an institution does not realise savings envisaged?</u>**

If National Treasury will engage with the department and investigate this will constitutes financial misconduct in terms of the PFMA and cases of this nature will be referred to the relevant Public Accounts Committee for consideration and decision.

14. **<u>How will applicants get the benefit statement that shows how much they will receive when they take early retirement?</u>**

GPAA is working on a system where the HR of each department will be able to assist the applicants with the benefit statement, the calculator is also available at the GEPF website, www.gepf.gov.za.

15. **<u>What dispute process should be used regarding the ER?</u>**

The normal dispute process is applicable.

16. **<u>When will the applicant leave the public service?</u>**

After the application has been approved by EA, taking into account the date indicated in the application form by the applicant. This means if the date indicated by the applicant falls before the approval by EA, it will be immediately after approval.

17. **<u>If the DERMC does not support the application do they still submit to CAC?</u>**

No, it's not necessary to submit to the CAC. It's also not necessary to submit to the CAC if the department is paying the reduction of the pension outside this process.

18. **<u>I applied for ER before this process can I reapply?</u>**

You can withdraw your application on condition that it has not been approved by the EA and re-apply. The ER process outlined in the guideline will then be followed. It is not guaranteed that NT will pay your ER without pension reduction.

19. **<u>Can the EA or CAC change the exit date?</u>**

The EA can propose another date where skills or service delivery priorities need to be address.

20. **<u>When can I cancel or withdraw my ER application?</u>**

You can only withdraw or cancel your ER application 30 days after application date, but before approval. Once an EA has approved your application, you cannot withdraw or cancel your application thereafter.

21. **The applications will be on a first come first serve basis?**

Yes, the CAC will sit on a monthly basis to process the applications.

22. **Can members of ERAC also be members of DERMC? More clarity is requested regarding their responsibilities especially sub-paragraph 4.4.6 and paragraph 4.5.**

23. **Is it necessary for all departments to establish all prescribed committees?**

Departments can decide what committees are necessary, but the moderation committee is compulsory.

24. **Reduction of baselines could be a challenge as savings might take time to realise**

Departmental plans should indicate the extent of projected savings per financial year to allow for engagements to happen between the department and the relevant treasury with respect to timing of realisation of savings and the targets to be achieved.

25. **How do departments deal with posts that are funded through grants?**

Conditional grants are specifically and exclusively appropriated funds to address certain priorities and therefore their funds cannot be redirected to any other purposes other than what is stipulated in the grant framework. Therefore, the receiving provincial departments are not expected to have used conditional grants allocation to fill positions that are non-critical to the delivery of grant objectives as set out in the relevant framework. However, should such employees exist, their application must also be to the national transferring department for endorsement and concurrence that the 50 per cent savings related to the affected posts will be surrendered back to the national revenue fund. Alternatively, if the relevant national department objects to such application, the receiving provincial department could absorb the 50 per cent savings from their provincial allocation if it wishes to do so without having to reduce the grant allocation.

26. **Was GPAA consulted in terms of capacity?**

The GEPF has been consulted on the possible scale of work and have started putting processes in place to deal with potential workload.

27. **Where do applications get submitted to?**

Provincial departments must submit their applications directly to the OTP, while national departments should submit directly to the CAC through the relevant function group leader.

28. Is approval of early retirement cases granted post the funding decision by the CAC?

Yes. Approval of Early Retirement is granted after the funding decision has been taken by CAC.

29. What documents are departments required to submit to the OTP as part of application for funding?

Application form
ER Funding motivation sheet (MS Spreadsheet)
Human Resource Budget Plan or equivalent
Any other appendices from department e.g. HR plan
All documents above should be submitted electronically. No hard copies will be accepted.

30. Below is an example on how to calculate early retirement with reduction of pension benefits, with the following scenario

Simon decided to take early retirement at age **56 after 16 years** of pensionable service. He Kept his spouse's annuity at 50%. His normal retirement age is 60. At the time of his retirement, Simon's final salary was R78 000. His **normal retirement gratuity would have been as follows:**

Gratuity =6.72% x final salary x years of pensionable service
=6.72% xR78 000 x 16 years
=R83 865.60

However, since Simon **retired four years (48 months)** early, his gratuity was reduced by:**1/3 x48 months**
=16%

Therefore, the total reduction amounted to:
16% x R83 865.60
=R13 418.50

Simon's final gratuity was:
R83 865.60- R13 418.50
=**R70 447.10**

His retirement annuity (without downscaling) would have been:
Annuity = (1/55 x final average salary x years of pensionable service) + R360

=(1/55 x R78 000 x16 years + R360
=R23 050,91

Similarly, Simon's annuity was **reduced (i.e. downscaled)** by
16% x R23 050.91
= R3 688.15

Therefore, Simon's final annuity was equal to:
R23 050.91-R3 688.15
=R19 362.76 per year **(R1 613.56 per month**)

Simon will get a **gratuity of R70 447.10 instead of R83 865.60**
And an **annuity of R1 613.56 instead of R3 688.15**