PENSIONS IN THE PHILIPPINES

CHALLENGES and WAYS FORWARD

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FRIEDRICH EBERT STIFTUNG

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SYMBOLS

- PhP Philippine pesos
- US$ United States dollars
- 1 PhP billion is PhP1,000 million
- Blanks in Boxes and Tables means no data available

FOREWORD

With fifteen different pension schemes, the Philippines has the highest number of pension schemes in East and Southeast Asia. However, in terms of coverage, the country has one of the lowest in the region. High administrative costs and financial and actuarial sustainability are additional challenges faced by the pension systems in the country. Furthermore, the rising numbers of unemployed and informal workers, who have limited coverage in the existing schemes, are current realities that need to be addressed if pension systems are to ensure social security.

Social security is significant for an economically and socially sustainable path to development. Traditionally, social security has been seen as mere cost and expenditure, much less as an important factor to development. As an investment on social capital, social security benefits increase productivity and fuel growth, thereby avoiding exclusion and relieving poverty. Furthermore, it enables a sense of cohesion that people are neither left behind nor cut loose to live in an insecure future; thus contributing to a more social national affinity. But social security is more. It is a basic human right listed in both the Universal Declaration of Human Rights (Article 22) and the International Covenant on Economic, Social and Cultural Rights (Article 9). It is an important component of decent work and is fundamental in achieving social justice.

The promotion of human rights and social justice are at the core of the Friedrich-Ebert-Stiftung (FES)'s work in promoting social democratic values. FES has extensive work on social security and social protection in different countries all over the world. One example is a regional study on social protection (Social Protection on Southeast and East Asia, 2002). This present study is a continuation of that work with a specific focus and deeper probing on social security, particularly the pension systems in the Philippines.

The two major pension systems in the country have been established about 50-60 years ago; some reforms were introduced in 1997. The pensions systems have been through both the Asian and the global financial crises. There is a need for a comprehensive analysis on the pension system, taking these factors into account and considering how the pension systems are working at present. Here, we have a comprehensive and critical study of all public pension systems, both common risks (old age, disability, survivors) and work-related risks (disability and death), in the Philippines. The study has a specific focus on the Government Services Insurance System (GSIS) and the Social Security System (SSS) which are the biggest pension institutions in the country, and which cover public and private workers, respectively. It covers statistical series from 2000-2010. The study uses the six key aspects of the pension system based on conventional social security principles, by the International Labor Organization (ILO), which are: 1) unity, 2) universal coverage, 3) sufficiency of benefits, 4) social solidarity and gender equity, 5) administrative efficiency, moderate costs and social representation; and 6) financial sustainability. It presents an exhaustive diagnostics of the present progress and challenges. More importantly, it provides specific recommendations and policy proposals on needed reform measures for stakeholders, policy and decision makers to consider.

The head of the team who conducted the study is Professor Carmelo Mesa-Lago, a leading expert on social security. We are thankful to him for sharing his expertise on pension systems and providing an analytical and critical view of the pension system in the Philippines. We also thank Verna Dinah Viajar and Rolly Czar Joseph Castillo, of the Labor Education and Research Network (LEARN), for their persistence and hard work in gathering and analyzing data together with Professor Mesa-Lago. Finally, this study would have not been possible, in the first place, without the cooperation of GSIS and SSS leadership and personnel, who are our partners in this study. We very much wish that it will be beneficial to the institutions and to the contributors and pensioners in the long run.

We invite stakeholders, especially policy- and decision-makers, to take a close look at the challenges, and seriously weigh the recommendations.

Berthold Leimbach
Resident Representative
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LIST OF ABBREVIATIONS

ADB	Asian Development Bank
AFP-RSBS	Armed Forces of the Philippines Retirement and Separation Benefits System
AMC	Average Monthly Compensation
AMSC	Average Monthly Salary Credit
ASEAN	Association of Southeast Asian Nations
ASSA	ASEAN Social Security Association
BIR	Bureau of Internal Revenue
BMP	Basic Monthly Pension
BFP	Bureau of Fire Protection
BJMP	Bureau of Jail Management and Penology
CPI	Consumer Price Index
CYS	Credited Years of Service
BSP	Bangko Sentral ng Pilipinas (Central Bank of Philippines)
BLES	Bureau of Labor and Employment Statistics
COA	Commission on Audit
Corplan	Corporate Planning Group (GSIS)
CYS	Credit Years of Service
DB	Defined Benefit
DC	Defined Contribution
DILG	Department of Internal and Local Government
DOH	Department of Health
DOLE	Department of Labor and Employment
DSWD	Department of Social Welfare and Development
EAP	Economically Active Population (labor force)
ECC	Employee's Compensation Commission
ERP	Economic Resilience Plan
GDP	Gross Domestic Product
GSIS	Government Service Insurance System
HDMF	Home Development and Mutual Fund (also Pag-IBIG)
ILO	International Labor Office
ISSA	International Social Security Association
MSC	Monthly Salary Credit (SSS)
NCR	National Capital Region
NSCB	National Statistical Coordination Board
NSO	National Statistics Office
NSWP	National Social Welfare Program
OFW	Overseas Filipino Workers
OWWA	Overseas Workers Welfare Administration
PhilHealth	Philippine Health Insurance Corporation (also PHIC)
PIDS	Philippine Institute for Development Studies
PNP	Philippine National Police
SME	Small and Middle Enterprises
SIF	State Insurance Fund (ECC), Social Insurance (pension) Fund (GSIS)
SWS	Social Weather Station
SSS	Social Security System
UNDP	United Nations Development Program

EXECUTIVE SUMMARY

Organization: The study is organized into three main sections: I) Introduction; II) Diagnosis of the Pension System; and, III) Conclusions and Policy Recommendations.

Scope: It covers all public pensions, both common risks (old-age, disability, survivors) and work-related risks (disability and death). It focuses on SSS and GSIS, also ECC and other separate schemes. It uses a complete statistical series from 2000 to 2010.

Methodology: Discussions on Sections II and III are based on six key social security aspects (ILO principles), which are:

A) Unity
B) Coverage of labor force and the elderly
C) Sufficiency of benefits
D) Social solidarity and gender equity
E) Efficiency, moderate administrative costs and social representation
F) Financial-Actuarial sustainability

In each aspect, the study identifies progress achieved, focuses on challenges to the system and provides policy recommendations.

A. UNITY

Progress: Portability; creation of NSWD; President's desire to create scheme for uniformed personnel.

Challenges: Highly Segmented System

Pension system is highly-segmented and this affects the five other aspects; with 15 separate schemes:

- SSS;
- GSIS (includes three "special members");
- Armed forces (AFP-RSBS);
- Police (PNP);
- Jail and Penology (BJMP);
- Firemen (BFP);
- Coast Guard;
- Veterans;
- Judiciary;
- OWWA; and
- ECC (work-related risks) also fragmented (SSS, GSIS and four agencies involved)

Each scheme has its own laws, administration, conditions/benefits, and finances.

Recommendations:

1. Gradual Integration/Harmonization of System

- Study gradual integration or harmonization of SSS/GSIS (entitlement conditions, benefits, contributions).
- Implement new integrated civilian scheme: it cuts administrative costs (economies of scale); it has full portability; it offers bigger investment pool with unified management; and it facilitates collection, compliance and supervision.
- On ECC: A House Bill creates a new independent agency, although it has adverse effects: it worsens segmentation, enlarges bureaucracy, duplicates collection contributions, increases administrative costs, and offers significant investment under new entity even without experience. In place of this, provide a work-related program fully managed by SSS and GSIS (or integrated scheme of civilian personnel), transfer of personnel, buildings/equipment, separated SIF-ECC exclusively for work-related contingencies, adequate external supervision, appeal before special social security courts;
- Integrate all uniformed personnel: AFP-RSBS, PNP, BJMP, BFP and Coast Guard.
- Incorporate justices/judges into GSIS or eventual unified scheme for civilian personnel.
- Retirees and members close to retirement age can keep entitlements/benefits of separate schemes while new entrants and young members should enter the integrated-scheme entitlements /benefits.
- Ban the creation of new separate schemes.
- Consolidate the legislative complex mosaic in the schemes.
- Integration can be politically difficult since there can be opposing powerful separate schemes (e.g. education campaign to explain unsustainable generous conditions/benefits may be highly regressive and can incur huge fiscal costs).
- If integration is politically unviable, eliminate fiscal transfers, create separate schemes to be financed by employees' and employers' (state) contributions and investment yields; new entrants will be required to join integrated scheme.

2. State Role

- Social insurance promotes social welfare, labor productivity, economic growth and political stability. If pensions go broke, these positive effects will vanish and catastrophic effects will occur impacting the economy, society and political stability. State must guarantee pensions if financial deficit and reserve depletion occur; hence there must be a plan in advance and proper constructive actions to avoid that scenario.
- All separated pension schemes and programs must be integrated or coordinated.
- Strengthen COA scope/powers; or establish a single autonomous, technical agency (Pension Insurance Commission) with regulatory,

oversight and auditing powers over entire pension system (all schemes, contributory/non-contributory, and public/private).
- Design a plan to extend coverage with a defined time frame, and coordinated with the different pension schemes.
- Ensure financial sustainability by requiring annual actuarial valuations, and enacting legislation to maintain equilibrium (prioritizing increase in ceilings on taxable salaries over contribution rates).
- Government must not intrude in management/investment of reserves (i.e. appointment of board members; pressure to invest on state projects or social assistance for the poor or the needy due to natural phenomenon or economic crises).

B. COVERAGE

Progress: SSS gradually expanded legal coverage (mandatory and voluntary) to include informal workers and other groups; signed OFW agreements with 11 countries to avoid no payment or double contribution; new joint ID (SSS, GSIS, ECC, PhilHealth).

Challenges: Very Low Coverage of EAP (almost stagnant) and Elderly

- Coverage of Economically Active Population (EAP) based on contributors rose from 27% to 28% (and 29% on those with separate schemes); pattern shows increasing EAP in SSS and declining in GSIS.
- SSS covers 87.3%, GSIS 12%, and separate schemes 0.7%.
- Coverage based on SSS members (paid only one contribution) is unreliable: three times that based on members that paid one contribution in the year; no available GSIS data.
- Legal coverage expansion showed positive results on voluntary members, but since 2000, self-employed have shrunk in absolute and percentage.
- Coverage of elderly (60 years old and above) by contributory old-age pensions rose from 8% to 15% (17.8% with separate schemes).
- 71% of EAP and 82% of elderly are not covered.

Reasons:

- Large informal sector (42% of EAP)
- High poverty incidence (26.5%)
- Poor enforcement of legal coverage to informal and other groups
- Declining proportion of members who contribute (33.5% in SSS; no available GSIS data)
- High unemployment (7.5%) and underemployment (19.4%) rates
- Global crisis didn't reduce overall coverage but probably increased informality and poverty, therefore aggravating exclusion.

Recommendations:

1. Strategy to Extend Effective Coverage

- Take advantage of ILO and ISSA guidelines and technical support to achieve universal comprehensive social security coverage.
- SSS should actively enforce mandatory legal coverage of self-employed, and incorporate other informal sectors (street vendors, seasonal, tricycle drivers, etc.) by adapting to their peculiarities.

- Some incorporation policies:
- Targeted group must have sufficient workers and relatively homogenous features.
- Contributions should be set weekly, quarterly, annually (not only monthly), and should be payable jointly with taxes.
- Contributions/benefits should be customized to include payment capacity of excluded workers.
- Oblige enterprises hiring self-employed to collect their contributions;
- Tie to affiliation the granting of licenses to self-employed (taxi drivers, market vendors);
- Cooperatives/associations of informal sectors, rural workers and women should be given support as intermediaries in enrolling members and collecting contributions under state regulations and monitoring.
- Successful cooperation between PhilHealth and local governments which increased coverage twice than in SSS must be adopted.
- Cooperation with other Asian countries that are recipients of Filipino workers (e.g., Singapore, Malaysia) must be formalized through signed agreements.
- Apply government stimulus to formalization by simplifying tax declaration for SME, allowing tax deductions to self-employed contributions, and covering work-related risks.
- Fiscal subsidy must be granted to low-income self-employed, in lieu of employer contribution, in order to incentivize affiliation.
- Congress must approve the Magna Carta for Workers in the Informal Sector.

2. Need of Reliable Statistics

- Coverage extension requires reliable data on the excluded and their socio-economic conditions, which can be collected from improved social insurance statistics, labor/household surveys and new tools.
- Labor survey should include questions on pension coverage in all schemes and should disaggregate data by class of worker, income, education, gender, location and enterprise size.
- Household surveys should be able to collect data on all pensioners.
- Social Protection Survey should provide panel data on socio-economic features of the excluded and their contributing capacity to help design coverage extension plans.
- NSCB should get more accurate and recent data on poverty incidence among the elderly, and regress data on coverage by region with their respective population poverty incidence.

- All schemes must adopt clear definition of "contributor" with a standardized contribution period (e.g., members who pay one contribution in the last six months or once during the year);
- SSS and GSIS must fully clean multiple registrations made by the same worker based on his/her ID.

C. BENEFITS

Progress: The pension systems have a wide range of benefits, against common and work-related risks; the average pension level is well above the monthly poverty threshold; SSS average pension is 3 times the minimum pension; a non-contributory pension (PhP 500 monthly) began in 2011 targeted on age 77 and up, extreme poor, covering 6.7% of elderly poor, with goals to expand to all poor aged 70+; such pension is 15.6% of SSS average pension and 7% of GSIS average pension, adequate relationships.

Challenges: Generous Entitlement Conditions/Benefits but Declining Real Pension

- Entitlement conditions, the pension formula and benefits are mostly liberal and generous, particularly in separate schemes and GSIS
- Most pension schemes have additional benefits (e.g., GSIS offers lending, life insurance, provident fund, funeral aid, Christmas gift, and government insurance property).
- The additional benefits induce higher contributions and are not central to the main objective of providing income during old-age, disability and survival from work risks.
- Benefit calculation and multiple options (lump sum, pension, and combination) are complex, hard to understand and difficult to use as a basis in making adequate choices; taking a lump sum instead of a pension risks the pensioner outliving it.
- Retirement age at 60 (SSS, GSIS) was set in the 1950s, but life expectancy is rising fast; aging will become a problem in the long run.
- The SSS' regulation on 10 years of contribution is too short compared with six East and Southeast Asian nations and other countries with a similar development level.
- There are very short spans to estimate base salary: SSS' highest salary can be estimated in the last five years of service or, by average, in the last six months; GSIS, in the last three years; judiciary, in last month; armed forces, last salary plus longevity of next higher grade.
- Short spans encourage salary under-reporting during most working life and over-reporting in years close to retirement, in order to increase pension.
- SSS and GSIS replacement rates are from first to fourth highest in East and Southeast Asia (above Japan, Korea, Singapore) and over OECD average;
- Separate schemes have even more liberal entitlement conditions/benefits (e.g. the AFP-RSBS rate is among the highest in the world), and do not pay contributions; thus, unsustainable.
- Old-age monthly pension is relatively low compared to the Metro Manila monthly minimum wage (PhP 8,100): SSS pension is at an aver-

age of PhP 3,524, other pensions are lower although GSIS has a higher average at PhP 8,965.

- SSS and GSIS lack a legal mechanism for pension adjustment to cost of living; separate scheme pensions are adjusted to the salary of active personnel.
- Real pensions from SSS declined to 24% but increased by 3% in GSIS (-4% relative to 2001), and jumped up by 38% in AFP-RSBS.
- The social pension is half of the SSS average pension for those with less than 10 years of contribution and may create disincentive for affiliation.

Recommendations:

1. Objectives, Terminology and Comparisons

- ➢ Narrow multiple objectives and focus on pensions to avoid rise in contributions, promote pension improvement, facilitate administration, reduce costs and ensure accountability.
- ➢ Standardize pension terminologies in SSS/GSIS to facilitate understanding and comparison of entitlement conditions and calculation of benefits.
- ➢ Refine the standardized comparative tables on benefits developed in this study.

2. Tighten Entitlements Conditions/Benefits

- ➢ Study a gradual rise in retirement age, usually at 60 years, according to life expectancy (e.g., average SSS retirement age is 61.7).
- ➢ Extend the number of years of contributions closer to the working life: for SSS, extend from 10 years and/or standardize to 15 years; and for GSIS, consider extending the 15 years.
- ➢ For all schemes, gradually lengthen the span of contributions to calculate base salary and adjust wage according to inflation.
- ➢ Consider a reduction of current replacement rates of the SSS/GSIS actuarial valuations to more financially sustainable levels;
- ➢ For GSIS, simplify retirement options, study the elimination of lump sum and concentrate on life pensions.
- ➢ For separate schemes, reform extremely liberal entitlement/benefits preferably within integrated scheme for uniformed personnel.
- ➢ For AFP-RSBS, deepen the proposed reforms that are insufficient to sustain the scheme in the long run.
- ➢ Above measures are politically difficult, and hence demand education campaign to explain reasons to members, trade unions, employers and the public.

3. Adjust Pensions

- ➢ Instead of sporadic/discretionary increments often granted after an inflationary spur, introduce a legal automatic mechanism to adjust pensions to CPI submitted to prior actuarial valuation. An inflationary rebound could sharply reduce real pensions that already have value loss.
- ➢ For SSS, evaluate if the average pension is sufficient to access the basic basket of goods and services.

- Also maintain the current adequate ratio between the non-contributory pension, the minimum and average contributory pensions in SSS.

4. Promote Supplemental Pensions

- Contributory pensions provide a basic benefit normally insufficient to keep pre-retirement income and should be supplemented by other savings or pensions (DB or DB, financed by contributions of workers and willing employers).
- GSIS mandatory life insurance and SSS optional provident fund could play this role but an assessment is needed.
- AFP-RSBS' generous mandatory provident fund is financially difficult to maintain in the long run.
- PERA law needs improvement and should include adequate caps on tax exemptions.
- Income-tax on contributions for supplementary pensions should be deferred until withdrawal of savings.

5. Extend Non-contributory Pension

Current targeted social pension is more fitted to country development level and poverty incidence than universal pension (granted regardless of income). It would cost less, avoid regressive effects and significantly reduce poverty. Elderly population will increase by 500% in 2010-2090 hence this pension is crucial. Current cost is 0.01% of GDP. Based on poverty line income at age 70, it will be 0.05% in 2069; a universal pension would cost four times more.

- Reduce the pension age from 77 to 70 - still 10 years higher than the standard retirement age in SSS/GSIS.
- Extend it first to all extreme poor and then to the relatively poor, with a timetable of five years (ILO "Social Protection Floor").
- Significantly increase the budget assigned to these pensions to achieve the previous goals.
- Do not increase the budget unless the SSS minimum pension is raised to avoid disincentives.
- Refine targeting techniques to prevent fraud or moral hazard.
- Gather more accurate and recent data on poverty incidence among the elderly.
- Include social pension in the 2012 survey measuring the impact of conditional cash transfer (CCT).

D. SOCIAL SOLIDARITY AND GENDER EQUITY

Progress: The public pension system has several elements of social solidarity and gender equity not usually found in private systems which include collective fund instead of individual accounts, maximum pensions, and transfers from high to low income and from men to women. It also provides wide legal coverage, social pension, equal age of retirement for both sexes which allows women to have more contributions, and replacement rates that are reportedly similar in both sexes.

Challenges: Significant Elements against Social Solidarity and Gender Equity

- Highly segmented system which generates inequalities and erodes social solidarity;
- Low coverage of the EAP and the elderly;
- 20% of the poorest families receive 7% of contributory pensions while 20% of the wealthiest get 42% of contributory pensions;
- Significant unjustified differences between schemes, especially among separate ones;
- SSS salary ceiling and no maximum pension;
- Unjustified differences in pension adjustment between SSS/GSIS and separate schemes;
- Judges' average pension is 18 times bigger than that provided by SSS; uniformed personnel 3-6 times, and GSIS 2 times;
- Separate schemes do not pay contributions; benefits are financed by state;
- SSS' self-employed and voluntary members pay three times the percentage paid by workers;
- Majority 'excluded' contributes to minority 'covered' via regressive sales taxes;
- Average salary of employees in public sector is 1.7 times higher than in private sector, hence, superior benefits are not justified based on a lower salary;
- Women participation in labor force is 50% while men's is 79%; 29% and 71%, respectively, in private enterprises; in domestic help, 84% and 16%, respectively; and 56% and 44%, respectively, in unpaid family work;
- Women are paid 58% of men's salary in the same type of work;
- In SSS, women are 40% of members (men 60%); the opposite in GSIS, and similar differences are in women share in pensioners (female participation is higher in public than private sector: domestic helpers, unpaid family members, non-working spouses, not covered by social insurance or with voluntary affiliation);
- In ECC, women's share in disability pensions is 32% as compared to men's share at 68%;
- Lack or poor pension statistics disaggregated by gender;
- Widows who re-marry lose their survivor pension;
- No compensation for women that exit the labor force to raise children;
- Only SSS law mandates at least one female as Commission member; in GSIS Board, there are only two women despite their being 62% of membership.

Recommendations:

- ➢ Implementing suggestions in other key aspects would improve social solidarity: effective enforcement of legal mandatory coverage of informal workers and other excluded groups; extension of social pension for the elderly poor; fiscal subsidy granted to low-income self-employed, etc.;
- ➢ Harmonize/standardize separate schemes' generous entitlement conditions/benefits to reduce unjustified substantial differences;

- If members want to keep such privileges, they should pay thorough supplementary pensions, but not receive fiscal subsidies (except for employers' contributions);
- For surveys/institutional statistics, gather data on EAP coverage disaggregated by gender, education, urban-rural location, economic branch and enterprise size, and elderly coverage using the first three variables. The crisis that may have accentuated inequalities in coverage and survey data need to be assessed;
- Separate causes of gender inequality (i.e., labor market and pension system) to design proper correcting policies;
- Suppress labor-market discrimination by: enforcing a law that allows equal wages to women and men for the same type of work; expanding hours in child-care facilities to increase female labor participation; and promoting female in-work training to help them gain access to better jobs;
- Increasing access of women to "decent work" will help increase coverage;
- Disaggregate pension statistics by gender and publish data on average female and male pensions;
- Allow widows who remarry to keep their survivor pension;
- Grant a child bonus to female members to compensate for exiting the labor force to raise children;
- Extending social pension to the elderly poor will particularly help women;
- Include more women as representatives of commissions/boards to empower them to lobby for policies that will fight gender discrimination.

E. EFFICIENCY, ADMINISTRATIVE COSTS AND REPRESENTATION

Progress: SSS/GSIS efficiency improvements: introduced sophisticated computer/software (particularly SSS), cut time to process pensions, facilitated contribution collection and benefit payments, increased information to members through diverse electronic means; issued new ID to store information on members to facilitate transactions/payments and reduce fraud; SSS/GSIS decreasing administrative costs (% expenditures and contributions); SSS conducts national satisfaction surveys, in 2008, SSS got 77% overall satisfaction.

Challenges: Inefficiencies, High Administrative Costs, and Poor Social Representation

- Long delays/backlogs in crediting contributions; understaffing of local offices that either lack computers or are not connected to database; remnants of manual processing;
- In the SSS satisfaction survey of 2008, 61% of respondents did not answer or ignored the question (due to lack of knowledge or interest in the program?);
- GSIS pilot survey in 2011 had negative results for which a copy could not be obtained;
- Workers and employers are a tiny minority in most boards/ commissions except for the SSS where they are majority;

- SSS/GSIS ratios of employees for 1,000 contributors were almost stagnant and excluded contractual employees who declined since 2010 but lack of data impedes accurate comparison with previous years; SSS ratio is 1/4 of GSIS' due to larger number of contributors thus taking advantage of economies of scale;
- Administrative costs (% of contributions) are 3-12 times bigger than those of other Southeast Asian pension schemes;
- SSS contribution for their employees' enrolment in GSIS is bigger than that in SSS;
- GSIS/SSS contributions to their employees' provident funds are 40-45% of salaries; in SSS, 39% accounts for administrative costs.

Recommendations:

- Have satisfaction surveys done regularly by independent professional firms with adequate methodology; diffuse results for public knowledge and discussion;
- SSS Commission should investigate why 61% did not answer the 2008 survey;
- Open adequate channels to hear and process members' claims (e.g., expansion of current Ombudsman jurisdiction over social insurance which is now limited to hear charges against its officials) or create an office for the protection of insured rights.
- SSS/GSIS should annually provide total number of employees disaggregated by regular and contractual, and the latter gradually eliminated;
- SSS/GSIS should tackle remaining inefficiencies; GSIS should cut personnel;
- SSS/GSIS should reduce current legal percentages for administrative expenses;
- SSS employees should be covered by SSS scheme, not by GSIS;
- Sharply cut SSS/GSIS contribution of 40-45% to employees' provident fund and increase the employee's contribution by 5%, or reconsider viability of such fund;
- All pension schemes should conduct a thorough and effective annual external auditing;
- President of the Republic should stop appointing representatives to SSS/GSIS boards;
- GSIS should ensure that employees and employers who paid contributions (particularly employees who are the beneficiaries) have majority representation in the Board;
- Conduct election of workers' and employers' representatives in a democratic manner taking into account candidates' managerial skills; elections should be without government/political intrusion;
- Give informal workers representation in SSS/GSIS boards and more women representative in GSIS board;
- Request that members of commissions/boards have legal fiduciary responsibility to make decisions exclusively in the interest of members;
- Demand greater accountability from workers/employers' representatives and introduce a system to recall a president and/or representatives failing to comply with their duties;
- Implement strict rules to prevent conflict of interest and ensure financial disclosure, accountability and transparency.

F. FINANCIAL SUSTAINABILITY

Due to the complexity of this section, progress, challenges and recommendations are summarized in five different issues, which are: (1) contributions, (2) compliance, (3) financial balances, reserves and capital returns (ROI), (4) portfolio diversification, and (5) actuarial valuations and equilibrium. .

1. Contribution

Progress: Creation of innovative channels and agencies to pay contributions by informal workers, domestic helpers and similar groups. Employers pay 68% of total contributions in SSS and 57% in GSIS; hence, workers do not pay more than 50% (ILO minimum norm).

Challenges:

- Current contribution rate (particularly GSIS) is higher than in more developed and aged countries.
- SSS has a salary ceiling for contributions while GSIS does not have.
- Own-account workers, spouses of working members and similar groups are charged a percentage contribution three times higher than that being paid by salaried employees.
- Employees/Employers in all separate schemes do not pay contributions and their pensions are fully financed by the state.
- PhP 29,011 million are spent by the state on non-contributory pensions for separate groups (middle- and high-income) but only PhP 830 million is spent on non-contributory pensions for the elderly poor.

Recommendations:

- Eliminate the salary ceiling in SSS (as in GSIS).
- SSS actuarial valuation in 2007 advised the rise in contribution from 10.4% to 11% in 2011 (in process), and 13% in 2021; hiking contribution too much may create disincentives for affiliation, expand non-compliance, raise barriers to informal workers.
- For all separate schemes, employers and employees must pay contributions set by actuarial valuation to make their benefits financially and actuarially sustainable.
- Grant fiscal subsidies to low-income self-employed and other informal workers lacking employer; prior actuarial study to cut current rate of 10.4%; stimulate affiliation; and expand affective coverage.
- The state should identify new revenue sources to finance non-contributory pensions, subsidies to incorporate low-income informal workers, and future potential financial deficit.
- Reform tax system to improve collection efficiency, reduce regressive effects, and rise state funding to programs to fight poverty.
- Eliminate regressive subsidies on higher education, housing and other goods/services that favor middle- and high-income groups, and shift saved resources to help the poor;
- Reassign part/all fiscal transfers to non-contributory pensions for separate groups (middle- and high-income) towards non-contributory pensions for elderly poor and coverage expansion of informal workers.

2. Compliance

Progress: SSS and GSIS have introduced tools to control and monitoring payment of contributions; laws set fines/imprisonment for delinquent employers; there are processes to prosecute debtors.

Challenges:

- In SSS, only 33.5% of members, 35% of employers, and 20% of self-employed contribute (no data available from GSIS).
- In GSIS, only 22% of all suspended non-compliant agencies signed payment agreements and nine of them defaulted (owed contributions plus penalties were seven times the sum in SSS).
- SSS' and GSIS' non-compliance fines were set 14 years ago so their real value has fallen with inflation and is now too low; interest charge is also set in *nominal* terms (unadjusted for inflation);
- Collecting procedures for delinquency are cumbersome and protracted for years.
- Amnesties do not seem to get very good results and condone penalties to delinquent employers, without subsequent evaluation;

Recommendations:

- ➢ Enforce law and strengthen the monitoring of evasion/payment delays in SSS subdivisions/branches, and in MSE; GSIS should provide data on members that contribute;
- ➢ Collect SSS/GSIS contributions by a single agency to cut costs (economies of scale) and better monitor compliance;
- ➢ SSS/GSIS should cross check data with all state tax-collection agencies (e.g., BIR, local) and DOLE; increase inspectors; impose stronger sanctions on delinquents; simplify/shorten collection process.
- ➢ GSIS should execute more suspensions of delinquent agencies; reduce defaults; and reveal delinquent employers and agencies.
- ➢ Effectively protect workers who denounce non-compliance of their employers on dismissals/reprisals (as Labor Code mandates).
- ➢ Incorporate unions as active partners to fight non-compliance.
- ➢ Fix fines as percent of outstanding debt (as ECC) and adjust interest charge for non-compliance according to inflation;
- ➢ Establish special courts on labor and social security to expedite law enforcement, sanction of delinquent employers/officers, and enable the collection of money owed (e.g. the case of Singapore).
- ➢ Follow up amnesties by professional assessment to ascertain if this practice is worthwhile.
- ➢ Launch educational campaign or public outreach to explain the importance of compliance of members, and how it affects the pension scheme and the society (e.g. the case of Japan).

3. Financial Balances, Reserves and Capital Returns (ROI)

Progress: SSS/GSIS had rising financial surplus in 2000-2010 (total revenue minus total expenses), increasing as percent of GDP in SSS and decreasing in GSIS (GSIS surplus in 2010 was 1.6 times that of SSS but the gap is closing). Based on contributions and benefits, SSS had deficit in 2 years, met with investment returns, later converted in surplus by raising contribution and AMSC. The surplus peaked amidst the crisis but declined in 2009; the recovery in 2010 helped raise SSS surplus (but that of GSIS shrank). Absolute reserves increased in SSS/GSIS.

Challenges:

- Reserves as percent of GDP rose in GSIS but fell/stagnated in SSS to half of GSIS' level in 2010 (6.2% and 3.4%, respectively).
- Investment share of total revenue decreased in SSS but increased in GSIS by 26% and 36%, respectively, in 2010, due to better performance of GSIS on capital returns (ROI).
- The 10-year average annual nominal ROI was 8.4% in SSS and 10.2% in GSIS; the real ROI (adjusted to inflation) averaged to 3.3% and 5.1%, respectively. Both ROI averages are lower compared to other Asian countries.
- The SSS' average nominal ROI in 1975-2007 was lower than the 91-day T-Bill and Phisix Return averages.
- The SSS' actual nominal ROI average was lower than set in actuarial-valuations to maintain life fund; GSIS' actual ROI in 2009-2010 was lower than set in 2010 valuation;
- SSS' and GSIS' actuarial valuations lack estimates on annual average long-term real capital returns since the inception of their schemes.

Recommendations:

- ➢ Trends in financial balances, reserves and real ROI indicate that SSS and GSIS face future financial difficulties that demand better performance and/or parametric reforms.
- ➢ SSS and GSIS should estimate annual real ROI and annual average from the inception of the schemes.
- ➢ Consider SSS' and GSIS' actuarial valuations through setting ROI in real terms based on alternative inflation scenarios.
- ➢ SSS should increase actual nominal ROI by 2.2 points to meet the required 10.6% set in 2007 valuation to maintain fund life until 2039; it should also increase real ROI in key instruments.
- ➢ GSIS should increase actual nominal ROI above its 2009-2010 level to meet 9% ROI set in 2010 valuation to maintain fund life until 2051.

4. Portfolio Diversification

Progress: Investment in SSS/GSIS has moved away from loans. Rules on loans have been tightened and interest rates increased. GSIS has outsourced investment to professional firms.

Challenges:

- There is poor portfolio diversification due to concentration on government debt and loans (housing, personal, education, calamity), low share in equities, and lack of foreign instruments.
- Portfolio composition in 2010 covers government debt at 38% for SSS and 40% for GSIS; loans at 27% and 32%, respectively; equities at

30% and 20%, respectively; and share in government debt and loans at 65% and 72%, respectively.

