the dpsa

Department:
Public Service and Administration
REPUBLIC OF SOUTH AFRICA

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TO: **ALL HEADS OF NATIONAL AND PROVINCIAL DEPARTMENTS AND GOVERNMENT COMPONENTS**

SUBJECT: EARLY RETIREMENT WITHOUT PENALISATION OF PENSION BENEFITS IN TERMS OF SECTION 16(6) OF THE PUBLIC SERVICE ACT, 1994

1. INTRODUCTION AND BACKGROUND

1.1. In the recent 2019 Budget Speech, the Minister of Finance reiterated the measures that government needs to put in place to assist with the growing budget deficit, which has accrued due to government expenditure on the 2018 Wage Settlement Agreement. During, and post the 2018 Wage Negotiations, economic realities and financial pressures were discussed with organised labour. The purpose was to jointly explore the implementation of tangible measures, to ensure that the budgetary ceiling is not exceeded, and that there is no negative impact on job security, as well as to ensure that departments continue to perform efficiently and effectively with regard to human resources management, within the current Medium Term Expenditure Framework (MTEF) and beyond.

1.2. Various options within the existing legal framework for human resources and finance, were explored to maintain stability and to bring about future efficiency and productivity gains in all areas within the public service.

1.3. Based on ongoing requests and queries from employees in the public service to exit without pension penalties, all prescripts with respect to Early Retirement (ER), were considered. It must be noted that this initiative is in response to a need identified by employees, who wish to exit the public service before the official retirement age, but where departments do not necessarily have funds set aside within budgets to consider such personal requests.

1.4. It must be noted, that the authority to grant ER without pension penalties, in terms of section 16(6) of the Public Service Act (PSA) or other sector legislation, is vested within the relevant executive authority (EA).

1.5. National Treasury (NT) has agreed to assist in providing additional funding to departments and government components, both nationally and provincially, who wish to utilise section 16(6) of the PSA or applicable sector legislation.

1.6. This provisioning is to assist in the management of future *HR Accounting and Budget Plans,* to enable departments to remain within their budget ceilings, during the current MTEF period. The NT has set conditions for funding instances where departments choose to use the ER provision in terms of section 16(6), without pension penalties. A NT *Guideline on the*

Criteria for Early Retirement Funding Provision is attached as **Annexure B** to this circular explaining the modalities of such funding.

2. LEGAL PROVISIONS

2.1. In terms of Section 16(6) of the Public Service Act, 1994 provision is made for employees to retire before the age of 60 years, subject to the approval of the EA.

2.2. While employees include persons contemplated in section 8 of the Public Service Act, in terms of section 2(2) of the Public Service Act, the provisions of the Public Service Act will only apply to members of the services, educators or members of the Intelligence Services in so far as they are not excluded from the provisions of the Public Service Act or the provisions of the Public Service Act are not contrary to the laws governing their employment. For purposes of section 2(2) of the Public Service Act-

2.2.1. Members of the services means a member of-

(a) the Regular Force of the South African National Defence Force appointed, or deemed to have been appointed, in terms of the Defence Act, 2002 (Act 42 of 2002);

(b) the South African Police Service appointed, or deemed to have been appointed, in terms of the South African Police Service Act, 1995 (Act 68 of 1995);

(c) the Department of Correctional Services appointed, or deemed to have been appointed, in terms of the Correctional Services Act, 1998 (Act 111 of 1998);

2.2.2 Educators means educators as defined in section 1 of the Employment of Educators Act, 1998 (Act 76 of 1998); and

2.2.3 Members of the Intelligence Services means a member of the State Security Agency appointed, or deemed to have been appointed, in terms of the Intelligence Services Act, 2002 (Act 65 of 2002).

2.3 Section 17(4) of the Government Employees Pension Law, 1996 (proclamation 21 of 1996) provides that-

"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."

2.4 Section 17(4) of the Government Employees Pension Law must be read together with the Rules of the Government Employees Pension Fund (GEPF).

2.5 In terms of Chapter 3 (Part I), of the Public Service Regulations, 2016 on *Planning, Organisational Arrangements and Service Delivery,* Regulation 25 on *Strategic Plan* states as follows-

(1) An executive authority shall prepare a strategic plan for his or her department that –

(a) states the department's core objectives based on constitutional and other legislative or functional mandates;

(b) describe the core and support activities necessary to achieve the core objectives, avoiding duplication of functions;

(c) describe the targets to be attained in the medium term;

(d) sets out a programme for attaining those targets;

(e) specifies information systems that –

(i) enable the executive authority to monitor the progress made towards achieving those targets and core objectives;

(ii) support compliance with the reporting requirements in regulation 31 and the information requirements, referred to in regulation 70; and

(iii) enable service delivery through the use of information and communication technology; and

(f) complies with the requirements in regulations 5.1 and 5.2 of the Treasury Regulations.

(2) Based on the strategic plan of the department, an executive authority shall –

(a) determine the department's organisational structure in terms of its core mandate and support functions: –

(i) in the case of a national department or national government component, after consultation with the Minister and National Treasury; and

(ii) in the case of a provincial department or provincial government component, after consultation with the relevant Premier, the Minister and the relevant provincial treasury;

(b) define and create the posts necessary to perform the relevant functions of the department while remaining within –

(i) the current budget;

(ii) the Medium- Term Expenditure Framework of the department; and

(iii) the norms and standards determined by the Minister for post provisioning for occupants or categories of employees;

(iv) the posts so defined and created shall constitute the department's approved establishment;

(c) grade proposed new jobs according to the job evaluation and job grading systems referred to in regulation 41(1), except where the grade of a job has been determined in terms of an OSD or directed by the Minister in terms of regulation 41(2)(d); and

(d) engage in human resource planning in accordance with regulation 26 to meet the resulting human resource needs.

