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How Current Civil Service is Constituted and The CFA's position on Pension Funds, Benefits and Funding levels

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SIZE OF THE RSA PUBLIC SERVICE

Many misperceptions concerning the Public Service exists, amongst which the following are some of the most important - the Public Service is too large, the Public Service is growing too fast and the Public Service must be reduced in size.

The main function of the Public Service is to render a service to its clients, viz. the population of the Republic. In order to evaluate the size of the Public Service, it is therefore necessary to put it into perspective vis-a-vis the clients which have to be served.

In 1988 there was one public servant for every 40 persons of the population (2,50%) while this ratio decreased in 1992 to one public servant for every 42,5 persons (2,35%). In many other countries this ratio is much higher, e.g. in France it is 4,6%, in the USA it is 4,2% and in Japan 3,6%. The RSA Public Service is therefore, viewed in this light, not disproportionately large and it also grows at a slower rate than the number of clients it serves.

If the reduction of the Public Service should nevertheless be considered, it is necessary to take a closer look at the composition thereof.

The Public Service consists of those persons employed by the Public Service departments and organization components as listed in Schedules 1 and 2 to the Public Service Act, 1984. It therefore does not include personnel of statutory institutions such as scientific councils, universities, technikons and cultural institutions. It also does not include personnel of local authorities and public corporations, such as ESKOM, SABC, Transnet and the S A Post Office Limited.

Public servants may, for purposes of this document, be divided broadly into educators, nursing personnel, uniformed members of the protection services, general assistants and the remainder of personnel.

The number of educators increased by 4,07% from 1988 to 1992 while the number of pupils increased by 16,98% over the same period. In 1988 educators represented 2,40% of the number of pupils but the ratio decreased to 2,14% in 1992. In 1992 educators made up 23,84% of the Public Service.

The number of nursing personnel increased by 3,68% from 1988 to 1992, but their ratio in comparison with the total population decreased from 0,25% in 1988 to 0,24% in 1992. As a percentage of the Public Service in 1992, nursing personnel represented 10,17%.

Although the number of uniformed personnel of the protection services (mainly the S A Police) increased by 21,89% from 1988 to 1992, the number of serious crimes alone increased by 13,92% over the same period. As a ratio of the total population, the ratio was 0,43% (one for every 233 persons) in 1988 and 0,48% (one for every 209 persons) in 1992. This group of personnel formed 20,32% of the Public Service in 1992.

As a result of the Public Service being forced to specialise more in order to continue rendering satisfactory services to the population, the number of general assistants decreased by 9,03% from 1988 to 1992. In 1992 the general assistants represented 20,52% of the Public Service.

The number of remaining personnel, which represented 25,15% of the Public Service in 1992, decreased by 0,73% from 1988 to 1992. These persons include professional and technical personnel (such as medical personnel, architects and laboratory personnel) as well as administrative supporting personnel (such as personnel officers, accountants and provisioning administration officers). These persons, as a ratio of the total population, were 0,65% (one for every 154 persons) in 1988 and 0,59% (one for every 169 persons) in 1992.

From the above information it is clear that the Public Service is not disproportionately large, that the Public Service increases in numbers at a slower rate than its number of clients and that the Public Service, rather than decreasing, should increase in certain respects to enable it to continue rendering a service to the growing population of the RSA. Furthermore, it should be kept in mind that South Africa is a developing country with ever-increasing demands on the Public Service.

CRITICISM AGAINST THE GOVERNMENT SERVICE PENSION FUND AND ITS BENEFITS

1. The most important point of criticism against the GSPF is that the benefits that are paid out by the Fund, are seen as excessive. According to reports in the media, the following benefits should be reconsidered and brought into line with those of the private sector :

1.1 <u>In the Public Service pension benefits are based on final salary</u>

According to critics, benefits should be based on an average salary received over a period of time, rather than on a final salary.

In a recent survey, the FSA-Contact firm found that the most funds majority of pension funds in the private sector namely 27%, base their benefits on final salary while 22% use the average of the employee's final two years' salary and 14% use the highest average salary of two consecutive years. The GSPF compares well in this regard.

The pension benefits of public servants must not be seen in isolation, but must be considered as part of the total remuneration package. The remuneration structure of the Public Service, on an occupational specific basis, is lower than that of the private sector.

Another factor to consider is that public servants' contributions to the GSPF, have been raised with 1% since 1 April 1981 so that their pension benefits can be calculated on their salaries on the date of retirement.

1.2 <u>The formula according to which pensionable service can be bought back, is too favourable</u>

This measure has been amended in the past to make it less profitable for public servants to buy back pensionable service as well as to ensure that it is not detrimental to the Fund. For instance, the formula has been changed to the effect that pensionable service can be bought back, based on the salary on the date of application to buy back service. In the past it was based on the salary on the date of appointment. Thus, this criticism is no longer valid.

1.3 <u>The "golden handshakes" received by "disgraced" officers are excessive</u>

This could be a valid point of criticism if public servants are allowed to retire early and receive a package, instead of being dismissed for misconduct.

