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# Why Retire With The GEPF

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# Purpose

The purpose of this presentation is to advise members of the PSCBC why they need to retire with the GEPF.

This brief will outline the following:

- GEPF Background
- How the GEPF is funded
- GEPF benefits
- Why it pays to retire with the GEPF



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# GEPF Background

- Africa's largest pension fund

  1.26m active members & 500k pensioners and spouses
- Defined benefit scheme

  - Benefits defined in GEPF rules and GEP Law
- Purpose of the fund is to provide retirement and other benefits to members of public service and their dependents
- Benefits paid on exit, i.e. through resignation, discharge, death or retirement

# GEPF Background

- Benefits calculated using the following factors:
  - final average salary (last 24 months of service)
  - years of pensionable service
  - actuarial factor
- Pensionable service is made up of:
  - years of employment
  - purchase of service
  - less leave without pay (120+ days)

# How Are The Benefits Funded?

- Employer and member contributions
  - Government is the guarantor/sponsor of the Fund
- Member: 7.5% of pensionable salary
- Employer: 13% for non-uniformed; 16% for uniformed
- Government acts as a guarantor and is required to provide additional funding when Fund has insufficient assets to meet benefit promises/financial obligation
- Current funding level : 110.1%

# Benefits Offered To Members

- Retirement Benefits
  - normal Retirement
  - early Retirement
  - ill-health Retirement
  - late Retirement
- Resignation Benefits
- Death Benefits
  - death while in service
  - death after becoming a pensioner
- Spouse's Annuity
- Child's Pension
- Funeral Benefits

# Benefits On Retirement

- Normal retirement age is 60 years or as provided in conditions of service.
- Normal retirement Benefits:
  - A gratuity equal to actuarial interest if pensionable service is less than 10 years
  - A gratuity and monthly pension for members with 10 or more years' of pensionable service
  - pensions increases granted annually (subject to affordability)

# Benefits On Retirement

- Under certain circumstances, members may retire early, that is before reaching the normal retirement age of 60
- Early retirement Benefits:
  – A gratuity equal to actuarial interest if pensionable service is less than 10 years
  – A gratuity and monthly pension for members with 10 or more years' of pensionable service
- With a reduction of a third of one percent (0, 33%) for each month between the dates of early retirement and normal retirement.

# Benefits On Retirement

- Members can retire for medical reasons, when injured on duty, or when their posts are abolished through organisational restructuring.
- Ill Health and other retirements Enhanced Benefits:
  - A gratuity will be consistent with and not less than the resignation benefit
  - A gratuity and monthly pension for members with 10 or more years’ of pensionable service.

# Resignation Benefits

- These benefits apply to members who resign or are discharged due to misconduct or an illness or injury caused by the member's own doing.
- These members have two options:
  - gratuity – a once-off cash lump sum or
  - have their benefits transferred to an approved retirement fund
- The amount that is transferred to an approved retirement fund is not taxed at this point as tax is only deducted when the member retires or withdraws cash from the new fund.

# Benefits On Death

- Death benefits are paid when a member dies while in service, or within five years of becoming a pensioner.
- Death while in service (full potential service period of at least 10 years):
  - Gratuity
  - Spouse pension
  - Child's pension

# Benefits On Death

Pensioner death:

- Gratuity (remaining guarantee period of 5 years)
- Spouse’s pension of 50% (or 75%)
- Child’s pension of 25% for pensions Payable to children of member upon death regardless of there’s a surviving spouse
- Paid until age 22
- Maximum of 25% per child
- More than 4 children – reduced proportionally
- Not less than 10% per child

# Benefits On Death

Funeral benefits:

- Principal or spouse R15 000
- Eligible child or stillborn child R7 500

# Why It Pays To Retire With The GEPF

- GEPF is a defined benefit fund. This means the pension received by our pensioners is independent of investment performance of the fund.
- Factors taken into account:
  - the number of years of service,
  - your average salary in the last two years
  - multiplied by the accrual rate.
- The accrual rate is defined under the GEPF Law.
- What this means is that irrespective of the performance of the markets or individual investments within the GEPF, a member on retirement receives a guaranteed pension whether the fund value rose or fell in the years before retirement.

# Why It Pays To Retire With The GEPF

- This is completely different to a defined contribution company retirement fund or a retirement annuity where the final retirement value depends on market performance.
- For example, When the market crashed in 2020 with COVID-19 lockdown, those members retiring from private funds could have seen a reduction in the value of their pensions of up to 40%. Those already in retirement, who were relying on an income from their living annuities, either had to opt for a lower income or watched their capital reduce significantly – impacting future income. Yet members of the GEPF who were retiring in 2020 were unaffected. Those GEPF members already in retirement are still receiving their guaranteed income for life.

# Why It Pays To Retire With The GEPF

- There are many benefits to belonging to a defined benefit fund, and you need to know what you are losing by switching out. It is important to note that while private pensions may provide for these benefits, they come at an additional cost.
- If you wish to include life cover, a spousal pension or funeral cover, a portion of your contribution goes to paying these premiums. With the GEPF, your full employee contribution goes directly to retirement funding, not these additional benefits.

# Why It Pays To Retire With The GEPF

**Guaranteed income**

- In terms of the income in retirement, for member with more than ten years of service, GEPF provides a guaranteed income for life with a 50% pension for a spouse, should the main member pass-away first. There is no additional cost for providing the spousal pension unless the member wishes to increase it to 75%. As the GEPF does not have to pay retail prices for annuities, it is able to get better value than if the member had to purchase an annuity with a resignation benefit.
- The first five years of the annuity are guaranteed, which means if the member passes away before then, the beneficiaries receive a benefit in a form of a lump-sum. The GEPF guarantees an annual pension increase each year at 75% of inflation, however, it has paid an annual increase in-line with or slightly higher than inflation.

# Why It Pays To Retire With The GEPF

**Spousal pension**

- If a member passes away before retirement and has ten or more years of service, the spouse would receive a once-off lump sum (death-in-service gratuity) as well as monthly pension equal to 50% of the annuity the member would have received had the member retired on their date of death. This is a lifelong pension and does not stop if the spouse remarries.
- If the member has less than ten years' service, the value of the pension fund will be paid out to beneficiaries of which the spouse is entitled to 50%.
- If the spouse was a dependent on the medical aid, the spouse is entitled to a medical benefit.

# Why It Pays To Retire With The GEPF

## Child pension

- A child is entitled to a child's pension up to the age of 22. A child is entitled to a maximum of 25% of the benefit depending on the number of children. If there is a spouse, the remaining 50% would be divided by the number of children. If there is one child, that child would receive 25%. If there are three children, each child receives 16.67%. In the case where there is no spouse, each child receives a maximum of 25% unless there are more than four children.

# Conclusion

- Dishonest financial advisers also use fear tactics, telling members that their funds will be stolen or mismanaged by the government. What is concerning is that some GEPF members have been convinced by financial advisers to resign before retirement so that they can place their funds in a market-linked pension preservation fund.
- What underlies these mistruths is the desire to get their hands-on member’s significant fund values on which they can earn commission.

# Conclusion

- What these advisers are not admitting to members is that they have been far better off having their retirement funds with the GEPF than in private pensions.

# Thank you