



RULE CHANGE: ACCRUAL RATES TWO COMPONENT SYSTEM

ENGAGEMENT WITH PSCBC
8 August 2024

AGENDA

Overview of Two Pot System

- Introduction
- Overview of retirement reforms
- Unintended consequences of the reforms
- Current benefit structure
- Proposed rule amendment
- Implications of the proposed change
- Summary

Two Component System Readiness update

- Staff updates
- Communication updates
- System updates
- Other updates

Questions

OVERVIEW OF TWO POT SYSTEM

- from 1 September 2024 any accrued benefits from their retirement fund will be split into a “Savings Component” and a “Retirement Component”
- 1/3rd of pensionable service from 1 September 2024 will be allocated to the Savings Component
- Benefits based on this 1/3rd of service will be allocated to the Savings Component and will be accessible before retirement **(but subject to certain restrictions)** and on all exits
- 2/3^{rds} of pensionable service from 1 September 2024 will be allocated to the Retirement Component
- Balances from this pot are required to provide regular pension income **(subject to the de minimus amount of R165 000)**

UNINTENDED CONSEQUENCES

- As a defined benefit fund, GEPF benefits are based on pensionable service, salary and actuarial factors
- The GEPF provides two main types of benefits when you retire:
 - gratuity (a lump sum based on your salary and years of service).
 - pension (a monthly payment based on your salary and years of service)
- The Two-Component system requires all the pension payments to be funded from the Retirement Component and the gratuity lumpsums to be funded from the Savings Component
- There is a complication when the split between gratuity and pension payments from the rules is different to the 1/3 and 2/3rds split imposed by the Two-Component system

CURRENT BENEFIT STRUCTURE

Members with more than 10 years of service receives a monthly annuity (or pension) plus a gratuity (or cash lump sum) as follows:

- an annuity equal to $1/55$ times final salary for each year of service, plus R360 per annum; and
- a gratuity equal to 6.72% of final salary for each year of service

Why is this a challenge???

- when you retire, you receive about 25% of your benefits as a gratuity and 75% as a pension
- Hence there is a mismatch because the current gratuity and pension setup does not fit neatly into the 33%/67% split mandated by the new Law
- As such, balances in the Savings Component are higher than what is given to a member as a gratuity
- Balances in the Retirement Component are lower than what is provided as a pension benefit
- This mismatch means there has to be constant rebalancing of the pots to comply with the one-third/two-thirds split
- **But new laws do not allow for transfers from the Retirement Component to other components-so such rebalancing cannot be done**

PROPOSED CHANGE

- To align with the new regulations and ensure that your benefits are distributed fairly, we propose adjusting the rates at which your gratuity and pension accrue.
- This means changing how much of the final salary counts towards the gratuity and pension, ensuring that the split between the Savings Component and your Retirement Component matches the required 33%/67% split.

PROPOSED RULE AMENDMENT

Rule 14.2.1.1 (a) to (c) to be added to current Rule 14.2.1 and to read as follows:

14.2.1.1 Discharge for benefits earned after 31 August 2024 with ten or more years of total pensionable service

14.2.1.1 If a member is discharged on account of a reason mentioned in rule 14.1.1 there shall be paid to him or her-

(a) a gratuity calculated at 8,45 per cent of his or her final salary multiplied by the period of his or her savings pensionable service for a member who is a member of the South African Police Service, the Correctional Services, the South African National Defence Force, the National Intelligence Agency or the South African Secret Service or
a gratuity calculated at 7,75 per cent of his or her final salary multiplied by the period of his or her savings pensionable service for every other member;

(b) an annuity calculated at $1/60.71$ of his or her final salary multiplied by the period of his or her retirement pensionable service a member who is a member of the South African Police Service, the Correctional Services, the South African National Defence Force, the National Intelligence Agency or the South African Secret Service or
an annuity calculated at $1/58.65$ of his or her final salary multiplied by the period of his or her retirement pensionable service for every other member; and

(c) a supplementary amount of R360 per year:

PROPOSED CHANGE



The revised benefit structure under this option will be as follows

Non-Uniformed Services members

- a pension equal to **1/58.65** times final salary for each year of service, plus R360 per annum; and
- a gratuity equal to **7.75%** of final salary for each year of service.

Uniformed Services members

- a pension equal to **1/60.71** times final salary for each year of service, plus R360 per annum; and
- a gratuity equal to **8.45%** of final salary for each year of service.

The proposed approach will introduce different benefit structures for the two-member categories.

IMPLICATIONS

- Overall member gets the same total benefit
- Proposed structure will result in a higher gratuity but a lower pension than currently
- This also allows for a higher balance in the Savings Component each month
- Under the proposed structure, the gratuity and the capitalised pension benefits will be in a 1/3 and 2/3rds split
- Hence this will be matched directly with the split between the Savings Component and Retirement Component

IMPLICATIONS

- Members who want to receive the same benefit they would have received under the old accrual rates will be able to do so **at retirement**
- Such members can transfer the portion of the Savings Component to the Retirement Component to top up the pension

SUMMARY

- Current benefit structure does not quite tie in with one-third/two-third split
- Proposed rates will result in members receiving a higher gratuity but also a lower pension
- Members' overall benefit entitlement stays the same
- Members who want to receive a lower gratuity in exchange for a higher pension at retirement can elect to do so when they retire



TWO COMPONENT SYSTEM READINESS UPDATE

PSCBC ENGAGEMENT
8 August 2024

STAFF UPDATES

- GEPF and GPAA have implemented necessary steps to ensure readiness for September launch
- GPAA is capacitating call centre and walk-in centres to handle the anticipated increase in volumes for requests and queries
- Call centre agents are being trained on requirements of new system
- Internal training of CLOs and other staff to assist with readiness is being conducted

COMMUNICATION UPDATES

- GEPF continues to undergo member communication drives through various platforms
- Two pot videos are being published weekly engaging on different aspects
- GEPF has had communications via various radio stations discussing some of the impending changes
- GEPF continues to publish material on its website
- Newsletters discussing two pot aspects have been previously circulated

SYSTEM UPDATES

- GEPF is finalising the updates to the self-service apps and platforms
- Savings withdrawal requests to be enabled through the self –service platforms
- Further work is being done to allow for cloud hosting of the app to ensure there is safety-net/backup
- GEPF is working hard to enable enquiries and applications from 1 September 2024

OTHER UPDATES

- Final draft of rules currently under review and Board consideration for approval in the coming week
- We are currently reviewing the RLAB (2024) and will provide inputs before 16 August 2024 deadline
- GEPF has taken necessary steps to ensure readiness for receiving and processing applications for the savings withdrawals from 1 September 2024



QUESTIONS