2. Another point of criticism against the GSPF is that the <u>employer contributions of the State towards the Fund are excessive</u> in comparison with employer contributions in the private sector. According to critics, the contribution of the State must be limited to 1,5 or a maximum of 2 times the contribution of the employee.

The contribution by the State to the GSPF amounts to 22% for men and 16,5% for women. On the other hand the average employer contribution in the private sector is 11%. The higher contribution by the State can be attributed to the fact that the GSPF is traditionally not allowed to invest funds where the highest interest can be earned. The State must therefore compensate for the "shortage".

3. <u>Employee contributions are too high ~~low~~ in comparison with those in the private ~~public~~ sector</u>

Men contribute 8% and women 6%. The average employee contribution in the private sector is 7%. The position in the Public Service therefore comparable ~~well~~ to the position in the private sector.

4. <u>The GSPF is not sufficiently funded and attempts to improve the funding levels of the Fund are detrimental to the Exchequer</u>. According to critics, the State can save a large amount of money by "defunding" the GSPF and implementing a "pay-as-you-go"system.

The implementation of a "pay-as-you-go"system is a big risk in a developing country in a phase of political change like the RSA, because it involves the linking of the provision of pensions of public servants to the budget instead of to a funding policy. Future generations will be burdened with the current accumulated shortfall of pension provision for public sector workers.

5. <u>A final point of criticism is</u> that the large amounts of money that flow from the State to the Fund in order to improve the funding level, are crippling the economy. According to the media the money is needed for growth and the creation of infra-structure as a growing economy is the best guarantee for the funding of pensions. This is another reason why a "pay-as-you-go"system is advocated.

FUNDING LEVELS

1.	Republic of South-Africa		
	Government Service Pension Fund	:	54,5%
	Temporary Employees Pension Fund	:	34,4%
2.	Self-Governing Territories		
	Authorities' Service Pension Fund	:	100,1%
	Authorities' Service Superannuation Fund	:	59,8%
3.	Ciskei Government Service Pension Fund	:	The exact funding level is not available, but it is described as very healthy.
4.	Venda Government Service Pension Fund	:	100% (New Fund After paying out)
5.	Transkei Government Service Pension Fund	:	50% or less
6.	Bophuthatswana Government Service Pension Fund	:	The exact funding level is not available, but it is described as healthy.

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THE PENSION FUNDS OF THE PUBLIC SERVICE OF SOUTH AFRICA AND THE SELF-GOVERNING TERRITORIES

	GOVERNMENT SERVICE PENSION FUND (S A Public Service)	TEMPORARY EMPLOYEES PENSION FUND (S A Public Service)	AUTHORITIES' SERVICE PENSION FUND (Self-Governing Territories)	AUTHORITIES' SERVICE SUPERANNUATION FUND (Self-Governing Territories)
1. Contribution rate				
a) Employee	Men - 8% of salary Women - 6% of salary	Men - 5% of salary Women - 5% of salary	Men - 8% of salary Women - 6% of salary	Men and women - 5% of salary
b) Employer	2,74834 times the contribution of the employee	2,74834 times the contribution of the employee	1,986 times the contribution of the employee	1,3 times the contribution of the employee
2. Contribution period	During membership of the Fund	During membership of the Fund	During membership of the Fund	During membership of the Fund
3. Retirement age	The retirement age for all members is 65 years	Members can retire at any time after they have turned 60	The retirement age is at least 60 years or older, depending on the specific conditions of service of the Self-Governing Territory	The retirement age is at least 60 years or older, depending on the specific conditions of service of the Self-Governing Territory
4. Period of pensionable service needed to qualify for pension (in other words to receive a monthly pension after retirement)	Members must have at least 10 years pensionable service	Members must have at least 10 years pensionable service	Members must have at least 10 years pensionable service	Members must have at least 10 years pensionable service
5. Formula used for the calculation of pension benefits				
a) Annuity (monthly pension)	1/55 of final salary X years of pensionable service	1/40 of final salary X years of pensionable service	1/55 of final salary X years of service	1/96 of final salary X years of pensionable service X 1,0 plus 4,8% for every full year by which the age of a member exeeds the retirement age, if the member has completed more than 20 years pensionable service
b) Gratuity (Lump sum)	6,72% of final salary X years of pensionable service	None	6,72% of final salary X years of pensionable service	4% of final salary X years of pensionable service