(3) In implementing the strategic plan, a head of department shall –

(a) promote the efficient, economic and effective use of resources so as to improve the functioning of the department; and

(b) to that end, apply working methods such as the re-allocation, simplification and co- ordination of work, and eliminate unnecessary functions and systems.

2.6 In terms of Regulation 26 of the PSR dealing with a **Human Resources Plan** for a department.

(1) "an executive authority shall prepare and implement a human resource plan for his or her department.

(2). When preparing a human resource plan for his or her department an executive authority shall –

(a) assess the human resources necessary to perform his or her department's functions;

(b) *assess existing human resources by race, gender, disability, age and any other relevant criteria;*

(c) *identify gaps between what is required under sub-regulation (2)(a) and what exist under sub- regulations (2)(b) and prioritise interventions to identify the gaps;*

(d) *consider the employment equity plan as contemplated in regulation 27;*

(e) *consider the available budgeted funds, including funds for the remaining period of the relevant MTEF, for the recruitment, retention, utilisation and development of human resources according to the department's requirements; and*

(f) *take into account any other requirements as may be directed by the Minister for the Pubic Service and Administration.*

3. SCOPE OF APPLICATION

Employees, from the age of 55 to 60 years, employed in terms of the PSA, educators, members of the services (Police, Defence and Correctional) or members of the Intelligence Services, shall, subject to the other contextual conditions set by the Ministers responsible for educators, services, and the Intelligence Services, be eligible to apply for ER of which identified costs will be covered in terms of the funding model set by NT.

4. PERIOD OF APPLICABILITY OF FINANCIAL SUPPORT FOR ER

The provision for applications for ER, where NT provides funding support to departments, is limited for this current MTEF period, whereby applications open as of **1 April 2019** and close as at **30 September 2019**. Evaluation will thereafter be done, as to whether a further need for such ongoing financial support for ER, is required by departments during this period. However, where departments have available funding within their baseline budgets, they have the discretion on an ongoing basis to approve ER in terms of s16(6) provision in line with their HR Plans in terms of Regulation 26 of the PSR..

NB: Please note that ONLY the ER provision in terms of s16(6) or applicable provisions in terms of other sector prescripts, is on offer for financial assistance to departments for the specified period.

5. PROCEDURE AND CONDITIONS

5.1. In terms of section 16(6) of the PSA, the relevant EA or his/her delegated authority, is empowered to, upon receipt of a request from such employees, approve ER applications without pension penalties, **if sufficient reasons exist** for the retirement based on criteria.

5.2. The approval of any ER application without pension penalties, in respect of employees from the age of 55 to 60 years**, shall be subject to the pension laws, criteria and conditions** determined by the employer and the availability of funding, supported by NT.

Note: The ***Guideline on Managing Early Retirement in the Public Service (Annexure A)*** provides criteria, which may be supplemented by the relevant EA, to be considered in cases where funding is required from NT.

The ***NT Guideline on the Criteria for Early Retirement Funding Provision*** (***Annexure B***) provides the processes and conditions for the provision of supplementary funding to support ER applications.

5.3. Under the conditions determined in the Annexures, pension expenditure incurred as a result of granting ER without pension penalties, will be funded by NT for departments who apply for such funding. The NT will pay such amounts into the GEPF on behalf of departments, which shall only be done on the submission and endorsement of a credible *HR Accounting and Budget Plan.* Where funding is required from NT, departments are to demonstrate how the granting of such ER to employees will yield potential future savings in terms of NT conditions.

5.4. Where accrued capped leave and *pro rata* service bonus payments are applicable, the costs thereof will be as set out in the attached NT *Guideline on the Criteria for Early Retirement Funding Provision.*

5.5. Employees from the age of 55 to 60 years, who wish to apply for ER without the pension penalties, within the financial period specified by NT, are requested to submit their applications to their respective HR offices, which shall be considered based on the management plans and criteria set by relevant departments and aligned to the MTEF periods for funding as determined by NT. The management plans may differ logistically between departments due to differing contextual factors.

5.6. The NT *Guideline on the Criteria for Early Retirement Funding Provision* to support ER payments, will determine the timelines for departments to apply for funding.
This will allow employees sufficient time to ascertain the value of their pension benefits from the GEPF before making their personal decisions via application. The calculator available on the GEPF website (www.gepf.co.za) can also be used to assist employees in calculating their benefits. Employees are advised to approach their internal HR Sections for assistance if they are interested in exercising such option.

6. NATIONAL WORKSHOP

A national workshop explaining the contents of this circular, as well as the accompanying *Guideline on Managing Early Retirement in the Public Service* and the NT *Guideline on the Criteria for Early Retirement Funding Provision*, will be held before the end of the current financial year in **March 2019**. Details of the workshop, will be communicated as soon as all logistical arrangements have been finalised between DPSA and NT.