- Law excludes SSS investment on government or government-guaranteed debt instruments from maximum imposed on other instruments; GSIS sets a maximum of 60% on government securities.
- GSIS sets a *minimum* of 40% in loans; SSS sets a combined maximum of 45% in housing/personal loans (most loans had very low/negative returns until stricter rules recently implemented).
- Stocks have a maximum of 20% in GSIS; mutual funds have a maximum of 20% in SSS and foreign mutual funds have a maximum of 2.5% and 7.5%, in GSIS and SSS, respectively. SSS' investment in foreign instruments did not materialize; it did in GSIS before the crisis.
- Despite a less concentrated SSS portfolio than GSIS, the latter's real ROI averaged 1.8 points higher, with better performance in most instruments possibly due to entrusting investment management to specialized financial groups.
- AFP-RSBS's portfolio covers 58% from real estate (mostly in AFP buildings and facilities), 22% from equities, 12% from industrial park leases, and only 8% from loans.
- Political intrusion in investment was common in all schemes but seem less now.
- Domestic capital market is small/illiquid/underdeveloped; investment in foreign instruments has low caps and is considered unpatriotic, hence, concentration is given on public debt/ loans.

Recommendations:

- ➢ Follow ISSA (2004) guidelines in investing funds, including further portfolio diversification.
- ➢ Continue moving away from subsidized loans towards equities. Independent assessment needs to determine if investment on all loans is financially profitable, if the recovery rate of loans is feasible and if interest rates are below market rates.
- ➢ SSS should impose legal limits on government and government-guaranteed debt instruments.
- ➢ GSIS should reform law to eliminate minimum of 40% investment on loans and terminate loans to the government and public institutions.
- ➢ Financing or providing direct aid to educational and health institutions, as well as loans for construction of low-cost housing should be banned.
- ➢ Fully entrust lending to HDMF and other state financial/banking corporations.
- ➢ Promote profitable investment in domestic equities through expansion of instruments which demands greater financial sector development.
- ➢ Try investment on infrastructure by starting with small amounts, by undertaking careful regulation and by monitoring results before expanding.
- ➢ Lessons learned from global crisis show that pension portfolio diversification, including investment in foreign instruments, paid in the long run.
- ➢ Avoid, in case of a second recession, a drastic shift towards very low-risk instruments as it would affect long-term capital returns.

- SSS should invest in foreign instruments to the legal limit, carefully assess the results and, if positive, gradually raise the ceiling.
- GSIS should implement new investment guidelines on direct investment in foreign emissions and in debt-issue guaranteed by foreign governments.
- SSS should outsource investment management to qualified/reliable firms (i.e., replicating the positive outcome in GSIS) under strict regulation/monitoring, or create independent professional investment board in each scheme where members will be chosen based on experience/merit.
- GSIS should annually publish portfolio distribution by instrument. SSS and GSIS should publish real ROI of each instrument for better transparency and information.
- Launch educational campaign to explain reasons of suggested policy to members and employees, as their short-term needs (e.g., coping with emergencies or acquiring homes) must not be met at the cost of sacrificing the principal objective of paying decent pensions.

5. Actuarial Valuations and Equilibrium

Progress: SSS and GSIS rely on collective partially-funded method in equilibrium for a given period. Fund accumulates reserves until expenditures exceed income, generate a deficit and deplete the fund. Reforms introduced in SSS in 2000-2010 prolonged the life of the fund.

Challenges:

- Due to aging and pension system maturity, the ratio of contributors to one pensioner fell from 8.8 to 6.3 in SSS and from 9.8 to 4.7 in GSIS (expanding contributors in SSS versus stagnant in GSIS). SSS extension of coverage would halt/reverse the trend, this is lees feasible in GSIS;
- GSIS does actuarial valuation annually, the latest of which was done in 2010. SSS had its latest annual actuarial valuation in 2007; SSS valuations are more detailed and documented in the new valuations conducted in 2011 (2010 data).
- SSS valuation could not evaluate impact of global crisis; GSIS could but does not state anything about it.
- SSS' 2007 valuation was not presented to the Commission until September 2011.
- SSS' 2007 valuation (baseline) projected the fund depletion in 2039 (12 years later than what was projected in 2003). GSIS' 2010 valuation projected the fund depletion to happen in 2051 (13 years earlier than what was projected in 2009).
- ECC-SIF managed by SSS and GSIS annually reports to ECC and showed deficit half of the time in the last decade. Reports given did not provide data on investments and reserves.
- SSS' latest valuation of ECC in 1995 projected SIF fund life until 2027. GSIS' latest valuation done in 2010 did not project to last a year.
- There is no clarity if the legal mandate that the SIF used for ECC benefits is honored. There is incongruity with the SSS maximum contri-

bution payment, which is 10% compared to that of GSIS, but which benefits twice higher than in GSIS.

- AFP-RSBS is unsustainable due to the increase in liabilities by 62 times during the period 1977-2005, amounting to PhP100 billion; and has insufficient proposed reforms. GSIS actuary calculated a contribution of 52% (without reforms) twice the 25% proposed;
- Projected costs of uniformed personnel pensions including AFP-RSBS and excluding justices/judges jumped from PhP 69 billion to PhP 111 billion in 2006-2013 (unsustainable).

Recommendations:

- ➢ Amend SSS law to mandate annual actuarial valuations (as in GSIS) and to promptly present the results to the Commission.
- ➢ SSS/GSIS 2011 valuations should be able to assess impact of global crisis on actuarial equilibrium and implement needed adjustments.
- ➢ SSS should implement measures of 2007 valuation (some in process); if done, actuarially verify if they allow pension adjustment to CPI.
- ➢ GSIS 2011 valuation should be able to verify the cause of the 13-year cut in fund life; address questions in this study on three key assumptions of 2010 projections that might shorten the life fund; identify data problems confronted; and recommend steps to cope with them.
- ➢ SSS and GSIS should separate ECC-SIF from other program funds; supply annual report on SIF investments/reserves; enable valuations to give separate evaluation of SIF; and propose measures.
- ➢ AFP-RSBS should raise retirement age from proposed 58 years to 60, and terminate retirement with 30 years of service regardless of age; salary average should be based on the last five years instead of the last salary; and should close provident fund to future entrants and transfer its 5% contribution to pension fund.
- ➢ For separate schemes of uniformed personnel/judiciary, implement drastic parametric reforms restricting generous entitlement conditions/benefits and setting adequate contributions to members.
- ➢ All actuarial studies should include an understandable summary of current scheme status and alternative recommendations for public scrutiny and debate (e.g., wide diffusion of SSS 1999 valuation).
- ➢ SSS and GSIS should sign an agreement with ILO Actuarial Division to revise 2011 actuarial valuations, and train local personnel on a simulation program to project outcomes of reforms on entitlement conditions/benefits and needed contribution to maintain long-run financial/actuarial equilibrium.

CONCLUSION

- ✓ Submit these recommendations to a national commission with adequate representation from members (including women and informal workers), employers, pensioners, the SSS, GSIS, AFP-RSBS and other separate schemes, as well as pertinent government agencies and prominent experts.
- ✓ The commission should discuss recommendations maximizing consensus and send a report to the Executive and the Congress on the agreed-upon reforms.

- ✓ If reforms are approved, the Philippine pension system would be:
    - more integrated;
    - having an extended real coverage;
    - able to improve benefits;
    - able to infuse more social solidarity and gender equity;
    - able to raise efficiency and social representation;
    - able to reduce administrative costs; and
    - able to reinforce financial-actuarial sustainability.

The nation, workers and pensioners would be the greatest beneficiaries of these reforms.

INTRODUCTION

Overview of the Pension System in the Philippines

The Philippines ranks 97th in the Human Development Index that includes 169 countries, slightly higher than the mid-point. Within 15 East and Southeast Asian countries, the Philippines ranks 8th, also about the mid-point. Finally, the Philippines is classified under the "medium" level of development, together with other nine East and Southeast Asian countries (UNDP, 2010a).[1] The social security system in the country could also be ordered in a mid-point within East and Southeast Asian and among developing countries.[2]

In the 1950s, when the major pension schemes were established, the Philippines was at the threshold of economic development and among the leading Asian nations; the economy was robust and therefore generated plenty of jobs. However, the guerrilla warfare, the 21-year autocratic rule of Ferdinand Marcos, political instability, rapid population growth, boom-bust cycles, several economic crises and natural phenomena had devastating effects. In the 1980s, the severe crisis of 1984-1985 led to a 14% drop in GDP while inflation jumped to an annual average of 14.9% and GDP real yearly growth was a meager 2%. The return of democracy in 1986 and the ensuing constitutional reforms in 1987 infused some political stability, but there was a mild economic crisis in 1991-1992 and inflation was still very high. Even when the inflation cooled off and economic growth was better, the Asian financial crisis of 1997-1998 still took its toll and produced 9% inflation and 2.8% growth in the 1990s, which was a little better than in the 1980s (Gonzalez and Manasan, 2002). High inflation during those years yielded increases in pension levels to counteract significant loss in purchasing power. The first decade of the 2000s showed an improvement: democracy continued, average inflation rate decreased to 5.6% and growth rose to 5.3%, despite the adverse effect of the global crisis in 2007-2008 and a spur of inflation. Nevertheless, compared with previous crises, growth remained positive in 2009 mainly because foreign remittances did not decline, there was a strong recovery in 2010, and inflation decreased to reasonable levels in those two years. Despite these advances, the Philippines still endures a population poverty incidence between 26.5% and 32.9% and a Gini Index of Inequality of 0.4884 (an increase over 0.4666 in 1985), both higher than in most East and Southeast Asian countries (NAPC, 2011).

The Government Service Insurance System (GSIS) that covers all public-sector employees is one of the oldest in the region. Created in 1936, it began operations in 1937. The Retirement Act (RA) 660 of 1951 introduced the retirement program while other benefits were added by RA 1616 of 1957, Presidential Decree (PD) 1146 of 1977 and RA 8291 of 1997. The Social Security System (SSS) covers all private-

[1] In the "very high" level are Japan, Korea, Singapore and Brunei; in the "high" level Malaysia; in the "medium" level China, Thailand, Philippines, Mongolia, Indonesia, Viet Nam, Timor, Laos and Cambodia, and in the "low" level Myanmar; the range of the ranking order is 11 to 132 (UNDP, 2010a).

[2] Herein the term "social security" is used in its broader sense, including social insurances (pensions, health care, unemployment compensation, occupational-risks), social assistance and family allowances. "Social insurance" is used referring to contributory pensions, as opposed to social assistance or non-contributory pensions.

sector employees, own-account workers and other groups. Created through RA 1161 of 1954 (Social Security Act) and amended through RA 1792 of 1957, it began to operate that year and was reformed through RA 8282 of 1997. The Employees' Compensation and Insurance Fund (ECC), established through PD 626 of 1975, replaced the old workers' compensation program. It provides benefits including pensions for work-related risks of GSIS, SSS and other schemes. The scheme for the armed forces was introduced by PD361 of 1973 with several amendments. There are other separate schemes.

The pension system is of the social-insurance type, based on "defined benefit" and is being managed by autonomous public entities. The system is segmented as it embraces 15 separate public schemes (armed forces, policemen, veterans, firemen, jail personnel, coast guards, justices/judges) with substantial differences that need integration or coordination. The two major schemes are SSS and GSIS covering 86% and 12% of total contributors, respectively, whereas all separate schemes cover less than 2%. The GSIS began to operate its retirement program in 1952 whereas the SSS began in 1957; both are close to reaching maturity, particularly GSIS. Despite the SSS' significant effort to expand legal coverage of contributory pensions, the combined schemes currently cover about 28% of the Economically Active Population (EAP) and 15% of the elderly (29% and 18%, respectively, including separate schemes), hence, a majority for both groups lack effective protection. This contradiction is explained by a labor force that is 42% informal and mostly not covered, 26% of poverty, and one of the highest unemployment rates in Asia. Until 2011 there was not a non-contributory pension granted to the elderly extreme poor lacking contributory coverage.

Significant differences among the various schemes exist in entitlement conditions, the pension formula, and average pensions. SSS and GSIS pensions are not systematically adjusted to either inflation or wages and, although increasing in real terms in the 1990s, both pension schemes decreased or were stagnant in the first decade of the 2000s. Meanwhile, separate schemes adjust the pension to the salary of active personnel annually. Compared with private pension systems, the Philippine public system has several elements favorable to social solidarity and soothes gender inequality but still confronts serious flaws in solidarity and female inequality. Efficiency has being enhanced, particularly in SSS, with computer and electronic advances that introduced more effective ways to collect contributions and pay benefits, and reduced the time to process pensions. However, there are still important lingering problems; for example, administrative expenses were high in the 1990s and, albeit decreasing in percentage for both total expenditures and contribution revenue in the last decade, are still very high under Asian standards.

SSS and GSIS schemes are financed by contributions from employers and employees (the former share the majority) but own account workers paid the combined percentage contributions charged to employers and employees. In the separate schemes, no contributions are paid by members and the state finances all pension costs. Only 35% of SSS members contribute, indicating significant evasion and payment delays (no data available on GSIS). Both schemes generated a financial surplus in the last decade, which, as percentage of GDP, rose in SSS and decreased in GSIS. The opposite was true concerning accumulated reserves as percentage of GDP. Capital returns have widely oscillated; they were adjusted for inflation which averaged to 5% in GSIS and 3.3% in SSS, the latter is low by international standards. GSIS has more investments in government securities and loans than SSS. SSS lacked foreign instruments such that investments in subsidized loans had low yields. The latest actuarial valuation in SSS (2007) projected a financial deficit in

2022 and reserves depletion in 2039, whereas the valuation of GSIS (2010) projected a financial deficit in 2029 and fund depletion in 2051. The schemes for uniformed personnel and judges were unfunded and suffered the worst financial-actuarial disequilibrium while the ECC life fund is projected to end in 2026-2030.

In recent years, several important studies have been conducted on the Philippine pension system that have expanded our knowledge and provided useful recommendations (e.g., Serrano, 2006; TSG, 2007; De la Rama, 2009; Manasan, 2009b; Verceles and Pineda, 2009; Orbeta, 2011; Asher, 2011).[3] However, they lack complete statistical series for 2000-2010 and the most recent data were usually from the period 2006-2007 - before the global financial crisis. Some of these studies embrace the entire social security system while others focus on a particular aspect, such as coverage, investment, or the economic-social measures taken in 2008 to confront the global crisis. Still other studies are comparative in the context of Asia and the Pacific. About 54-59 years have elapsed since the establishment of the two major pension schemes, 14 years since the reforms were introduced in 1997, and four years since the global crisis; therefore, a comprehensive and documented study is needed on the pension system. Herein we accomplish that task by systematically analyzing each of the system key aspects; identifying its major challenges; providing a diagnosis; and offering detailed recommendations to confront the challenges, improve the system and make it more socially equitable and financially sustainable.

Scope, Structure and Methodology of the Study

This study focuses on the pension schemes of SSS and GSIS (which cover most active workers and pensioners and take the bulk of expenses), specifically on common risks of old-age, disability and survivors (i.e., funeral benefits are summarized; sickness and maternity paid leave are excluded).[4] For the first time, the seven major separate schemes are herein analyzed and compared albeit under constrains due to significant data gaps. Work-related risks are also studied. Life insurance, separation, loans and funeral benefits are touched but not in detail. The Home Development and Mutual Fund (Pag-IBIG) is not discussed (see TSG, 2007).

The study is divided into three parts: 1) Introduction (overview of the pension system, and scope, structure and methodology of the study); 2) Diagnosis; and 3) Conclusions and Policy Recommendations. The diagnosis describes features and evaluates performance of six key aspects of the pension system based on conventional social security principles developed by the International Labor Organization (ILO), which include 1) unity; 2) universal coverage; 3) sufficiency of benefits; 4) social solidarity and gender equity; 5) administrative efficiency, moderate costs and social

[3] A significant effort was done to obtain recent reports or information on ongoing studies by ADB and the World Bank. Two ADB officials told us that there was no recent study on Philippines pensions (Buentjen, 2011-I; Kelly Bird, Sept. 16, 2011) but a consultant wrote us that he had a contract with ADB to write a paper on that topic for publication and declined an interview (Ernesto Reyes, August 18, 2011). In the World Bank, we indirectly contacted Bert Holzman (Country Director) and he designated Mr. A Sevilla to meet Mesa-Lago after he had left Manila; a message sent to Sevilla on Sept. 20, 2011 was not answered. A consultant informed that a study was done for the WB in 2008 by an international team including Estelle James and Alberto Musalem but we could not obtain a copy; he also wrote a recent study that was owned by the WB and unsuccessfully asked permission to Bank officials Jeremiah Paul and Soledad Cruz to provide us a copy (Romy Bernardo, Sept. 20, 2011).

[4] The distribution of expenditures by type of benefit in SSS in 2009 was: 89.3% pensions of old-age, disability and survivors, and 10.7% sickness and maternity paid leave plus funeral aid (based on BLES, 2010a).

representation; and 6) financial sustainability.[5] In each of these six aspects, the study identifies progress achieved and pending challenges. The final part summarizes major findings in the six selected aspects, and proposes recommendations in each aspect to tackle problems and improve the system. The impact of the global crisis is assessed when pertinent and feasible. Comparisons of the Philippines with other East and Southeast Asian nations are done whenever there are available data.

A systematic collection and elaboration of statistical series on SSS and GSIS for the period 2000-2010 supports the study on all relevant issues of the six key aspects selected. Similar or longer series are generated on macroeconomic variables such as GDP and inflation, the labor force and its composition by type of worker, and others indicators needed for the analysis. All previous studies on the pension system have been consulted and their contributions integrated in the text.

Commissioned by the Friedrich-Ebert-Stiftung (FES) in Philippines, the study was completed in seven months. It was divided in five stages starting on May 1, 2011, by principal investigator Carmelo Mesa-Lago (CML) and a research team in Manila composed of Verna Dinah Q. Viajar (VV) and Rolly Czar Joseph Castillo (CJ). The stages of the study were as follows: 1) CML designed the organization of the study and provided guidelines to the team to elaborate preliminary statistical tables, compile legal and historical information, and get the most important published studies. The team also responded to queries and requests for additional data from CML; 2) CML thoroughly checked the materials, expanded and integrated them, wrote the diagnosis, elaborated on new tables and all figures, and developed recommendations for the first draft of the study on August 27; 3) the field team scheduled 22 interviews with 40 persons in Manila held on September 5-17, with all key institutions and some experts, conducted by CML and assisted alternatively by VV, CJ and/or Anne Hélène Vasudevan. Four additional interviews were conducted in October. The interviews aimed to fill gaps, clarify doubts, compile additional information, and get opinions and comments from the interviewees. At the end of the visit, the entire team developed new tables, assessed the progress achieved, and identified pending issues; 4) between September 21 and October 30, 2011, CML, supported by the field team, incorporated the new materials in the study, prepared the second version, and submitted it to SSS and GSIS for checking; and 5) the team publicly presented the final version of the study in Manila on November 10, 2011 and published it on November 30, 2011.

[5] Such principles are laid down in ILO Convention No. 102 approved by the International Labor Conference in 1952 ("minimum norm") and in subsequent conventions/ recommendations of the Conference (for an analysis see Mesa-Lago, 2008).

DIAGNOSIS OF THE PENSION SYSTEM

This section describes the six key aspects of the system and evaluates its performance. The discussion is divided into the six key aspects: 1) unity, 2) coverage, 3) benefits, 4) social solidarity and gender equity, 5) efficiency, administrative costs and social representation, and 6) financial sustainability.

Unity

Within the context of East and Southeast Asia, the Philippine pension system is fairly simple: like all schemes, it is of the social-insurance type. In the other eleven East and Southeast Asian countries, four have combinations of a provident fund with social insurance, or the latter with a national program or individual accounts (Indonesia, Malaysia, Japan and China); two of the most developed countries have provident funds (Brunei and Singapore); four have social insurance (Laos, South Korea, Thailand and Viet Nam); and one lacks a pension system (Myanmar) (US-SSA/ISSA, 2011).

Social insurance public pension programs usually are of "defined benefit" (DB), wherein benefits are regulated by law, including the pension formula and the setting of a minimum pension. The schemes are managed by autonomous public agencies.

Private pension systems normally are of "defined contribution" (DC) because contribution is fixed and deposited in individual accounts that belong to the insured. They are managed by private corporations that also invest the funds in the accounts and add capital returns to them; therefore the pension is not "defined" but uncertain. It is calculated at the time of retirement based on the amount accumulated in the individual account and mortality tables. Within East and Southeast Asia, Japan, Laos, the Philippines, South Korea, Thailand and Vietnam have DB systems whereas China, Indonesia, Malaysia, Singapore, Sri-Lanka and Taiwan have DC systems (Van der Auwera, 2007; OECD-WB, 2009). In the Philippines, all social insurance pension programs are of the DB type, except for some company plans, private insurance and provident funds that are a minority.

Asher (2010) pinpoints that despite increasing recognition in Asian countries of the need to institutionalize good government practices of accountability, transparency, and participation in management by different stockholders in social security, progress has been modest and the state domination has precluded the creation of an independent pension regulator and enforcer of such good practices.

In the Philippines, the state plays a relatively minor role in the pension system: 1) the government guarantees benefits but so far has not been obligated to finance deficit and does not contribute except as an employer; 2) the Commission on Audit (COA), the constitutional agency that audits all government transactions, theoretically oversees pensions but in practice does not do a thorough job (Edralin, 2001-I; Orbeta, 2011-I); 3) the government has not led efforts to extend coverage and leaves the effort to the major social insurance institutions. On the other hand, the President of the Philippines appoints all members of the commission/boards and in the past, exercised pressure to invest social insurance funds in programs or instruments that have poor or negative capital returns.

1. Pension Pillars

The literature on Philippine pensions identifies four or five pillars or layers, starting at zero or first level. An integration of these approaches is summarized in Box 1.

Box 1. Pillars of Social Security Pension Protection, 2011a

Pension Pillars	Institutions and Programs
1. Social assistance/welfare, poverty-targeted, publicly managed, non-contributory tax-financed [b]	New tax-financed non-contributory pension targeted on the elderly extreme poor, other anti-poverty programs of the Department of Social Welfare and Development (DSWD), Department of Labor and Employment (DOLE), etc.
2. Compulsory social insurance pension, defined benefit (DB), publicly managed, financed by salary contributions of workers and employers, and investment capital returns	Old-age, common disability and survivor pensions: Social Security System (SSS) for private-sector workers; Government Service Insurance System (GSIS) for civilian public sector; seven separate schemes are non-contributory and fully financed by the state. Work-related accident/sickness pensions: Employment Compensation Commission (ECC). Overseas Workers Welfare Administration (OWWA) for work-related risks.
3. Compulsory occupational or personal pension plans, defined contribution (DC), publicly managed, financed by salary contributions	Provident funds or life insurance: AFP-RSBS provident fund; GSIS life-insurance; OWWA life-insurance; SSS and GSIS employees' provident fund (also for all civil servants).
4. Voluntary, supplementary occupational or personal pension plans, other individual financial and non-financial assets	SSS provident fund; GSIS mutual fund; company-based provident fund/pension schemes of large private enterprises and public and autonomous corporations; private pension and life insurance, tax-deductible investment to personal accounts.

[a] Excludes health care and other social security programs. [b] To alleviate the effects of the global crisis, the government implemented several social welfare programs (conditional cash transfers, food, microfinance, etc.) for the most vulnerable groups.

Source: Based on ASEAN, 2009;Manasan, 2009b;Orbeta, 2011; SSS, 2011g; Bautista, 2011-I; Rocamora, 2011-I .

The above data gives the impression of comprehensive, integral pension protection, although there are significant limitations: a) the pension system is highly segmented and in need of integration; b) coverage by contributory pensions of the EAP is about 29% and 17**%** of the elderly, hence, 71% and 82**%** are respectively excluded; and c) there is a brand new non-contributory pension program which targets the extreme poor elderly but has a very small coverage.

2. High Fragmentation of the Pension System

Fragmented pension systems yield adverse outcomes on all social security principles which include: a) problems of coordination, duplication, gaps and portability (transfer of contributions from one scheme to another during the insured's working life); b) significant and unjustified differences in entitlement conditions and benefits among schemes which afflict social solidarity; c) coverage of small groups of insured by separate schemes thus failing to take advantage of economies of scale and enduring higher administrative costs, also due to proliferation of boards and personnel; d) generous benefits in separate schemes and high administration costs deplete resources needed for the extension of coverage; and e) the most liberal schemes require huge fiscal transfers and suffer financial-actuarial disequilibria. It has also been shown that unified systems have higher coverage than highly fragmented ones (Mesa-Lago, 2008, 2012).

The Philippine pension system is very fragmented because it embraces 15 separate schemes, most of which provide old-age (retirement), disability and survivors pensions:[6]

1. Social Security System (SSS) for salaried and self-employed workers and employers in the private sector;

2. Government Service Insurance System (GSIS) for all government civilian employees including those in schemes for uniformed personnel;

3. Within GSIS there are three “special members only” covered in terms of life insurance, which have their own separate entitlement conditions and benefits: Constitutional Commission, Labor Arbiters, and Prosecutors;[7]

4. Armed Forces of the Philippines Retirement and Benefit System (AFP-RSBS),where there is a proposed Act to reform it;[8]

5. Philippine National Police (PNP);[9]

6. Bureau of Jail Management and Penology (BJMP);

7. Bureau of Fire Protection (BFP);

8. Coast Guard;

9. Philippine Veterans of wars against Spain and the USA, WWII, Korean and Vietnam wars (AFP-RSBS members may qualify);

10. Justices and Judges (excludes prosecutors who are covered by a different law);

11. Overseas Workers Welfare Administration (OWWA) as work-related pensions for overseas Filipino workers (OFW) and their dependents; and

12. Employee’s Compensation Commission (ECC) as work-related contingencies (occupational accidents and diseases) for those in SSS, GSIS, PNP, BFP, Coast Guard, or as pensions for disability and death.

[6] Among eleven 11 Southeast Asian countries, the Philippines has one of the most fragmented pension systems. Most of the other countries have separate schemes for civil servants (some for state enterprises) and the armed forces, and a few for judges, policemen, and private schools, but none appears to have 15 schemes (US-SSA/ISSA, 2011).
[7] Judiciary is covered on life insurance by GSIS and has its own scheme (10 in the list); labor arbiters and prosecutors have similar conditions as the judiciary (Aguja et al, 2011-I)
[8] The AFP-RSBS pension system was underfunded since its start in 1973 and members’ contributions were reassigned in 1979 to a provident fund whereas pensions are fully paid by the state.
[9] In 2011 the Police received from the Public Safety Mutual Benefit Fund Inc. (PSMBFI), part of the Department of Interior and Local Government. This fund is considered more as a life insurance than a pension system (Peralta, 2011-I).

Some of the separate schemes also grant compulsory or voluntary life insurance, separation and unemployment compensation, loans and funeral benefits. There are optional mutual or provident funds, private-enterprise sponsored pension plans and individual insurance pension plans, but scarce data are available on the last two. The armed forces and employees of GSIS and SSS have a mandatory provident fund (see II-C).

The noted pension schemes are autonomous and each has its own group of insured, legislation (a mosaic of RA, PD, EO, in need of integration), entitlement conditions, regulations, calculation of benefits, and administration. The scope of COA auditing power is limited by the Constitution and the four other agencies have diverse overseeing functions over pension schemes.[10] Therefore there is no single, integrated, public institution with adequate powers to supervise, regulate and audit the entire segmented pension system.

In addition, there are two other social security programs: 1) Philippine Health Insurance Corporation (Philhealth or PHIC) that provides universal healthcare; and 2) Home Development Mutual Fund (HDMF or Pag IBIG) that give loans for housing, calamities and short-term needs for all employees in SSS, GSIS, AFP-RSBS, PNP, BJMP and BFP, as well as voluntary for Filipinos employed by foreign-based employers and spouses who work full time in their household.

3. Some Measures Taken to Improve Coordination

A positive step was the Portability Law of 1994 that stipulates: "a covered worker who transfers employment from one sector to another or is employed in both sectors shall have his credible services or contributions in both Systems (SSS and GSIS) credited to his service or contribution record in each of the Systems and shall be totalized for purposes of old-age, disability, survivorship and other benefits" (RA 7699, 1994). When such employees have reached the age but not the required years of service, benefits are calculated combining both, and paid by SSS and GSIS proportionally to the contributions accumulated in each.

On June 21, 2011, the Secretary of the Interior and Local Government created a special unit - the Retirement and Benefits Administration Service-RBAS - to manage the funds for retirement, pension and separation of uniformed personnel in PNP, BJMP and BFP (apparently excluding AFP and Coast Guard), but they might keep their diverse entitlement conditions and benefits (*Official Gazette*, 2011).

In 2008, the existing programs of the Department of Social Work and Development, the Department of Health, the Department of Education, the SSS and GSIS and other agencies dealing with social welfare were clustered into the National Social Welfare Program (NSWP) to fight the effects of the global financial crisis. Reportedly, the NSWP improved the coordination of various agencies dealing with social protection and facilitated government efforts to address the adverse effects of the crisis. Family and community-based diagnosis were being considered to determine poverty-risk situations, as well as a unified monitoring and evaluation system (ISSA, 2010b). But in 2009, a report asserted that the social protection system remained highly fragmented, had a narrow base of beneficiaries, and had a limited access

[10] The Financial Institutions Division of Division of the Department of Finance Corporate Affairs Group supervises SSS, GSIS and AFP-RSBS; the Tax Administration registers the employer-sponsored schemes; the Central Bank supervises trust accounts at commercial banks; the Insurance Commission supervises insurance companies; the Securities and Exchange Commission supervises plans of Pre-Need companies. These institutions are audited only on an ad hoc basis, and audits are not publicly available (TSG, 2007)

from the poor and informal sectors. Under the administration of President Benigno Aquino III (inaugurated June 30, 2010), an anti-poverty strategy for 2010-2016 has been launched to maximize the results of existing limited resources under the DSWD chairmanship and the NAPC Secretariat (NAPC, 2011).

A proposed bill being considered by the Committee of Labor and Employment at the House of Representatives correctly notes the segmentation in the administration of work-related contingencies into three agencies and the need for their integration. For this purpose, the bill dissolves the ECC and creates a new entity with full powers to collect contributions, manage and invest its funds, and pay benefits, therefore taking away those functions from SSS and GSIS (Act Establishing…, 2010). Although the integration goal is positive, the bill could generate some important negative consequences.

Many adverse outcomes of fragmentation of the pension system need to be addressed through integration or better coordination. The state should lead this effort with the technical help of international organizations that could also build the needed capacities (Asher, 2009).

Coverage

Herein we distinguish three types of coverage: legal, statistical and by surveys. Legal coverage is prescribed by law but not always enforced, particularly among informal workers, due to the difficulty in detecting and enrolling them and collecting their contributions therefore it usually creates the illusion of higher coverage than in reality. Statistical coverage is based on data from social insurance institutions and their reliability depends on the accuracy of the registry. When it is based on "members", coverage is much higher than when based on "contributors" because the former may have enrolled and paid one contribution but later abandoned the labor force, become unemployed on emigrated. In segmented systems, like the case of the Philippines, coverage is often limited to the major schemes because of the difficulties in collecting data from all other separate schemes. The most accurate coverage is the one resulting from labor or household surveys (if professionally conducted and questions were asked properly) as they embrace those members who are contributing to all pension schemes (Mesa-Lago, 2008; Annycke, 2009). In the Philippines, we rely on legal and statistical coverage and partial data supplied by surveys. Labor surveys do not include data on separate schemes, hence, it is very difficult to do estimates on the labor force and elderly covered; labor surveys neither provide SSS and GSIS disaggregated data by sex, education, and so forth (De Guzman, 2011-I).[11]

Finally, coverage can be estimated relative to the EAP or labor force and to the elderly. Disaggregation of coverage data by location (urban and rural), income (by quintiles or deciles), education, gender and size of enterprises is important to assess discrimination and inequalities of various types.

1. Legal Coverage

In SSS, current legal coverage is mandatory for all workers in the private sector not older than age 60: a) formal salaried workers and employers with at least one employee; b) regular self-employed program, for those earning at least PhP1,000 monthly, including all professionals, partners and single business owners, artists, entertainers and news correspondents, professional athletes, coaches, trainers and jockeys, agricultural workers, individual farmers and fishermen; c) expanded self-employed program for those earning no less than PhP1,000 monthly, such as domestic helpers, agricultural workers not paid a regular daily wage, drivers, market vendors, children employed by parents and vice versa, and others in the informal sector. Voluntary coverage is available for non-working spouses of members, insured persons who are no longer eligible for mandatory coverage, OFW and employees of diplomatic/foreign missions.

