national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Annexure C:

GUIDELINES FOR THE 2025 MTEF PERIOD

CRITERIA FOR FUNDING AND PROCESSING OF APPLICATIONS FOR EARLY RETIREMENT PROGRAMME

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

Early retirement without penalisation of pension benefits in terms of section 16(6) of the public service act,1994 with an additional incentive calculated at two weeks basic salary for every full year of the qualifying period of service.

Normal retirement incentive for employees at aged 60 to 63 years calculated at two weeks basic salary for every full year of the qualifying period of service.

Issued by National Treasury

Funding Guideline 2025

1 PREAMBLE

1.1 The recently tabled Budget 2025 reflects an economy that is currently operating under significant fiscal constraints. The imperative to manage public spending, particularly the compensation of employees, requires strategic interventions that support long-term fiscal sustainability while maintaining the capacity of the state.

1.2 The incentivised Early Retirement Programme (ERP) and incentivised Voluntary Exit Programme for eligible employees is introduced as key measures to manage the public service wage bill, create efficiencies, and enable the realignment of departmental structures to better meet service delivery mandates. These programmes are designed to provide an attractive, voluntary exit path for long-serving public servants while creating opportunities for savings and the renewal of the public service workforce.

1.3 These guidelines establish the funding framework model, and conditions for the incentivised ERP and incentivised voluntary exit programme to ensure their implementation is fair, transparent, and aligned with national fiscal objectives.

2 PURPOSE

2.1 This Annexure provides guidelines for national and provincial departments on the funding and implementation of the incentivised ERP as well as those who aged 60 to 63 who wish to exit the public service for the 2025/26 and 2026/27 financial years.

2.2 The main purpose of this document is to:

- Outline the criteria for accessing central funding from the National Treasury (NT) for costs associated with the incentivised ERP and incentivised voluntary exit programmes for those aged 60 to 63.
- Detail the new financial incentives available to eligible employees.
- Define the processes departments must follow when applying for funding and implementing these programmes.
- Establish the conditions attached to the funding to ensure it assists departments in managing compensation budgets effectively.

3 INTRODUCTION AND BACKGROUND

3.1 The Minister of Finance has reiterated the measures that government needs to put in place to assist with the growing budget deficit, which has accrued due to the increase in government expenditure. The Minister has further indicated at the conclusion of the 2023 Wage Agreement (*Resolution 1 of 2025*) that significant trade-offs in government spending over the short-term and medium-term period will be required. This includes better headcount management through various measures such as PERSAL control and other exit mechanisms.

3.2 Various options within the existing legal framework for human resources and finances, were explored by officials from NT and the Department of the Public Service and Administration (DPSA) to maintain stability and to bring about future efficiency and productivity gains in all areas within the public service. The incentivised ERP and incentivised voluntary exit programme for employees aged 60 to 63, are such key initiatives identified to create efficiencies and support human resource realignment.

3.3 It must be noted that the ERP is also 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 have funds set aside within budgets to consider such personal requests.

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

3.5 NT will be assisting in providing some additional funding to qualifying departments and government components, both nationally and provincially, who wish to utilise section 16(6) of the PSA or applicable sector legislation.

4 EARLY RETIREMENT PROGRAMME (ERP) – CALCULATION OF COST COMPONENTS

4.1 Cost components associated with the ERP are hinged on key provisions that have immediate budget implications, excluding funded pension obligations. These include (i) pension penalty, (ii) financial incentive, (iii) pro rata service bonus, (iv) payment for unused annual leave, (v) compensation for medical assistance in relation to prescripts, (vi) housing allowance, and (vii) resettlement costs in relation to policy.

4.2 Government has evaluated the potential efficiency benefits associated with assisting departments by funding identified costs, for cases which meet the criteria as set out in NT assessment processes as follows:

4.2.1 PENSION PENALTY

Section 16(6) of the Public Service Act allows for early exits for those employees aged 55 to 59, through the ERP. Ordinarily, early retirement pension benefits are reduced by **0.333 per** cent per for each complete month between the member's actual date of retirement and his or her pension-retirement date as provided for under rule 14.3.3(b) of the GEPF rules. The reduction of benefits is applicable to both the gratuity, as well as the annuity.

4.2.2 PRO-RATA SERVICE BONUS

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 department can assist with such calculation based on the option chosen by an employee).