Departments are requested to provide the contact details of the official/s responsible for the implementation of the content of this circular, to the following DPSA official:

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Prof Richard Levin
Director-General: Department of Public Service and Administration
Date: 25/02/2019

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Public Service and Administration
REPUBLIC OF SOUTH AFRICA

ANNEXURE A:

GUIDELINE ON MANAGING EARLY RETIREMENT IN THE PUBLIC SERVICE

Note: This Guideline must be read together with the relevant provisions of the Public Service Act, 1994, the DPSA Circular on Early Retirement without Penalisation of Pension Benefits in terms of s16(6) of the Public Service Act and the NT *Guideline on the Criteria for Early Retirement Funding Provision to Departments*

Issued by the Department for the Public Service and Administration

February 2019

1. INTRODUCTION AND PURPOSE

1.1 In terms of the Public Service Act, 1994 (PSA), the normal retirement age of employees is 60 years, and such employees will, on retirement, retire with **no pension penalties**. Although employees from the ages of 55 to 60 years may retire from the public service, such retirement may be subject to penalties to their pension. However, these *Guidelines* may be applied, to grant approval in terms of section 16(6) of the PSA **without pension penalties** in such instances, which will be funded by National Treasury (NT) in terms of their attached Guideline.

1.2 In terms of section 16(6) of the PSA, "***An executive authority may, at the request of an employee, allow him or her to retire from the public service before reaching the age of 60 years, notwithstanding the absence of any reason for dismissal in terms of section 17(2), if sufficient reason exists for the retirement***".

1.3 This means that each executive authority (EA) has the discretion to approve early retirement (ER) requests for employees from the ages of 55 to 60 years, without pension penalties, which are based on reasonable criteria set by that EA. Generally applicable guidelines provided by both the Minister for the Public Service and Administration (MPSA), as well as the Minister of Finance (MoF) are provided to support the decision making process, so as to ensure continued service delivery to citizens and retention of critical skills where needed.

1.4 In such instances, where approval is granted for such ER request, the approving department usually has to bear the financial costs of any pension penalties, which may accrue, ***unless NT makes special provision to support such initiatives***, if it is in the interest of fiscal savings and supporting Human Resource (HR) Planning within a department.

1.5 Employees from the ages of 55 to 60 years, employed in terms of the PSA, and members of the services, educators or members of the Intelligence Services, shall, ***subject to other contextual conditions set by the Ministers responsible for the services, educators and the Intelligence Services***, be eligible to apply for ER in terms of the funding model set by NT. These ER provisions apply to members of the services, educators or members of the Intelligence Services in so far as they are not contrary to the laws governing their employment.

1.6 When an employee retires, his or her pension benefits are inter alia, determined by the number of years of pensionable service and other salary related factors. An employee with less than ten years of service, will only receive a once-off lump sum (gratuity), whereas an employee with more than ten years of service, will receive both a gratuity and monthly pension (annuity). An employee with less that fifteen years actual service, does not qualify for continued post-retirement medical assistance.

NB: This is important to note for employees contemplating any ER choices, as post-retirement social security is an important factor to consider when applying for ER.

1.7 This Guideline **(ANNEXURE A),** must be read in conjunction with the NT *Guideline on the Criteria for Early Retirement Funding Provision to Departments* **(ANNEXURE B),** (collectively hereinafter referred to as "*these Guidelines*"), which supports the total process to provide clarity to all National and Provincial departments and government components requiring additional funding for this purpose, to ensure a consistent approach when processing and approving applications for ER requests.

2. APPLICATION PROCESS AND APPROVAL OF EARLY RETIREMENT (ER)

2.1 Approval of ER applications is **not automatic on application,** as each application must be considered on its own merits and measured against the generic criteria provided in *these Guidelines, as well as contextual factors* considered by each EA.

2.2 A qualifying employee, who wishes to take ER, must apply in writing to the relevant EA or delegated authority, within the timeframes as may be determined by the relevant EA, using the specified official application forms and processes as determined by the respective department's management plan. Each application must be fully motivated in terms of the criteria in *these Guidelines* and the supplementary criteria set by the relevant EA, and must be accompanied by specified obligatory documentation, where applicable. It must be noted that each department or provincial administration's management plans and processes may contextually differ due to differing reporting and HR approval arrangements. However the NT funding window period requirements for the MTEF, remains standard and consistent for all departments seeking funding support for ER applications.

2.3 A generic template for the application form for ER will be provided to departments, after consultation at a national workshop, which will be held at a date and venue to be determined. Based on the generic template, departments may customise their own processes, which should as a minimum require that-

2.3.1 all documentation be completed in full by the employee with the assistance of the respective HR Office, where necessary;
2.3.2 each employee provide the requisite written motivation in line with the criteria determined by each department, which includes the criteria as set out in *these Guidelines*, where funding is provided by NT;
2.3.3 all necessary documentation be attached, where applicable, to timely complete and process the applications at the relevant control points;
2.3.4 comments and/or reasons for supporting or not supporting an ER application be provided by relevant employees tasked with processing the ER application; and
2.3.5 comments and/or reasons for approving or not approving an ER application be provided by the relevant executive authority or delegated authority.

2.4 It is important that *HR Accounting and Budget Planning* is done by departments and provincial administrations in line with *Guideline on the Criteria for Early Retirement Funding Provision to Departments*. In order to accommodate as many qualifying ER applications as possible in terms of criteria and available funding, the maximum number of potential applications that may be considered, must be set out in each department's *HR Accounting and Budget Plan.*

2.5 Certain compulsory forms, which must be completed, are listed below and will be discussed at the national workshop to be held to support the process. Departments are encouraged to ensure that they have sufficient application forms available or ensure that employees can access such forms from the DPSA or GEPF websites. Compulsory forms include-

2.5.1 All prescribed forms by the South African Revenue Service (SARS). These forms, if incomplete, usually delay the processing of pension pay-outs.

2.5.2 The Z102 and related forms, which must be completed by the employer for the withdrawal of an employee from the GEPF.

2.5.3 The Z894, which is a Foreign Banks form, must be completed by an employee who intends to leave South Africa.

2.6. Departments need to assist employees in contacting the Client Liaison Officers at the Government Pensions Administration Agency (GPAA) to clarify any information with regards to the processing of ER applications, the completion of relevant forms and/or any other administrative matters relating to ER.