The SSS extension of legal coverage was done gradually between 1954 and 1997, as summarized in Box 2. The scope of legal coverage in the Philippines is one of the widest both in developing countries and in Asia. For instance, among eleven countries in East and Southeast Asia, the self-employed only have mandatory coverage in one (South Korea) and in the rest, they are either excluded or have voluntary coverage, including more developed countries such as Brunei, Japan and Singapore (US-SSA/ISSA, 2011).

[11] A pilot survey conducted in Laguna in 2004, focusing on decent work and pensions, asked the interviewee if he/she received a pension from past employment, and disaggregated the data by type of worker, sex and education; unfortunately it did not become national and regular (De Guzman, 2011-I).

GSIS legally covers in compulsory manner all government civilian employees (including civilian staff in schemes for uniformed personnel), as well as those in public corporations, irrespective of employment status. AFP-RSBS mandatorily covers uniformed military officers and soldiers.

Box 2. Gradual Expansion of Legal Coverage in SSS, 1954-2011

Year	Expansion	Coverage nature
1954	All employers in private business with at least 100 employees	Compulsory
1957	Employers with 50 or more employees	Compulsory
1958	Employers with at least six employees	Compulsory
1960	Employers with at least one employee	Compulsory
1963	Employees of diplomatic/foreign missions in Philippines	Voluntary
1973	Overseas Filipino Workers (OFW)	Voluntary
1980	Self-employed professionals	Compulsory
1992	Self-employed farmers and fishermen	Compulsory
1993	House helpers (domestic employees)	Compulsory
1995	Expanded self-employed[a]	Compulsory
	Overseas contract workers	Voluntary
	Separated SSS members (unemployed)	Voluntary
	Non-working spouses	Voluntary
1997[b]	Agricultural workers not paid by regular daily wage Parents employed by children and minors employed by parents	Compulsory

[a] Unpaid family workers are probably classified as self- employed and compulsory covered. [b] No further expansion after 1997 until at least November 2011.

Source: SSS, 2010b; Edralin et al, 2011-I.

2. Statistical Coverage of EAP

According to ISSA, mandatory pension systems cover typically between 25% and 50% in middle income countries (Ginneken, 2010), such as the Philippines, which is closer to the lower rather than the upper boundary. In eight countries in Southeast Asia, the Philippines ranked fourth in pension coverage in 2006.

Statistical coverage of the EAP may be based on "members" or "contributors." Members are those who enrolled and paid one monthly contribution, which only entitles them to funeral benefit while contributors are members who have at least one monthly contribution in the year[12] (Edralin et al, 2011-I; Aguja et al, 2011-I). Table 1 estimates coverage of the EAP by contributory pensions in both schemes based on contributors in 2000-2010. The combined coverage slightly increased from 26.6% to 28.3% (Figure 1). Coverage by those insured in the armed forces and other separate schemes is estimated at 290,000 or 0.7% of the EAP in 2010, for a total coverage of about 29%.[13]

[12] In SSS, it is technically in the year prior to an actuarial valuation. One single contribution entitles SSS members to funeral aid.
[13] Based on 140,000 policemen, 120,000 military men, 15,353 firemen, 10,089 jail men, 3,000 coast guards, and 1,679 justices and judges (BLES, 2011c; Marayag, 2011-I; Barribal-Co, 2011-I; authors' rough estimates for coast guards).

Scarce data available circa 2007-2008 on EAP coverage in East and Southeast Asia indicate that the Philippines ranked below the mid-point among ten countries: 95.3% EAP coverage in Japan, 77.9% in South Korea, 56.6% in Singapore, 45.5% in Malaysia, 35.6% in Sri Lanka, 27.1% in the Philippines, 22.5% in Thailand, 20.5% in China, 15.5% in Indonesia, and 13.2% in Vietnam[14] (Ghosh, 2006; Asher, 2009; OECD-WB, 2009). More recent and standardized data on East and Southeast Asian coverage are needed for more precise comparisons.

Table 1. Coverage of EAP on Contributory Pensions based on Contributors in SSS and GSIS, 2000-2010

Year	Contributors (thousands)[a]			EAP (thousands)	EAP Coverage (%)			Distribution(%)	
	SSS	GSIS	Total		SSS	GSIS	Total	SSS	GSIS
2000	6,951	1,276	8,227	30,911	22.5	4.1	26.6	84.5	15.5
2001	6,985	1,300	8,285	32,809	21.3	4.0	25.3	84.3	15.7
2002	7,215	1,335	8,550	33,936	21.3	3.9	25.2	84.4	15.6
2003	7,326	1,336	8,662	34,571	21.2	3.9	25.1	84.6	15.4
2004	7,497	1,333	8,830	35,862	20.9	3.7	24.6	84.9	15.1
2005	7,683	1,331	9,014	35,381[b]	21.7	3.8	25.5	85.2	14.8
2006	8,001	1,310	9,311	35,464	22.6	3.7	26.3	85.9	14.1
2007	8,051	1,333	9,384	36,213	22.2	3.7	25.9	85.8	14.2
2008	8,862	1,361	10,223	36,805	24.1	3.7	27.8	86.7	13.3
2009	9,012	1,370	10,382	37,892	23.8	3.6	27.4	86.8	13.2
2010	9,659	1,363	11,022	38,894	24.8	3.5	28.3	87.6	12.4

[a] "Contributors" are members who made one contribution in the year. [b] Based on ILO estimate.

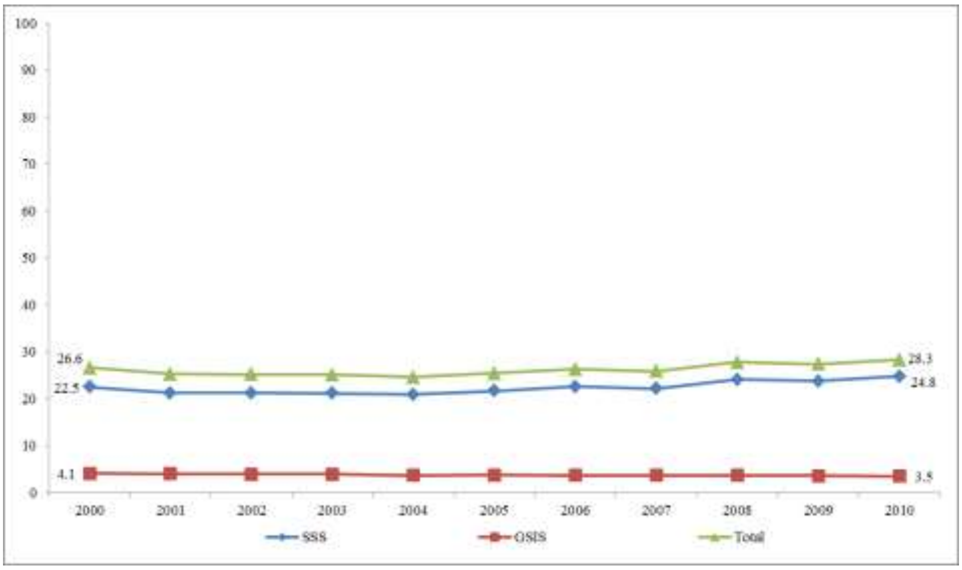
Sources: Contributors based on SSS, 2011d; GSIS, 2001a-2010b, 2011a. EAP based on BLES, 2005, 2010a, 2011a (see series for 1987-2010 in Appendix 1).

The majority of those covered are in SSS, whose share climbed from 84.5% to 87.6%, whereas the share in GSIS decreased from 15.5% to 12.4% (Table 1). This is a result of the expansion of coverage of SSS and a subsequent 39% rise in the number of contributors (higher than the 26% increase in the EAP) while contributors in GSIS rose by only 7% due to small increase in state employment. Despite the expansion of SSS coverage, about 71% of the EAP is not covered. The global crisis did not cut down the number of contributors, although it stagnated in GSIS in 2008; while, the rate of growth slowed down in SSS.

Table 2 demonstrates the significant difference in estimating statistical coverage of the EAP by SSS based on "members" and "contributors" (data on GSIS members were unavailable). In 2010, coverage based on members was 74%; while, coverage based on contributors was only about one third or 24%. Undoubtedly, calculations based on members overestimate coverage, but those based on contributors also involve some underestimation because one single contribution in a year does not assure entitlement to a pension. On the other hand, it is reported that the average SSS member contribution in 2010 was about seven months instead of one (Edralin, 2011-I). Furthermore, a member who ceased to contribute may do it later and earn the right to a pension. Still, estimates based on contributors are more reliable albeit a more accurate measure is needed.

[14] Asher (2009) suggests a positive correlation between per capita income and the coverage ratio.

Figure 1. Coverage of EAP by Contributory Pensions based on Contributors in SSS and GSIS, 2000-2010



Source: Table 1.

Table 2. Coverage of EAP based on Members, Contributors, and Members who Contribute in SSS, 2000-2010 (in percentages)

Years	Coverage Members	Coverage Contributors	Members/ Contributors
2000	73.2	22.5	30.7
2001	71.7	21.3	29.7
2002	71.6	21.3	29.7
2003	72.5	21.2	29.2
2004	71.6	20.9	29.2
2005	73.8	21.6	29.3
2006	75.3	22.4	30.0
2007	75.2	22.2	29.6
2008	75.4	24.1	31.9
2009	74.5	23.8	31.9
2010	74.0	24.8	33.5

Source: Based on SSS, 2011d

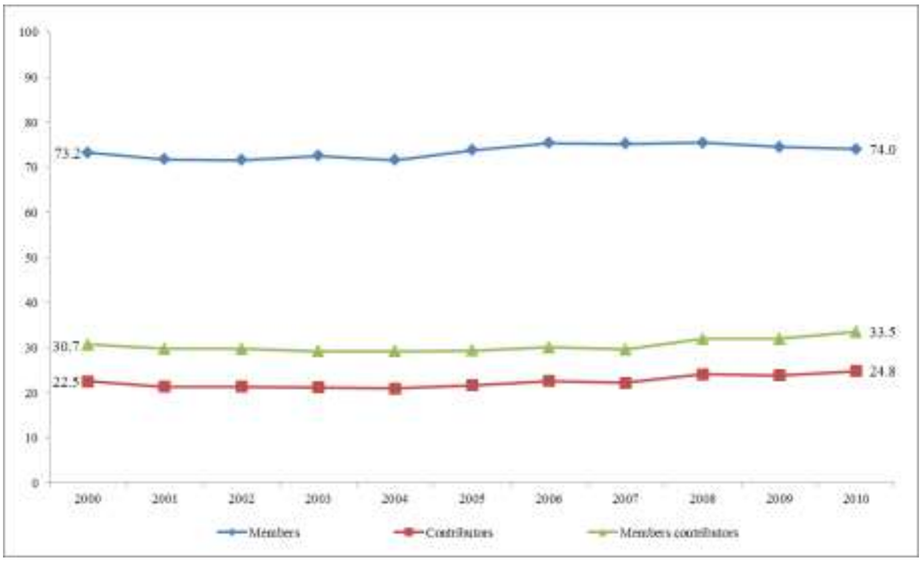
SSS members who contributed decreased from 30.7% to 29.2% in 2000-2004 but increased to 33.5% in 2010 - still only one third of total membership[15] (Figure 2). Although there were no available data on GSIS members, it was hypothesized that the percentage of its members who contribute is higher because the majority of the

[15] Coverage in SSS health-care program (PhilHealth) is much higher: official coverage is 82% of the population in 2009, but there are lower estimates (Orbeta, 2011)

members are in the formal sector[16] and their contributions are automatically deducted from their salaries, whereas part of the SSS are informal (but see II-E-3) .

The 1990 actuarial valuation of the pension scheme recommended measures to reduce the number of non-contributing members, but the 2007 actuarial valuation assumed that "the compliance of members in paying contributions will slightly increase" (SSS, 2007b, 2011e). Verceles and Pineda (2009) assert that "the total membership of 27.38 million as of March 2008 is close to ten million more than the membership in 1996, prior to the enactment of the [1997] Social Security Law." The number of SSS contributors in 1996 could not be obtained, but there was an increase of 2.7 million contributors in 2000-2010 (39%).

Figure 2. Coverage of EAP based on Members and Contributors, and Members who Contribute in SSS, 2000-2010 (in percentages)



Source: Table 2.

3. Statistical Coverage of the Elderly Population

A non-contributory pension program for the elderly extreme poor began in 2011, hence, estimates in Table 3 refer to coverage of those at age 60 and over who received a contributory old-age pension from SSS and GSIS in 2000-2010.

Coverage is very low although augments from 8.3% to 15.2% - 13 percentage points lower than the coverage of the EAP (Figure 3).This estimate is more accurate than the coverage of the EAP because it refers to persons receiving pensions. However, if the elderly covered by survivor/disability pensioners were added, said coverage would be somewhat higher. Pensioners in separate schemes (i.e., AFP-RSBS, other uniformed personnel and judges) were 166,768 in 2010 or 2.6% of the population

[16] Nevertheless there are informal workers in the government sector who do community work for a small allowance and are not covered by GSIS; the Magna Carta for Workers in the Informal Economy request such coverage (Verceles and Pineda, 2009).

age 60 and over and when added to the 15.2% in Table 3, the total coverage was 17.8%.[17]

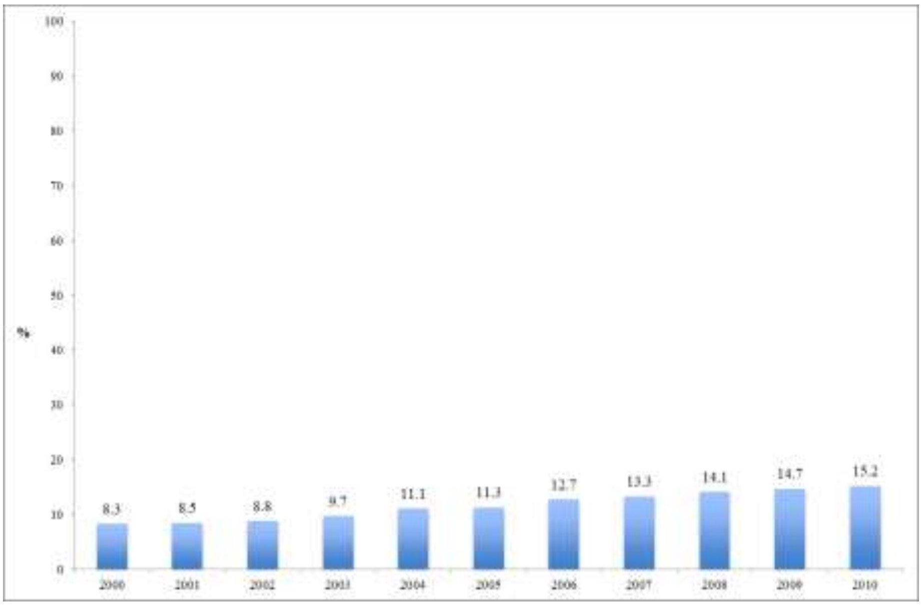
Table 3. Coverage of Population 60 and Over by Old-Age Contributory Pensions in SSS and GSIS, 2000-2010

Year	Popula-tion 60+	Pensioners 60+ with old age pen-sion		Total [a]	Coverage (%)
		SSS	GSIS		
2000	5,557	359	105	464	8.3
2001	5,821	388	108	496	8.5
2002	6,123	419	119	538	8.8
2003	5,906	454	120	574	9.7
2004	5,498	479	131	610	11.1
2005	5,641	508	128	636	11.3
2006	5,415	550	140	690	12.7
2007	5,598	597	149	746	13.3
2008	5,817	643	179	822	14.1
2009	6,025	698	188	886	14.7
2010	6,282	757	198	955	15.2

[a] Excludes those receiving disability and survivor pensions who are 60 years old and over.

Source: Based on BLES, 2011c; 2002 from GSIS, 2011c.

Figure 3. Coverage of Population Age 60 and over by Contributory Pensions in SSS, 2000-2010



Source: Table 3.

4. Reasons for the Low Coverage of the EAP and the Elderly

EAP coverage based on SSS and GSIS contributors was 28% in 2010. Although some under-estimation is involved for the reasons explained, this estimate is more

[17] Pensioners in separate schemes in 2010 were: 111,000 were from the armed forces, 49,379 policemen, 4,316 firemen, 1,477 jail personnel and 596 judges (based on BLES, 2011c; Marayag, 2011-l)

reliable than the inflated 75% based on members with one single contribution in their working lives. Despite significant efforts to extend legal coverage, about 71% of the EAP is not covered for the following reasons: a) a large informal sector that, despite legal extension, remains largely uncovered; b) difficulties in enforcing compliance and high evasion; c) significant open unemployment and underemployment; and d) high poverty incidence.

a) Large informal sector that remains uncovered

According to the official definition, the informal sector includes own account workers (self-employed and employers[18]) and unpaid family workers; private household workers (domestic helpers) and paid family workers are excluded from such definition although they are considered informal in many other countries (BLES, 2011b). In 2010, the formal sector was 48.8% of the EAP, where 40.4% was composed of private salaried employees and 8.4% were public employees. The informal sector accounted for 51.2% of the EAP, where 34% were own account workers (30.2% self-employed and 3.8% employers), 11.5% were unpaid family workers, 5.3% were domestic helpers, and 0.3% were family paid activities or own business. In 1987-2010, there was a five percentage point increase in the share of formal employment—concentrated in private employment, as public employment stagnated—and a 5-point decrease in the share of informal employment, particularly self-employed and unpaid family members given that the share of employers stagnated (based on Appendix 2).The informal sector as percentage of the *employed* EAP decreased from 54.8% to 42.2% in 1980-2010 but still remained very high (Table 4 and Figure 4)[19]. Trade unions estimate a higher percentage of informality because many jobs in the formal sector are actually short-term, seasonal, casual and unprotected. Employers minimize permanent employment and outsource the rest. Subcontractors should legally cover their workers on social insurance—the principal company is liable if the contractor does not comply—but in practice they circumvent the law dissolving the sub-contracting company and creating a new one or hiring workers for only three to four months before the six months required to gain permanency (Edralin, 2011-I).The global crisis has affected informal laborers more than other workers because they have very low or no access to social insurance (Pineda, 2010).

[18] Employers are defined as persons working in their own business, farm, profession or trade, and having one or more regular employees including family members. This scope is quite wide since it includes microenterprises with one single employee that could be a family member.

[19] Among six East and Southeast Asian countries, the Philippines ranked fourth to have the highest informal sector in urban employment, below Cambodia (close to 70%), Thailand and Indonesia, and above Korea and Singapore (less than 10%) (Asher, 2009).

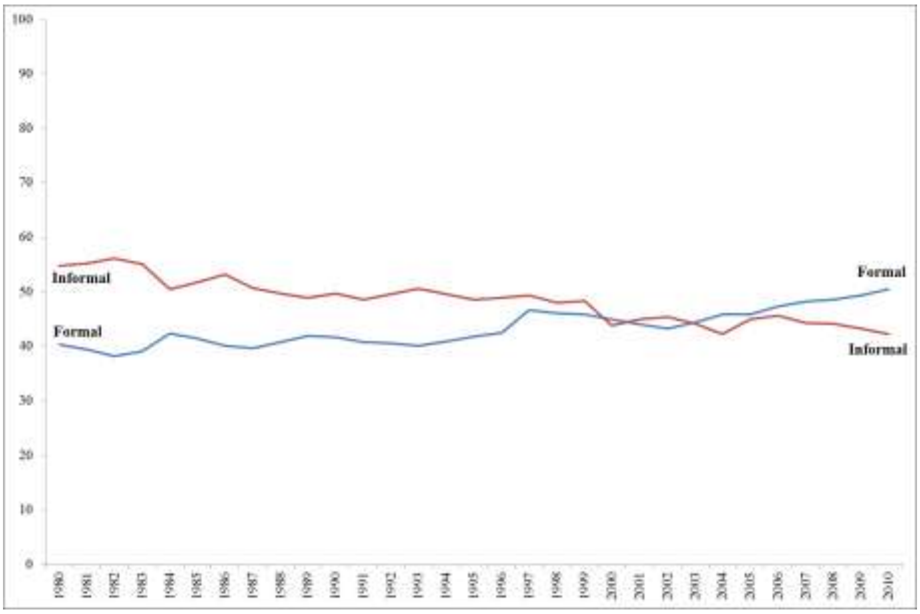
Table 4. Percentage of the Employed EAP in the Formal and Informal Sectors, 1980-2010

Year	Formal	Informal	Year	Formal	Informal
1980	40.3	54.8	1996	42.5	48.9
1981	39.4	55.2	1997	46.6	49.3
1982	38.2	56.1	1998	46.1	48.0
1983	39.1	55.1	1999	45.9	48.3
1984	42.3	50.5	2000	45.0	43.8
1985	41.5	51.7	2001	44.0	44.9
1986	40.1	53.2	2002	43.2	45.4
1987	39.6	50.7	2003	44.4	44.2
1988	40.8	49.7	2004	45.9	42.2
1989	41.9	48.9	2005	45.9	45.0
1990	41.7	49.7	2006	47.3	45.6
1991	40.8	48.6	2007	48.2	44.3
1992	40.5	49.6	2008	48.5	44.1
1993	40.1	50.6	2009	49.3	43.2
1994	40.9	49.6	2010	50.5	42.2
1995	41.8	48.6			

[a] Difference to 100% are the unemployed. Informal sector includes own account workers (employers and self-employed) and unpaid family workers.

Source: BLES, 2005, 2010a, 2011a.

Figure 4. Percentage of EAP in Formal and Informal Sectors, 1980-2010



Source: Table 4.

In addition to formal employees, legal coverage is compulsory for employers with at least one employee, self-employed professionals, farmers and fishermen, domestic helpers, informal sector workers in general, agricultural workers not paid a regular daily wage, and parents employed by children and vice versa. Based on contributors, joint coverage by the SSS and GSIS of formal employees declined from 51% to 44.6% in 2000-2010 where the coverage of public employees was higher than the private employees. Self-employed/microenterprise employers fell from 9.9% to

5.6%, whereas coverage of OFW rose from 12% to 16.8% and that of voluntary members increased from 1.4% to 4.7%. In 2010, formal employee coverage was eight times higher than that of the self-employed, nine times than that of voluntary members, and 2.6 times than that of OFWs (Table 5).

Table 5. Coverage of each Type of Insured Worker in SSS and GSIS, 2000-2010 (in percentages)a

Year	Employed	Self-Employed [b]	Voluntary [c]	OFW
2000	51.1	9.9	1.4	
2001	47.9	8.9	1.9	
2002	47.6	8.1	2.5	
2003	45.6	7.2	2.9	
2004	43.7	6.2	3.1	11.9
2005	46.3	5.7	3.0	11.3
2006	45.7	5.5	3.3	13.3
2007	45.5	5.3	3.5	14.7
2008	46.2	5.5	4.0	15.3
2009	44.1	5.4	4.5	15.3
2010	44.6	5.6	4.7	16.8

[a] Based on active contributors. [b] Includes microenterprise employers. [c] Non-working spouses and separated SSS members.

Source: Based on data from BLES, 2005a, 2010a; SSS, 2011d; GSIS, 2011a; POEA 2005-2010.

Consistent with the previous data, the percentage distribution of total SSS contributors by type of worker in 2000-2010 decreased from 79.4% to 76.3% among formal employees, (including domestic helpers) and also declined from14.5% to 7.2% among regular and expanded self-employed (including farmers, fishermen and employers). It rose from 4.8% to 14% among voluntary affiliates and from 1.3% to 2.5% among OFWs. The total increase in covered contributors during the period was 39%, but employees augmented were at 134%, OFWs at 178% and voluntary affiliates at 302%. The self-employed dropped by 31% (based on Appendix 3).Unpaid family workers, domestic helpers and the self-employed, which comprise the generally labeled informal sector, were not disaggregated. However, the self-employed comprised 7% of those covered (and declining in absolute terms) whereas the informal sector was 42% of the EAP. On the other hand, those voluntarily covered (i.e., separated SSS members, non-working spouses and OFWs) substantially rose both in percentage and absolute terms. Therefore, the important expansion of legal coverage had positive results on voluntary members but not on the self-employed, the coverage of which had shrunk in absolute and percentage terms since 2000.

b) Difficulties to enforce compliance and high evasion

The scope of legal coverage of informal workers, farmers, domestic helpers and so forth in the Philippines is quite wide both within the developing countries and in East and Southeast Asia, but effective enforcement is usually poor. Only 33.5% of SSS members contributed in 2010 with an increasing trend since 2001, but there are indications of significant evasion and payment delays, which partly explain the low coverage.

Evasion and payment delays are due to several causes: 1) detection, registration and collection of contributions are difficult because informal workers are dispersed and they lack a contributing employer who deducts the worker's contribution and sends it to social insurance; hence, the worker must take the initiative to enroll and pay regularly; 2) the contribution of the self-employed and other informal workers is the sum of the percentage contributions of employers and employees in SSS where the tax burden is much heavier on the self-employed and informal workers at 10.4% than the 3.33% imposed on salaried employees in the formal sector; 3) most of these workers earn low and irregular income;[20] and 4) SSS inspection of compliance is concentrated on the largest enterprises - leaving out small employers, informal, and non-salaried agricultural workers (see II-E-3).

Domestic helpers represented 5.3% of the employed EAP in 2010 but only 0.4% of those were insured (about 7% are covered). They are salaried workers and have compulsory coverage, but many of them lack a contract. Collusion among employers to avoid paying contributions is probably common, and even those domestic helpers who would like to become SSS members are afraid to report employer's non-compliance because it could result in their dismissal. Only 6,000 of housewives are SSS members but almost half of all women could be classified as non-working spouses. The number of OFWs rose from 933,419 to 1,470,826 in 2004-2010 (POEA, 2005- 2010), where only 16.8% were members in 2010.[21]Higher estimates show that there are 8 million documented OFWs and 2 million undocumented, with a net emigration of 300,000 annually (Capulong, 2011-I).

c) Significant unemployment and underemployment

Open unemployment rose from 8.4% of the EAP in 1990 to 11.8% in 2004. Data for 2005 and thereafter are not comparable to previous years due to a new unemployment definition. The new series indicates declining unemployment from 8% to 7.4% in 2006-2010 despite the crisis (see Appendix 1). Still, it is one of the highest unemployment rates in Asia (UNDP, 2010a). Underemployment, on the other hand, is estimated at 19.4%. These are factors that contribute to low social insurance coverage. Combining unemployment in 2010 with the informal sector and domestic helpers results to 53% of the EAP being in a vulnerable situation. This estimate excludes underemployment, as well as farmers, peasants and other non-salaried agricultural workers (51% of the population resides in rural areas and 34% of the EAP was in agriculture in 2009).

d) High poverty incidence

Poverty incidence among households declined from 28.3% in 1991 to 20% in 2003, and thereafter stagnated. Poverty incidence among the population (individuals) was higher; it decreased from 33.1% to 24.9% in 1991-2006 but rose and stagnated at 26.5% in 2006-2009. Individual poverty increased by 3.3 million in 2003-2009 or 17% (Table 6).[22] There are indications of a resurgence of poverty aggravated by the global crisis, typhoons and El Niño phenomenon that severely affected the economy

[20] About 27% of the employed labor force earns less than US$1.25 daily, and that percentage is the sixth highest among 14 East Asian countries (UNDP, 2010a).
[21] Some OFWs do not declare wages abroad and send money to their relatives in the Philippines to pay contributions at a lower ceiling (Edralin, 2011-I).
[22] Higher estimates of population poverty incidence are given by ADB (2009): 33% in 2000, 30% in 2003 and 32.9% in 2006; and by NAPC (2011): 33% in 2006, and 29.7% to 32.9% in 2009. The Social Weather Station (SWS) also reports higher figures in perception surveys (Orbeta, 2011-I).

in 2009 although a recovery occurred in 2010 (Manasan, 2009a; Orbeta, 2011; Appendix 15). Population poverty incidence was estimated at 33% in 2010 (NAPC, 2011).

Table 6. Poverty Incidence among Households, Population and Selected Groups, 1991, 2003, 2006 and 2009

Year	Household		Population	
	Magnitude	%	Magnitude	%
1991		28.3		33.1
2003	3,293,096	20.0	19,796,954	24.9
2006	3,670,791	21.1	22,173,190	26.4
2009	3,855,730	20.9	23,142,481	26.5

Year	Individual Poverty Incidence in each Group (%)				
	Women	Elderly	Formal and Migrants	Farmers	Fisherman
2000	32.3	28.0	18.7	46.6	50.8
2003	29.0	18.4	18.4	42.4	43.6
2006	30.1	20.3	19.5	44.0	49.9

Source: Based on NSCB, 2011; Appendix 4.

Individual poverty incidence is well above the national average among fishermen and farmers (50% and 44%, respectively, in 2009), also higher among women than men (30.1% and 22.7%[23]), and in rural over urban areas (74.8% and 25.2%). The lowest poverty incidence—below the national average—was registered among formal workers and migrants (19.5%); the clustering of these two groups probably hides a lower incidence in the formal sector that is covered by the SSS, GSIS and the separate schemes. Poverty among the elderly is lesser than the national average (20.3% vis-à-vis 26.5%) despite the low coverage of that group by contributory pensions and the lack of a non-contributory pension. The reason is that the population 60 and over has an average income higher than what is considered to be within the poverty line.[24]
Population poverty incidence varies greatly among regions: it is below the national average in the NCR (4%) and Regions II, III, IV-A and the Cordillera Administrative Region (14% to 23%), but well above the average in Regions VIII, IX, X, the Autonomous Region of Muslim Mindanao, and Caraga (40% to 48%) (Appendix 5). It is hypothesized that the regions with the lowest poverty incidence have the highest social insurance coverage because they also have smaller proportions of informal and rural labor; the opposite is true of regions with the highest poverty.

A regression analysis done in Latin America shows that for every 1% increase in informality, the EAP coverage for pensions falls by 1%. Similarly, for each 1% increase in poverty incidence, coverage shrinks by 0.33 % (Mesa-Lago and Castaneda-Angarita, 2011). Such analysis has not been done in East and Southeast Asian countries, but it is highly probable that a similar relationship exists. The very high informality and poverty incidence in the Philippines must be significant factors in the low EAP coverage.

[23] Estimated by the authors based on general and female incidences and equal gender shares in the population.
[24] The annual average per capita income of those age 60 and over is PhP 41,000 whereas the average per capita of poverty threshold is PhP16,000 (Orbeta, 2011-I).

5. Recent Positive Measures

Responding to the pressure of informal workers and other groups and to improve its finances, SSS has opened new channels to facilitate affiliation and payment of contributions (see II-E-1). An employer/self-employed online business clearance system was established using point-of-service terminals in local government units for the issuance and renewal of business licences. The Automatic Debt Arrangement (ADA) allows informal workers to make their monthly contributions through accredited banks via automatic debit from their savings accounts or over-the-counter payments. Workers can open a savings account with only PhP 100 instead of the regular PhP 2,000 to PhP 5,000 minimum deposit, and a maintaining balance of PhP 100. SSS and DOLE ensure rapid processing of applications for membership. ADA gives flexibility to informal workers to deposit money when they earn it, and facilitates payments to SSS. The savings account is an incentive for further deposits. In 2008, an evaluation of ADA detected some problems: 1) absence of income impedes payment or deduction of the monthly contribution, thus generating irregularity in payments and a high default rate; 2) many members admitted it was difficult for them to save and many who did had to withdraw their deposits to compensate for urgent needs; 3) bank payments were accepted only on Fridays, deposit slips were sometimes not available, the bank teller was not present, and other depositors were given priority (indications of discrimination against ADA participants); and 4) SSS reports that only just over 1,000 ADA members remain active (Verceles and Pineda, 2009).

Well-organized demonstrations by the elderly, helped by NGOs, influenced in 2010 the enactment of the Expanded Senior Citizens Act that created a “social” (non-contributory) pension for citizens age 77 and over who are poor and do not receive a pension. This benefit began in 2011 and is being managed by the DSWD (RA No. 9995 of 2010; Rocamora, 2011-I).

In 2011, SSS started accrediting cooperatives as collecting agents of self-employed and voluntary members for both contributions and loan payments. About 23,800 cooperatives are active with a combined membership of 5.8 million people. They can file applications to SSS for accreditation and, if they pass a financial evaluation and are in good standing, can begin collecting contributions and earning a service charge for each transaction (SSS, 2011g).