4.2.3 UNUSED ANNUAL/VACATION LEAVE

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 payout is determined in the **Determination and Directive on Leave of Absence** (DPSA), the sum of these days is divided by **260.714** to his/her credit at termination of service The total number of unused annual leave days from the current/previous leave cycle is multiplied by the employee's basic salary plus 37 per cent (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).**

4.2.4 COMPENSATION FOR MEDICAL ASSISTANCE

Compensation for medical assistance is based on the number of pensionable service years and membership of registered medical aid schemes. 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 than 15 years of service or less than 15 years). Departments are to refer to the *Determination on Medical Assistance* available on the DPSA website **(www.dpsa.gov.za).**

4.2.5 HOUSING ALLOWANCE

Housing allowance is paid in terms of the *Determination and Directive on Housing* and applicable PSCBC agreements, 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.

4.2.6 RESETTLEMENT COSTS

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 PSCBC resolution applies.

5 ELIGIBILITY AND FUNDING RESPONSIBILITY

5.1 The following items relevant to the incentivised ERP for employees aged 55 to 59; and employees aged 60 to 63 are to be funded by affected departments from within their baseline budgets:

- Pro-rata Service Bonus.
- Balance of the Capped leave.
- Unused current annual/vacation leave.
- Resettlement Costs, where applicable, in line with applicable departmental policy; and
- Any other ERP associated costs other than those mentioned in paragraph 5.2.

5.2 The following items are to be funded centrally by the NT:

- Cost of the pension penalty waiver (no scaling down); and
- Cost associated of the additional incentive calculated at two week's basic salary for first complete twenty years of pensionable service; and one week's basic salary for each full completed year of pensionable service thereafter.

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

5.4 Compensation for post-retirement medical assistance; and once-off payments for employees not eligible for continuation medical benefits, would be paid by the NT through the Government Pensions Administration Agency (GPAA).

5.5 For all costs related to Provincial Departments, allocations will be addressed through the division of revenue process.

5.6 Government will be providing mechanisms to assist departments and government components, both nationally and provincially, who wish to utilise section 16(6) of the PSA or applicable sector legislation.

Departments and government components will not be expected to surrender any savings realised from the ERP process back to the National Revenue Fund.

6 SCOPE OF FUNDING PROVISION BY NATIONAL TREASURY

6.1 The following two distinct options are available for eligible employees:

6.1.1 Incentivised ERP (Ages 55 to 59)

- Employees aged 55 to 59 who are employed in the public service.
- Approved applicants will have their pension benefits paid without the standard penalty for early retirement.
- An additional financial incentive will be paid, calculated as follows:
  - **Two weeks' basic salary** for each of the first twenty completed years of pensionable service; plus
  - **One week's basic salary** for each completed year of pensionable service thereafter.

6.1.2 Voluntary Exit Incentive (Ages 60 to 63)

- Employees aged 60 to 63 are eligible to apply for a voluntary early exit. As they are past the minimum retirement age, their pensions are not subject to penalty.
- To encourage participation, a financial incentive is offered, calculated as follows:
  - **Two weeks' basic salary** for each of the first ten completed years of pensionable service; plus
  - **One week's basic salary** for each completed year of pensionable service thereafter.

6.2 The provision for funding for applications for the above incentivised options is applicable for the 2025/26 and 2026/27 financial years or as announced by the Minister of Finance.

6.3 NT will be assisting in providing additional funding to qualifying departments and government components, both nationally and provincially, who wish to utilise section 16(6) of the PSA or applicable sector legislation. However, it should be noted that priority will be given to those departments that are experiencing significant pressures within their compensation budgets in 2025/26 and 2026/27.

7 FUNDING CRITERIA

7.1 Government will be providing mechanisms to assist departments and government components, both nationally and provincially, who wish to utilise section 16(6) of the PSA or applicable sector legislation. Departments and government components will not be expected to surrender any savings realised from the ERP process back to the National Revenue Fund.

7.2 Since savings are expected to remain within the departmental baselines, NT funding will be provided on condition that such savings from the ERP are utilised for the realignment of the human resource planning with available budget considering the existing compensation of employees spending pressures. The aim of this condition is to assist departments to remain within their budget allocations, over the relevant MTEF period.