3. CRITERIA TO BE CONSIDERED IN RESPECT OF APPLICATIONS FOR EARLY RETIREMENT IN TERMS OF SECTION 16(6) OF THE PUBLIC SERVICE ACT, 1994

3.1 In determining the criteria for ER applications within their respective departments, an EA <u>must</u> ensure that-

3.1.1 the applicant is aged from ***55 to 60 years***;
3.1.2 there shall be ***no negative impact on the delivery of services*** by the department;
3.1.3 there shall be ***no skills deficit created*** within the department;
3.1.4 the ***HR Planning needs*** were considered;
3.1.5 ***potential future fiscal savings*** will be realised in terms of NT's conditions; and
3.1.6 consideration is given to functions, which are ***not aligned to a department's mandate, structure and post provisioning norms.***

3.2 In determining the criteria for ER applications within the respective departments, an EA may also consider:-

3.2.1 The personal circumstances and future life career choices of an employee; and
3.2.2 The years of pensionable service of an employee, whereby priority should be given to employees with longer service records, who are closer to 60 years.

4. GENERIC MANAGEMENT PLAN : RECOMMENDED ROLES AND RESPONSIBILITIES

NB: EACH DEPARTMENT/PROVINCIAL ADMINISTRATION IS REQUIRED TO DESIGN A MANAGEMENT PLAN BASED ON THESE GUIDELINES AND THE CIRCULAR ON EARLY RETIREMENT WITHOUT PENALISATION OF PENSION BENEFITS IN TERMS OF S16(6) OF THE PUBLIC SERVICE ACT

PRINCIPLE: No employee may assess or moderate her/his own application for ER and must also declare any direct personal and/or familial interests where these may arise and request to be recused from such processes.

4.1 RESPONSIBILITY OF THE EMPLOYEE AND THE SUPERVISOR/HEAD OF INSTITUTION

4.1.1 An eligible employee must complete the specified official application form and submit her/his application together with substantiating documentation to her/his supervisor/head of institution in terms of the management plan provided by their respective department
4.1.2 The employee's supervisor/ head of institution must provide comments and/or reasons for supporting or not supporting the application.
4.1.3 The employee's supervisor/ head of institution must then submit the application to the respective HR office for processing in line with the applicable management plan.

4.2 RESPONSIBILITY OF THE INSTITUTIONAL HR OFFICE AND OFFICE OF THE DELEGATED MANAGER RESPONSIBLE FOR PROCESSING ER APPLICATIONS

4.2.1 The HR Office must calculate the liability to the GEPF and attach the printout to each application form and forward it to the Delegated Manager.

4.2.2 The Delegated Manager must then provide comments and/or reasons for supporting or not supporting the application, with due regard to the information contained in the application and an assessment against the criteria.

4.2.3 The Delegated Manager must ensure that all the applications are submitted irrespective of whether the application is supported or not, to the respective HR Office (e.g. District/Regional/Head Office) in line with the delegations and time frames provided by the relevant department/administration.

4.3 RESPONSIBILITY OF THE RESPECTIVE RELEVANT HR OFFICE

4.3.1 Different processes may be institutionalised in instances where HR operates at District/Regional/Head Office levels.

4.3.2 The processing of all ER applications must be managed centrally at each department's HR Office at the Head Office.

4.3.3 The HR Manager at each respective District/Regional/Head Office level, in terms of delegations, must ensure that all applications submitted by the various units within the department or provincial administration are received and processed in line with the respective Management Plan.

4.3.4 HR Offices must ensure that all applications have been received from the various units within the department by the specified dates.

4.3.5 HR at Head Office must also ensure that the ER applications are assessed in terms of the criteria and that the correct processes and procedures have been followed.

4.3.6 The HR Office should arrange an ER briefing session with all Programme Managers and HR employees, explaining the content of the Circular and accompanying Guidelines.

4.3.7 A Departmental Early Retirement Moderating Committee (DERMC) should be established to moderate all applications to ensure that the criteria and eligibility of applicants were correctly applied in the interest of both the employee and the department. This should be the final structure to consider the application before requesting approval by the EA or her/his delegate.

4.3.8 However, prior to the DERMC making such final recommendations, separate decentralised ER Assessment Committees (ERAC) at a lower structural level may be established to assess and cost the cumulative applications within the department or the provincial administration. The composition and responsibilities of the ERAC should be set out by the relevant department in line with the *Guideline on the Criteria for Early Retirement Funding Provision to Departments*.

4.3.9 The ERAC must provide to the DERMC, comments and/or reasons for supporting or not supporting the application in line with the criteria set by *these Guidelines*.

4.3.10 The Department's HR Office must inform all committee members in writing of their appointment as members and their duties and responsibilities.

4.3.11 The Department's HR Office must make the necessary logistical arrangements for the centralised DERMC and decentralised ERAC meetings.

4.3.12 The Department's HR Office must act as secretariat during both the assessment and moderating meetings by providing guidance in terms of *these Guidelines* and any other legal prescript.

4.3.13 The Department's HR Office must also ensure that the ER applications are assessed in terms of the criteria and that the correct processes and procedures are followed to ensure transparency and fairness.

4.3.14 In the event that HR offices are decentralised, all applications must be forwarded to the Department's HR Office at their respective Head Office by no later than the date specified for each cohort by the relevant department.

4.3.15 A spreadsheet, in the form of a template prescribed by NT, with all the details of the applications, must accompany the applications to the Department's HR Head Office.

