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PASSENGER RAIL AGENCY
OF SOUTH AFRICA

HUMAN RESOURCE DEPARTMENT

SUBMISSION FOR APPROVAL

PROJECT DESCRIPTION : CONSOLIDATION PROJECT

OBJECTIVE OF PROJECT: ALIGNED CONDITIONS OF SERVICE

DECISION REQUIRED : TO CHANGE THE RETIREMENT AGE TO BE SIXTY THREE (63) YEARS FOR ALL EMPLOYEES

TO: TSHEPO LUCKY MONTANA
GROUP CHIEF EXECUTIVE OFFICER
PRASA

FROM: HUMAIRA CHOONARA
GROUP EXECUTIVE: HR
PRASA

PURPOSE

The purpose of the recommendation is to quantify for the CEO, the impact of changing the compulsory retirement age. The SARCC Provident Fund Trustees had recommended a change in the retirement age from the age of 63 years to 60 years for all employees excluding the Train Drivers whose retirement age is 58 years for Safety reasons. The recommendation seeks to harmonize the employment benefits of the workers.

PROPOSED RETIREMENT AGE

As part of seeking information to advise the CEO on the financial impact of changing the retirement age, actuarial advice, analysis of the mortality rate in the SARCC and the



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Principal Officer's advice were taken into cognizance. The Fund Consultants said that "it will not be possible to calculate the actual cost for the changing the retirement age from 63 to 60.

The Principal Officer's submission stated that there will be no additional Fund costs and Risk Benefits premiums provided by the employer.

Secondly, he stated that that there is a need for additional contribution by both the employer and the employee if the retirement age is reduced.

The Train Drivers and the employer had to contribute an additional 1% to the Fund when the retirement age was reduced to age 58. It is evident from the list of employees who died in the last three years that fewer employees died in service after the age of 60 (19 out of 294 employees i.e. 6.5%).

The Retirement Age Review Report from the VhuThelani Advisory Services (VAS) highlights a strong correlation between Employee Satisfaction, Customer Satisfaction and the success of a business to the older employees. Furthermore, it points out that according to the National Statistics, employees over the age of 60 years work long hours and harder. Also 85% of the Human Resources Bosses surveyed by Croner opposed CBI recommendation to push back the retirement age.

Issues for consideration are listed as follows:

- Effects of the Post Retirement liability.
- Effects of HIV /AIDS on life expectancy.
- Treasury and anti poverty policy.



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VAS is of the opinion that the rapid expansion of PRASA and the shortage of experienced personnel as well as the national interest; suggest an extension of the retirement age rather than a push back.

They advise that maintenance of the current retirement age, at a lower age, will make certain pension/ superannuation schemes quite expensive and the accumulation under the various provident funds quite inadequate.

They also pointed out that the World Bank has advised South Africa to increase the retirement age in order to increase productivity, especially because many countries have chosen this path already. The report demonstrates that the costs of replacement, competency development and experience will increase if the age is reduced.

The Alexander Forbes Report on calculation of liabilities for the SARCC demonstrated that an extension of the Retirement age to 63 years will result in a net gain of R9, 993 million – as at 31 March 2008. Accrued Liability as at March 2008 made a difference of 3.1 % if the Retirement age was extended to 63 years. The report shows that the withdrawal and mortality rates decline with an increase in age.

Lastly, that since post- employment benefit is not linked to service and there is no penalty to early retirement the value of the Liability could be understated if employees retire at ages younger than assumed on average and visa versa.



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RECOMMENDATION

Based on the abovementioned reports, it is recommended that the Retirement Age be extended to 63 years for all employees rather than reduced to the age of 60.

The Provident Fund also concurs with the recommendation.

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|---|---|
| Recommended <input checked="" type="checkbox"/> | Approved <input checked="" type="checkbox"/> |
| Not recommended <input type="checkbox"/> | Not Approved <input type="checkbox"/> |
|  LIZ CHOONARA GROUP EXECUTIVE:HR DATE: 06 - 04 - 2009 |  TSHEPO LUCKY MONTANA GROUP CHIEF EXECUTIVE OFFICER DATE: 24/04/2009 |