7.3 Departments who are interested in participating in the programme are required to submit the ERP plan which should demonstrate the following among others:

- The number of employees eligible for participation and their current remuneration levels and cost.
- Estimated savings from the ERP process and planned utilisation including any plans for replacements or re-organisation.

7.4 Funding approval will be granted once NT has satisfied itself that consideration has been made to deal with existing spending pressures on compensation of employees over the relevant MTEF period.

7.5 In the event where replacements are necessary to avoid negative impact on service delivery, departments are then urged, to give priority to qualifying employees who are remunerated at the top-end scales of salary notches or personal notches falling within the identified category to realise the needed savings. In this regard, qualifying employees who are at least on salary notch level 8 and above should be given priority. This is subject to the provisions outlined in the relevant legislation/circulars/determination governing recruitment matters.

7.6 Departments are further advised to make new appointments on first salary notches when recruiting and filling vacancies emanating from the early exit exercise, subject to the provisions outlined in the relevant legislation.

7.7 For departments that receive funding based on approved applications but fail to utilise savings realised to deal with the spending pressures, NT shall institute the necessary steps to recover the funds allocated from the MTEF baselines of the affected departments and government components through the budget process.

7.8 **Departments and government components that may not wish to comply with the funding conditions as outlined by NT, may implement the ERP without penalties and the incentive calculated at two weeks basic salary for every full year of the qualifying period of service by bearing all the associated costs from their own baselines.**

8 ASSESSMENT PROCEDURE FOR ERP APPLICATIONS

8.1 The application process will be decentralised to the departments and provinces. Departments will be expected to set up own committees based on departmental operations and processes that would make recommendations to the EA's. This will allow the relevant EAs to make informed decisions in respect of the approvals. It is expected of the departments to make reasonable assessment based on the set criteria.

8.2 The processing of all ERP applications must be managed centrally at each department HR office/ Head office. Department may establish internal processes to consider applications before a final decision is made. The process may officials responsible for HR functions as well as those responsible for the Financial Function or an accountable structure the department may deem suitable. Different processes may be institutionalised in instances where HR operates at Districts/Reginal/ Head office levels.

8.3 The EA will have the discretion to approve early retirement requests for employees aged 55 to 59 years, without pension penalties, based on reasonable set criteria. Generally, applicable guidelines provided by both the Minister for the Public Service and Administration (MPSA), as well as the Minister of Finance are provided to support the decision-making process, to ensure continued service delivery to citizens and retention of critical skills where needed.

8.4 A **cost-benefit analysis** is to be conducted for each case indicating total earnings per case, the estimated costs of the ERP, and estimated savings to be realised per year over the relevant MTEF.

The assessment process 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.

8.5 Departments are required to conduct specific costing exercises for each of the early retirement cases identified and submit a comprehensive motivation to the NT for assessments and approval for funding.

8.6 The comprehensive motivations should outline costs associated with each of the cost elements to be funded relevant to early retirement exits for which a funding request is being made.

8.7 Central funding from the NT for identified and approved early retirement cases will be based on the funding criteria outline in paragraph 7.

8.8 To assist the NT in making an informed assessment of the funding request, departments are expected to provide the following information:

- A list of posts per salary level and occupation that exited, categorised by exit mode, along with the associated average earnings for each of the financial years for the relevant MTEF.
- A list of relevant vacant posts per salary level and occupation that are filled, categorised by the nature of appointment, as well as the associated average earnings for each of the financial years for the relevant MTEF.
- An assessment of net savings associated with average unit cost management activities related to the points above

9 MONITORING AND REPORTING PROCEDURES

9.1 ERP implementation is to be decentralised to departments. Departments at both national and provincial spheres of government are to ensure that each ERP case is viable before it is approved, based on the DPSA criteria.

9.2 Provincial Treasuries must submit consolidated approved cases to the NT's Intergovernmental Relations (IGR) provincial representative for further processing and monitoring by NT.

9.3 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.

9.4 Departments are expected to provide frequent updates with implementation of the programme **to the relevant Treasury Budget Analyst linked to the department**. A full progress report must be submitted to the NT on a quarterly basis. The report should detail the following information:

- A list of posts per salary level or grade per occupation where ERs were granted, as well as the associated average earnings for each ER case for the financial years for the relevant MTEF.
- A list of relevant vacant posts per salary level or grade per occupation that are filled including the nature of appointment, as well as the associated average earnings for each ER case for the financial years for the relevant MTEF.

END