4.3.16 All applications together with the recommendations of the DERMC will be forwarded to the EA or her/his delegate for final consideration.

4.3.17 Employees will be informed of the outcome of their applications whether approval has been granted by the EA or her/his delegated authority.

4.4 DEPARTMENTAL EARLY RETIREMENT ASSESSMENT COMMITTEES (ERAC): DECENTRALISED AT VARIOUS OFFICES

4.4.1 Each department may set up an ERAC to assess and cost early retirement applications within a particular locality (e.g. District/Region), before submitting to HR Head Office for final moderation by the DERMC.

4.4.2 The ER assessment phase must be completed at a lower structural level, in order for the applications to be forwarded to HR Head Office for the DERMC to apply their minds in line with the management plan of each department.

4.4.3 Each decentralised ERAC meeting must be chaired by, at least, the most senior official responsible for HR at that specific office (e.g. District/Regional).

4.4.4 Each ERAC should consist of at least the head of Finance and head of HR in that decentralised office where applicable.

4.4.5 The function of the ERAC is to scrutinise the individual applications of the employees from the relevant units within the department or provincial administration, to ascertain that consistent, fair and equitable assessments, based on the criteria, have taken place at lower structural/institutional levels.

4.4.6 The recommendations of each ERAC are confidential. The recommendations are forwarded to the National Treasury or the relevant Provincial Treasury to be dealt with in terms of the NT Guidelines.

4.5 DEPARTMENTAL EARLY RETIREMENT MODERATING COMMITTEE (DERMC)

4.5.1 Applications must be considered by the DERMC before a final decision is made on the application. The function of the DERMC is to moderate the applications of the employees and consider the recommendations of the ERAC to ensure consistent application of the criteria for ER without penalisation.

4.5.2 The DERMC will moderate the applications and make a final recommendation to the approval authority to sign off. The DERMC must ensure that the decisions to be made in the awarding of the ER comply with the relevant criteria and that all legal prescripts have been adhered to throughout the process before approval by the EA or her/his delegate.

4.5.3 The DERMC should consist of an SMS member responsible for HR functions at Head Office (Chairperson), the SMS member responsible for Financial Management and any other SMS employees responsible for other support functions.

4.5.4 The recommendations of the DERMC are confidential. The outcome of the employees' applications may only be made known to them once a decision is made by the EA or her/his delegate.

4.5.5 The formal moderation phase should be finalised according to the management plan in order for the employees to be informed of the outcome of their applications as soon as possible after approval has been obtained from the EA or her/his delegate.

5 GENERIC STEPS FLOWCHART

STEP 1: Each Department or Provincial Administration must develop a Management Plan

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STEP 2: Employees must submit applications to their supervisor/head of institution within the timelines and procedures as specified in the Management Plan

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STEP 3: Supervisor/Head of Institutions must provide comments and/or reasons for supporting or not supporting the application and submit to the specified HR Office

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STEP 4: The specified HR Office must calculate the liability to the GEPF and attach the printout to the application form and submit to the Programme Manager

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STEP 5: : Supervisor/Head of Institutions must consider the application against the criteria and submit to HR Office

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STEP 6: Application considered by the decentralised ER Assessment Committee (ERAC) - where applicable

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STEP 7: Applications together with the NT spreadsheet must be forwarded to the National Treasury or the relevant Provincial Treasury ito NT Guideline

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STEP 8: Application considered by the Departmental Early Retirement Moderating Committee (DERMC) at Head Office or delegated office

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STEP 9: Decision of the EA or her/his delegate on whether to approve or not approve application

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STEP 10: Communicate decision to the Applicant on the outcome

6. All applications together with the NT spreadsheet must be forwarded in line with the management plan. It is imperative that institutions do not submit the applications late as there are strict due dates for NT Funding Support, which must be adhered to once these applications have been received by Head Office. No further applications for early retirement without penalisation of pension benefits will be considered for the period post the agreed closing dates specified in the management plan linked to the MTEF Period.

7. Please note that should an application for ER without pension penalties be approved, the employee should only be allowed to withdraw her/his application if it is still within 30 calendar days from date of approval. It must also be noted in cases where NT has provided such funding support, approval is granted linked to tangible and assessed efficiency savings for each case, and any post-approval withdrawals have an inconvenient administrative burden on funding already approved for such exit, which could ideally have been allocated to

another deserving case. Therefore, employees are advised to consider the implications of ER prior to making such application.

8. Applications for re-employment, after ER without pension penalties was approved, can only be approved by the relevant EA or her/his delegate, on the condition that such employee may only be re-appointed on contract in exceptional circumstances, only after the effluxion of the period wherein a penalty was paid by the state on behalf of employee (i.e. only after the normal 60 years retirement age has been reached by the employee), unless the employee agrees to pay back such accrued benefits to the fiscus.

Contact Details:

For clarity on this DPSA Guideline, the following person can be contacted:

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national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

ANNEXURE B:

GUIDELINES FOR THE 2019 MTEF PERIOD CRITERIA FOR EARLY RETIREMENT FUNDING PROVISION TO DEPARTMENTS

[ER in terms of PSA s16(6) or sector legislation]

Note: This Guideline must be read in conjunction with DPSA Circular on *Early Retirement without Penalisation of Pension Benefits for Employees between 55-60 years* and the accompanying criteria as set by the DPSA for the awarding of ER in terms of s16(6) of the PSA in the Guideline A which provides the criteria for the awarding thereof

Issued by National Treasury (NT)

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1 PREAMBLE

1.1 Discussions and funding criteria contained in this document are informed by the realisation that the State currently faces dire fiscal crises. Economic performance is unlikely to recover in the short- to medium-term. Spending on compensation of employees continues to crowd-out spending on capital and other critical programmes of government. Public debt is approaching 60 per cent of GDP and government revenue performance is on the decline.