To enrol more OFWs, the SSS has signed bilateral agreements on social security for Filipino emigrants (in Austria, Belgium, Canada, France, Israel, Japan, Korea, Netherlands, Spain, Switzerland, Quebec and UK) and established foreign offices to promote its programs for OFWs (SSS, 2010b). The SSS recognizes, however, that coverage of OFWs should be mandatory instead of voluntary (Serrano, 2006).

Benefits

1. Overall View of Available Benefits

Benefits vary according to schemes and types of worker as Box 3 shows: retirement (old-age), common disability, and survivors benefits are offered in all schemes for formal workers (SSS, GSIS and separate schemes). OFWs have voluntary retirement and life insurance as well as coverage on work-risks by OWWA; the unemployed, housewives and dependent children have voluntary or none.

Box 3. Social Security Pension and Related Benefits by Sector and Groups, 2011

Risks/ Contingencies	Formal Sector Workers: Public Sector: Two major schemes	Formal Sector Workers: Public Sector: AFP-RSBS & separate schemes	Formal Sector Workers: Private Sector: Domestic	Formal Sector Workers: Private Sector: OFW	Unemployed, Housewives, Dependent Children	Extreme Poor Age 77+
Retirement/ Old age	GSIS	All	SSS	Voluntary in SSS	Voluntary in SSS	Social Pension
Common Disability	GSIS	All	SSS	Ibid	Ibid	No
Common Death (Survivors)	GSIS	All	SSS	Ibid	Ibid	No
Work-Related Risks Disability & Death	ECC	ECC (judiciary its own)	ECC	OWWA	No	No
Mutual Fund / Provident Fund	GSIS (optional), mutual fund	AFP-RSBS provident fund	SSS (optional) provident fund	No	Voluntary	No
Separation due to unemployment& other causes	GSIS	AFP-RSBS	No	No	No	No
Life insurance	GSIS: compulsory; additional & private insurers (voluntary)	Judges GSIS, rest varies, some voluntary, PNP work-related	Private insurers (voluntary)	OWWA, Voluntary with private insurers	Voluntary with private insurers	No
Funeral aid	GSIS	All	SSS	No	No	No
Lending program	GSIS	AFP-RSBS& judges by GSIS	SSS	OWWA	Voluntary in SSS	No

Source: Legislation compiled by authors; Aguja, et al, 2011-I; Edralin et al, 2011-I; Orbeta, 2011.

2. Entitlement Conditions and Calculation of Benefits

There are significant differences between legal entitlement conditions and calculation/amount of benefits between GSIS and SSS, as well as with separate schemes of the armed forces, veterans, policemen, firemen, jail personnel, coast guards and justices/judges. Separate schemes have the most generous conditions/benefits, followed by GSIS. It is strictest in SSS.

a) SSS and GSIS

The comparison of entitlement conditions and calculation of benefits between SSS and GSIS is complicated by the use of diverse terms for the same item such as Average Monthly Salary Credit (AMSC) and Average Monthly Compensation (AMC) for the average base salary on which the pensions are calculated. A standardization of those terms would simplify the understanding and comparisons (Box 4).

Box 4. Entitlement Conditions and Calculation of Benefits in SSS and GSIS, 2011

Benefits	SSS	GSIS
Retirement (old-age)		
Age and years of contribution	60+ 10 or 65 + 10 [a]	60+15, 65 + 15 (compulsory)
Employment	Must cease with 60,not with 65	May continue [c]
Minimum pension	-10 years contribution=PhP1, 000; 10 years=PhP1, 200; 20 years= PhP2, 400.	No, the member receives based on the contributions paid
Maximum pension	No	BMP can't exceed 90% of AMC
Base salary	Highest in last 5 years or average last 6 months.	AMC in last 3 years
Calculation of pension	AMSC Minimum PhP1,000 AMSC Maximum PhP15, 000. Pension: highest of 3 options: 1) PhP300 monthly + 20% of AMSC for each CYS + 2% for each CYS exceeding 10 yrs; 2) 40% of AMSC, or 3) PhP1,000 monthly [b]	No salary ceiling Age 60 + 15 year service, 2 options: 1) lump sum = 18 months BMP + life monthly pension paid right after retirement, or 2) lump sum=60 months BMP+ life monthly pension after 5 years – age 60 +15 yrs service: 18-month lump sum +life pension starting at age 60
Dependents supplement	10% of BMP or PhP250 monthly [b]	10% of BMP, maximum 5 dependents from youngest w/o substitution
Extra 13^{th} month	Yes [b]	Cash gift= monthly pension or maximum sum provided
Pension adjustment	Ad hoc, based on change in prices/salaries & financial situation, approved by Commission [b]	Periodic adjustment as recommended by GSIS actuary and approved by Board
Old-age grant	Age 60 but-10 yrs service: Lump sum = all contributions paid at 6% interest	If -15 yrs service don't qualify for benefit
Disability (permanent total)		
Requirements, contribution years	3 yrs in semester prior to disability	15yrs or less
Benefits	Pension: PhP 1,000 with -10yrs; PhP 1,200 with 10 yrs; PhP2,400 with 20 yrs. -3 yrs lump sum=MBP x yrs or MPB x 12yrs	15 yrs: 18 BMP + monthly pension; -15 yrs: monthly pension
Assessment of disability	SSS physician, must submit to exam	Approved by GSIS Department (MEUD)
Termination	Recovery, re-employment or refusal to take annual exam	Recovery, re-employment or refusal to take annual exam
Survivors		
Requirements	Death of pensioner with 3 yrs contributions prior to death	Death of pensioner or active member
Beneficiaries	Spouse (can't remarry) + up to 5 children (-21 or disable)	Spouse (can't remarry or cohabit) and children (-18 or -21 depending on retirement mode or disable)
Amount of pension	100% of old-age pension, divided between spouse and up to 5 children	Pensioner: spouse 50% of BMP (with ceiling), Children each 10% BMP Active: 15 yrs 18-months lump sum + pension;
Survivors grant	Lump sum if less than 3 years of contribution	-15 yrs lump sum = AMC x each yr. service Separated with 15 yrs: pension
Other benefits		
Life insurance	No	Compulsory: annual dividends, loans, disability, death, cash surrender value; additional voluntary
Funeral benefit	PhP 12,000; PhP 18,000 with 5 years contribution; maximum: PhP20,000	PhP 20,000
Lending	Salary, housing, business loans	To employees and pensioners
Unemployment/involuntary separation	No	1 to15 yrs service: 50% of AMC for 2-6 months based on contributions prior to contingency

Abbreviations. SSS' AMSC: Average Monthly Salary Credit; CYS: Credit Years of Service (paying contributions). GSIS: AMC: Average Monthly Compensation; BMP: Basic Monthly Pension.
[a] With 60 may receive the first 18 months of pension in a lump sum; self-employed retire at age 65 (minimum AMSC of PhP 5,000), miners retire at 55. [b] Applicable to persons with disability and survivors. [c] If 65 with less than 15 years can continue service.
Source: Based on legislation compiled by authors (see References); Defeo, 2011-I.

Two different conditions are required for retirement: age 60 for both sexes with 10 years of contribution in SSS and 15 years in GSIS (in SSS, employment must cease but it may continue in GSIS); and age 65 with 10 years of contribution in SSS and 15 years in GSIS (optional in the former and compulsory in the latter) and employment may continue in both. The law does not refer to "normal" and "early" retirement although some international comparisons give 65 as "normal" and 60 as "early" (OECD-WB, 2009). The retirement age of 60 is above average in East and Southeast Asia albeit low relative to life expectancy in Philippines, which at birth is 74.8 years but must be higher at age 60.[25] The SSS' 10 years requirement for payment of contributions is short compared with other developing countries.[26] After meeting this requisite, there is an incentive for collusion of workers and employers to underreport wages (Edralin, 2011-I). The SSS bans re-employment to those who retire before age 65 (unless they earn less than PhP 500), hence, impeding them to supplement their meager pensions and contribute their skills and expertise to the economy. The base salary to calculate the SSS pension is the highest in the last five years or the average in the last six months, which creates a perverse incentive to underreport salaries in the early years of employment and/or artificially inflate the pay at the end (Mesa-Lago, 2008; Manasan, 2009b). GSIS does not have a salary ceiling for contributions and sets a maximum pension of 90% for the AMC.[27] The ratio of the SSS average monthly old-age pension (PhP 3,524) to the minimum monthly pension with 10 years of contributions (PhP 1,200) is 2.9, which is an adequate ratio.

Average gross replacement rates were given as 67% for SSS in 2006 and 61.7% for GSIS in 2010 (GSIS, 2011c; SSS, 2011i). Officials told the authors to confirm such rates in the actuarial valuations of 2007 and 2010 but they could not be found. Based on three average individual earnings, the OECD gives 67.8% as the SSS replacement gross rate, the third men highest and the women highest among 13 countries in East and Southeast Asia, including Japan, Korea, Hong Kong, Singapore and Malaysia (more developed than Philippines), as well as above the OECD average for 30 countries (including the most developed in the world). The SSS average net replacement rate (gross rate minus contributions on pensions) was the highest for both sexes with a couple of exceptions (OECD-WB, 2009: 28-30). Using OECD comparative data, the GSIS gross rate of men is the fourth highest and the women rate the second highest. It has been proven that SSS/GSIS rates are very high and cannot be sustained in the long run (TSG, 2007). The AFP-RSBS replacement rate is 138% of salary and in terms of longevity; it certainly is the highest in Asia and among the highest in the world.

The calculation of pensions is quite complex, with multiple options, particularly in GSIS. GSIS offers either a lump sum or a pension or a combination of both. SSS members who meet the age but not the required contributions are given a grant equal to the sum of the contributions paid with 6% interest; GSIS members younger than 60 and with less than 15 years of service do not qualify for benefits. Disability and survivor benefits vary significantly and cannot be summarized here. GSIS

[25] In 13 East and Southeast Asian countries, ages of retirement are 62-65 in the four most developed (Japan, Hong Kong Korea, and Singapore), 60 in two (Brunei and the Philippines), 60 men and 55 women in three (China, Taiwan and Vietnam), and 55 in four (Indonesia, Malaysia, Thailand and Sri-Lanka).Most of these countries allow for earlier retirement. Provident funds usually set age 55 to start withdrawal (OECD-WB, 2009; US-SSA/ISSA, 2011).

[26] In six East and Southeast Asian countries, the required years of contribution range from 15 to 35 years, and in half of 20 countries in Latin America, the range is 20 to 35 years (Mesa-Lago, 2008; US-SSA/ISSA, 2011).

[27] AMC=(total salary in last 36 months/36)+PhP700 constant.

has life insurance but SSS do not. The funeral benefit from GSIS is PhP 20,000 and at the range of PhP 12,000-18,000 from SSS.

Box 5. Entitlement Conditions and Benefits in Separate Schemes, 2011

Benefits	Armed Forces (AFP-RSBS)	Veterans	Policemen (PNP)	Firemen (BFP)	Jail/Penology (BJMP)	Coast Guard	Justices/ Judges
Retirement Age & service years	1) 56 regardless service or 30 years of service regardless of age	65 regardless service	1)56 regardless service or 20 years of service regardless of age (30 years for Coast Guard)				1) 60 + 15 service or 70 regardless service (obliged)
Others	2) Age 60 + 15 service		2) Early: 10 years of service, 3 prior to retirement	2) Early: Age 56 and 15 years of service -20 years of service for the separation pay	2) Early: Age 56 and 15 years of service	2) Early: 20 years of service regardless age	2) - age 70 and -20 years of service
Base salary	1) Max: 85% of salary + longevity of next higher grade		1) Max: 90% of salary + longevity of next higher grade for 36 years of service				1) Highest month salary + highest total allowances at retirement
Benefits	1) Lump sum or monthly pension, 2.5% each year of service 2) 75% month retirement pay	PhP 5,000 monthly	1) 50% of last salary (75% Coast Guard) + longevity, plus 2.5% for each year after 20, or 3year lump sum (5 in PNP) & life pension after				1) Lump sum = 5 times base salary, annuity after 5 years for life 2) –age 70 and -20 years[c]
Pension Adjustment			All: Automatic to salary raise in previous post, except veterans				
Disability Permanent Total	20 years of service: 50% of salary + longevity of next higher grade. -20 years of service: 50% of salary + longevity pay	From PhP 1,000 (30% rate) to PhP 1,770 (100% rate). If 100% rate: PhP500 for each spouse & minor child. At age 70= 100% rate	1 year salary & life-time pension= 80% last salary	20 years of service: compulsory; - 20 years: separation pay + 1 ¼ months base pay + longevity of grade held		20 years of service: 50% salary + longevity of next higher grade. -20 years of service: 50% of salary + longevity	Retired due to it, prior to retirement: 10-year salary + Allowances
Not permanent total or permanent partial	20 years of service: month annuity 75% of salary + longevity. -20 years of service: 1 month + longevity						If had it at retirement: 7 years in lump sum. In both: if survives 7-10 years, monthly annuity for life
Survivors	20 years service: annuity 75% of retirement pay. -20 years service: annuity 50% salary+ longevity	Monthly: spouse/child each PhP 1,000; parents, each PhP 1,000 Not KIA 50%	After 5 years of retirement: spouse/minor children pension for rest of 5 years	75% base pay + longevity + 1 year gratuity, if children until age 18		20 years of service: annuity 75% of retirement pay. -20 years of service: annuity 50% salary + longevity	After 15 years of service: lump sum 10 years of highest salary + allowance. Death -15 years: 5 years KIS + 5 years: 10years
Other Benefits Provident Fund	Savings, 6% annual interest: lump sum at retirement	No	No	No	No	No	No
Life Insurance	Benefit for disability and death: natural, accident or KIA[b]	No	Work-related: major PhP 20,000, minor PhP 10,000, survivors PhP 25,000	Under MBAI; voluntary for BFP Benefit for disability and death: natural, accident or KIA[b]		Recently covered under MBAI	Under GSIS
Funeral	Yes	PhP 10,000		3 months salary		Php 30,000 member PhP 5,000 dependent	No
			PNP, BFP, BJMP & Coast Guard work-related under ECC: PhP 3,000				

Longevity: 10% of basic monthly salary for each 5 years of service, maximum of 50% of basic pay. [a]Includes AFP disabled or death during active service with 20 yrs of service; excludes insurgency wars that are covered by Special Fund Office of the President. [b]Higher benefit for disability depends on face amount; natural death face amount & equity fund; accidental is 150% of face amount & equity fund; if killed in action (KIA), there is 150% of face amount, equity fund and PhP 50,000 given. [c] [No. years/15 years] x [basic pay + allowances].

Source: Legislation compiled by authors; AFPMBAI, 2011; Alvin et al, 2011-I; Defeo, 2011-I; Marayag, 2011-I; Mintar, 2011-I; Perez et al, 2011-I; PSMBFI, 2011.

b) Separate schemes

Entitlement conditions and benefits of the seven principal separate schemes are summarized and systematically compared in Box 5.

AFP-RSBS are entitled to three benefits: provident fund; retirement, disability and survivors pensions; and veteran pensions. The Provident Fund Retirement, financed with a 5% member's contribution, earns a guaranteed 6% compounded interest annually. During retirement, members withdraw the accumulated sum that is dependent on rank and service years. A rough average is PhP 100,000 for 30 years of service (Marayag, 2011-I).[28] For the non-contributory pension, retirement is at age 56 regardless of years of service, or with 30 years of service regardless of age (compared with age 60 or 65 with 10 or 15 years of service in SSS and GSIS). The earliest entry in the armed forces is at age 17 and training count as years of service (four for officers); hence, a military man can retire at age 47 with 30 years of service. Said pension is equal to 85% of the monthly salary plus longevity pay, both of the next higher grade to that of the member at the time of retirement (compared with SSS highest salary in five years or the average in the last six months, and the last-three years of AMC in GSIS). Members with 20 years of service become veterans and, in addition, receive retirement, disability, and survivor's pensions, which are also state-financed. A refund of all contributions to the system plus 4% interest is paid in a lump sum to officers and soldiers separated from the service (through no fault of their own). They are not eligible for retirement or separation benefits.

Other uniformed personnel have diverse conditions. Regular retirement in PNP, BFP, BJMP and Coast Guard is at age 56 regardless of years of service, or 20 years of service regardless of age (with exception in the Coast Guard, 30). The benefit is either a pension equal to 50% of the last salary (75% in the Coast Guard) plus longevity pay and an additional 2.5% for each year after 20 years of service, or a lump sum for three years (or five years in PNP) and then a life pension. There is a maximum of 90% of salary plus longevity of next higher grade with 36 years of service. Early retirement is at age 56 with 15 years of service in BFP and BJMP, then 10 and 20 years of service regardless of age in PNP and Coast Guard, respectively. Entitlement conditions and benefits for common disability and survivors vary in the four schemes, but work-related contingencies have the same treatment under ECC. None of these schemes have a provident fund (same as in SSS), but they have life insurance of various types; funeral benefit is three months' worth of salary in BFP and BJMP. Veterans have completely different conditions: retirement is at age 65 regardless of years of service and receive PhP 5,000 monthly and PhP 10,000 for funeral benefit.

Justices' and judges' retirement is at age 60 with 15 years of service and compulsory at age 70 regardless of years of service. They receive a lump sum (gratuity) equivalent to five years of the highest monthly salary earned plus highest aggregate allowances; thereafter, they receive a monthly annuity for life based on that sum. Disability and survivor conditions/benefits are more generous than in the other separate schemes. They don't have a provident fund but life insurance is provided by GSIS.

[28] Survivors of soldiers who died in insurgency wars are paid a lump sum of PhP200,000 to PhP250,000 (Marayag, 2011-I)

c) Employment injury benefits

The Employees' Compensation Commission (ECC) compulsory covers work-related accidents or sickness provoking various types of disabilities and death. Covered by ECC are members of SSS (voluntary ones have a choice to join), GSIS, PNP, BFP, BJMP and Coast Guard. Casual, temporary, and contractual workers are excluded. General entitlement conditions and calculation of benefits are summarized in Box 6.

ECC benefits can be simultaneously received with those paid by common contingencies in all covered schemes. An odd rule is that the SSS maximum contribution to ECC is PhP 10 but in GSIS is PhP 100, and yet minimum benefits by law are higher in the former. For example, it is estimated that the temporary total disability is PhP 200 daily in SSS but PhP 90 in GSIS (Villasoto, 2011-I), and the SSS funeral benefit is 2.6 times higher than that of GSIS. The ECC State Insurance Fund in SSS and GSIS is managed by each and must be expended on work-related benefits only, but ECC lacks real power to enforce that mandate.

Box 6. Entitlement Conditions and Calculation of Benefits under ECC, in SSS, GSIS, PNP, BFP, BJMP and Coast Guard, 2011

Work-related Risks	Entitlement Conditions and Calculation of Benefits[a]
Disability	
Permanent total	Disability lasts more than 240 days: monthly pension for life = MIB + 10% for each dependent child (maximum 5); minimum PhP 15,000; guaranteed for at least 5yrs and thereafter unless suspended if employee recovers on gets gainful employment.
Permanent partial	Loss of a body part and its use: monthly sum according to type of injury/disability, for 3-50 months according to degree of loss; minimum PhP 2,000; payable in lump sum if less than 1 yr.
Temporary total	Unable to work for less than 240 days: 90% of average daily salary for 120 days (extendable to 240 days).
Survivors (death)	Death of employee, benefit to spouse until remarries and to legitimate unmarried not employed children until age 21 or incapacitated: monthly pension = 80% of MBI + 10% for each dependent child (maximum 5); minimum PhP 15,000; guaranteed for at least 5 and thereafter unless suspended.
Funeral benefit	PhP 3,000 (public sector), PhP 8,000 (private sector).
Medical & rehabilitation Services	During disability unless suitable employment is found.

MIB: monthly income benefit. [a] Benefits are enjoyable simultaneously with any not work-related social insurance benefits.

Source: PD 626 of 1975; ECC, 2010; Villasoto, 2011-I

Workers, or their dependents, suffering in work-related contingency must file a claim at the SSS or GSIS offices, with proper documentation. If the claim is disapproved by the branch office, the claimant can appeal to SSS or GSIS Employees' Compensation department and if denied, appeal to the ECC. In case of rejection, the employee can take the case to the Court of Appeals. In 1975-2010, an annual average of 116,853 claims were submitted to SSS and GSIS, which peaked in 2008-2009, for an annual average of PhP 844 million and a total amount of PhP 30 billion in the period (ECC, 2010, 2011). Once the claim is approved, benefits are paid by SSS and GSIS, therefore, ECC only hears appeals denied by the two major schemes, but the percentage of claims handled and affirmed by ECC rose from 50% to 98% in 2000-2010 (BLES, 2010a).

3. Number and Distribution of Pensioners

Due to the maturing SSS and GSIS schemes, the joint number of pensioners doubled in 2000-2010, from 952,030 to 1,830,096 (Appendix 6). SSS has the largest proportion of the total pensioners and showing an increasing trend from 83% to 84%, whereas GSIS has the minority and is declining from 17% to 16%. The percentage distribution of total pensioners combining both schemes was fairly stable in the period. In 2010, it was 52.2% in old-age, 43.2% in survivors and 3.5% in disability. The ECC occupational-risk pensioners available only for SSS and excluded were 1% (Table 7). The share of old-age pensioners in the GSIS subtotal is 68%, which is much higher than the SSS share at 50%, due to the former's more mature pension scheme. The comparison of the distribution in the two schemes in 2010 is shown in Figure 5.

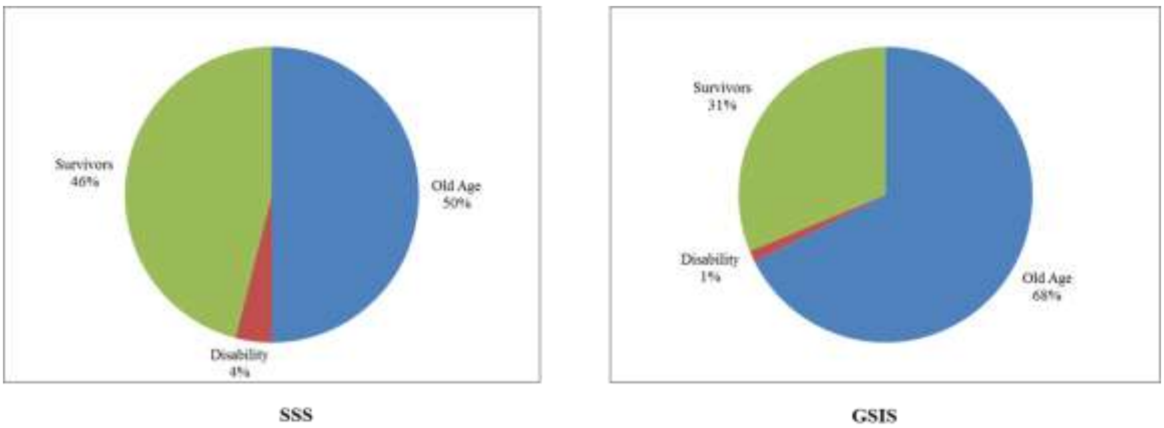
Table 7. Percentage Distribution of Total Number of Pensioners by Pension Program in SSS and GSIS, 2000-2010

Years	SSS				GSIS [a]				Total
	Old Age	Disability	Survivors	Subtotal[b]	Old Age	Disability	Survivors	Subtotal	
2000	37.7	6.3	37.2	83.0	11.0	0.2	5.8	17.0	100
2001	37.8	6.2	37.5	83.3	10.5	0.2	6.0	16.7	100
2002	38.2	6.1	38.2	82.6	10.9	0.2	6.3	17.4	100
2003	38.2	5.4	38.4	83.7	10.1	0.2	6.0	16.3	100
2004	39.4	5.3	36.4	82.5	10.7	0.2	6.5	17.5	100
2005	39.4	4.5	38.1	83.4	9.9	0.2	6.4	16.6	100
2006	39.8	4.2	38.5	83.8	10.1	0.2	5.9	16.2	100
2007	40.7	3.9	39.3	85.2	10.2	0.2	4.4	14.8	100
2008	40.3	3.7	38.3	83.5	11.2	0.2	5.1	16.5	100
2009	40.9	3.4	38.2	83.7	11.0	0.2	5.1	16.3	100
2010	41.4	3.3	38.2	84.0	10.8	0.2	5.0	16.0	100

[a] Year 2002 estimated by authors based on new pensioners in that year. [b] Excludes EC pensioners because is not available for GSIS.

Source: Authors' estimates based on absolute figures from Appendix 6.

Figure 5. Percentage Distribution of Total Number of Pensioners in SSS and GSIS, 2010



Source: Table 7

4. Adjustment of Pensions

Compared with relatively liberal entitlement conditions and benefits, especially in GSIS, none of the two major schemes have a legal automatic mechanism for annual adjustment of pensions either to the cost of living (CPI) or salaries. In SSS, the adjustment is done "ad hoc," without specifying the period. Theoretically, it is based on changes in prices and wages, although in practice, it is subordinated to the financial situation and the approval of the Commission.[29] The GSIS law sets "periodic adjustment" (also without specifying the period) as recommended by the actuary and as approved by the Board. Conversely, pensions in all separate schemes, except for veterans, are automatically adjusted to salary increases of active personnel (Box 5).

Table 8. Average Real Annual Pension per Pensioner in SSS, GSIS and AFP-RSBS, 2001-2010

Years	Nominal Average Pension [a] (current pesos)	Inflation	CPI	Real Pension (constant 2000 prices)	Index (2000=100)
SSS					
2000	30,454	4.0	1.000	30,454	100.0
2001	31,858	6.8	1.068	29,830	98.0
2002	32,038	3.0	1.100	29,125	95.6
2003	31,875	3.5	1.138	28,010	92.0
2004	33,430	6.0	1.206	27,720	91.0
2005	32,627	7.6	1.298	25,137	82.5
2006	32,950	6.2	1.379	23,894	78.5
2007	37,183	2.8	1.418	26,222	86.1
2008	39,340	9.3	1.550	25,381	83.3
2009	38,791	3.2	1.600	24,244	79.6
2010	38,440	3.8	1.661	23,143	76.0
GSIS [b]					
2000	50,388	4.0	1.000	50,388	100.0
2001	58,422	6.8	1.068	54,702	108.6
2002	57,529	3.0	1.100	52,299	103.8
2003	50,909	3.5	1.138	44,736	88.8
2004	63,586	6.0	1.206	52,725	104.6
2005	67,527	7.6	1.298	52,024	103.2
2006	69,050	6.2	1.379	50,073	99.4
2007	77,532	2.8	1.418	54,677	108.5
2008	74,633	9.3	1.550	48,150	95.6
2009	79,040	3.2	1.600	49,400	98.0
2010	86,362	3.8	1.661	51,994	103.2
APS-RSBS					
2007	107,782	2.8	1.000	107,782	100.0 [b]
2008	131,604	9.3	1.093	120,406	111.7
2009	148,830	3.2	1.128	131,941	122.4
2010	174,631	3.8	1.171	149,130	138.4

[a] Excludes EC in SSS to standardize the comparison. [b] There are no data for 2000-2006;2007=100.

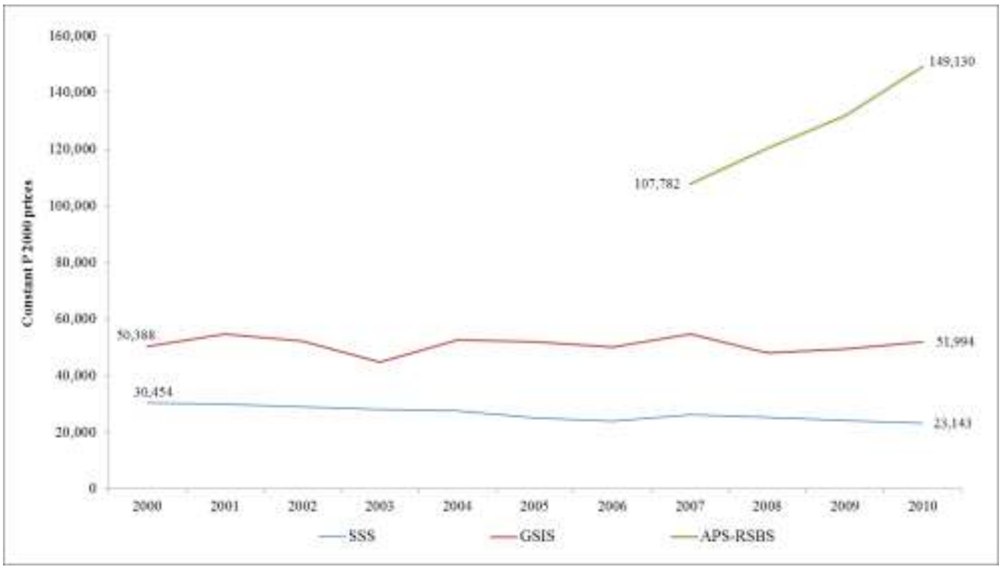
Source: Nominal average pension calculated by authors: SSS and GSIS based on number of pensioners (Appendix 6) and annual expenditures on pensions (Appendix 7); AFP-RSBS 2010 and Marayag, 2011-I. For computations on average pensions by type see Appendix 9.

[29] Asher (2009) reports that indexation provisions are applied unevenly in Asia-Pacific countries; some are applied sporadically.

In SSS, pensions were stagnant from the start of the program in 1957 until the first raise in 1966. In the 30 years during the period 1966-1996, SSS pension levels were raised from 10% to 20% annually in 18 years (twice a year in two of them) but with no increase in 12 years. Inflation slowed down from an annual average of 15% in 1980s to 9% in the 1990s. SSS benefits were not raised in 1997-1999 (SSS, 2011i). In the first decade of the 2000s, inflation slowed down to 5.6% and pensions were increased by 10% in 2000, 2006 and twice in 2007; an increase of 10% has been announced for 2011 (SSS, 2007b, 2011g). In nominal terms, all average pensions were increasing in 2000-2010 except pensions for disability in GSIS (see Appendix 8).

For a better evaluation of the purchasing power of pensions, Table 8 estimates average annual pensions in real terms (adjusted for inflation) for SSS and GSIS in 2000-2010, and AFP-RSBS in 2007-2010. The SSS real pension declined and by 2010, it was 24 percentage points below the 2000 level. On the other hand, the GSIS real pension significantly fell in 2003 but by 2010 it was 3% above the 2000 level, albeit 4% below the 2001 level. Conversely, the Armed Forces' pensions were raised 21 times in 1981-2011 at an annual average of 11.3% for officers and 16.5% for enlisted personnel, and the real pension increased by 38% in 2007-2010. For trends among the three pension schemes, see Figure 6.

Figure 6. Average Real Annual Pension per Pensioner in SSS, GSIS, and AFP-RSBS, 2001-2010



Source: Table 8.

5. Non-contributory Pension for the Elderly Poor and other Social Welfare Programs

The poverty situation in the Philippines has been briefly discussed (II-B-4-d). Poverty incidence among individuals based on official data was 26.5% in 2009 but higher estimates showed poverty incidence to be around 29.7-32.9% for that year and 33% for 2010. In 2003-2009, the number of poor rose by 3.3 million, and the Philippines was the only country among six in East and Southeast Asia where absolute poverty increased. Self-rated poverty averaged to 50-54% in 2004-2010. It is projected that, with a moderate 6% GDP rate in 2010-2016, the number of poor will fall short of the Millennium Development Goal by 4 million persons in 2015(NAPC, 2011). Poverty incidence among the elderly appears to be lower than the national average (20.3% and 26.5%) despite the low coverage of that group by contributory pensions and the lack of a non-contributory pension until 2011. More accurate and recent data are needed to measure such incidence among the elderly.

There is a global debate on whether to use a targeted pension on the poor, or use a "universal" pension provided to all the elderly regardless of income. The latter is defended contending that it is easier to administer and it does not convey the stigma of a targeted pension on the poor. On the other hand, "universal" pensions are more expensive than targeted pensions and provoke regressive effects because they are granted to high- and middle-income people and even to those who already receive a contributory pension. This last point is rebutted with the argument that income from pensions of recipients who are not poor can be wiped out through a progressive income tax. Yet, in developing countries like the Philippines, the cost of a universal pension would be much higher than a targeted pension and, due to the relatively low share of the income tax in total fiscal revenue and also because of the poor tax-enforcement efficiency, such argument is not convincing (Mesa-Lago, 2008).

