fundnews

The quarterly newsletter for pensioners of the Government Employees Pension Fund 3rd Edition 2023/2024


UNDERSTANDING GRATUITY AND THE ANNUITY ONE RECEIVES ON RETIREMENT


PENSION INCREASE CONSIDERATION


TAX AND YOUR PENSION

ARE YOUR TAX MATTERS WITH SARS IN ORDER

Compliance with tax matters is of great importance as it assists in avoiding delays in the payment of pension benefits.

The Government Employees Pension Fund (GEPF) issues out IRP5's for pensioners and beneficiaries to enable them to submit their income tax returns in line with the requirements, whereas active members obtain these from their employer departments.

It is important to note that in April 2022, the South African Revenue Service (SARS) made changes to the revised tax rate in terms of the tax required to be deducted by an employer from an employee's renumeration paid or payable (PAYE). As a result, the Government Pensions Administration Agency (GPAA) implemented a directive from SARS that provided for the revised tax rate to be deducted from pensioners with multiple sources of income. Pensioners have the option to opt out of the revised tax rate provided by SARS and revert to the normal Pay As You Earn (PAYE) rate applicable to their pension. However, if a pensioner chooses to opt out, the Government Employees Pension Fund will continue to deduct as per the previous tax rate and not in the more accurate effective tax rate as provided by SARS. This may result in pensioners having to settle a tax debt with SARS at the end of the tax year.

Legally, the South African Revenue Service (SARS) can appoint the employer (GEPF) in terms of Section 179 of the Tax Administration Act, 28 of 2011 to withhold and pay over to SARS monies/tax owed in the form of garnishee orders. These deductions will not be updated or included on the tax certificate issued at the end of the tax year. The request to cancel the garnishee order will only be done upon receipt of a Withdrawal of Third Party Appointment letter from SARS. In order to avoid this, you can request the GEPF in writing to deduct additional tax to make provision for extra deductions paid to SARS. This could prevent you from paying higher arrears to SARS upon tax assessment.

Enquiries may be directed to the GEPF Call Centre: 0800 117669

For more information contact us at:
Government Employees Pension Fund
0800 117 669 enquiries@gepf.co.za gepf.co.za
Government Employees Pension Fund @GEPF_SA

Government Employees Pension Ombud
enquiries@gepo.co.za gepo.co.za +27 12 110 4950

GEPF™ your investment, your future

UNDERSTANDING GRATUITY AND THE ANNUITY ONE RECEIVES ON RETIREMENT

The factors taken into account when the fund calculates the annuity and the gratuity that the exiting member will receive when going on pension includes the following:

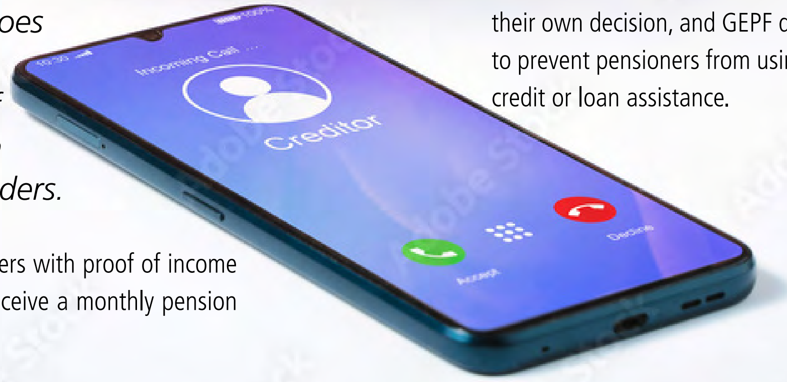
- The duration/number of years one has been contributing to the fund and not years working in public service.
- The "final salary" the member was receiving before exiting the fund.

Final salary is defined in the Government Employees Pension Law, 1996 as It is therefore important that before the member's last month in service, he or she engages the component of their Human Resource department that deals with pensions to get clarity on the differences between annuity and gratuity, and how they are calculated.

Members are always encouraged to start the pension benefit claim application process three to six months before they retire to ensure that by the time they exit, all pension related matters are sorted out.

CAN GEPF CONFIRM MY MONTHLY PENSION TO CREDITORS / LENDERS?

The Government Employees Pension Fund (GEPF) does not offer assistance in verifying the receipt of monthly pensions with creditors or money lenders.



Instead, GEPF provides pensioners with proof of income letters that confirm that they receive a monthly pension from the Fund.

How pensioners choose to utilize these letters is entirely their own decision, and GEPF does not possess the authority to prevent pensioners from using these letters when seeking credit or loan assistance.

PENSION INCREASE CONSIDERATION

On an annual basis, the Government Employees Pension Law of 1996 provides for the GEPF Board of Trustees to increase monthly pension for GEPF pensioners. The law sets out what the GEPF Board Of Trustees must take into consideration in making this decision.

However, on an annual basis the GEPF is confronted with questions around bonuses for pensioners, tax on pension, life certification and keeping the buying power of GEPF pensioners intact.

How does GEPF decide on the annual pension increase?

GEPF is governed by the Government Employees Pension (GEP) Law of 1996, as amended, and the rules that accompany it. These rules, along with GEPF's Pension Increase Policy, describe guidelines on the annual increase that is paid to pensioners. In essence, GEPF's Board of Trustees, on advice from its actuary, may approve a pension increase if they are of the view that the increase does not compromise the current and future financial position of the Fund. The Board is then required to notify the Minister of Finance of the level of increase prior to implementation.