1.2 It is, therefore, on the basis of this realisation that government is introducing measures to contain expenditure and realign resources in favour of critical service delivery priorities. One such measure is facilitation of attempts to manage both the post establishments of departments in the public service and careful management of earnings and their growth. Early retirement (ER) for employees between 55 and 60 years, provides an opportunity to effectively manage, both post establishments to remove inefficiencies in terms of Public Service Regulation (PSR) 25 and 26, as well as maintain earnings of public servants who chose to leave the public service in terms of s16(6) of the Public Service Act (PSA).

1.3 South Africa is also faced with an acute unemployment problem, which is unlikely to be resolved in the short- to medium-term. Government needs to assist in adding new skilled entrances into public service employment, thus assisting in alleviating the growing youth unemployment, as the nature of jobs within the public service is rapidly changing in response to supporting digital government.

1.4 However, within current post establishments of departments (***mainly administrative offices***), there are cases of qualifying employees who may want to opt for early retirement in line with the recommended criteria established by DPSA in the ***Circular on Early Retirement (ER) without penalisation of pension benefits for employees between 55-60 years in terms of s16(6) of the PSA.*** Such ER choices, if realised, will provide government with an opportunity to create new types of jobs for the youth, while at the same time bringing about efficiencies in ensuring that the right jobs are created in the right places according to emerging needs of the public service. This will assist with the overall management of the cost of employment, by using *norms and standards* for post provisioning in all offices going forward.

1.5 The DPSA and NT are exploring all possible HR and non-HR related measures to effect efficiency gains in the public sector, to guide departments through this difficult belt-tightening process. A circular to this effect has been issued to all Executive Authorities (EAs) and Heads of Departments (HODs), informing them of the strategies required to assist with the management of the burgeoning wage bill and cost of debt to the fiscus. We have undoubtedly reached crisis point in unaffordability, due to rapid wage growth over the past years, coupled with inefficiencies in measurable productivity within the Public Service.

2 PURPOSE

2.1 Public Service Departments have over the past few years, received ongoing requests for ER from employees wanting to leave the system voluntarily. While the ER provisions under s16(6) of the PSA have been available on an ongoing basis based on individual requests (as this is a delegated function to EAs), many departments have experienced related cost pressures, where they could not afford to approve such requests within their departmental baselines. This has limited their decision making according to available budgets to pay the penalty portion to the Government Employees Pension Fund (GEPF) in terms of s16(6) provision of PSA.

2.2 During the 2018 Wage Negotiations, Government communicated its intention to organised labour of employing all possible measures needed to assist with efficiency gains to address the deficit created by the unaffordable wage settlement. This included assisting departments facing challenges with financing of costs of ER-related requests, as a mechanism to alleviate funding pressures, amongst other things.

2.3 The purpose of this guideline document is to clarify criteria through which requests for additional funding of costs associated with ER, will be assessed, and the extent to which elements of costs will be funded by NT, within the current MTEF period.

2.4 The guideline document also outlines processes that all departments, in particular provinces, should follow in submitting requests for additional funding and conditions thereunder, where such funds will be disbursed for this specific purpose. The document also defines the framework for periodic reports and frequency of submissions to provincial treasuries, as well as National Treasury, where applicable.

2.5 The overall objective of this NT provision, is to effect savings and reduce the cost of employment created by the overall unaffordable wage bill, post the 2018 Wage Agreement and to improve the composition of expenditure towards more productive and effective programmes of government.

2.6 Each and every department has a direct responsibility to contribute to this cost savings initiative. Savings should be of a permanent nature in order to contribute to the sustainability of the Budget. This principle applies to each post in every department, across all national and provincial departments of government, including government components, based on post provisioning norms in terms of Reg 25 and HR Planning in terms of Reg 26 of PSR, 2016.

3 BACKGROUND

3.1 The previous 2015 Wage Agreement expired on **31 March 2018**. In June 2018, government entered into a new wage agreement with labour unions, which covers the current MTEF period, to expire on 31 March 2021. The agreement as detailed in PSCBC Resolution 1 of 2018 amongst other issues, which covers the following three key main items, that had direct financial implications on the affordability of the budget, namely:

I. A cost-of-living adjustment for employees on salary levels 1 to 12 and employees in Occupation Specific Dispensations (OSD), as set out in the table below:

Cost-of-Living Adjustment	2018/19	2019/20[1]	2020/21[1]
Projected CPI inflation	**5.5%**	**5.3%**	**5.5%**
Salary Levels 1-7[2]	7%	CPI + 1.0%	CPI + 1.0%
Salary Levels 8-10[2]	6.5%	CPI + 0.5%	CPI + 0.5%
Salary Levels 11-12[2]	6%	CPI	CPI
1. CPI inflation projections provided by the National Treasury.			
2. Salary Levels 1-10 includes lower management and other production staff and Salary Levels 11-12 includes middle management echelon. Senior managers (Salary Levels 13-16) and public office bearers are not covered by the negotiations			

II. Equalisation of pay progression at **1.5 per cent per** annum for educators in various sectors, as well as SAPS members, with that of public servants employed in terms of the Public Service Act, to be implemented incrementally during **2018/19 and 2019/20** financial years. Previously, educators qualified for 1 per cent pay progression per annum, whilst SAPS members qualified for pay progression of **4 per cent every three years**.