Most East and Southeast Asian countries lack a non-contributory pension, except for two of the most developed (Brunei and South Korea) countries that grant "universal" basic pensions. Meanwhile, in Latin America, seven countries at a similar level of development than the Philippines have non-contributory pensions: Bolivia, Belize, Ecuador, El Salvador, Guatemala, Honduras and Panama—all targeted on the poor (US-SSA/ISSA, 2011; Mesa-Lago, 2012).

In the Philippines, a Coalition of Services for the Elderly (COSE), associated with the National Anti-Poverty Commission (NAPC), organized public demonstrations and marches during the Arroyo Presidency demanding for more social protection (Rocamora, 2011-I).[30] In April 2011, early in the Aquino Presidency, a non-contributory tax-financed "social pension" targeted on the poor (the crucial first pillar of a pension system) was established and paid retroactively by January of that year. By mid-September, it covered 87,050 of the extreme poor (6.7% of the total elderly poor) who were at age 77 and above. This was a very high age that only few poor people are able to reach; hence, the goal was to reduce it to age 70. Due to budgetary restrictions, the 2012 target is 181,000 beneficiaries (14% of the elderly poor). The pension pays PhP 1,500 quarterly (PhP500 or US$ 12 monthly) to augment the beneficiaries' daily food subsistence and medical needs that are subjected to a review every two years by the Congress. The poverty threshold is PhP 16,000 annually or PhP 1,333 monthly (Orbeta, 2011-I), hence, the social pension is probably insufficient to cover basic food and medicine needs, although no study has been done yet (DSWD, 2011a). It is socially inequitable and regressive that huge fiscal sums (Php 29,011 million) are spent on non-contributory pensions for groups of medium and relatively high income (AFP, other uniformed personnel, and justices-judges) and only a small amount (PhP830 million) for the protection of the elderly extreme poor (see II-F-7).

[30] In the midst of the 2008 crisis, the Philippines provided a one-time PhP500 benefit to persons age 70 and above that did not receive a pension (Manasan, 2009a). RA 9994 of 2010 granted senior citizens 20% discount and free taxes on consumers goods and services, including transportation, medicines, funeral and burial, hotels, restaurants, cinemas, theaters, etc.

In December 31, 2010, a list of 145,000 potential social pension beneficiaries was done by the National Household Targeting System for Poverty Reduction (NHTS-PR) using the Proximean Test. The DSWD local staff announced the list to the community, and social workers at the local government units, through community-based monitoring, determined that 20-22% (non- poor) should not be in the list of potential beneficiaries and 30% (extreme poor) should also be included. About 51,000 were disqualified because they were either dead, already receiving a pension, have a property, or having family support. Qualified poor who were not in the NHTS list shall be considered as replacements for those disqualified. DSWD regional office staff goes to the local governments, and the beneficiaries are notified and they are paid in cash every quarter. Although an evaluation of the impact of conditional cash transfers is planned for early 2012, social pensions are not included (Bautista and Inocente, 2011-I; DSWD, 2011a, 2011b; Rocamora, 2011-I).

In addition to the social pension, the social welfare system includes the following programs: a) free primary health care services at government health facilities; charity beds in public and private hospitals managed by the Department of Health (DOH); and subsidized health insurance for the poor (the latter 2011 target is 5 million); b) multiple programs administered by the Department of Labor and Employment (DOLE) such as human capital formation, promotion of small enterprises, and jobs for the poor; c) conditional cash transfers (CCT) to extremely poor households to improve their health, nutrition and education, especially for children aged 0-14 and for pregnant women - transferring up to PhP 1,400 monthly per family, 20-25 of the poorest income); d) self-employment assistance program (SEA-K) providing access to credit and development opportunities to poor and disadvantaged groups, administered by the DSWD; e) Food for School Program that helps fight hunger and improves children's school attendance, managed by the Department of Education (DepEd); and f) Microfinance Lending Program of government financial institutions and owned or controlled corporations. The social welfare system was strengthened in 2008 with the Philippine Economic Resilience Plan (ERP), a fiscal stimulus package of US$7.3 billion which was aimed at fighting the effects of the global crisis; and also by the anti-poverty strategy for 2010-2016 (Gonzalez and Manasan, 2002; ISSA, 2009; Manasan, 2009a; Rocamora, 2011-I).

Social Solidarity and Gender Equity

1. Social Solidarity

The Philippine pension system is comprised of public programs that have elements favorable to social solidarity: 1) the legal expansion of SSS' mandatory coverage to low-income informal workers, agricultural workers with irregular pay, farmers and fishermen, domestic helpers, and microenterprises, as well as voluntary coverage to housewives; 2) the setting of SSS' minimum pension that involves transfers from high- to low-income insured, although curtailed by the three levels of such pension according to years of contribution; 3) low-income members receive relatively larger pensions compared to their contributions than higher-income members; 4) the collective fund for all members in all schemes (except in provident funds) instead of individual accounts as in fully-funded private systems; d) employers sharing 68% of the total contribution in SSS and 57-86% in GSIS, and employees paying considerably less than the 50% maximum set by the ILO (increases in contributions have been mainly charged to employers); 5) the elimination of the salary ceiling in GSIS hence higher-income workers pay more than before.

On the other hand, there are elements contrary to social solidarity: 1) each of the 15 separate schemes has its own entitlement conditions and benefits; politically powerful groups (civil servants, uniformed personnel, justices/judges) enjoy more liberal entitlement conditions and benefits than those in SSS; 2) despite legal mandatory affiliation, actual coverage of informal and other vulnerable workers is considerably lower than those among formal salaried employees; 3) a non-contributory pension for the elderly poor was not established until 2011 and there is no such pension for the disabled poor; 4) SSS has raised the salary ceiling but the maximum pension is still PhP15,000; 5) the SSS minimum monthly pension increases from PhP 1,000 to PhP 2,400 according to years of contribution but has no maximum pension; 6) GSIS provides compulsory life insurance and unemployment or involuntary separation benefits to its members whereas SSS does not; 7) justices/judges receive during retirement a lump sum equal to five years based on the highest monthly salary and aggregate allowances paid, and thereafter the same sum as a monthly annuity adjusted to the salary of active personnel; the Armed Forces and other uniformed personnel retirement pensions are equal to 85-90% of the last salary plus longevity payments; while the SSS base salary is the highest in the last five years or the average in the last six months; 8) SSS and GSIS pensions are not periodically adjusted to the CPI or wages, while those of the judiciary and uniformed personnel are automatically adjusted according to increases in salaries of active personnel; 9)in GSIS the employer's (state) percentage contribution is 70% higher than that of the employer in SSS; 10) the SSS and GSIS contributions to their employees' provident funds is 40-45% of their salaries; 11) the self-employed and voluntary member contribution is 10.4% vis-à-vis 3.33% charged to salaried employees in SSS and 9% in GSIS; and l2) the majority of the EAP for the excluded and poor or low income may contribute to the protection of those with higher income via transfers of employers' contribution to prices and sales taxes that are regressive.

It may be argued that some of these differences might be justified by higher contributions or as a compensation for lower salaries in the public sector. However, members from separate schemes do not pay any contribution and yet their pensions are fully financed by the state. Furthermore, in 2009 the average monthly basic salary in the government and public corporations was PhP 14,007 vis-à-vis

PhP 8,407 in private enterprises (BLES, 2010a) – figure 1.7 times higher and therefore it cannot be claimed that the more generous conditions in the public sector are a compensation for lower remuneration.[31]

Survey data usually allow the measurement of inequalities in coverage (and therefore the degree of social solidarity) within the EAP and among the elderly in terms of income (deciles or quintiles), education (elementary, secondary and superior), location (urban and rural) and gender, as well as of the EAP by economic branch (primary, secondary and tertiary) and size of the enterprise. Data from Latin America show that coverage decreases with income, educational level, rural residence, primary-economic activity and enterprise size. Those lacking coverage or enduring the lowest are the most needy: within the lowest 20% of income bracket, without education or only a few years spent in elementary school, living in the rural zone (particularly in isolated areas), women, workers engaged in agriculture or employed in microenterprises, or self-employed (Mesa-Lago, 2010, 2012). In the Philippines, there are surveys or institutional data on income, gender, and region, but not on education, urban-rural location, economic activity, and enterprise size, which limits the analysis of inequality.

Survey data on the distribution of families receiving a contributory pension (from any scheme) by income deciles in 2003, 2006 and 2009; demonstrate that coverage increased with income and vice versa, although with a slightly improving trend. In 2003, only 10.1% in the three poorest deciles received pensions compared with 55.2% in the three wealthiest deciles; whereas in 2009, the proportions were 13.2% and 56.6%, respectively (Table 9).

Table 9. Distribution of Families Receiving a Contributory Pension by Income Deciles, 2003, 2006, 2009 (in percentages)

Deciles	2003	2006	2009
1	1.8	2.6	2.8
2	3.8	3.6	4.6
3	4.5	4.9	5.8
4	6.8	6.9	5.2
5	8.2	7.6	5.9
6	8.5	8.8	8.7
7	11.2	10.9	10.4
8	12.8	13.8	14.2
9	17.6	17.2	17.2
10	24.8	23.7	25.2

Source: Authors' estimates based on absolute figures from 2003, 2006 and 2009 surveys (NSO, 2011b).

Another indicator of inequality is the difference in average pensions among the schemes in 2010 (Table 10). Compared with the average SSS pension, pensions for judges were 17.8 times, 6.1 times for jail and penology personnel, 4.5 times for the Armed Forces and policemen, and 2.8 times for firemen (Figure 7). These pensions

[31] At the presentation of this document, Katarina Constantino-David argued that the GSIS average salary hide significant wages differences by type of employee but that is also true of private sector employees.

are "gratuities" because their beneficiaries never paid contributions.[32] GSIS average contributory pension was 2.2 times higher than in SSS. The GSIS contribution is 15% (excluding life insurance) whereas SSS is 10.4%, and the average salary for GSIS is higher and without ceiling. In the Armed Forces, a general's monthly pension is PhP 86,062 (six times the average AFP pension and 27 times the average SSS pension) and that of a colonel is PhP 59,921 (four and 19 times, respectively compared to the average AFP pension and average SSS pension) a replacement rate equivalent to 138% of salary and longevity (AFP-RSBS, 2010).

Table 10. Calculation of Average Pensions in all Schemes and Coefficient Related to SSS Average Pension, 2010

Schemes[a]	Annual Expenditures (million PhP)	Number of Pensioners	Average Pension (PhP) Annual	Monthly	Coefficient (SSS = 1.0)
SSS	59,075	1,536,807	38,439	3,203	1.0
GSIS	25,358	293,289	86,468	7,205	2.2
Firemen (BFP)	466	4,316	108,077	9,006	2.8[e]
Policemen (PNP) [b]	8,406	49,379	170,234	14,186	4.4[e]
Armed Forces (AFP-RSBS) [c]	19,384	111,000	174,630	14,552	4.5[e]
Jail/Penology (BJMP)	349	1,477	236,868	19,739	6.1[e]
Judges [d]	407	596	683,792	56,983	17.8[e]

[a] Ranked from the lowest to the highest average pension (no data on Coast Guard). [b] Year 2009. [c] Year 2011. [d] Excludes Justices who receive higher pensions than judges.

Sources: Expenditures and number of pensioners: SSS and GSIS from Appendices 5 and 6; BFP, PNP and BJMP based on BLES, 2011c; AFP-RSBS, 2010 and Marayag, 2011-I; judges from Barribal-Co, 2011. Averages and coefficients calculated by authors.

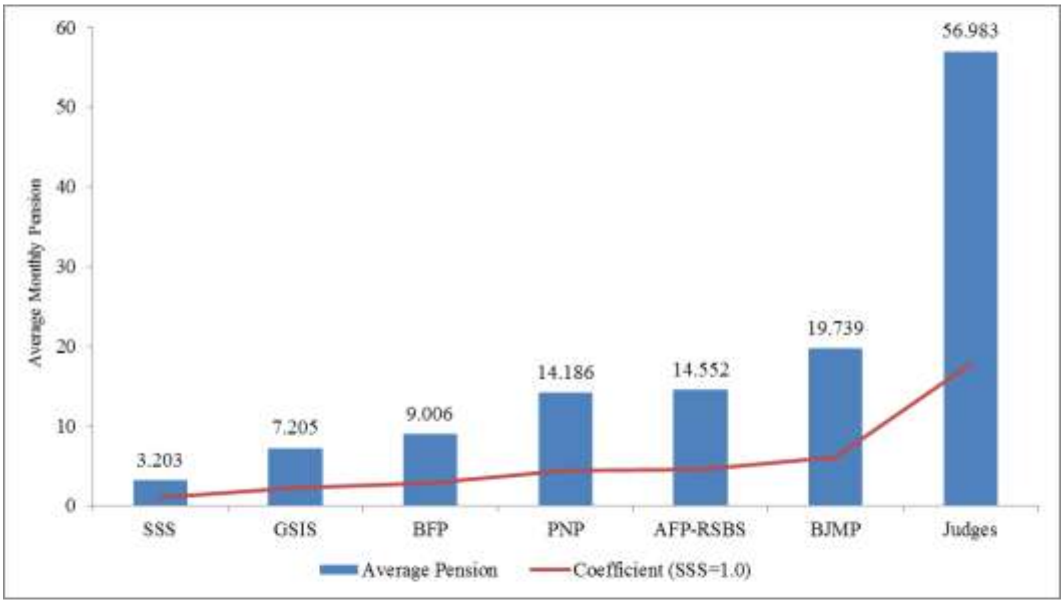
2. Gender Equity

Gender inequalities in pensions result from discrimination in the labor market, demographic factors and the type and features of the pension system. These three causes must be analyzed separately with the purpose of designing adequate policies to fight such inequalities.

Filipino women are discriminated in the labor market. Although they comprise 49.6% of the total population of 88 million, their participation in the labor force is 49.7% vis-à-vis 78.5% by men. They are paid 58% of the men's salary in the same type of job.[33] Poverty incidence among women is higher than among men (30.1% and 22.7%), hence, they are in need of more elderly non-contributory pensions. Finally, women's life expectancy is 73.6 years (seventh among eleven East and Southeast Asian countries) versus 69.2 years in men; as they live longer, the female retirement span is higher than that of men (UNDP, 2010b).

[32] Veterans' pensions average PhP 5,000 monthly and PhP 6,700 at age 70, twice the SSS average pension (Marayag, 2011-I)
[33] BLES (2011d) statistics show that in 2009 the daily wage of women was lower than men in non-agricultural and agricultural activities, but was the same in industry.

Figure 7. Average Monthly Pensions (PhP) in all Schemes and Coefficient Related to SSS Average Pension, 2010



Source: Table 10.

Table 11. Labor Force Participation and Percent Distribution of Employed in each Type of Work by Gender, 2002-2009

Year		Distribution of Employed in each Type of Work by Gender (%)						
	Labor Force Participation Rate (%)	Govern-ment/ Gov-ernment Corporation	Private Enter-prise	Paid Family-Activi-ty	Private House-hold	Self-Em-ployed	Employ-er	Unpaid Family Work-ers
Men								
2002	82.0	48.8	69.9	75.8	24.7	62.6	80.5	46.2
2003	82.2	49.0	70.2	77.0	22.8	63.5	80.2	46.1
2004	83.8	50.0	70.7	73.6	14.1	63.8	80.5	45.3
2005		49.4	70.2	72.7	14.6	64.8	79.1	44.3
2006	79.3	50.1	70.3	71.2	15.1	64.3	78.2	45.3
2007	78.8	49.8	70.3	72.5	16.9	64.2	76.9	45.2
2008	78.8	49.2	70.8	74.5	15.5	64.6	77.6	45.2
2009	78.6	49.4	70.8	72.7	16.0	63.8	76.7	44.4
Wom-en								
2002	52.8	51.2	30.1	24.2	75.3	37.4	19.5	53.8
2003	51.4	51.1	29.8	23.7	77.2	36.5	19.8	53.9
2004	51.2	50.0	29.3	26.4	86.0	36.2	19.5	54.7
2005		50.6	29.8	27.3	85.4	35.2	20.8	55.7
2006	49.3	49.9	29.7	28.8	84.9	35.7	21.8	54.7
2007	49.3	50.2	29.7	27.5	83.1	35.8	23.1	54.8
2008	48.6	50.8	29.2	25.5	84.5	35.5	22.4	54.8
2009	49.4	50.7	29.2	27.3	84.0	36.2	23.3	55.6

Source: Based on BLES, 2001a, 2011d.

Trends in female participation in the labor force and employment by type of work in 2002-2009 are presented in Table 11.Women labor participation decreased from 52.8% to 49.4% whereas men's participation declined from 82% to 78.6%. In 2010, the rate of participation was 49.7% for females and 78.5% for males; the gap between men and women's participation had somehow widened (BLES, 2011d). The global crisis has particularly affected female employment (Pineda, 2010). Child care centers that facilitate women incorporation in the labor market were mandated by the Day Care Act of 1990 in each city and village but they provide care for only 2-3 hours (Pineda, 2011-I).

The women's share in formal employment, which is covered by social insurance and protected by labor law (first two columns of the table), changed slightly in the period. In the government sector, women's share in formal employment was similar to men's share but was slightly decreasing; similarly in the private sector, the women's share was less than half the men's share (29.2% and 70.8% respectively) and showed a small decline. Among employers and paid family activity, females were also a minority (23.3% and 27.3%) albeit expanding. Conversely, females predominate in private households—domestic help (84% vis-à-vis 16% men), and are a majority among unpaid family workers (55.6%), both in informal activities with low pay and in activities without pay, although exhibiting a rising trend. All these activities have considerably lower coverage than formal salaried work. Legally, domestic helpers are salaried workers compulsory covered in SSS but usually, a very small number is actually insured. Among newly hired OFWs, 66% to 75% are women, but a minority of women were also self-employed (36%) and trends are declining (Verceles and Pineda, 2009; Pineda, 2011-I).

Private pension systems accentuate gender inequality because ownership of individual accounts precludes any transfers from men to women, and such systems commonly use mortality tables differentiated by sex that discriminate women. Women's accumulated funds in the individual accounts are lower than men's although women live longer; hence, they get inferior pensions. Public systems tend to soothe gender inequality because they have a collective fund that may facilitate men-to-women transfers, and normally use unisex mortality tables. Even under public systems, women usually have a lower contribution density (the average period of contribution during the working life) than men due to their higher participation in informal, domestic-help and other precarious jobs, and because they exit from the labor force to raise their children and take care of the elderly and the sick at home. As a result, more women do not meet the years of contribution required to access to a pension and, as their salaries are lower and they contribute less than men, the level of their pensions is inferior to that of men's (Mesa-Lago, 2008, 2011).

Filipino women are discriminated in terms of pension coverage, largely as a result of the labor market structure and also because of the social insurance inclusion policy. In 2008, out of the total memberships in SSS, 59.6% were men and 40.2% were women; conversely in GSIS, in 2010, 61.9% of members were women and 38.1% men. Both schemes showed an expanding share of females (SSS, 2011i; Appendix 10). The share of women in the total number of pensioners in GSIS is higher than that of men (65% and 35%, respectively, excluding disability) while the opposite is true in SSS (SSS, 2011i; GSIS, 2011c). GSIS' greater proportion of female members and pensioners might be explained by a high participation rate of women in government services[34] and the very small proportion of informal work in that sector, as compared in SSS where a concentration of women is in precarious jobs that have a low coverage. Women are also more affected by evasion and pay-

[34] In 2008, the total number of male government personnel was almost equal to the number of female employees, but males dominated in the capital region (Asher and Parulian, 2011).

ment delays than men, cases of which are both lower in GSIS than in SSS. In ECC, the cumulative number of disability benefits granted to women in 1985-2011was 32% and 68% to men (ECC, 2011).[35]

Ages of retirement in the Philippines are the same for men and women, a common trait in East and Southeast Asian countries (except in China, Taiwan and Vietnam where females can retire five years earlier than men), which helps women to accumulate more contributions and improve their pensions. On the other hand, female age expectancy is 4.4 years higher than men although this difference is alleviated in public pension systems. The average number of months of contributions made by women was 46.7 compared to 50.8 by men whereas average CYS were 5.6 and 7.04 respectively (SSS, 2007b). Pension replacement rates for men are higher than for women, as shown in 12 countries in East and Southeast Asia. In the Philippines, however, such rates are similar (OECD-WB, 2009). Unfortunately it was not possible to obtain the current average level of pensions of females vis-à-vis males.[36] To keep a survivor pension, beneficiary widows cannot remarry; this induces them to live in common-law unions (GSIS also bans them to keep the pension); and yet they earned such pension working as housewives and serving their families and should be entitled to that right.

Only SSS stipulates that at least one woman should be selected as representative from either the employees or the employers in the commission.[37] There is no such legal mandate in the GSIS charter but two out of nine members are women despite the fact that women are 62% of the total membership. Being excluded or being a minority, women have lesser opportunities to press for a reduction in gender inequalities and to get adequate compensatory policies.

[35] The gender distribution of ECC survivor benefits that should favor women is hampered because 89% of the gender of such pensioners was unknown, an indication of the poor quality of such statistics.
[36] In 2006, the SSS average female retirement pension was 92% that of males, the disability pension was 94% and the survivor pension was 113.8% (SSS, 2007b).
[37] By RA No. 7688 of 1994: "Giving Representation to Women in the Social Security Commission."

Efficiency, Administrative Costs and Representation

Administrative efficiency is essential for the good operation of a pension system. A recent ISSA (2011) survey found that public perception of efficiency and effectiveness is also crucial for an optimal collection of contributions and compliance. According to Ross (2004), pension programs must perform five key functions with adequate efficiency: 1) maintain an effective communication network, with accurate data and record-keeping tools, to support collection, payment, control of compliance, and financial activities; 2) collect contributions and loans effectively; 3) pay benefits in a timely and proper manner; 4) produce financial reports tied to effective and reliable governance, responsibility, transparency and accountability, and 5) manage financial assets and investment in a productive manner. The first three functions will be analyzed in this section, adding other four: satisfaction surveys, avoidance of political intrusion, reasonable administrative costs, and social participation in the administration. The financial functions will be discussed in section II-F.

1. Efficiency

In mid-2011, questionnaires were given to SSS and GSIS to collect information on several indicators of efficiency, and answers are summarized in this section (SSS Frances, 2011-Q; GSIS Saludares, 2011-Q). The questionnaires were not submitted to the separate schemes due to the difficulties involved and time constraints.

a) Information-communication technology. GSIS and SSS have made progress in computer processing and software. Both have websites and make information available to their members through the Internet and office kiosks. SSS also offers information via mobile phones and text messages – an initiative that earned a Computer World Award in 2011. However, one of the labor federations complained that information on new or changing policies and programs are not readily available (TUCP, 2009: 3) in these platforms. SSS did not have electronic data archiving, except for microfilming, and kept records manually. Currently, the SSS scans the documents and plans to develop an automated record management. GSIS office branches lack computers and also process records manually whereas provincial branches and national offices are computerized. In 2009, the IBM database collapsed and in 2011, a regional database crashed. SSS, jointly with GSIS, ECC and PhilHealth, have issued new ID cards (Unified Multipurpose Identification System: UMIS), with a contactless chip and magnetic type that stores information. It is expected to impede double names, protect from fraud, facilitate transactions, and eventually be used to withdraw benefits and loans from automatic teller machines (SSS, 2011g).

b) Collection of contributions and loans. Evasion and payment delays of contributions have serious adverse effects: 1) delinquent members will not gain the right to benefits; 2) non-compliance has a demoralizing effect on employers and members who honor their obligations; 3) there will be pressure to increase contributions, which in turn may aggravate non-compliance, or 4) cut benefits or require fiscal transfers to cover ensuing deficit (ISSA, 2011).

SSS offers a wide range of payment options to members: over-the-counter at SSS branches and telling facilities or accredited banks (including thrift and rural), electronic transfers from employer's bank to SSS depository bank, automatic debit charge with accredited banks (for household employers), as well as through mall payment centers, PhilPost, online and text-messaging, cooperatives, overseas bills payment system and ADA (see II-B-4). Despite the advances noted, the most common complaint among workers and unions is the long time it takes contributions to be processed and credited. SSS confronts more problems than GSIS due to a much larger number of members, many of whom are from the informal sector; and about 800,000 enterprises, 90% of which are small. SSS has just started electronic remittances but some understaffed local offices still conduct manual verification. There was a past backlog of accreditation delays for PhP 14 billion partly because of errors. It is only upon a member's application for retirement that the verification is done and contributions are credited (Edralin et al, 2011-I).

GSIS is in a better position because it has fewer employers; all in the government is under central control; there are lesser changes in employer; and contributions and loans can be automatically deducted from salaries. GSIS sends a monthly electronic billing file with a detailed breakdown of payments based on which prepares an electronic remittance file so that public agencies can send their contributions to any GSIS office. However, even though the electronic process is being implemented, office branches either do not have computers or they need to be connected to the database such that contributions are still submitted for reconciliation and verification with the agencies. Computer crashes can also impede the processing, as what occurred in 2009 and 2011. Because of these problems, crediting contributions take 15-30 days, where members cannot readily see their contributions reflected electronically (Aguja et al, 2011-I; see II-E-3).

c) Payment of pensions and faked pensioners. Due to a poor postal system in the country, SSS monthly pensions are paid, since 1993, through accredited banks. Beneficiaries, therefore, must open an account in a bank close to their residencies. The SSS notifies pensioners when the initial and subsequent payments can be withdrawn. If a member cannot open a bank account (e.g., when there is no bank close to the member's residence or when the cost of opening an account is relatively high), SSS issues checks. In mid-2011, 98.8% of pensions were paid through banks and only 1.2% by check. GSIS requires pensioners to have an e-Card Plus/UMID—Compliant Card, co-issued with a commercial bank that has 6,000 automatic telling machines, where benefits are credited monthly. ECC pensions can also be paid by check.

In SSS, there have been many cases of fraud or the so-called "ghost" (fake) pensioners. There is continued collection of benefits by the relatives of pension members who died, or by pensioners who remarried or re-employed. An Annual Confirmation of Pensioners Program (ACOP) that verifies members' identities and status resulted in the suspension of pensions for the value of PhP 2 billion and recovery of PhP 723 million from fraudulent pensions (Serrano, 2006).[38] Banks that pay pensions must annually request the pensioner to collect in person, and in case of disability, SSS sends a person to check at the pensioner's home (Edralin, 2011-I). In GSIS, 35,000 ghost pensioners were found in 2000; since then pensioners are required to show up annually at GSIS offices, even in wheel chairs, for the renewal of their active status. In 2011, GSIS began cross-checking data with NSO (deaths or weddings). A potential problem is that Christians get a death certificate to bury their dead but Muslims do not since their departed relatives must be interred within 24 hours, according to Islamic tradition (Aguja et al, 2011-I).

[38] Only 25% of the poor benefit from government subsidy programs (NAPC, 2011).

In the police scheme (PNP), DILG Secretary Jesse Robredo unveiled in 2011 that there were 2,000 ghosts pensioners costing the government PhP 250 million a year, for a total of PhP 1 billion in the previous five years (Romero, 2011). In the Armed Forces (AFP-RSBS), a task force found in 2005 that 5% of total pensioners (4,850) were fake. There was a case where one beneficiary had six different names, collected pensions under these names, but was arrested. Another case was with a member who had been dead for 17 years, but the survivors used an old photo and kept collecting his pension (Marayag, 2011-I). The chief of the AFP Pension and Gratuity Management Center reported in 2011 that they now have an adequate system to verify the identity of their pensioners, including computerized data, cross-listing with several state agencies, and obligation of pensioners to present themselves annually to prove they are alive (Romero, 2011).

d) Time to process pensions. In SSS, the 2007 Act (ARTA) sets a period of 10 days to process the pension. Averages from January-April 2011 showed a range from 9-14 days in the processing for retirement and 10-15 days for survivors. Non-ARTA averages, on the other hand, were considerably higher, which take 22-29 days for retirement processing and 27-36 days, respectively. In 2007, SSS stipulated that the old-age pension will be paid when the member reaches the retirement age provided that all the needed documents were submitted and have been verified by the SSS, six months before the retirement date. In GSIS, it takes 15-30 days for a pension request to be processed and granted, although in exceptional cases, it takes more than 30 days. GSIS is currently elaborating a Citizen's Charter including maximum processing time of benefits. The House of Representatives (2011) is considering House Bill 3951 of 2011 that orders payment of retirement benefits within a maximum of 30 days from the retirement date. ECC average time for processing claims for pensions is 20 days (ECC, 2010).

2. Periodic Satisfaction Surveys

These surveys, conducted among members and pensioners, are important to measure their level of satisfaction and detect flaws in the system that then can be corrected. In the Philippines, surveys have been done among members but not among pensioners. SSS conducts such surveys during monthly in-house seminars; independent agencies hold surveys occasionally. A nationwide satisfaction survey done in 2008 by an outside foundation, based on a cross section of 1,500 members (including self-employed and voluntary), gave 77% overall net satisfaction, 69% on personnel and 58% on physical arrangements, but only 10-38% satisfactory rates to key issues such as access to information and decision makers, processing time of applications, resolution of problems, fairness, eligibility conditions, and level of pensions. A major problem of the survey was that 61% of interviewees did not respond or said they did not know, suggesting either ignorance or lack of interest on the pension program, which should be a point of concern among administrators (SSS, 2009b).[39] A similar SSS survey was planned for 2011 but was postponed. GSIS, jointly with SWS, proposed a professional survey in 2008 but it was not approved due to high costs, and an internal national survey was already conducted that year. In 2011, the Public Relations and Communications Office of GSIS carried a survey by asking questions to members in kiosks at GSIS offices. A 2011 pilot survey done by the Central Office was based on a small sample of 200 members out of 1.4 million; and a methodology that was the subject of criticism. It had negative

[39] The average age of respondents was 33 years; future surveys should take a stratified sample by age.

results (a copy was requested but was not provided); although, a request for a consultant to improve the methodology has been submitted to the Office of the President (Aguja et al, 2011-I). Meanwhile, ECC does not conduct satisfaction surveys (Villasoto, 2011-I).

3. Political Intrusion

Political intrusion in the administration and cases of corruption in SSS and GSIS had been reported in the past and they affected efficiency, costs, and morale. Political appointees have been frequent (De la Rama, 2009; Manasan, 2009b; Verceles and Pineda, 2009; Aguja, 2011-I). Section 5 below discusses political interference in appointing members of board/commission in both institutions whereas section II-F-6 reports cases of political intrusion in the investment of funds.

4. Reasonable Administrative Costs

Public-managed programs, like SSS and GSIS, usually have lower administrative costs than private ones because the former does not have profit, marketing and salesmen expenses. This is particularly true in programs with large coverage that take advantage of economies of scale (Mesa-Lago, 2008). In this sense, SSS has an advantage over GSIS because its EAP coverage and number of contributors are seven times greater and expanding; while, coverage and number of contributors are stagnant or contracting in GSIS (based on Table 1). However, in the past, SSS was criticized for its high administrative expenses (i.e., in 1991-2000, administrative expenses increased at an annual rate of over 24% due to “fat” salaries and benefits paid to top executives and some employees) but resulted to cases in courts that were rejected by the Supreme Court (Serrano, 2006).

Table 12. Number of Employees per 1,000 Contributors in SSS and GSIS 2000-2010

Year	SSS Employees	Per 1,000 Contributors	GSIS Employees	Per 1,000 Contributors
2000	3,996	0.57	3,119	1.96
2001	3,942	0.56	2,934	2.07
2002	3,896	0.54	3,141	2.28
2003	4,058	0.55	3,646	2.76
2004	4,043	0.54	3,786	2.89
2005	4,169	0.54	3,669	2.45
2006	4,135	0.52	3,495	2.59
2007	4,145	0.51	3,326	2.45
2008	4,182	0.47	2,668	1.95
2009	3,925	0.44	2,793	2.04
2010	5,190	0.54	2,753	2.01

Source: Based on SSS, 2011d; GSIS, 2011a.

