

## Why it pays to be a member of GEPF?

The Government Employees Pension Fund (GEPF) is increasingly concerned about the misinformation provided to members of the GEPF by unscrupulous financial advisers.

Recently a member who was told by an adviser that on retiring after 20 years of service, she would only receive five years' annuity income in retirement. This is completely untrue. Unscrupulous advisers also use fear tactics, telling members that their funds will be stolen or mismanaged by the government. What is concerning is that some GEPF members have been convinced by such financial advisers to resign before retirement so that they can place their funds in a market-linked pension preservation fund.

What underlies these mistruths is the desire to get their hands-on member's significant fund values on which they can earn commission.

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

What many members do not fully understand is that the GEPF is a defined benefit fund. This means the pension received by members has nothing to do with the investment performance of the fund. It relates purely to the number of years of service, your average salary in the last two years multiplied by the accrual rate. The accrual rate is defined under the GEPF Law.

What this means is that irrespective of the performance of the markets or individual investments within the GEPF, a member on retirement receives a guaranteed pension whether the fund value rose or fell in the years before retirement.

This is completely different to a defined contribution company retirement fund or a retirement annuity where the final retirement value depends on market performance.

When the market crashed in 2020 with COVID-19 lockdown, those members retiring from private funds could have seen a reduction in the value of their pensions of up to 40%. Those already in retirement, who were relying on an income from their living annuities, either had to opt for a lower income or watched their capital reduce significantly – impacting future income. Yet members of the GEPF who were retiring in 2020 were unaffected. Their pension is determined by years of service and salary – not market performance. Those GEPF members already in retirement are still receiving their guaranteed income for life.

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

## **Guaranteed income**

In terms of the income in retirement, for a member with more than ten years of service, GEPF provides a guaranteed income for life with a 50% pension for a spouse, should the main member pass-away first. There is no additional cost for providing the spousal pension unless the member wishes to increase it to 75%. As the GEPF does not have to pay retail prices for annuities, it is able to get better value than if the member had to purchase an annuity with a resignation benefit.

The first five years of the annuity are guaranteed, which means if the member passes away before then, the beneficiaries receive a once-off benefit. The GEPF guarantees an annual pension increase each year at 75% of inflation, however, it has paid an annual increase in-line with or slightly higher than inflation. Due to the 2020 market turmoil, next year's increase may be lower, but it cannot go below the 75% of inflation guaranteed, even if market performance is weak.

## Spousal pension

If a member passes away before retirement and has ten or more years of service, the spouse would receive a once-off lump sum (death-in-service gratuity) as well as monthly pension equal to 50% of the annuity the member would have received had the member retired on their date of death. This is a lifelong pension and does not stop if the spouse remarries.

If the member has less than ten years' service, the value of the pension fund will be paid out to beneficiaries of which the spouse is entitled to 50%.

If the spouse was a dependent on the medical aid, the spouse is entitled to a medical benefit.

## Child pension

A child is entitled to a child's pension up to the age of 22 or if a student a child pension will be payable provided that supporting documents are provided to prove that the child is still in studying or in a case of a disabled child, the child pension is payable for life. A child is entitled to a maximum of 25% of the benefit depending on the number of children. If there is a spouse, the remaining 50% would be divided by the number of children. If there is one child, that child would receive 25%. If there are three children, each child receives 16.67%. In the case where there is no spouse, each child receives a maximum of 25% unless there are more than four children.

## Funeral Benefits

Members and spouses receive a funeral benefit of R15 000.

Children receive R6000.