III. An extension of the housing allowance to also cover qualifying spouses of public servants who were previously excluded. Previously, if both spouses were employed within the public service, only one spouse qualified for the housing allowance. Qualifying spouses of employees on salary levels 1 to 5 will be eligible for receiving a housing allowance with effect from 1 September 2018 and qualifying spouses of employees on salary levels 6 to 12, not on total cost to employer, are eligible with effect from 1 September 2019.

3.2. These three key items above are estimated to cost the State **R242.7bn** over the 2018 MTEF. The budget envelope for improvements in salaries and other conditions of service for the same period only amounted to **R212.5bn**. The above resulted in an estimated shortfall in relation to the baseline budget of **R30.2 bn** over the 2018 MTEF across departments at both provincial and national spheres of government. The fiscus is currently constrained due largely to poor economic performance compounded by the unaffordable growing wage bill.

3.3. Departments at both national and provincial spheres of government are expected to fund any shortfalls attributable to the wage agreement through any savings from within their compensation baselines as a priority. In many cases, this means planned management of HR-post establishments according to HR Planning prescripts in order to remain within set compensation ceilings. Departments will need to carefully manage HR expenditure through management of overtime, allocation of budgets for performance bonuses and other performance incentives, as well as other HR-related initiatives to manage government spending on compensation. Government currently spends **R9bn** on overtime payments, mainly in the health sector; **R6bn** on pay progression, mainly in the education sector; and **R2bn** on performance bonuses in the public service. In 2018/19, departments at both national and provincial spheres of government were expected to mobilise at least **R6.9 billion in savings** from within their baseline budgets to fund the costs of the wage agreement.

3.4. Government has undertaken to assist those departments facing increased cost pressures from management of post establishments and HR Plans. This guideline document details funding criteria for ERs in line with the DPSA criteria guidelines or any other sector legislative measures to manage post establishments.

4 EARLY RETIREMENT (ER) – CALCULATION OF COST COMPONENTS

4.1. Cost components associated with ER are hinged on key provisions that have immediate budget implications, ***excluding funded pension obligations by the GEPF***. These are as follows:

(i) pension penalty,
(ii) pro rata service bonus,
(iii) payment for unused annual leave,
(iv) resettlement benefits ito policy, and
(v) compensation for medical assistance ito prescripts.

4.2. Government has evaluated the potential efficiency benefits associated with assisting departments by funding identified costs related to the areas above, for cases which meet the criteria as set out in NT assessment processes, supported by DPSA circular and guidelines.

PENSION PENALTY PORTION

4.3. Section 16(6) of the Public Service Act allows for ER exits without pension penalties, based on contextual criteria. Ordinarily, ER benefits are reduced at **0.333 percent** per month for the remaining period between the **age of 55 and 60 years**, as provided for under rule 14.3.3(b) of the GEPF rules. The reduction of benefits is applicable to both the gratuity portion, as well as the monthly annuity payments.

PRO-RATA SERVICE BONUS

4.4. Pro-rata Service bonus is calculated by simply dividing the *basic annual salary* by 12 months to arrive at an estimate of one month's salary earnings depending on your choice option in the case of total cost to employer. This amount is then adjusted downwards for the number of unexpired months to the end of the financial year. (NB: Each HR unit can assist with such calculation based on the option chosen by employees)

UNUSED ANNUAL/VACATION LEAVE

4.5. Payment for unused annual/vacation leave credits, is based on the number of unused leave days for the current and previous leave cycles, plus any accrued capped leave days (where applicable). Noting that the methodology to compute a leave pay out is determined in the *Determination and Directive on Leave of Absence* (DPSA), the total sum of these days is divided by **260.714** to an employee's credit, at termination of service.

4.6. The total number of unused annual leave days from the current/previous leave cycle is multiplied by the employee's basic salary, plus 37 percent (Levels 1-10) or the employee's inclusive remuneration package (Levels 11-16), on the last day of duty. Departments must consult the *Determination and Directive on Leave of Absence* available on the DPSA website (www.dpsa.gov.za).

COMPENSATION FOR MEDICAL ASSISTANCE

4.7. Compensation for medical assistance is based on the number of pensionable service years and membership of a registered medical aid scheme. This requirement applies to both SMS and non-SMS members and different compensation amounts apply depending on the number of years of service (i.e. whether more or less than 15 years of service). Departments are to refer to the *Determination on Medical Assistance* available on the DPSA website (www.dpsa.gov.za).

HOUSING ALLOWANCE

4.8. Housing allowance is paid in terms of the *Determination and Directive on Housing* ; PSCBC Resolution 7 of 2015 - available on the DPSA website (www.dpsa.gov.za). Employees enrolled to the Government Employees Housing Scheme (GEHS) Individual-Linked Savings Facility (ILSF), should be paid out their accumulated savings at retirement.

RESETTLEMENT COST

4.9. Resettlement costs are applicable to employees going on retirement. Departments should consider the applications as and when they arise in line with the applicable policies. Where a departmental policy does not exist, then the applicable provisions of the PSCBC resolution apply.

5 ELIGIBILITY AND FUNDING CRITERIA

5.1. Departments are required to conduct specific costing exercises for each of the early retirement cases identified and submit a comprehensive plan with motivations, in line with the requirements of these guidelines.