Most administrative expenditures in SSS and GSIS are employees’ salaries and fringe benefits. It is therefore important to assess if the number of employees hired is reasonable or excessive through estimating the ratio of employees per 1,000 contributors (Table 12). Employees work for pensions and also on sickness and maternity paid leave and funeral benefits, but not on the provision of health care that is in charge of PhilHealth and demands more manpower. In addition to the cited benefits, GSIS also handles life insurance and the insurance monopoly of all government property: buildings, equipment, vehicles, etc.[40]

The employee/contributors ratio in SSS is about one-fourth of GSIS' and shows a slightly declining trend from 0.57 to 0.54 in 2000-2010 (but 0.44 in 2009); whereas, the GSIS ratio exhibits a slightly increasing trend from 1.96 to 2.01 (peaking at 2.89 in 2004). In a comparison among five East and Southeast Asian pension schemes in 2008-2009, the Philippines showed the lowest ratio in pension employees per 1,000 *members*, but there were no Philippine figures per active *contributors* that would have allowed a more accurate measure due to the already explained significant overestimation of members (based on Asher, 2011).
Furthermore, employment data in SSS and GSIS excluded a large number of workers that were hired in 2008 by 1,500 contractors (De la Rama, 2009).[41] In 2010, the Department of Budget and Management (DBM) froze the hiring of contractual workers, such that they were reduced to 633 in SSS and to 251 in GSIS, although this resulted in a 32% increase of regular employees in SSS (SSS, 2011i; GSIS, 2011c; Table 12). When contractual workers were added to regular workers in 2010, there was a rise in total ratio per 1,000 contributors from 0.54 to 0.60 in SSS, and from 2.01 to 2.19 in GSIS. However, in September 2010, SSS (2010b) reported the total number of employees as 8,297 (executives, rank-and-file, and contractuals), which would give a ratio of 0.88 – a figure higher than the previous 0.60 and 0.54 in Table 12.[42] Currently, SSS is streamlining personnel and eliminating departments (since a more computerized system requires lesser number of employees), while GSIS is undertaking a reorganization and is closing at least 14 top executive posts (Edralin, 2011-I; Aguja, 2011-I).

SSS and GSIS employees' salaries are higher than the civil servants' average, and a significant salary gap exists between regular employees and top executives (Aguja et al, 2011-I; Edralin et al, 2011-I). The GSIS' lowest salary is PhP 9,136, which is 97 times the highest salary at PhP 888,278 (GSIS Proposed Salary Structure, 2011). The projected increase in employees' salaries in 2010-2013 is 10.1% compounded (based on GSIS, 2010b, 2011c). SSS employees are not covered by the SSS scheme but by the GSIS scheme; hence, SSS pays a higher contribution rate for its members. There is one recognized trade union in each (SSS and GSIS) to where employees are affiliated and where they pay dues. Unions are stronger in the private sector and can mobilize a strike; they are weaker in the public sector and are not allowed to organize a strike. Collective negotiation is also limited by civil service legislation (Edralin, 2011-I). Current collective negotiation agreements offer little data on employee fringe benefits, i.e., SSS grants inflation-adjusted allowances on hospitalization, housing, longevity, dependents and meals; free child care for employees' pre-school children; sports, recreational and cultural programs; and incentive bonuses (SSS, 2011h).The GSIS agreement provides rent-free canteens and also subsidizes electrical and water charges; and provides an annual incentive of PhP 50,000 or one-month salary, whichever is higher (GSIS, 2009b).

Employees in both schemes have a mandatory Provident Fund, which is also existent in other public corporations such as the Central Bank, the Development Bank of the Philippines, HDMF, and the University of the Philippines. A difference, however, is that the government budget finances the provident fund of those corpora-

[40] GSIS is now out-sourcing such insurance through open bidding (Aguja, 2011-I).
[41] A contractual worker becomes regular after six months in the job.
[42] SSS figures for 2009 are 3,925 regular employees and 3,000 contractual workers (Edralin et al, 2011-I; Palileo, 2011-I) hence a total ratio of 0.77 lower that the 0.88 ratio in 2010 thus indicating the flimsiness of these data.

tions. However, in social insurance pension schemes, the money comes from employees' and employers' contributions, which significantly increases administrative costs and therefore reduces resources for pensions. GSIS contributes 45% of the salary to the Fund and 5% is shouldered by the employee; in SSS 40%[43] and 5%, respectively (an additional 5% is voluntary). Therefore, only a small proportion is financed by the employees. Contributions are deposited and invested to individual accounts which result to accrued returns. SSS members receive quarterly dividends, can take loans, withdraw early their equity in case of financial need, withdraw the entire or part of the equity during retirement; and in case of separation, they can reimburse the value of their contribution and earnings as well as the employers' contributions if the employee has five years of service. Moreover, at the time of the member's death, the equity is distributed among survivors and, in addition, they receive a death benefit of PhP 200,000.

In 2010, 4,743 applications to the SSS Fund for early withdrawal were granted and paid an average of PhP 42,883. Seventy-four members who applied for separation benefits received an average of PhP 329,652 and 12 opted to retain their equities in the fund at an average of PhP 1 million each. In GSIS, 60 applications for separation benefits were approved by September 2011 and were paid an average benefit of PhP 445,584. Depending on the salary and number of years of service, the GSIS benefit fluctuated between PhP 47,000 (for those with two years of service) to PhP 2 million (for those with 14 years of service). In 2010, SSS contributions to the Fund amounted to PhP 2.77 billion which was equal to 39% of administrative costs.[44] Amounts from the GSIS Fund were not disclosed (based on SSS, 2011b; GSIS, 2011c; Tables 12 and 15).

Table 13. Administrative and Operating Expenses and their Percentages of Total Expenditures and Contribution Revenue in SSS and GSIS, 2000-2010 (in million PhP and percentages)

Years	Total Expenditures		Contribution Revenue		Administrative & Operating Expenses		Administrative Expenses as Percentage of			
							Total Expenditures		Contribution Revenue	
	SSS	GSIS	SSS	GSIS	SSS	GSIS	SSS	GSIS	SSS	GSIS
2000	38,091	21,770	30,321	34,562	4,201	3,545	11.0	16.3	13.9	10.3
2001	43,464	31,629	31,372	36,560	4,447	3,819	10.2	12.1	14.2	10.4
2002	45,357	32,099	34,188	38,596	4,486	4,146	9.9	12.9	13.4	10.7
2003	47,583	38,395	39,420	39,129	4,777	4,942	10.0	12.9	12.1	12.6
2004	50,210	38,902	43,936	39,508	5,327	5,174	10.6	13.3	12.1	13.1
2005	51,908	40,706	47,483	39,765	5,638	5,112	10.9	12.6	11.9	12.9
2006	58,502	43,051	52,544	38,593	6,380	5,329	10.9	12.4	12.1	13.8
2007	67,566	45,716	61,829	39,938	6,819	5,622	10.1	12.3	11.0	14.1
2008	74,663	43,137	68,879	44,048	6,746	6,279	9.0	14.6	9.8	14.3
2009	79,125	44,804	72,351	49,012	7,075	5,103	8.9	11.4	9.8	10.4
2010	84,280	49,960	80,090	56,213	7,110	4,933	8.4	9.9	8.9	8.8
Average							10.0	12.8	11.7	11.9

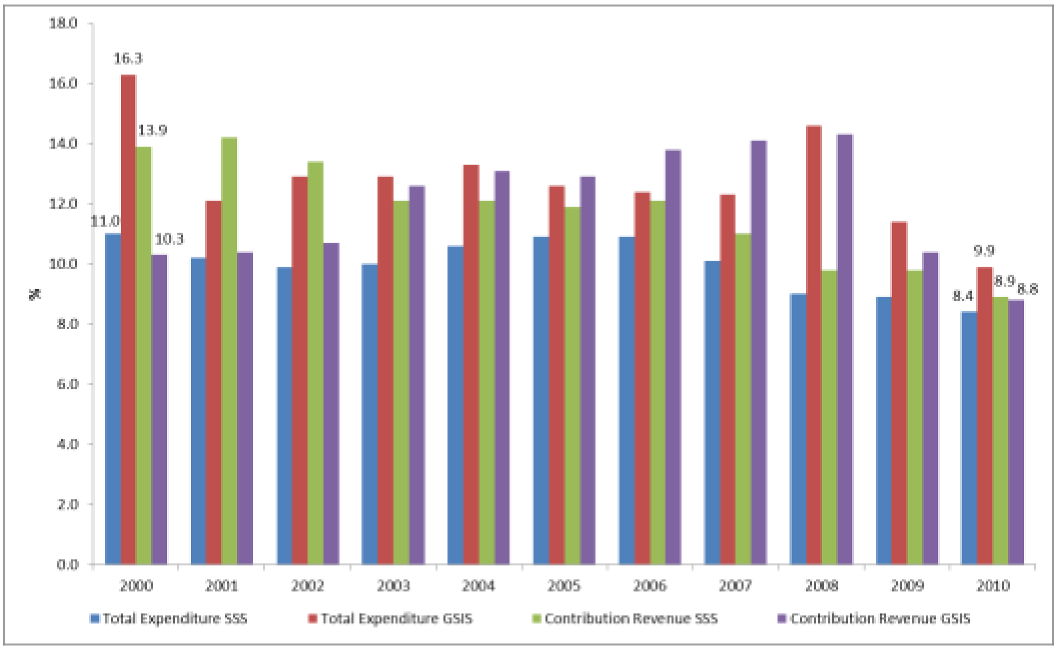
Source: Based on SSS, 2001a-2011a, 2011d; GSIS, 2001a-2010a, 2011a

The law limits administrative expenditures to 12% of contributions in both schemes, plus 3% of investment and other revenue in SSS, while GSIS limits it to

[43] Raised from 30% in 2008 and 35% in 2009.
[44] The accumulated value of the Fund was PhP3.26 billion equal to 1.13% of the SSS reserve.

12%. ECC legal limits are the same as GSIS. Table 13 shows that SSS administrative/operating costs relative to contribution revenue alone are higher than in GSIS; it decreased from 13.9% to 8.9% in SSS and from 10.3% to 8.8% in GSIS. In 2010, the two figures were almost identical.[45] Conversely, the SSS' administrative/operating costs as percentage of total administrative expenditures were lower than in GSIS and declined from 11% to 8.4% in 2000-2010. GSIS shares decreased from 16.3% to 9.9%, making the gap with SSS smaller. By 2010, it was only 1.5 percentage points higher (Figure 8).[46] The administrative cost of social welfare programs including non-contributory pensions is much smaller: it only covers 4.2% of total expenditures (Rocamora, 2011-I). In a comparison of administrative costs as percentage of gross contributions among five East and South Asian countries in 2008-2009, the Philippines had the highest percentage at 9.7% in SSS and 10.4% in GSIS vis-à-vis 3.6% in Thailand, 2.3% in Malaysia, 2% in India and 0.8% in Singapore (Asher, 2011).

Figure 8. Administrative Expenses in SSS and GSIS, 2000-2010 (percentage of total expenditures and contribution revenue)



Source: Table 13

5. Social Participation in Administration

Box 7 summarizes and compares the composition of boards/commissions in five pension schemes, specially the representation of workers and employers. Those who pay contributions, the workers and the employers are a minority in most boards or commissions. It is only in SSS where workers/employers are a majority, comprising of six out of the nine members of the board/commission. In GSIS, only

[45] Hozmann and Hinz (2005) assert that SSS and GSIS percentages in 2004 were among the highest in Asia: 12.1% and 13.1%, respectively, vis-à-vis 0.5% in Singapore and 2% in Malaysia.

[46] Orbeta (2011) measures operating/administrative expenditures as a ratio of benefit expenditures alone: in SSS decreased from 17.4% to 12% in 2000-2010, in GSIS was much higher but declining from 24% to 20% (based on Table 13, Appendix 11).

three out of nine members of the board come from the workers/employers.[47] Similarly, there are only two members out of seven in the board who are workers/employers in ECC; while, in OWWA, there are two out of eight. In AFP-RSBS, the Administrator has the power to determine the type of board or agency and is capable of setting the rules. The scheme is managed by retired military officials appointed by the government (PD 361, 1973).[48] A reform act proposes to create a Board of Trustees with nine members, all of whom will be appointed by the President of the Republic: the Secretary of National Defense (chair), the chief of staff, the president of the new military pension system, and one representative each from pensioners, law, finance, insurance and banking sectors (PMPS Act, 2011).

Box 7. Composition and Representation in Pension Boards/Commissions, 2011

Pension Schemes	Board/Commission and Composition
SSS	Social Security Commission; 9 members: DOLE Secretary, SSS President, 3 representing workers and 3 employers (at least a woman in each), and 1 the general public (with knowledge/experience on social security).
GSIS	Board of Trustees; 9 members: GSIS President, 4 from banking, finance, investment and insurance agencies, 1 representative of government employees, 1 of retirees organizations, 1 president public schools/superintendent association, and 1 lawyer.
AFP-RSBS	Administered by the Chief of Staff of the Armed Forces through an agency, committee or board, created and organized by him who also set regulations, subject to approval by the Secretary of National Defense.
ECC	Commission; 7 members: DOLE Secretary (chair), GSIS President, SSS Commissioner, PhilHealth Chairperson, ECC Executive Director, 1 representative each from workers and employers.
OWWA	Board of Trustees; 7 members: DOLE Secretary (Chair), DOLE Deputy Secretary (Vice-Chair), 4 Directors (Overseas Employment Development Board, National Seamen Board, Bureau of Employment Services & Welfund), and 1 representative each from workers and employers.

Source: Legislation compiled by the authors.

There is no representation of the retirees/pensioners except in GSIS, while in the latter board are four representatives from financing/insurance entities (justifiable under a financial viewpoint but too many) as well as one from the legal profession. In SSS, there is one representative coming from the general public. The House of Representatives is considering House Bill 1180 of 2011 which proposes the increase in the number of GSIS Board members from nine to 13, five of whom (instead of one) would be teachers and staff from the Department of Education.[49] This is envisioned to lead to a majority of employees and retirees in the board. Another Bill in the House of Representatives proposes to increase the number of workers' and employers' representatives in the ECC to four (Act Establishing..., 2010). In SSS, at least one woman must be selected among representatives from each workers and employers.

[47] In GSIS, the government in also the employer, hence the 3 representatives noted are from employees and retirees. In Philhealth, 2 out of7 are workers and employers; in HDMF there is a majority of 5 out of 9 members.
[48] Legislative reforms are being discussed to reorganize the AFP-RSBS management, restricting the involvement of military officers and placing more civilians.
[49] The reason is that 40% of GSIS members are teachers but there will be too many of them in the Board.

The three workers' federations, the employers' confederation, Secretaries of the Cabinet and other sectors should submit candidates (i.e., no special skills are required) for the boards/commissions to a Presidential Selection Committee which will screen the candidates and will submit the list of selected candidates to the President of the Republic for the appointing of all members including the chairperson of SSS. In the past, such appointments have been based on political connections rather than technical expertise; for instance, President Arroyo chose General Cunanan (AFP), a controversial political figure, as commissioner of the SSS (Orbeta, 2011-I). It is unclear whether the representatives of workers unions and employers associations are democratically elected by their memberships. Apparently, the leaders of both associations become the representatives to SSS and GSIS. "Workers' groups are demanding more democratic representation and control over SSS decision-making and the choice of its Board, which they say should have gender balance and seats not only for formal but also for the informal workers" (Verceles and Pineda, 2009: 2).

In April 2011, SSS began quarterly meetings with trade union leaders to give access to information, allow them to ask questions, and discuss key issues such as investment and the actuarial valuation that was released to the unions before a formal presentation to the Commission. GSIS is now conducting regular meetings with stockholders (Edralin, 2001-I; Aguja, 2011-I).

Financial Sustainability

1. Financing System

As was already explained (section I-A), virtually all pension schemes in the Philippines are of "defined benefit" (DB) - their contribution rate tends to increase in the long run with the maturity of the system, and the financing method is either pay-as-you-go (PAYG) without substantial reserves, or collective partial funding with reserves that keeps the equilibrium for a certain period. In contrast, a "defined contribution" (DC) or "fully funded" system, which exists in a few provident funds, private or enterprise pensions plans in the Philippines, sets the contribution indefinitely (or more realistically over a very long period of time) such that contribution is deposited in individual accounts owned by the insured, invested and capital returns added to the said accounts.

Both the SSS and GSIS have a collective partially-funded method financed by salary contributions by workers and employers that accumulates reserves and invests them to help pay benefits. Since 1981, SSS has had the scaled-premium method, which sets the contribution rate for a specific period of equilibrium during which both contributions and investment revenue should be sufficient to pay benefits and administrative costs, without touching the reserves (SSS Frances, 2011-Q). Periodic actuarial valuations assess if the method is functioning well. After the period, the contribution rate has to be increased for a subsequent period due to gradual maturing of the system.

2. Contributions

Contribution rates are based on salary (income for the self-employed) and are not only for pensions but also for sickness, maternity and funeral cash benefits (Table 14). There are no disaggregated estimates on how much of the total rate is assigned to pensions, but based on financial operations in 2006-2010; pensions took 81% of total expenses. Pensioners do not pay contributions for their pensions.

In SSS, the contribution was not increased in 22 years; subsequently, it gradually rose from 7.4% in 1979 to 8.4% in 2002, 9.4% in 2003 and 10.4% in 2007. In 2011, salaried employees contribute 3.33% of wages while the employers contribute 7.07% of their wages (32% and 68% respectively) for a total of 10.4%. However, the self-employed, voluntary members, and OFWs pay the total of 10.4% due to the lack of employer. This has become a barrier for their affiliation (except for the OFWs). The minimum salary for contribution is PhP 1,000 for the self-employed; PhP 5,000 for OFWs because they earn higher wages abroad, and 50% of monthly earnings for working spouses. The salary contribution ceiling of all members was raised from PhP 12,000 in 1999 to PhP 15,000 in 2003. The minimum and maximum salaries for contributions are adjusted periodically by SSS subject to approval by the President of the Republic. The total contribution is expected to be raised at the end of 2011 from 10.4% to 11% (in equal shares by employers and employees: 7.37% and 3.63%, respectively) whereas the maximum monthly salary credit is expanded from PhP 15,000 to PhP 20,000 (SSS, 2011g). The government guarantees all benefits, which should not be diminished, and is also responsible for the solvency of SSS. According to law, the Congress shall annually appropriate from the National Treasury the needed funds to ensure benefits and maintain an adequate balance based on actuarial studies. To date, however, the SSS has not needed a government contribution (SSS Frances, 2011-Q).

Table 14. Contributions of Employers and Employees in SSS, GSIS, AFP-RSBS and other Schemes, 2011 (as percentages of salaries, income for self-employed)

Scheme	Salary Base	Employer	Employee	Total	Self-employed, OFW, Voluntary
SSS	AMSC PhP1,000 to 15,000	7.07	3.33	10.40	10.40
GSIS	No ceiling	12.00	9.00	21.00[b]	
"Special members"[a]		3.00	3.00	6.00[a]	
AFP-RSBS	Monthly base salary & longevity pay		5.00[c]	5.00[c]	
PNP, PJMP, BFP, Coast Guard, Justices/ judges[c]		0	0	0[d]	
ECC	Monthly base salary	1	0	1[e]	

[a]. Constitutional Commission, Civil Service Commission, Commission on Audit, Commission on Election, Labor Arbiters, Judges and State Prosecutors cover in life insurance only. [b] Includes 4% for life insurance. [c] For Provident Fund; there are no contributions for pensions, which are entirely paid by state. [d] No contributions, all pensions paid by the state; some paid for voluntary life insurance. [e] There is maximum of PhP10 per employee in SSS but PhP100 in GSIS.

Sources: Legislation compiled by authors (see References); Aguja et al, 2011-I; Villasoto, 2011-I.

The contribution in GSIS has no salary ceiling (as it was eliminated in 2003); the employee pays 9% and the employer 12% (a total of 21%). The GSIS total contribution is much higher than that of SSS', even deducting 4% of the insurance premium that SSS lacks. Shares of the total contribution are coming from the employee at 43% and 57% from the employer.[50]As there are virtually no self-employed in the public sector, the usually higher percentage contribution to this group is not a major problem, like in SSS.

A comparison of pension contributions among nine East and Southeast Asian countries indicates that the Philippines' rates (10.4% and 21%) are either the fifth or third biggest. The highest are Singapore at 34.5% (but including health care), China at 28%, and Japan at 15.4%. These countries are more developed and aged (in terms of population) than the Philippines. Viet Nam has 16% and the remaining five countries have lower contributions, ranging from 6% to 10%, three of them are also more developed and aged than the Philippines (Korea, Brunei and Thailand—including health care), and only Indonesia is less developed and youngest (rates from Asher, 2010 and US-SSA/ISSA, 2011; development levels from UNDP, 2010). Although these comparisons are not technically precise because of the variety of entitlement conditions and benefits among the countries, they indicate that the Philippines' rate (particularly GSIS) is high for both the country level of development and by population aging. As in SSS, the law stipulates that in case of a financial deficit of GSIS, the government shall guarantee all obligations to its members, but the government can never cover a GSIS deficit (Aguja et al, 2011-I; GSIS Saludares, 2011-Q).

[50] In Malaysia and Sri Lanka civil servants do not contribute thus increasing fiscal costs of the program and worsening regressive effects.

The six "special members" in GSIS pay lower rates but only for life insurance: 3% from the employee and 3% from the employer for a total of 6% (Table 14). They have additional contributions for pensions that were impossible to obtain except for the judiciary. In AFP-RSBS, the rate of 5% of the monthly base salary and longevity pay is paid by the member but goes to the Provident Fund; there are no contributions for pensions, which are paid entirely by the state. Justices/judges, policemen, firemen, jail men and Coast Guards do not pay any contributions either and their lump sums and pensions are financed by the government.

Contributions for ECC are 1% of the basic salary and are paid by the employer. The maximum contribution per employee is PhP 10 and PhP 100 for GSIS. Contributions are collected by the SSS and GSIS and are transferred to the State Insurance Fund (SIF) in each. SSS and GSIS manage the fund, invest it and pay the benefits. Legally, SIF resources can only be used for ECC benefits although in practice, they are merged with funds of other programs. SSS and GSIS must submit an annual report to ECC on the annual revenue and expenditures, but ECC lacks the power to control how the SIF is administered and can only make suggestions. In practice, therefore, SSS and GSIS are in virtual control of SIF (Villasoto, 2011-I).

All the above rates comply with the ILO norm stating that the worker should not pay more than 50% of the total contribution.

SSS and GSIS keep individual accounts for contributions in order to determine the insured eligibility and the amount of benefits, as well as to keep tract of employers' compliance and to impose sanctions for delinquency. However, those accounts are not treated as personal assets of the members (as in DC systems) but, together with investment returns, are pooled into a common or collective fund.

3. Evasion and Payment-Delays, Collection Procedures and Sanctions

A study commissioned by the ISSA asserts that poor compliance is a key issue for many countries in Asia (Ginneken, 2010). Table 2 showed that only 33.5% of SSS members has one monthly contribution in 2010 (20% among self-employed). In addition, only 35% of employers (300,000 out of 850,000) paid contributions to SSS, and payment delays ranged from one month to 20 years.[51] Administrative reasons given for this poor compliance include: a) inaccuracy of the membership database, which is inflated due to multiple registrations by the same worker, particularly when social insurance numbers were issued manually; b) no proper monitoring of the unemployed and self-employed members, as well as small enterprises; c) a long span of time is required, at an average of about six months, for a member's contribution to be credited; and d) actions against delinquent employers can take years from the time of the first delinquency or the assessment made by SSS (SSS Frances, 2011-Q).

The SSS law includes a penal clause that specifies fines and imprisonment against employers who fail to register their employees, as well as the non-compliant self-employed (RA 8282, 1997). Through a computerized system, account officers at all SSS branches can monitor compliance of 500 to 1,500 employers' accounts, including the largest enterprises. In 2006, 81.7% of total enterprises hired from one to four employees and accounted for 23.3% of total employment, whereas 0.1% of en-

[51] In both schemes some employers deduct the contributions but not the loan payments.

terprises hired from 500 to 1,999 employees and accounted for 13.9% of employment (Orbeta, 2011); therefore, monitoring the majority of enterprises that employ most workers is either poor or even inexistent. Account officers who discover a delinquency send a billing letter to the employer stating the period and amount of delinquency and offer a settlement in installments or through *dación en pago*.[52] If the employer refuses or fails to pay the delinquency within 15 days from receipt of the billing letter, the officer sends him a demand letter. If the employer still has not paid in 15 days, the delinquency is referred to the SSS legal unit for either criminal or civil action or both before the Commission. The latter can issue an order to a court sheriff to seize the debtors' property and collect the owed money. There are no special courts to hear violations of the social insurance law, and when brought before civil courts, it takes an average of 10 years to settle a case. A graft case may go up to the Supreme Court and may take an even longer time (SSS Frances, 2011-Q; Edralin et al, 2011-I).

In the first half of 2011, 518 cases were filed by the prosecutor's office against SSS delinquent employers for PhP 236 million (half owed contributions and half penalties) out of which 66% were collected. Thirteen employers were condemned to 6-15 years of prison and/or imposed fines ranging from PhP 5,000 to PhP 20,000 (SSS, 2011i). Albeit prison terms are stiff, fines are very low relative to the sum owed (e.g., a fine of PhP 20,000 is imposed for PhP 2.8 million in delinquency; the fine imposed is only 7% of the amount unpaid). The House of Representatives (2011) is considering Bill 4490 to increase penalties. Amnesties are often granted to law-breaker employers. In 2009, 25,300 delinquent employers (16% of total delinquents) had their penalties condoned (TUCP, 2009). The amnesty that expired in mid-2011 granted a six-month grace to 11,336 employers (11% of total delinquents) who had not collected loan payments from their employees. It condoned penalties on overdue principal and interest for PhP1.1billion, provided that said employers pay the owed amount in full or up to 24 installments with a 3% annual nominal interest (54% of the delinquent amount was paid and 45% in penalties was condoned). Delinquent employers who do not comply are unable to get SSS clearance required for their annual renewal of business permits, and their employees' loans are suspended (SSS, 2011g, 2011i).

The success of collection cases largely depends upon the willingness of the aggrieved employee to work well with the prosecution and testify against his/her employer during trial (SSS Frances, 2011-Q). A worker who denounces or testifies against his/her employer is protected by the Labor Code (Art. 248-f and 279) against the employer's dismissal, termination of employment, reprisal or any type of discrimination. A denouncing worker who is fired can appeal to a labor arbiter or the National Labor Commission. The union can file a complaint as well. Workers' denunciations are anonymous but it was not entirely clear from interviews, if there had been any case of violation of the Labor Code cited norms (Aguja et al, 2011-I; Edralin et al, 2011-I).

It was not possible in GSIS to estimate "members" that are "contributors". It could be argued that non-compliance in GSIS is smaller than in SSS because the immense majority of public employees are formal and GSIS has more control and power to collect debts. Regulations are stiff and detailed: all government agencies are legally required to send their contributions and those of their employees within the first 10 days of the calendar month following the month to which the contribu-

[52] An arrangement through which an employer transfers property to settle delinquency in contributions.

tion applies. GSIS keeps an account of all agencies, monitors their remittances of contributions and payment delays, sends collection notices and demand letters to delinquent agencies (requesting acknowledgement of receipt from the proper agency officer). If no payment is received in 10 days after the due date for contribution, GSIS sends a demand letter. If, again, no payment is received in 30 days from receipt of the demand letter, GSIS sends a notice of default to the delinquent agency, and three notices of breach are subsequently sent for 1, 2 and 3 months in arrears, suspending benefit privileges and loans to the agency employees and informing them of such action, demanding payment of the owed amount, interest and charges, and filing collection cases in court. The GSIS law office can take action against the delinquent agency and its responsible officers under RA 8291 Penal Provision, although these procedures are complex and may prolong for years.

Sanctions imposed for infringing the law are: 1) 6-12 years of imprisonment and/or PhP 5,000-20,000 fines to any violation of provisions; 2) six months to six years of imprisonment and/or PhP 3,000-6,000 fines, as well as disqualification for holding public office and practice of any profession/occupation licensed by the government to agency officers who do not include the due contributions in the annual budget, retain deducted contributions, or delay payments; 3) 1-5 years of imprisonment, PhP 10,000-20,000 fines, and the cited disqualification for heads of offices of national government, subdivisions, branches and agencies who avoid or delay payment. Delayed remittances are charged a 2% monthly interest (SSS, 2011c). Compared with SSS, maximum prison terms are shorter and fines are somewhat lower, albeit the disqualification is a tough sanction that is not levied in SSS. Fines were established 14 years ago (RA 8297 of 1997), and are too low taking into account inflation. Furthermore, interest charges are in nominal terms instead of adjusted to inflation. GSIS did not supply data on delinquent government officers sent to prison, except for Mayor Khan Isnaji of Indanan whose sentence might be pending appeal (Aguja, 2011-I).

In 2010, GSIS suspended 313 agencies nationwide (local governments, state owned or controlled corporations, national government agencies and the Department of Education[53]) out of a total of 17,810 associated agencies or only 1.8%, which suggest good compliance. Rather than going through a prolonged and costly court trial, agencies in default usually sign a memorandum of agreement to pay their debt. If the agency breaches the agreement, then GSIS implements the provisions for default. Out of the 313 suspended agencies, however, only 22% signed an agreement and nine of them defaulted. Suspended agencies owed contributions/penalties totaled PhP 1.86 billion or seven times the amount owed to SSS and 3.3% of total GSIS revenue (based on GSIS, 2011c; GSIS Saludares, 2011- Q). Albeit GSIS contributions are higher than in SSS, these data question the argument of GSIS' better compliance and stronger law enforcement than SSS.

ECC establishes sanctions for employers who do not enroll their employees in SSS and GSIS, fail to pay contributions, or delay their remittance. Fines range from PhP 1,000 to 10,000 and/or imprisonment for the duration of the violation and a 3% monthly penalty of the owed sum is charged from the date the remittance is due. If a contingency is not reported, the employer is liable for the benefits payable to the employee and his/her dependents (ECC, 2010).

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[53] The Department of Education in Mindanao has not paid contributions for 12 years and use the collected money for other purposes (Aguja et al, 2011-I)

4. Financial Balance and Reserves

Table 15 shows the SSS and GSIS financial balance (total revenue or contributions plus capital returns, minus total expenditure or benefits plus operational expenses) in 2000-2010. The balance refers not only to pensions but also to sickness, maternity and other short-term cash benefits. A surplus occurred throughout the period, which is much higher in GSIS than in SSS. The GSIS surplus oscillated but increased until 2009 while the SSS surplus declined in 2001-2004 because expenditures increased faster that revenue, although it grew thereafter until 2008. Despite the crisis, the 2008 revenue jumped from 19% in GSIS and 10.7% in SSS and the surplus peaked in both. In 2009, the revenue fell by 2.7% in both while expenditures kept rising and the surplus decreased to 8% in GSIS and 30% in SSS. With the recovery in 2010, SSS revenue rose 12% (the surplus was below the level of the 2008 peak) but further decreased by 1.5% in GSIS.