	GOVERNMENT SERVICE PENSION FUND (S A Public Service)	TEMPORARY EMPLOYEES PENSION FUND (S A Public Service)	AUTHORITIES' SERVICE PENSION FUND (Self-Governing Territories)	AUTHORITIES' SERVICE SUPERANNUATION FUND (Self-Governing Territories)
6. Widows' pension				
a) Benefits on the death of a member still in service				
(i) Annuity	A widow receives 50% of the annuity the member would have received if he had reached his retirement age on the date of his death. This is not affected by her remarriage.	A widow receives 50% of the annuity the member would have received if he retired at the prescribed retirement age. This is not affected by her remarriage.	A widow receives 50% of the annuity the member would have received if he retired at the retirement age. This is not affected by her remarriage.	None
(ii) Gratuity	The widow or dependants receive a gratuity which is equal to the total of the gratuity plus five times the annuity which would have been payable to him if he had retired on account of ill-health on the date of his death.	The widow or dependants receive a gratuity which is equal to five times the annuity which would have been payable to him, if he had retired on account of ill-health. For this purpose his pensionable service is increased by a third or a maximum of 5 years.	The widow or dependants receive a gratuity which is equal to the gratuity he would have received plus five times the annuity which would have been payable to the member, if he had retired on account of ill-health.	If the member completed 10 - 15 years pensionable service, his dependants will receive a gratuity calculated as follows : 2,5% x R x Z x N x D where R = The rate at which the member contributes to the Fund Z = The average annual pensionable emoluments of the member during the last three years of his pensionable service, or during the whole period of such service, whichever is the shorter N = The period of his pensionable service D = Is determined in accordance with the following table : Completed months of pensionable service — D 0 to 36 months = 0; 37 to 120 months = 0 plus 26 for each completed month of pensionable service in excess of 36 months;

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	GOVERNMENT SERVICE PENSION FUND (S A Public Service)	TEMPORARY EMPLOYEES PENSION FUND (S A Public Service)	AUTHORITIES' SERVICE PENSION FUND (Self-Governing Territories)	AUTHORITIES' SERVICE SUPERANNUATION FUND (Self-Governing Territories)
				121 to 240 months = 2184 plus 17 for each completed month of pensionable service in excess of 120 months; 241 to 360 months = 4224 plus 11 for each completed month of pensionable service in excess of 240 months; 361 to 480 months = 5544 plus 7 for each completed month of pensionable service in excess of 360 months; 481 and over = 6384 plus 5 for each completed month of pensionable service in excess of 480. If a member completed more than 15 years pensionable service, his dependants will receive a gratuity calculated as follows : 2,5% x R x Z x N x X D x (1 + 0,02 x N) where R = The rate at which the member contributes to the Fund Z = The average annual pensionable emoluments of the member during the last three years of his pensionable service, or during the whole period of such service, whichever is the shorter N = The period of his pensionable service D = Is determined in accordance with the following table :

	GOVERNMENT SERVICE PENSION FUND (S A Public Service)	TEMPORARY EMPLOYEES PENSION FUND (S A Public Service)	AUTHORITIES' SERVICE PENSION FUND (Self-Governing Territories)	AUTHORITIES' SERVICE SUPERANNUATION FUND (Self-Governing Territories)
				Completed months of pensionable service — D 0 to 36 months = 0; 37 to 120 months = 0 plus 26 for each completed month of pensionable service in excess of 36 months; 121 to 240 months = 2184 plus 17 for each completed month of pensionable service in excess of 120 months; 241 to 360 months = 4224 plus 11 for each completed month of pensionable service in excess of 240 months; 361 to 480 months = 5544 plus 7 for each completed month of pensionable service in excess of 360 months; 481 and over = 6384 plus 5 for each completed month of pensionable service in excess of 480.
b) Benefits on the death of a pensioner (i) Annuity	The widow will continue to receive 50% of the annuity the pensioner received on the date of his death. This is not affected by her remarriage.	The widow will continue to receive 50% of the annuity the pensioner received on the date of his death. This is not affected by her remarriage.	The widow will continue to receive 50% of the deceased's annuity. This is not affected by her remarriage.	None

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	GOVERNMENT SERVICE PENSION FUND (S A Public Service)	TEMPORARY EMPLOYEES PENSION FUND (S A Public Service)	AUTHORITIES' SERVICE PENSION FUND (Self-Governing Territories)	AUTHORITIES' SERVICE SUPERANNUATION FUND (Self-Governing Territories)
(ii) Gratuity	If a pensioner dies within a period of five years after he retired, his dependants will receive a gratuity which is equal to the total of the annuity he would have received for the remainder of the five years. If a pensioner dies after a period of five years after his retirement - no gratuity will be paid.	If a pensioner dies within a period of five years after he retired, his dependants will receive a gratuity which is equal to the total of the annuity he would have received for the remainder of the five years. If a pensioner dies after a period of five years after his retirement - no gratuity will be paid.	If a pensioner dies within a period of five years after he retired, his dependants will receive a gratuity which is equal to the total of the annuity he would have received for the remainder of the five years. If a pensioner dies after a period of five years after his retirement - no gratuity will be paid.	If a pensioner dies within a period of five years after he retired, his dependants will receive a gratuity which is equal to the total of the annuity he would have received for the remainder of the five years. If a pensioner dies after a period of five years after his retirement - no gratuity will be paid.

NOTE : This comparison only includes Government Pension Funds in the RSA and Self-Governing Territories. The pension funds of the TBVC-states have not been included. As far as could be determined, the structures and benefits of these funds are more or less the same as those of RSA-funds.

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