5.2. Funding for ER will be targeted at the following cases:

5.2.1. 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"***;

5.2.2. employees who are ***permanently employed*** and who are between the **age cohort of 55 and 60 years at the time of application**, during the MTEF period;

5.2.3. 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;

5.2.4. employees of government departments and components at both national and provincial spheres of government, **excluding** public entities and municipalities

5.3. The following identified cost components, may be **funded in full directly by the NT**, where criteria are met and within reasonable means, depending on departmental service profiles:

5.3.1. ***Pension Penalty*** for employees between ***55-60 years***;

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

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

5.4. The following cost components must be **funded by each respective department** from within their baseline budgets towards approved ER applications:

5.4.1. *Pro-rata Service Bonus Pay*;

5.4.2. *Balance of the Capped leave*, ***which is over and above 160 days***;

5.4.3. *Unused current annual/vacation leave;* and

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

5.5. National Treasury (NT) will provide ***Central Funding*** for approved qualifying ER cases limited to assistance with respect to a maximum of ***2.5% percent of the total departmental funded post establishment costs***, depending on the level of assessed financial assistance required per department. NT, assisted by provincial treasuries, will assess whether departments with available funding, (both fully and/or partial), still require any additional assistance. Departments with adequate funds available within their current baselines will have to finance such approved ERs. Those with partial funding within their baselines, will be assisted to the extent that their baseline budgets are inadequate, provided cases under consideration are reasonable, viable and can potentially yield future savings.

5.6. Departments ***will not be required to repay such funds received from this Central Fund***, which were provided to assist with funding costs associated with ERs, ***unless no savings after allocations are demonstrated or realised***, due to non-application or non-compliance with Regulation 25 and 26 of the PSR, 2016. The rationale for assisting departments is to alleviate growing personnel cost pressures and unblock HR Planning rigidities, by allowing departments to plan for new and emerging jobs and efficient delivery modes.

5.7. Departments are to refer to PS Regulation 25 and 26, for measures required for effective and efficient management of post establishments linked to service delivery modes. Departments that do not effect efficiency gains/savings according the conditionalities set, will have reduced future funding, as a result of deductions made from their outer year compensation budgets. HODs are required to ensure that the provisions of both the PSA and PFMA are adhered to with respect to conditions placed on monies availed to their departments.

5.8. Departments are expected to generate permanent future savings of at least **50 %** of the total cost of employment (remuneration packages) of the approved ER cases in situations where the resultant vacant posts are filled according to service delivery needs and in terms of post provisioning norms.

5.9. Departments should, as a result, demonstrate a permanent reduction in ***the average unit costs of personnel***, while at the same time enhancing employment of youth into mainly entry level positions and ensuring that service delivery effectiveness is not compromised. The relevant Treasury will ensure that compensation ceilings of affected departments are adjusted accordingly to reflect and ensure that associated savings accrue to the relevant Revenue Fund in the outer years.

6 MOTIVATION FOR FUNDING FOR ER APPLICATIONS

6.1. Motivations should detail costs associated with each of the cost elements to be funded relevant to ERs for which a funding request is being made. This will allow the relevant Treasuries and the **NT Central Assessment Committee** for the ER funding, to assess reasonableness of the submission and request for funding.

6.2. A *cost-benefit analysis* is to be conducted for each case indicating total earnings per case, the estimated costs of the ER, and estimated savings to be realised per year over the 2019 MTEF. Information should also detail whether the relevant post will be filled or abolished, the occupations affected, relevant salary grade/levels, and implications of not filling associated posts for direct service delivery. Cost-benefit analysis should prove that the extent of savings for each financial year over the MTEF are at least in line with the benchmark saving of 50% of the average earnings of the cases under consideration.

6.3. An NT EXCEL-based cost-benefit analysis tool, has been developed for use by departments and is made available together with these guidelines (to be provided by NT at the planned future National Workshop). Departments are requested to submit a completed NT tool together with their motivations. Guidelines on the use of the NT tool are contained within the tool. The same NT tool should be used for periodic reporting purposes.

6.4. Submissions for funding should be accompanied by approved *Human Resource Budget Plans* (HRBP) or an equivalent.

7 HR BUDGET PLANS: MONITORING AND REPORTING PROCEDURES

7.1. ER implementation is decentralized to departments. Departments at both the national and provincial spheres of government are to ensure that each ER case is viable (i.e. it will result in permanent savings) before it is approved, based on the DPSA criteria.

7.2. All approved cases are to be consolidated per department and/or sector, before onward submission to the relevant Treasury for further assessment and consolidation for funding requests. The final list of approved cases should be submitted to the NT through the relevant ***function group leader*** (for national departments) for quality control and submission to the **Central Assessment Committee,** before seeking final approval and disbursement of funds. The same is applicable for Provincial Treasuries, who must submit consolidated approved cases to the National Treasury's Intergovernmental Relations (IGR) provincial representative for quality control and submission to the **Central Assessment Committee**.

7.3. All funds approved on behalf of provinces, will be allocated as ***a ring-fenced conditional grant with specific conditions*** attached to ensure that they are used for their intended purposes and to facilitate monitoring of envisaged savings to be generated.

7.4. Departments will be expected to report on progress with implementation of the programme to the relevant Treasury at least on a quarterly basis. The NT will provide a reporting tool for this purpose. The report should detail the following information:

7.4.1. List of posts per salary level/grade per occupation where ER were granted, as well as the associated average earnings for each ER case for the financial years for the relevant MTEF;

7.4.2. List of relevant vacant posts per salary level/grade per occupation that are filled including per nature of appointment, as well as the associated average earnings for each ER case for the financial years over the relevant MTEF; and

7.4.3. Assessment of net savings associated with average unit cost management related to the points above.

7.5. Provincial Treasuries will submit to the NT through their respective representatives, schedules of cumulative savings realised as a result of implementation of ER efficiency measures on a quarterly basis.

Contact Details:

For clarity on early retirement funding-related matters associated with this NT Guideline, emails may be sent to the following e-mail address: **ER_funding_info@treasury.gov.za**

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