Table 15. Expenditure and Financial Balance in SSS and GSIS, 2000-2010a

Year	Total Revenue (million PhP)		Total Expenditure (million PhP)		Financial Balance (million PhP)		Surplus/GDP (%)		Surplus/National Budget (%)		GDP (million PhP)	National Budget Revenue (million PhP)
	GSIS	SSS	GSIS	SSS	GSIS	SSS	GSIS	SSS	GSIS	SSS		
2000	46,725	42,662	21,770	38,091	24,955	4,571	0.74	0.14	4.84	0.89	3,354,727	514,762
2001	50,109	45,612	31,629	43,464	18,480	2,148	0.50	0.06	3.28	0.38	3,673,687	563,732
2002	57,237	45,893	32,099	45,357	25,138	536	0.62	0.01	4.43	0.09	4,022,694	567,293
2003	65,667	52,184	38,395	47,583	27,272	4,601	0.63	0.11	4.35	0.73	4,316,402	626,630
2004	66,472	52,825	38,902	50,210	27,570	2,615	0.57	0.05	3.94	0.37	4,871,555	699,768
2005	70,932	59,800	40,706	51,908	30,226	7,892	0.56	0.14	3.80	0.99	5,444,038	795,707
2006	74,816	64,652	43,051	58,502	31,765	6,150	0.53	0.10	3.60	0.70	6,031,164	882,435
2007	76,517	79,699	45,716	67,566	30,801	12,133	0.46	0.18	2.71	1.07	6,648,619	1,136,560
2008	91,099	97,968	43,137	74,663	47,962	23,305	0.65	0.31	3.99	1.94	7,409,371	1,202,905
2009	88,618	95,337	44,804	79,125	43,814	16,212	0.57	0.21	3.90	1.44	7,678,917	1,123,211
2010	87,289	107,120	49,960	84,280	37,329	22,840	0.44	0.27	3.09	1.89	8,513,037	1,207,926

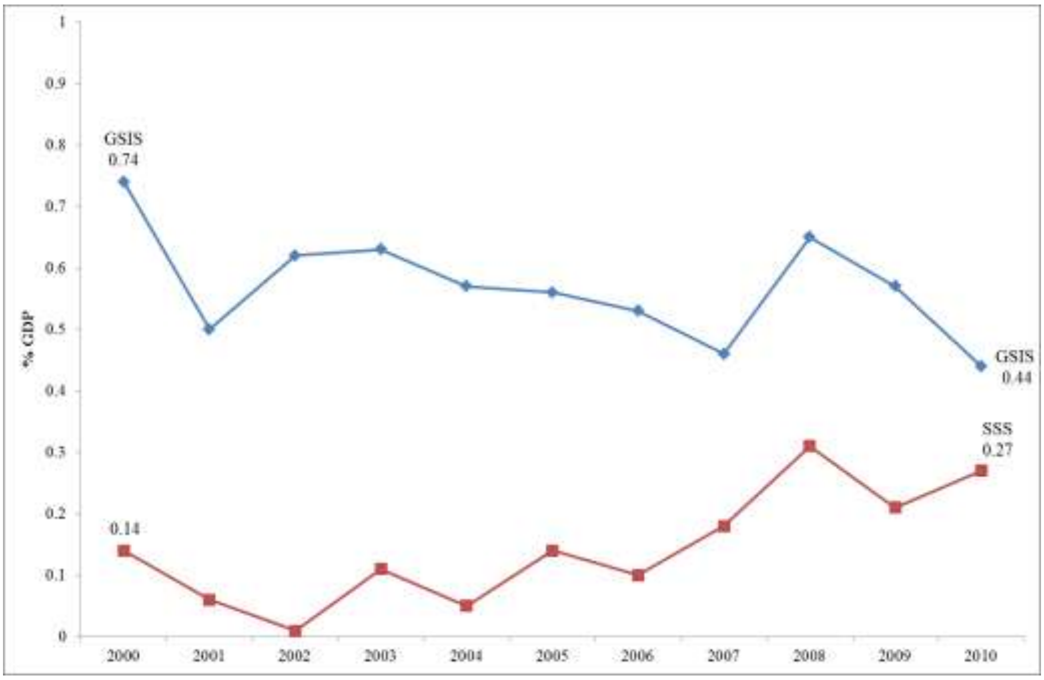
[a] All figures in nominal PhP (non-adjusted to inflation).

Sources: Based on SSS, 2001a-2010a, 2011e; GSIS, 2001a-2010a; national budget 2000-2009 from NSCB, 2011c and 2010 from PIDS, 2011b.

As a percentage of GDP, the GSIS surplus oscillated but decreased from 0.74% to 0.44% in 2010, but it was still 1.6 times the size of the SSS figure. The SSS surplus increased from 0.14% to 0.27%, interrupted by a severe decline and stagnation in 2001-2006, peaked in 2008, and declined in the midst of the crisis (Figure 9). As percentage of the national budget, the GSIS surplus was 3.1% vis-à-vis 1.9% in SSS in 2010.

Another way to estimate the financial balance is to compare contribution revenue (excluding investment revenue) with benefit expenditures (excluding operational expenses). In SSS, benefit costs exceeded contribution revenue in 2000-2004 and the deficit was met with capital returns. Since 2005, there was a reversal due to the increase in both contribution rate and salary ceiling, thus, a surplus was generated and even peaked in 2010. GSIS contribution revenue exceeded benefit expenses in the entire period but the surplus declined until 2007, and thereafter rose due to higher contribution revenue (Appendix 11).

Figure 9. Financial Surplus in SSS and GSIS, 2000-2010 (% GDP)



Source: Table 15

Table 16. Reserves in PhP, US$ and Percentage of GDP in GSIS and SSS, 2000-2010

Years	Reserves (millions)				Reserves/GDP (%)		US$/PhP Rate (%)
	GSIS		SSS				
	PhP	US$	PhP	US$	GSIS	SSS	
2000	165,963	3,319	170,409	3,408	4.94	5.08	0.020
2001	185,741	3,529	161,234	3,137	5.11	4.39	0.019
2002	213,426	4,055	159,548	3,005	5.38	3.97	0.019
2003	256,624	4,619	168,137	3,026	5.95	3.90	0.018
2004	287,295	5,171	176,386	3,135	5.90	3.62	0.018
2005	337,726	6,417	196,407	3,701	6.20	3.61	0.019
2006	376,090	7,522	224,996	4,579	6.24	3.73	0.020
2007	420,513	10,092	243,017	5,870	6.32	3.66	0.024
2008	453,906	9,532	225,603	4,751	6.13	3.04	0.021
2009	507,808	11,172	265,330	5,724	6.61	3.46	0.022
2010	530,782	12,208	289,100	6,588	6.23	3.40	0.023

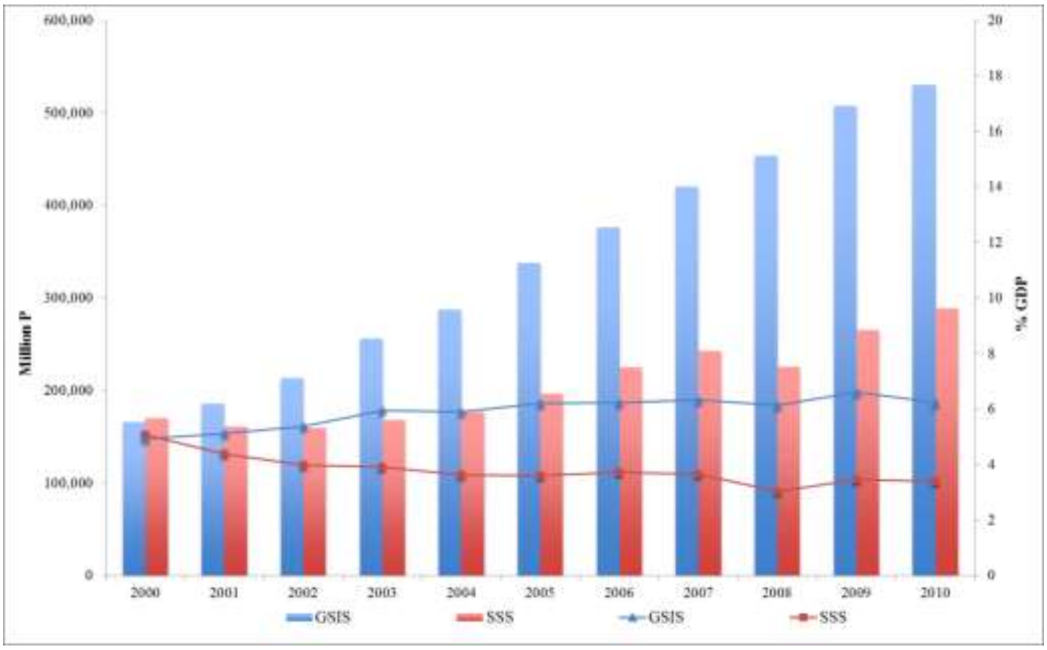
[a] Year-end exchange rate.

Sources: Based on SSS, 2001a-2011a, 2011i; GSIS, 2001a-2010a, 2011c; GDP from Appendix 15. Exchange rate from BSP, 2011.

The reserves of SSS and GSIS, both in million PhP and million US$, steadily increased in 2000-2010 (Table 16): 220% in PhP and 268% in US$ in GSIS, and 70% and 93% in SSS, respectively. Relative to GDP, however, GSIS reserves rose from 4.9% to 6.2% whereas SSS reserves shrank from 5.1% to 3.4% (Figure 10). The reserves in the Armed provident fund were PhP 12,670 million (US$291 million) in 2010 or 0.14% of GDP (AFP-RSBS, 2010). The crisis probably induced a small decline in the reserves and their share in GDP in 2008. There is no recent East and Southeast Asian data available on pension reserves. In 2004, the Philippines ranked seventh in the reserve value in US$ and sixth in the percentage of GDP, as shown in the data from eight East and Southeast Asian countries (2006).[54] Most recent data were not available.

In summary, based on the total revenue minus the total expenditures, SSS and GSIS generated a financial surplus in the period. However, the comparison which was based on the contribution revenue and the benefit expenses alone revealed a deficit in SSS in 2000-2004. It was met with capital returns albeit SSS generated a surplus that peaked in 2010 due to expansion of coverage and contributions. As a percentage of GDP, the SSS surplus increased whereas the GSIS' surplus declined. In 2010, GSIS was 1.6 times bigger than SSS but the gap is rapidly closing. Despite the crisis in 2008, the surplus in both schemes peaked but it took a toll in 2009; the recovery in 2010 helped increase the SSS surplus but that of GSIS further shrank. Based on contributions and benefits alone, the SSS surplus decreased in 2008-2009 but rose and peaked in 2010, whereas GSIS kept rising in 2008-2010; the GSIS surplus was five times higher than that of SSS in 2010.

Figure 10. Reserves in SSS and GSIS, 2000-2010 (in million PhP and % GDP)



Source: Table 16.

5. Capital Returns

Generating adequate capital returns is crucial because in the long run they are expected to play a bigger role to finance pensions rather than contribution revenue. In 2000-2010, the share of contribution in SSS total revenue rose from 71% to 74% whereas the share of investment decreased from 29% to 26%; conversely in GSIS, the contribution share fell from 74% to 64% while that of investment rose from 26%

[54] In billion US$ and percent of GDP: Korea 161 and 21.4, Malaysia 70 and 59.2, Singapore 68 and 61.2%, Hong Kong 38 and 22.9, China 28 and 1.6%, Thailand 20 and 12, Philippines 7.9 and 9.2, and Indonesia 5.4 and 2.1.

to 36% (Appendix 12). The reason for the better performance of GSIS investment revenue compared to SSS was that GSIS average capita return has been higher.[55]

The World Bank (1995) asserted that in 1989-1993, both schemes have low yields due to asset allocation with below-market returns. SSS and GSIS published capital return (ROI) in nominal terms not in real terms (adjusted to inflation)[56]; returns for 2000-2001 were estimated in Table 17 in nominal and real terms. The GSIS real return was always positive in the period whereas in SSS was negative in three years (Figure 11). Due to a high rate of inflation in 2001, the real return was very low in both schemes; however, there was a similar high inflation in 2004-2006, which caused negative rates in SSS. The highest inflation rate of 2008 reduced the return in both schemes albeit it remained positive. The sharp decline in inflation in 2009 helped increase the return. The crisis contributed a decrease in both schemes' return in 2008 but thereafter, the returns in SSS rose while that of the GSIS fell. If a double dip recession and/or a spur in inflation occur in the near future, they would damage real capital returns.

Table 17. Estimates of Nominal and Real Return of Investments (ROI) based on Total Investment and Investment Revenue in SSS and GSIS, 2000-2010 a (in million PhP except inflation rate)

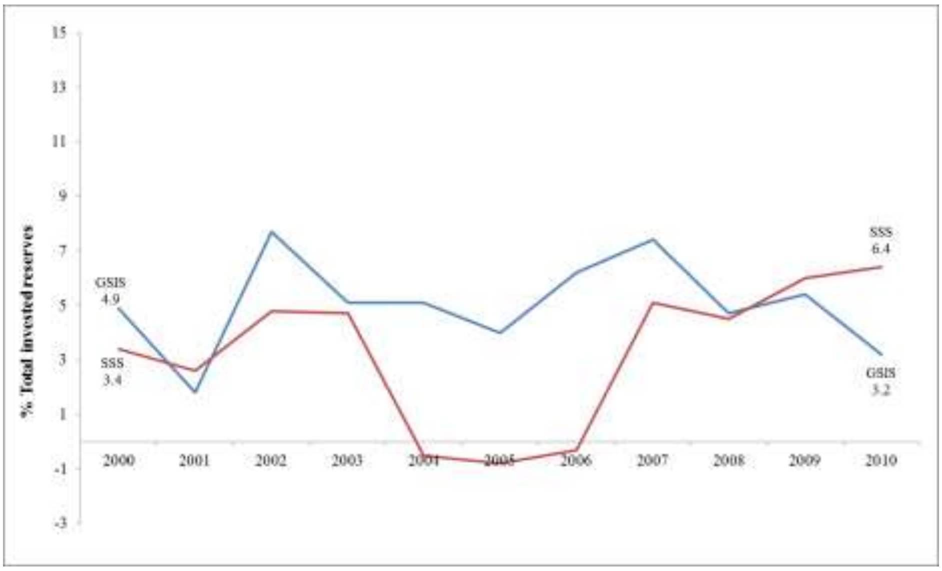
Year	SSS				GSIS				Inflation Rate
	Total Investments	Investment Revenue	Nominal ROI	Real ROI	Investments	Investment Revenue	Nominal ROI	Real ROI	
2000	166,183	12,341	7.4	3.4	135,426	12,092	8.9	4.9	4.0
2001	151,015	14,239	9.4	2.6	156,789	13,472	8.6	1.8	6.8
2002	149,211	11,705	7.8	4.8	181,541	19,341	10.7	7.7	3.0
2003	155,940	12,763	8.2	4.7	219,054	18,880	8.6	5.1	3.5
2004	160,500	8,853	5.5	-0.5	242,071	26,805	11.1	5.1	6.0
2005	181,775	12,316	6.8	-0.8	267,713	30,978	11.6	4.0	7.6
2006	205,226	12,108	5.9	-0.3	284,690	35,352	12.4	6.2	6.2
2007	225,565	17,870	7.9	5.1	339,656	34,709	10.2	7.4	2.8
2008	211,355	29,089	13.8	4.5	313,787	43,795	14.0	4.7	9.3
2009	248,641	22,986	9.2	6.0	436,376	37,601	8.6	5.4	3.2
2010	273,266	27,850	10.2	6.4	445,744	31,074	7.0	3.2	3.8
Average			8.4	3.3			10.2	5.1	5.1

[a] ROI formula: $capital\ return = \frac{investment\ income}{total\ investment} x100$. ROI from SSS and GSIS do not match table estimates in most years because they use the "annualized" method rather than the formula used herein. Appendix 14 show the SSS annualized nominal ROI that is 8.6%, only 0.2 points higher than the average in Table 17; that computation could not be obtained from GSIS.

Source: Based on SSS, 2001a-2011a, 2011d; GSIS, 2011a, 2011c.

[55] For an excellent analysis of investment and capital returns in SSS and GSIS see TSG, 2007.
[56] SSS actuarial valuations compare historical nominal ROI and inflation rates annually but lack estimates of average long-term real ROI since the inception of the scheme; GSIS valuations do not have such data at all.

Figure 11. Real Capital Returns in SSS and GSIS, 2001-2009
(% Invested Reserves)



Source: Table 17.

In 2000-2010, the annual average real return was 5.1% in GSIS and 3.3% in SSS vis-à-vis nominal returns of 10.2% and 8.4% respectively (Table 17). The SSS Actuarial Department confirmed that the nominal ROI averaged 8.4% in the period but lower than their own fixed increasing ROI, which was needed to maintain the fund solvency: 8.7% in 1979, 9.8% in 1983, and 10.6% in 2007 (when the actual ROI was 7.9%). Therefore the actual ROI average is 2.2 points lower than the ROI needed to prolong the fund life until 2039 (SSS, 2007b, 2011e). The 2010 GSIS actuarial valuation set a nominal ROI of 9.03%, lower than the actual average ROI of 10.2% in 2000-2010 but higher than 8.6% and 7% in 2009-2010 (GSIS, 2010b; Table 17). It was reported in other Asian countries and in many Latin American countries that the actual average ROI in both schemes (3-5% real and 8-10% nominal) were lower than the 16-18% (Serrano, 2006; Mesa-Lago, 2008, 2010). In 1972-2007, the SSS nominal ROI averaged 12.1%. It was below the 13.2% yield of 91-day T-Bill and the 14.6% of the Phisix Return, only higher than the 10.7% interest from time deposits. Although there was an improvement that occurred in mid-1980s, still the ROI was below the T-Bill interest in half of the years in 1998-2007 (SSS, 2007b). Such low capital returns were largely explainable by the composition of the portfolio (discussed in the next section) and the ROI generated by specific instruments (analyzed below).

The GSIS average ROI (nominal and real) by instrument in 2000-2010 has been much better than in SSS, albeit in the latter, the only available data for the average ROI were for the period of 2000-2007 (Appendix 13). In real terms, equities in GSIS averaged 7% (tied as the highest of all instruments) but -1.3% in SSS (second worst). In loans, GSIS averaged 7% (tied in the highest) whereas SSS was 1.4% (fourth highest). In real estate, GSIS averaged 4% (fourth) and SSS -3% (worst). The SSS best performance was in government securities (6%) followed by private securities (3%); the worst performance in GSIS was in bank deposits (1.5%).

6. Portfolio Composition

The SSS law sets percentage limits (maximum) to investment on instruments but excluding government or government-guaranteed debt instruments. Limits are: 40% in debt instruments of domestic banks to finance loans to corporations; 35% in housing through direct loans, state agencies or financial intermediaries; 30% each in government instruments to finance domestic infrastructure, financial institutions and corporations, stocks, and government securities; 20% in domestic or foreign mutual funds (the later not to exceed 7.5% of the total reserve fund); 15% in any particular industry; 10% each in short- and medium-term loans for members, and debt instruments of educational and medical institutions; 7.5% in foreign currency deposits, instruments or equities; and 5% in real estate (RA 8282 of 1997, section 26). Deposits and triple A debts, prime and non-speculative equities, and other *Bangko Sentral ng Pilipinas* approved financial instruments and assets are also allowed. The small percentage of investment allowed in foreign instruments has not materialized (SSS, 2011i).

The GSIS Board sets the rules of investment that must meet the conditions of liquidity, safety and yield to ensure the actuarial solvency of the fund. The yield of debt instruments issued or guaranteed by the government is labeled with "risk-free" rate of return, other investments with returns above the free-risk rate should compensate for their additional risks. In those "other investments" GSIS shall pursue diversification to minimize concentration, but it does not guarantee overall portfolio diversification due to the implicit preference for government debt instruments (PD 1146 of 1977 and RA 8291 of 1997, sections 36, 41; GSIS, 2011b).

Under the GSIS new investment policy guidelines, the following investments are allowed with their maxima, noted in parentheses: i) Loans to members for housing, personal, etc. (40% *minimum* instead of maximum). ii) Fixed-income securities: debt instruments in PhP or major currencies guaranteed by the government, e.g., ROP bonds, Treasury bills, notes and bonds (60%); debt and hybrid instruments issued/guaranteed by foreign governments, supranational corporations or private corporations with specific credit ranking (25%); *ibid* but including local governments with lower credit ranking (15%); and domestic debt and hybrids (10%). iii) Fixed-income derivatives in major currencies, e.g., interest rate swaps, option bonds (no maximum). iv) Securities traded in Philippine Stock Exchange: common/preferred shares of solvent corporations or financial institutions, equity securities including depositary receipts, real estate trusts and exchange traded funds, with specific conditions (20%). v) Properties and real estate (10%). vi) Externally managed funds: entrusted to selected external, professional fund managers, with limits set by the Global Investment Program and approved by the Board, e.g., foreign mutual funds listed in specific stock exchanges (2.5%). vii) Cash or short-term bank deposits, and lending for a maximum of 6 months, to maintain adequate liquidity to meet obligations.

There has been a wide program of loans of multiple types since the start of SSS and GSIS. The most important loan program in SSS is for the members who will build, repair and improve their homes. It also seeks to support projects for building low-cost dwellings for members, employees and low-income groups. Other loans have been granted to the National Home Mortgage Financing Corporation, the Individual Housing Loan Program and the Unified Lending Program (low-cost homes). The salary loans for employees are also significant, however a certain period of time must be taken into consideration, given the fact that a one-month salary is payable in one year, which later on can be expanded into a two-month salary, payable in two years. For members who have been separated due to economic crisis, including farmers, fishermen, cooperative personnel and OFWs, a three-month salary loan, payable in three years can be applied. “Development” loans aim investment stimulation, small-middle enterprises (SME), industrial modernization and expansion, and exports. Calamity loans are granted to displaced members and SMEs affected by typhoons, volcanic eruptions and power crisis. Educational loans are awarded to deserving poor college students, payable upon graduation, and to vocational-technical students who directly go to schools. Health loans are given to community and other hospitals. During global crisis, SSS allows qualified members to borrow up to US$ 333 and gives them a year grace before the first amortization is due. It also grants amnesty for delinquent short-term and housing loan borrowers. In GSIS, the average loan jumped from PhP 25,449 to PhP 1,686,086 in 2000-2009 (BLES, 2010a).

Loans play a social function but the question is whether they are financially profitable because the fund must be properly invested to maximize its yield, to strengthen financial sustainability and to pay adequate pensions. In developing countries, social insurance loans or individual mortgage loans to directly build homes have a long history of defaults and have low or negative capital returns. Personal (salary) loans and loans of health institutions have a similar history. Development loans should be calibrated by the solidity of the project and its realistic capital returns. All loans should have interest rates above inflation and should be appraised based on their rate of return (Mesa-Lago, 2008; Orbeta, 2009).

The performance of loans in the Philippines has varied. SSS housing loans charged interest rates below the market for 20 years and the loan ceiling was raised from 60% to 90% of the appraised value of the mortgage, generating significant losses. Hence SSS had to restructure housing loans and to condone penalties on delinquent borrowers.[57] Later, ceilings for such loans were gradually raised; the interest then has increased from 5% to 6%. Due to the decreasing international market rates, the housing rates were now above market rates, hence, the borrowers has also decreased in number. GSIS housing loans, both for members and developers, were not profitable because the principal and the interest rate were fixed and the inflation affected their value. By 2010, there were few borrowers and in 2011, the government halted them and consolidated all housing loans in HDMF (Aguja et al, 2011-I).

SSS salary loans have a high risk of non-recovery (80% of borrowers do not pay), partly because employers often just remitted employees’ contributions without including the loan payments. Thus, the requirements have been tightened requiring three years of contribution for a one-month salary loan and six years of contribution for a two-month salary loan. Currently the data bases of contributions and loans are now linked, wherein employers are already required to check the records of new employees to find out if they have a loan. There is now an electronic system that checks if a worker has paid the loan or not. Development loans are done through banks that assume risks and are quite profitable (Capulong, 2011-I). Calamity loans reportedly result to significant losses (Orbeta, 2011-I).

[57] In the early 2000s, the government created a housing program in SSS that was a failure. The Department of Finance hired an accounting firm that advised the SSS to get rid of the dwellings and they were sold at 38% of their value; the government "guaranteed" 20-30% of the loss but never paid it (De la Paz-Bernardo, 2011-I). In 2007, SSS sold 381 houses worth PhP149 million and 800 more homes were sold in 2008 (SSS, 2001f).

All pension schemes have been tainted with suspicions of grating behest loans to friends or those in power (Orbeta, 2011). A congressional investigation of AFP-RSBS leadership recommended prosecution by the Ombudsman; the loan program was then terminated in 2006. In 2007, President Joseph Estrada either suggested or pressured SSS and GSIS to buy PhP15 billion shares in Equitable PCI Bank, tantamount to 30% of the total bank shares. Thereafter, the PCI shares dropped by more than 30%, destabilizing the capital market and provoking a loss particularly to SSS, which took several years to dispose of the shares (De la Rama, 2009). Former SSS Chairperson Corazon de la Paz had to resist proposals for government projects not authorized in the Charter (De la Paz-Bernardo, 2011-I). There has been politically motivated investment in hotels, in national airlines and in a commercial bank, with poor financial results. Under President Arroyo, GSIS bought an expensive art collection which is now being sold (Manasan, 2011-I).

In 2009, SSS was considering to invest US$228 million in government bonds to finance infrastructure projects (half on road and bridges and half on energy) with a 30% cap of total investment on three conditions: full government guarantee, priority to SSS over the projected revenue, and a return higher than the 8% of 10-year government bonds (ISSA, 2010b). Such investment project has been delayed due to waiting for a new general administration rule, but GSIS has two or three projects for PhP70 million by the end of 2011 (Aguja et al, 2011-I).

The composition of the SSS portfolio by instrument in 2000-2010 (Table 18) shows important changes: government securities rose from 19.4% to 38.1% and national equities from 28.1% to 30.4% (within the ceiling), whereas the salary loans were stagnant at about 14.5% (above the ceiling), the housing loans dwindled from 25.8% to 7.4% and the development loans from 8.5% to 4.6% (total loans dropped from 50.7% to 26.8%), while the real estate loans rose from 3.8% to 4.6% with a peak before the crisis. The combined shares of government securities and national equities declined from 47% in 2000 to a trough of 40% in 2003 whereas the share of loans peaked at 51%; real returns equally declined and became negative because government securities and equities have higher returns than subsidized loans. A reversal in the shares of those instruments particularly since 2006 led to an increase to 69% of the share of securities/equities in 2010 and a fall in loans to 27%, resulting to an increase and positive returns since 2007.There was no investment in foreign assets/stocks. Despite the increase in government securities, that share was still lower than that of Sri Lanka. On the other hand, there was no actual investment in international instruments as compared in Singapore, Korea, Japan, Thailand and China (Asher, 2010).

To enhance capital returns, the SSS actuarial valuation of 2007 recommended further portfolio diversification by reducing subsidized loans to members and by investing more in variable-rate instruments, particularly foreign-currency emissions. To further improve loan recovery, it was suggested to outsource the management of loans and real estate investment and to control delinquency by doing early deduction of the loan balance from the expected borrower's benefit (SSS, 2007b).

GSIS did not provide the distribution of investment portfolio by instrument in 2000-2010 despite several requests in writing; hence, we had to rely on secondary sources for 2008 and on interviews for 2010. Because of this and some different clustering of instruments, the comparison of GSIS and SSS portfolios and trends by instruments could not be done accurately (Table 18). The GSIS portfolio distribution in 2008 was: 48% in loans (40% in housing, and 4% each personal and development); 27% in public and private equities; 18% in government securities; 7%

in government and private sector loans; real estate was in a separate account. In 2010 the GSIS distribution had changed significantly: 40% in government securities (22 points less than in 2008); 32% in loans (16 points less than in 2008 and 4 points below the mandated share); 20% in equities; and 8% in cash, bank deposits and loans; real estate separated but tiny (TSG, 2007).

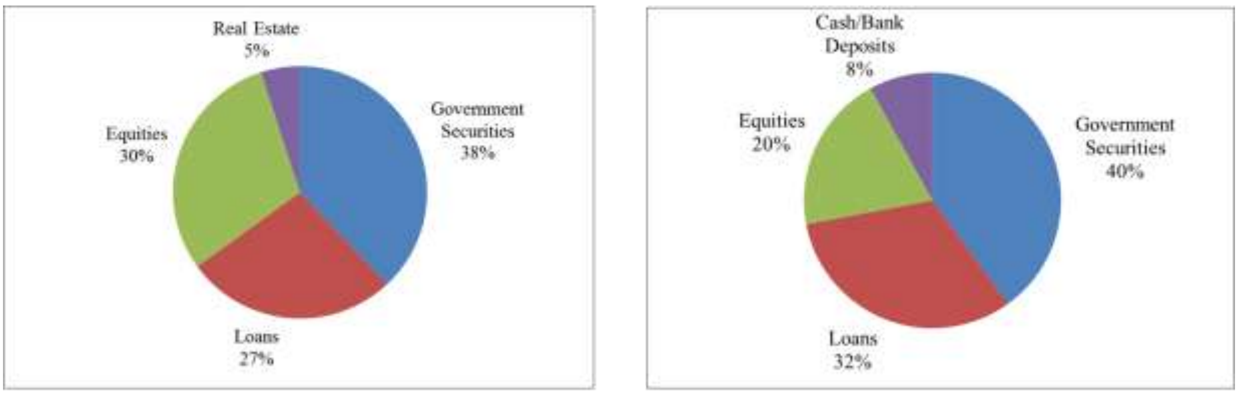
Table 18. Percentage Distribution of Portfolio Invested by Instrument in SSS and GSIS, 2000-2010

Years	**Gov't** Securities	Private Equities	Loans				Real Estate [b]
			Salary	**Dev't**[a]	Housing	Total	
SSS							
2000	19.37	28.07	14.47	25.75	8.51	50.72	3.84
2001	14.41	26.96	17.48	27.82	7.94	53.24	5.40
2002	12.47	27.53	19.55	27.84	7.89	55.28	4.73
2003	12.11	27.83	19.89	25.21	6.07	51.17	8.89
2004	15.03	28.80	19.96	21.93	5.55	47.44	8.74
2005	19.38	34.66	17.43	16.92	3.20	37.55	8.41
2006	23.01	39.70	16.33	13.75	2.73	32.81	4.48
2007	31.59	34.59	15.60	11.49	2.27	29.36	4.46
2008	42.06	19.19	18.60	11.39	3.58	33.57	5.18
2009	35.01	29.01	17.22	8.62	5.65	31.49	4.49
2010	38.14	30.45	14.84	7.36	4.62	26.82	4.59
GSIS							
2008	18.0	27.0	4.0	40.0	4.0	48.0	7.0
2010	40.0	20.0				32.0	8.0

[a] Development loans for small-medium enterprises, industrial modernization/expansion, business rehabilitation/improvement, tourist projects, computer financing for employers, etc.
[b] In GSIS real estate is in a separate account, 2007-2008 data refer to cash, bank deposits and short-term loans to private sector.

Source: Based on SSS, 2011d; GSIS failed to provide requested statistics for 2000-2010; 2008 from De Rama; 2010 from Aguja. et al, 2011-l; TSG, 2007 provided data for 2003-2005 with a different classification.

Figure 12. Percentage Distribution of Portfolio Invested by Instrument in SSS and GSIS, 2010



SSS **GSIS**

Source: Table 18.

With the limitations explained, changes in portfolio composition between 2008 and 2010 in SSS and GSIS (Table 18) were: i) government securities had the highest share in both schemes in 2010 (38% and 40%) declining in SSS (42% to 38%) and sharply increasing in GSIS (18% to 40%); ii) loans had the second largest share in 2010, higher in GSIS than in SSS (32% and 27%) and declining in both; iii) equities were either tied or had the third share in 2010, bigger in SSS than in GSIS (30% and 20%), sharply increasing in SSS and declining in GSIS; iv) real estate and cash and equivalents could not be compared but the GSIS share of cash was relatively high in 2010 (8%) and was increasing. In summary, both schemes have a relative high concentration of investment on state debt. The SSS portfolio composition appears to be slightly better and improving as compared with GSIS. Figure 12 compares the distribution of investment in SSS and GSIS by instrument in 2010.

The portfolio distribution of the Armed Forces' provident fund in 2010 was: 58% in real estate, 22% in equities, 12% in industrial park leases, and 8% in loans. The share on real estate was the highest among the three funds and, apparently, was largely invested in AFP buildings and facilities that were not profitable. The share in loans, however, was the lowest among the three major schemes because of the bad performance of loans. The provident fund was severely affected by the Asian crises, as reflected in the net income that reached PhP1.46 billion in 1996 and fell to a negative trough of PhP1billion in 1999. After recovering a positive terrain, the net income went negative again in 2006; and in 2010, it was only PhP109 million. The market capital return was 4% (lower than the 6% guaranteed interest paid) and performance varied greatly by instrument: the 58% invested in real estate generated only 14% of net revenue in 2010 whereas the 22% in equities produced 54% (AFP-RSBS, 2010).

"The Philippine domestic capital market may be deemed too small, illiquid and underdeveloped relative to the size and needs of the GSIS [and SSS]" (GSIS, 2011b: 7); hence, investment opportunities were limited and mostly concentrated in government securities and loans. For developing countries with limited domestic investment opportunities, foreign emissions provided an alternative for portfolio diversification and higher capital returns in the long-run. And yet the SSS cap on foreign investment was very small and in the long run, it was gone in spite of the dollar denominated instruments through Treasury bonds (Capulong, 2011-I). Despite a limited domestic capital market and low capital returns, SSS and GSIS have resisted in investing in foreign instruments and have argued that pension funds should be invested in the nation rather than abroad because doing it was unpatriotic.[58] In 1997, the Senate approved a bill allowing foreign investment. SSS was ready to proceed but the elected President in 1998 was from a different party, hence, SSS decided to wait for his decision. The politicians have denounced foreign investment in the media; therefore, it was then halted. SSS also considered outsourcing investments but did not complete the selection of an international manager (TSG, 2007; Capulong, 2011-I). In 2007, GSIS began a search for a global fund manager to handle international instruments, emphasizing technical skills and experience, aiming at expanding foreign investment and mitigating political interference (De la Rama, 2009). In 2008, GSIS launched a Global Investment Program in foreign-denominated instruments through fund managers ING and CréditAgricole, which were given a mandate to invest US$300 million each in abroad, requiring a minimum annual dollar return of 8%, a maximum portfolio volatility of 7%, and full diversification geographically and across instruments. GSIS real capital return in

[58] As an example, Cedric Bagtas, TUPC deputy general secretary, 2011-I. ECOP vice president accepted investment in foreign assets depending on the instruments, returns, relative safety and periodic monitoring (Palileo, 2011-I).