What are the different elements of the pension increase?

GEPF's annual pension increase is made up of four elements defined in the approved Pension Increase Policy of the Board. The Board does not always grant all four elements each year, but it decides on the elements to be awarded based on affordability (as discussed in question 1).

The four elements are the following:
Basic increase: 75% of the year-on-year change in the Consumer Price Index (CPI) for all pensioners who retired on or before 1 April of each year. Pensioners who retired after this date receive a proportional share of the increase based on the number of months they have been retired.

Further inflation-related increase: An inflation-related increase of more than 75% of the change in the CPI is applicable to pensioners who retired on or before 1 April of the previous year. Similarly, pensioners who retired after this date receive a proportional share of the increase based on the number of months they have been retired.

Catch-up increase: For pensioners who retired before 1 April of the previous year and whose pensions have fallen below the amount paid at retirement adjusted for full inflation to date, an amount is paid to compensate for the effect of inflation. This amount is added after the basic increase and the further inflation-related increase. The catch-up increase could be 100% of the change in the CPI from the date of retirement to 30 November of the previous year, or a lower amount that the Fund can afford.

Supplementary increase: Any increase that the Board chooses to make that is not related to inflation.

When do GEPF pensioners get paid their pension?

GEPF pays monthly pensions to different pensioner groups on two different dates: Pensioners who retired on or before 31 December 2002 are paid on the first day of the month (monthly in advance). Pensioners who retired after 31 December 2002 are paid on the last day of the month (monthly in arrears).

Why do pensioners not get a bonus in their birthday month?

Different pension funds have different pension payment and increase policies. For example, GEPF has four levels of increases that the Board can declare: the basic increase, a further inflation-related increase, a catch-up increase and a supplementary increase (see the answer to question 4 above). Other pension funds may choose to pay a bonus in a birthday month together with a lower general pension increase or even a lower monthly pension.

Whatever the approach taken, the different methods of paying pensions must be affordable for the specific pension fund. Each pension fund will have its own set of rules and policies that govern benefit payments.

What pension increases have been awarded during the past decade?

Date of increase (1 April)	Increase	Year on year increase in CPI (rate of inflation)	Increase as % of inflation
2011	4.50%	3.58%	125.70
2012	4.80%	6.12%	78.43
2013	6.00%	5.60%	107.14
2014	5.30%	5.30%	100.00
2015	5.80%	5.80%	100.00
2016	5.30%	4.80%	110.42
2017	6.60%	6.60%	100.00
2018	5.50%	4.60%	119.57
2019	5.20%	5.20%	100.00
2020	3.60%	3.60%	100.00
2021	3.20%	3.20%	100.00
2022	5.50%	5.50%	100.00
2023	5.55%	7.4%	75.00

PENSION CERTIFICATION AND YOUR PENSION

Why am I no longer receiving a Life Certificate or is my pension finished?

GEPF stopped sending manual Life Certificates to pensioners in South Africa from 1 October 2011. This system was replaced with an automatic process that checks a pensioner's life status with the South African Department of Home Affairs. This does not mean that your monthly pension payments will stop. It means that pensioners in South Africa no longer need to fill in a Life Certificate and physically visit a Commissioner of Oaths to confirm their life status in order to continue receiving their monthly pension payments. The system is more convenient for our pensioners and is a very accurate way of checking their life status.

Overseas pensioners and Life Certificate requirement?

GEPF unfortunately cannot do the same for pensioners who do not live in South Africa. These pensioners, as well as those whose status cannot be verified with the Department of Home Affairs, continue to receive the paper-based Life Verification form which needs to be completed and certified by a Commissioner of Oaths. All pensioners who receive the Life Verification form only receive one form per year, regardless of the number of benefits they receive from GEPF.

TAX AND YOUR PENSION

Why is my pension payment taxed?

The South African Revenue Service (SARS) taxes all forms of income including pension benefits. The Income Tax Act, prescribes the basis on which pension benefits are taxed. The taxation of pension benefits depends on the mode of exit from the pension fund, namely; Withdrawal, Retirement, Death or Severance Benefits. Depending on the mode of exit, the applicable tax tables as prescribed by SARS is used to deduct the required tax.

Is this all the tax I will pay on my income I receive?

If a pensioner or beneficiary is receiving income from more than one source then the tax would need to be paid on such income as well, if applicable.

How is my other income taxed?

If a pensioner or beneficiary is receiving income from more than one source then each source should be paying the required amount of tax to SARS on your behalf. But, it is important to note that the South African Tax System is based on the principle of adding together all sources of income of a taxpayer into a single sum, and applying a progressive tax rate table to determine the final tax liability of the taxpayer on assessment.

A progressive tax rate system means that the more income is earned, the higher is the marginal tax rate and more tax is paid on assessment. This could result in you paying lesser tax than you need to because the combined income may put you in a higher tax bracket. This means that you will have to pay in more tax at the end of the tax year when SARS gives you an assessment after you submit your income tax return.

Can I ask the GEPF to deduct more tax for additional tax that I might incur due to additional income which when combined puts me into a higher tax bracket?

Yes, you can request that the GEPF deduct additional tax to make provision for additional tax due to you being in a higher tax bracket as a result of additional income. Such a request must be done in writing to the GEPF. The additional tax/voluntary tax deductions will be added to the PAYE on the IRP5 certificate that you receive from the GEPF at the end of the tax year.