2008 was 4.7%. It was much better than the Philippine Stock Exchange Index that fell 49% in 2008 (Table 16; ISSA, 2010).

The global crisis provoked a sharp decline in the value of national and international stocks and the yields in 2008-2009, whereas the value of government securities normally stood up albeit its interest tended to be low or stagnant. It then led social insurance pension funds to cut investment in stocks and to expand in government securities. Apparently SSS and GSIS were able to mitigate the effects of the global crisis by having big block sales of equities at a premium to market prices prior to the crisis, and/or by shifting to safer assets such as government securities, corporate bonds and other low-risk investments. Table 17 indeed shows that in 2007-2008, the SSS share in equities dropped from 34.6% to 19.2%, whereas the share in government securities swelled from 31.6% to 42.1%, and the share of loans rose from 29.4% to 33.6%. And yet, although capital returns in nominal terms improved from 7.9% to 13.8% in that period, in real terms they decreased from 5.1% to 4.5% (Table 16). In 2009, the previous investment policy was reversed: the share in government securities fell, the equities increased, and the loans dropped; while, the nominal capital returns shrunk, which in real terms have improved (Tables 16 and 17). According to ISSA (2010b), the GSIS strategy on stocks was to hold them until market conditions improved or an opportunity arose to sell at the right price. Conversely, GSIS reported that such investment was withdrawn before the global crisis and earned a nominal 2% return (Aguja, 2011-I), however, it was actually -1.7% adjusted for inflation.

Despite the slump in stocks in the worst part of the crisis (2008-2009), the value of most stocks had recovered in 2010 and had exceeded the level before the crisis. Pension funds with a significant investment share in stocks suffered substantial decreases in real capital returns especially in 2008, but their long-term return continued in a positive terrain. It recovered in 2010 and was much higher than in pension funds with heavy concentration on government securities (Mesa-Lago, 2010, 2012). In October 2011, high capital market volatility in the world still existed and the threat of another global crisis that could affect pension funds has not yet disappeared. But an important lesson learned was that, portfolio diversification, including cautious investment in foreign instruments, paid in the long run.

6. Ratio of Contributors to Pensioners

The "support ratio," contributors per one pensioner, is commonly used as an indicator of long-run financial sustainability. It means that as the ratio declines, it is more difficult to finance the pension system. Countries with both young populations and pension schemes have higher ratios than those with aging populations and mature schemes.

Among the 15 East and Southeast Asian countries, the Philippines has the third youngest population, among the three least aged: 1.7% population growth (third highest), 23.2 median population age (fourth youngest), and 2.9 total fertility rate (third highest) (Table 19). The demographic explosion has negative effects on GDP growth and productivity. A draft population management measure has been under congressional discussion for two years but was strongly opposed by the Catholic

Church.[59] On the other hand, Philippines GSIS retirement pension program started in 1952 and was among the three oldest among the 13 East and Southeast Asian counties. The SSS pension program began in 1957 and was the eighth oldest in East and Southeast Asia, only five programs were established thereafter (US-SSA/ISSA, 2011). With GSIS' 59 years of operation and SSS '54 years, both programs were rapidly approaching maturity.

Table 19. Comparative Demographic Indicators in East and Southeast Asia 2010 (Projections 2010-2015)

Countries Ranked by HDI [a]	Population Growth (%)	Median Age (years)	Total Fertility	Average Rankings [b]	
				Scores	Order
Very High					
1. Japan	-0.2	44.7	1.3	1.0	1
11. Korea	0.3	37.9	1.3	2.3	2
27. Singapore	0.2	39.6	1.5	2.3	2
37. Brunei	1.7	27.8	2.0	9.0	10
High					
57. Malaysia	1.5	26.3	2.4	10.3	11
Medium					
89. China	0.6	34.2	1.8	3.0	5
92. Thailand	0.5	33.2	1.9	4.7	6
97. Philippines	*1.7*	*23.2*	*2.9*	*12.0*	*12*
100. Mongolia	1.1	26.3	1.9	8.0	8
108. Indonesia	1.0	28.2	2.0	6.7	7
113. Viet Nam	1.0	28.5	2.0	2.7	4
120. Timor	3.4	17.4	6.0	15.0	15
122. Laos	1.8	20.6	3.2	14.0	14
124. Cambodia	1.7	22.3	2.7	12.0	12
Low					
132. Myanmar	1.0	27.9	2.2	8.0	8

[a] Ranking of the Human Development Index. [b] The lowest the score and the ranking, the oldest the population and vice-versa; scores are averages of the rakings of the four indicators; the order is based on the scores: 1 is the oldest country and 15 is the youngest.

Source: Author's elaboration based on UNDP, 2010.

Table 20 estimates ratios of contributors per one pensioner in SSS and GSIS for the period of 2000-2010. The SSS ratio declined from 8.8 to 6.3[60] and the GSIS ratio from 9.8 to 4.7. When combined, the two ratios declined from 9 to 6.1 (Figure 13). The fastest decrease in the GSIS ratio was due to an older program to SSS and due to the fall in its number of contributors. On the other hand, SSS substantially grew because of the coverage expansion. The SSS ratio of 6.3 in 2010 was still relatively high. It diminished 28% during the 10-year period but the number of pensioners jumped to 94%. The 4.7 ratio in GSIS, its 52% drop in the period and its 81% increase in pensioners should be the causes of concern. Ratios in some separate schemes were even lower: 3.8 among firemen, 2.8 among judges and 1.1 in the armed forces (authors' estimates). There were no comparative data with other East

[59] According to the National Demographic and Health Survey of 2008, the poorest families have the highest fertility rate—more than five births—while the richest households have the lowest rate—less than two births (NAPC, 2011). Obviously, the wealthy are practicing birth control that is denied to the poor.
[60] The 2007 actuarial valuation projected a ratio of 3.3 in 2039 when the fund would be depleted (SSS, 2007b).

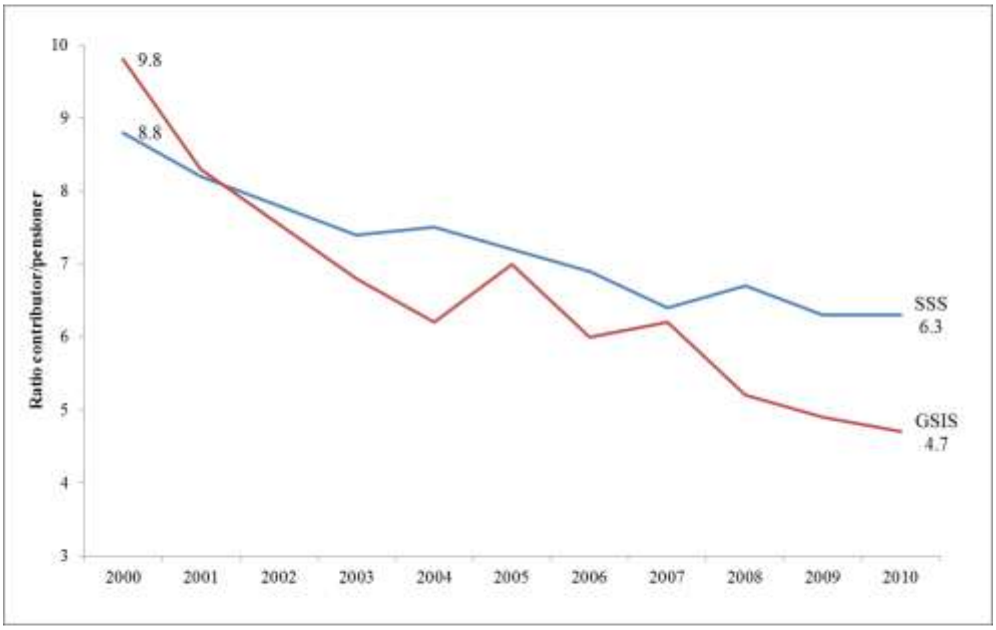
and Southeast Asian countries to better assess the Philippines support ratios within the regional context.

Table 20. Ratio of Contributors to One Pensioner in SSS and GSIS, 2000-2010

Year	SSS			GSIS		
	Contributors	Pensioners	Ratio	Contributors	Pensioners	Ratio
2000	6,951,366	789,830	8.8	1,590,000	162,200	9.8
2001	6,984,899	854,422	8.2	1,420,000	171,596	8.3
2002	7,214,981	924,126	7.8	1,380,000	190,653	7.2
2003	7,325,552	993,039	7.4	1,320,000	193,601	6.8
2004	7,496,784	1,002,750	7.5	1,310,000	212,168	6.2
2005	7,682,795	1,073,336	7.2	1,500,000	213,750	7.0
2006	8,000,815	1,159,005	6.9	1,348,660	224,692	6.0
2007	8,050,918	1,249,191	6.4	1,355,558	217,033	6.2
2008	8,862,325	1,330,223	6.7	1,365,192	263,623	5.2
2009	9,011,899	1,428,059	6.3	1,368,452	279,011	4.9
2010	9,659,333	1,536,807	6.3	1,371,219	293,289	4.7

Source: Based on SSS, 2011d; GSIS, 2011a.

Figure 13. Ratio of Contributors per One Pensioner in SSS and GSIS, 2000-2010



Source: Table 20.

Table 21 presents the evolution of the population by age group in 2000-2010. The young group (age 0-14) proportionally peaked in 2001 and declined thereafter (from 37.7% to 35.4%); however, it was still quite high; whereas the old group (60 and over) peaked in 2002 and slightly decreased thereafter (from 7.6% to 6.7%) and was very low. The productive-age group (15-59) has been steady rising since 2002 (from 54.9% to 57.9%), which is good because the dependency ratio has also declined (from 82.3% to 72.7%). All this meant that the productive-age group has a lower burden and there was a "window of opportunity" until the old group started growing due to population aging.

Table 21. Distribution of the Total Population by Age Group, 2000-2010

Years	Total Population [a]	Population Age Group (000)			Dependency Ratio [b]	Distribution by Age Group (%)		
	(000)	0-14	15-59	60+	(%)	0-14	15-59	60+
2000	76,947	28,360	43,030	5,557	78.8	36.8	55.9	7.2
2001	78,568	29,639	43,108	5,821	82.3	37.7	54.9	7.4
2002	80,217	29,873	44,221	6,123	81.4	37.3	55.1	7.6
2003	81,878	30,085	45,887	5,906	78.4	36.8	56.0	7.2
2004	83,559	30,415	47,646	5,498	75.4	36.4	57.0	6.6
2005	85,261	30,873	48,747	5,641	74.9	36.2	57.2	6.6
2006	86,973	31,743	49,815	5,415	74.6	36.5	57.3	6.2
2007	88,706	32,141	50,967	5,598	74.0	36.3	57.4	6.3
2008	90,457	32,609	52,031	5,817	73.9	36.1	57.5	6.4
2009	92,227	32,990	53,212	6,025	73.3	35.8	57.7	6.5
2010	94,013	33,296	54,435	6,282	72.7	35.4	57.9	6.7

[a] NSO medium projection. [b] Formula: [(0-14 + 60+)/(15-19)] x100

Source: Population from NSO, 2011a; population 0-14 and 15-59 estimated based on BLES, 2010a.

Population aging and pension expenditure are positively correlated. Although the Philippines currently has one of the youngest populations in East and Southeast Asia, projections for 2045-2050 show a rapid aging process: a decrease in population growth from 1.7% to 0.5% and a decrease in fertility rate from 2.9% to 1.8%. However, there was also an increase in the median age from 23.2 to 36.3, in life expectancy from 71.7 to 78.7 years, in the population age 60 and over from 6% to 18.2%, and in the old-age dependency ratio from 6 to 19.[61] As the share of the older in the total population raises and longevity expands, pension costs increase disproportionally, and once the productive-age group starts to decline, financing becomes more difficult. Compared with nine East and Southeast Asian countries on these projections, the Philippines will still be among those aging less (Asher and Bali, 2010; Asher, 2011). But the rapid change in the indicators in the next 35-40 years means that the cost of pensions will escalate, whereas the measures must be implemented now to take advantage of the "window of opportunity," to avoid a significant increase in contributions, to avoid a cut in benefits or fiscal transfers, to cover deficit in the future pension system and to impede its bankruptcy.

7. Costs of Pensions and Regressive Effects

Table 22 compiles all available data on pensions, both contributory and non-contributory, disaggregates by scheme, and estimates the percentage distribution of costs by scheme, where costs are in relation to GDP in 2010. Out of the total costs, the contributory pensions financed by members' contributions and capital returns were 74% (52% SSS and 22% GSIS); the cost of non-contributory pensions

[61] Because civil servants live longer, the burden of GSIS benefits will be even higher than implied in the general averages (Asher and Parulian, 2011).

entirely financed by the state was 25.4% (armed forces 17%[62] and policemen 7%), the total share of these non-contributory pensions was higher than that of the SSS, the scheme with the biggest coverage in the country. The projected cost of non-contributory pensions for the elderly poor was 0.7%. Therefore, state-financed pensions for middle- and upper income pensioners took 35 times the projected cost of social pensions for the elderly poor. In terms of GDP, state-financed non-contributory pensions for separate schemes took 0.34% whereas those for the poor only 0.01%.[63] Such inequitable allocation of fiscal resources generated significant regressive effects.

Table 22. Pension Costs in Contributory and Non-Contributory Schemes, and Relative to GDP in 2010 (in million PhP and percentages)

Schemes	Costs (Million PhP)	Percentage Distribution (%)	Cost/GDP (%)
SSS	59,075	51.7	0.694
GSIS	25,360	22.2	0.298
Contributory	84,435	73.9	0.992
Armed Forces (AFP-RSBS)	19,384[d]	16.9	0.228
National Police (PNP)[a]	8,406	7.4	0.099
Firemen (BFP)	466	0.4	0.005
Judges	407	0.4	0.005
Jail & Penology (BJMP)	348	0.3	0.004
Non-Contributory[b]	29,011	25.4	0.341
Social Pensions (Non-contributory)[c]	830	0.7	0.010
Total	114,276	100.0	1.343

[a] Year 2009. [b] Coast Guard and Veterans not available; the DBM (2011) projects the cost of Veteran pensions as PhP12 billion in 2013. [c] Total budget for 2011; until Sept. 15 it was PhP211 million. [d] Excludes the Provident Fund, which is partly contributory and spent PhP500 million in 2010.

Sources: SSS and GSIS from Appendix 7; AFP-RSBS, 2010 and Marayag 2011-I; PNP, BJMP and BFP based on BLES, 2011c; Judges from Barribal-Co, 2011; social pensions from DSWD, 2011b; GDP from Appendix 15.

8. Actuarial Equilibrium

This section summarizes the major findings of actuarial valuations in the three principal pension schemes: SSS, GSIS and AFP-RSBS.

a) SSS

In 1959-2007, some 18 actuarial valuations were done in the SSS; the large majority was internal of the Actuarial Department complying with guidelines from the International Actuarial Association endorsed by ILO and ISSA. The SSS valuation results, assumptions and methodology were validated externally three times since

[62] The Department of National Defense (DND) has a budget of or more than PhP100 billion annually, 40% of which (PhP40 billion) goes to all pension benefits (Romero, 2010).
[63] Total government spending on social protection was stagnant in 1999-2008; it was 0.8% of GDP, half the average in East and Southeast Asia (1.5%) and one-fourth the average in Latin America. Under the new administration in 2011, the social protection sector had the largest allocation with 34% of the budget and DSWD received the highest raise, double the 2010 allocation (NAPC, 2011).

1959, two by the ILO and one by the World Bank.[64] Since 1991, according to law, SSS actuarial valuations have been done every four years: 1991 (including GSIS), 1995, 1999, 2003 (assessed in 2006) and 2007. We had access to segments of the 1995 and 1999 valuations and to the complete ones of 2003 and 2007.

Not only the SSS valuations are done every four years but it takes them a long time to be officially presented to the Commission: the one in 2003was presented in 2006 (SSS, 2003b), and the one presented in 2007 with 2006 data has not been officially presented to the Commission, as of September 2011. It was almost four years after its conclusion and the presentation then has been postponed thrice (Capulong, 2011-I). In the meantime, the global crisis occurred. The ILO recommended in 1991 to do valuations more frequently, resorted to periodic external actuaries, and included all branches with a follow-up study after the valuation. The latest ILO study on Philippine social security, including pensions, was done 15 years ago (ILO, 1996). It has neither conducted an actuarial study on pensions nor another validation or peer review since the early 1990s (Schwarzer, 2011).

The 2003 and 2007 SSS actuarial valuations were impressive, highly professional documents, and quite voluminous (436 pages in 2007). They were based on multiple demographic, economic and pension system assumptions and projections: population, labor force, mortality and disability rates, life expectancy, inflation and interest rates, contributing members, pensioners, contributions, benefits, administrative expenses, investment and yields, density of contributions and so forth. There were complex sections on methodology and hundreds of statistical tables and graphs. Due to the aforesaid reasons, they were written in a highly technical language hence, valuations are difficult to understand by non-experts. A former employer representative in the SSS commission admitted that she lacked the skills to understand actuarial valuations and could not recall if she ever read the 2003 one (Palileo, 2011-I). The SSS 2007 valuations and the GSIS 2010 valuations have executive summaries of their findings and recommendations that made them more accessible. The SSS 1999 valuation was very much publicized through the media in order to facilitate the increase in the contribution in 2002. It was indeed successful (Capulong, 2011-I).

Actuarial valuations use the projection method rather than the present value method.[65] Projections on years of the financial deficit (total revenues minus total expenditures) and fund life in SSS vary in valuations through time (Table 23). Valuations also project the year when benefit expenditure exceeds contribution revenue, but was eliminated herein to facilitate comparisons.[66]

The SSS 2003 internal valuation (with data at the end of 2002) did 68-year projections (2003-2070) based on a set of assumptions already summarized, pensions increases or not, and three scenarios: “baseline” (realistic conditions), “conservative” (least favorable conditions) and “optimistic” (most favorable conditions, deleted in Table 23 to facilitate comparisons with prior valuations). Projections under con-

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[64] In 1959, 1962 (ILO), 1979, 1981, 1991 (ILO including GSIS), 1995, 1999, 2003, 2006 (World Bank) and 2007. Specific valuations were made of SSS programs: disability 1977, self-employment fund 1977 and 1981, EC 1977 and 1995 (SSS, 2011e).

[65] The projection method annually matches inflows (contributions and investment returns) and outflows (benefits and operational expenditures); the program is not funded in perpetuity hence it accumulates reserves until a point in which expenditure exceeds revenue generating a financial deficit and a subsequent gradual depletion of the reserves, unless corrective measures are taken.

[66] Capulong (2011-I) reports that SSS actuarial valuations project have projected the implicit pension debt (IPD) in local currency, however, the data could not be found in the 2003 and 2007 valuations. In 2007 the IPD was estimated as PhP1 billion in SSS, PhP433 million in GSIS and PhP316 million in AFP-RSBS; as percentage of GDP the total IPD rose from 38% in 2007 to 54% in 2035 (TSG, 2007).

servative and baseline scenarios of the year of the deficit and depletion of reserves (end of fund life) with no pension increase were 2007 or 2022 and 2024 or 2031; with pension increase were 2007 or 2010 and 2015 or 2019. Compared with the 1999 valuation, the life of the fund was extended by 16 years, from 2015 to 2031 (based on the baseline and no pension increase). It was a result of the parametric reforms being implemented, wherein there was an increase in the contribution from 8.4% to 9.3%, a raise in the maximum taxable salary from PhP 12,000 to PhP 15,000, a tightening of the definition of years of contribution, improvements in administration and investment, and a change in some assumptions (SSS, 2003b).

Table 23. Projections of Financial Deficit and Reserve Depletion According to Actuarial Valuations in SSS and GSIS, 1959-2010

Valuation Year	Scope Programs	Year Deficit Starts	Year Reserves Depleted [a]
SSS			
1959	All	1995	2050
1979	All	2025	2041
1990	All		2027 or 2060
1999	All	2001 or 2008	2011 or 2015
2003	All	2007 or 2022	2024 or 2031
2006[b]	All		2023 or 2027
2007	All	2022 or 2030	2030 or 2039
1977	Disability	2016	2028
1977	ECC	2028	
1995	ECC		2026 or 2030
2003	Pension		2015 or 2027
GSIS			
2004	All	2016	2026
2005	All	2021	2034
2006	All	2030	2046
2007	All	2036	2055
2008	All	2036	2055
2009	All	2035	2064
2010	All	2029	2051

[a] In SSS, when two years are given, the first is usually the "conservative" scenario and the second is the "realistic" baseline scenario (both without pension increases).[b] World Bank commissioned assessment of 2003.

Source: Based on SSS, 2003b, 2007b, 2011e; GSIS, 2011c.

To further expand the life of the fund, the 2003 valuation recommended to keep elevating the contribution rate in stages starting with 10.4% in 2007, to increase the minimum AMSC starting with PhP 3,000 in 2007, as well as the maximum AMSC, to modify the pension formula, to tighten qualifying conditions for pension eligibility (age, contributions), and to enhance investment earnings including stricter conditions for loans (SSS, 2003b). A comparison of the 2003 projections (baseline, without pension increase) for 2010 and the actual figures in that year shows mostly erring on the positive side. The contributors were 8% higher but the contributing members were lower (41% versus 33.5%); the pensioners were 2.5% lower, the contribution revenue was 38% bigger and the benefit expenditure was 26% bigger hence the actual net revenue was 111% higher (authors comparisons based on tables and appendices).

In 2006, the World Bank commissioned Watson Wyatt & Company to do an assessment of the 2003 internal actuarial valuation, projecting the fund life between 2023 and 2027 (at least four years less than the 2003 internal valuation). Simulations were made to assess the impact on the fund life of changes such as an increase in maximum AMSC, in the contribution rate and density, and in the average benefit (simulation results were not provided to authors). The recommendations include improving of portfolio diversification and yields, including foreign investment; hiring professional investment managers; improving of operational and financial performance; and establishing supplementary individual retirement accounts (SSS, 2011e).

The internal actuarial valuation of 2007 (with data at the end of 2006) did 68-year projections (2007-2074) based on the similar assumptions, pension increases or not, and the three scenarios used in 2003. The results under the no increase in pensions were deficit in 2022 or 2030; it ended a fund life in 2030 or 2039; the period of 2016 or 2021 and 2023 or 2028 were under increase in pensions. Using the baseline scenario with no increase in pensions, the year of reserve depletion was extended to 2039, eight years more than the internal valuation of 2003 and 12 years more than the external assessment of 2006 (Table 23). Such expansion in the fund life was justified by several measures taken which include an increase in contribution from 9.3% to 10.4% in 2007, administrative improvements, and shifting of investment towards state securities and equities, etc. (SSS, 2007b). The projections done in 2006 for the year 2010 were targeted on most variables and, with a couple of exceptions. The actual figures were better such as the contributors were 15% higher (but contributing members lower: 36.8% versus 33.5%), the number of pensioners was 2% lower, the number of employees (regular plus contractual) was almost exact, and the administrative expenses were 10% lower, the total revenue was 7% higher, the total expenditures were 1% higher and the net revenue was 37% bigger; and the fund was 17% higher (authors' estimates based on tables and appendices).

The 2007 actuarial valuation recommended further parametric reforms to extend the fund life, several of which are already proposed in the 2003 valuation, which include: i) increase the contribution to 11% in 2011 (expected at the end of 2011), 12% in 2016 and 13% in 2021; ii) raise the minimum AMSC from the current PhP1,000 to PhP3,000 in 2011, PhP4,000 in 2016, and PhP5,000 in 2021 (which would improve the benefit level); iii) augment the maximum AMSC from the current PhP15,000 to PhP20,000 in 2011 (announced in August 2011), PhP25,000 in 2016 and PhP30,000 in 2021; iv) revise the pension formula to avoid significantly different replacement rates between higher and lower income groups; v) improve contribution collection and employer compliance (aiming at 12 monthly contributions yearly) with strengthened inspection, stricter enforcement of sanctions, crossing data with the BIR and local governments, and a better information system; vi) tighten qualifications for eligibility of pensions, increasing the years of contributions (from current 10 to 15 in a ten-year span) and requiring recent payments for disability and death benefits; vii) gradually raise the retirement age according to life expectancy;[67]viii) maximize investment yields, as suggested by the ILO in 1994, moving away from subsidized member loans toward high-yielding equities, more

[67] Rizaldy Capulong, SSS Vice-President for the Capital Market Division, stated that recommendation e) required extensive consultations, whereas recommendation f) "would take more time, coupled with other benign options." He predicted that raising the contribution to 11% and the maximum MSC to PhP20,000 will expand the equilibrium until 2046 even with a 10% increase in pensions and double the supplemental grant in 2011 (SSS, 2011e).

effectively administering the loans, and transferring management of loan and real estate programs to qualified professionals (SSS, 2007b).

The recommendations did not include periodic adjustments of pensions to the CPI, presumably because they would shorten the life of the fund, but the other measures that were suggested herein could compensate for that. The 2007 valuation could not take into account the effects of the global crisis in 2008-2009. According to law, a new valuation must be conducted in 2011 (was being prepared in September). It should evaluate the impact of measures recommended in the 2007 valuation and the adjustment of pensions to the cost of living.

b) GSIS

A World Bank (1995) actuarial study projected that GSIS reserves would be fully depleted by 2015. However, the internal GSIS 1999 actuarial valuation projected that the fund would be depleted by 2041, 26 years longer. It was recommended to do projections for a period of at least 45 years, as in SSS. Since 2004, GSIS conducted annual actuarial valuations which was done by its actuarial office and was submitted to the Commissions on Audit.

In 2004-2008, the year of the deficit was extended from 2016 to 2036 and the life of the fund was from 2026 to 2055, as a result of improvements in collecting debts and of rising of investment revenue. The 2008 actuarial valuation projected an anticipation of the deficit would be in one year (2035) but an extension of the life fund would be in nine years (2064). The latter was explained by a reduction in the pension, where there was a decrease from 2% to 1.5% and by the exclusion of employed survivor pensioners in the projection of future pension claims. The latest valuation (2010) showed deterioration because the deficit was shortened to six years (2035 to 2029) and the fund life was in 13 years (2064 to 2051). The latter was officially explained by a re-inclusion of gainfully employed survivor pensioners in the projections (Table 23, GSIS, 2011c). An external consultant was hired for the 2010 actuarial valuation; some adjustments were made.

The authors have only access to the GSIS actuarial valuation of 2010 (perhaps a summary), which in contrast to SSS was very succinct (17 pages including the executive summary that virtually duplicated the text) and with very few assumptions on membership growth, mortality, salary increases, benefit increases, cash gift, investment yield rate and administrative expenses. The data were from the end of 2009 and the projections for 91 years, from 2010-2100. In the key assumptions, the "base case scenario" (BCS) projected the years of the financial deficit and the fund life. The assumptions, other than BCS, led to different projections for the period. Four of the seven-key assumptions in the BCS raise doubts, which include the following: i) the nominal yield rate of 9.03% was lower than the annual average of 10.2% in 2000-2010 but higher than the rates of 8.6% in 2009 and 7% in 2010. If such low rates continue, the years of deficit and the fund life would be shortened by two and five respectively; the valuation warned that the yield rate was the most critical variable thus an increase by 0.3% would add 8 years to the fund life but a decrease of 0.3% would cut it by 5 years; ii) the average annual nominal pension raise in the BCS was 1.5% but our estimate of the average raise in 2000-2010 was about twice as high, in this case, the years of the deficit and the fund life would be cut by four and nine respectively; iii) the active membership was projected to augment to 1.5 million in 2068 and would remain constant thereafter, but the actual number of contributors was basically stagnant in 2008-2010. If the number was fixed as in 2009, the year of the fund life would be cut by three;[68]and iv) the administrative expense in the BCS was 6.2% of contribution and investment revenue, net of investment expense; we lacked investment expense, but the average administrative expense relative to total revenue was 7.05% in 2000-2010, giving an average investment management cost of 0.78%, which was high; if the administrative expenses were indeed higher than in the BCS, the years of the deficit and the life fund would be shortened very little. The valuation concluded that the pension program does not yet "face a deep structural crisis which would require immediate and drastic changes [but] it will eventually face an imbalance in the long term" (GSIS, 2010b: 12).

Contrary to the multiple and detailed recommendations in the SSS actuarial valuations of 2003 and 2007, the GSIS valuation of 2010 had only four simple recommendations: i) to make a serious effort to maximize the investment yield. In this sense, the new investment policy guidelines could play a crucial role if properly implemented and managed; ii) to have a 0.5% increase in pensions over the 1.5% nominal projected would cut four years in the life fund, hence it was suggested that there should not be higher increases. The average annual rise in inflation in 2000-2010 was 5% therefore if nominal pensions were increased by 1.5% and such inflation rate continues, the real pension would shrink by 3.5% annually, demanding other measures to face this problem; iii) to conduct continued actuarial studies on the fund viability, especially if there were benefit increases. For this purpose, it was recommended to ask the IT Group to provide the required technical support in the collection and processing of the needed data as well as in the provision of facilities to achieve that end; this problem became evident in our request of data from GSIS for this study; the basic information took as much as six weeks and a couple of crucial data were not supplied.

c) AFP-RSPS

The Decree No. 361 of 1973 (enacted under Ferdinand Marcos' martial law and a dissolved Congress, hence with the category of law), stipulated an initial state funding for the pension system (AFP-RSBS) of PhP 200 million in four installments in the period 1974-1977 but the government postponed and extended payments to 1976-1980. In addition, after 1977 the state would finance pensions up to PhP100 million. AFP members would pay 4% of their monthly salary and longevity pay, but those who were ineligible to retire; their contributions would be refunded with an annual 4% interest. Obviously, such funding was grossly inadequate in view of the generous system benefits and insufficient contributions that were refundable. In 1977, an actuarial report showed that the system was actuarially unviable and could therefore collapse. It was unfunded by PhP 512 million at its start (the state seed money should have been PhP 712 million instead of PhP 200 million) and had liabilities of PhP1.6 billion (AFP-RSBS, 2010).

Several amendments to the Decree of 1973 have had the net effect of aggravating the insolvency. Presidential Decree (PD) 1638 of 1979 set compulsory retirement at the age of 60 or 30 years of service (but PD 1656 of 1979 reduced the age to 56).

[68] In comments to this study, the Actuarial Department argued that starting in 2008, the government began to cut personnel offering retirement incentives, therefore the 2008-2010 "membership data is not indicative of the long trend" projected in the 2010 valuation (GSIS, 2011d). But if the recent streamlining continues, the projected increase of 10% is quite optimistic.

The pension could not exceed 85% of basic salary and longevity, but an automatic adjustment of the pension to active personnel salary was ordered. PD 1656 of 1979 increased members' contribution from 4% to 5% but stipulated that such contributions would be refunded to all members regardless of their eligibility for retirement; hence, it charged the state with the financing of pensions through annual budget appropriations. Executive Order (EO) 590 of 2006 "deactivated AFP-RSBS effective 31 December 2006" and mandated the refund of all members' contributions with a 6% interest However, an EO could not amend a law and it was never implemented. AFP-RSBS kept collecting the 5% contribution from members but for a provident fund while the pension scheme continued to be unfunded and the pensions were fully financed by the state. Government pension arrears totaled PhP16 billion in 2011. The liabilities in the latest actuarial report of 2005 were over PhP100 billion (62 times those of 1977). The cost of pensions in 2016 (PhP67 billion) would exceed that of salaries of active personnel (PhP63.7 billion), the former would be 50% higher than the latter by 2026. The cost of raising pensions at the current annual rate of 10% would surpass PhP 1,000 billion by 2040 (Legislation; AFP-RSBS, 2010; DBM, 2011).

Trying to cope with such grave insolvency and growing state burden, the AFP has prepared a reform Act draft that will introduce important changes, which includes the following: i) the age of compulsory retirement was increased from 56 to 58 or the years of service would be from 30 to 36 or at the age of 60 with 25 years of service (raised from 20); ii) the pension was calculated based on the last salary, instead of the salary of the next higher grade, and on 50% instead of 100% of the longevity pay; the ceiling was increased from 85% to 90% of the monthly salary base; iii) the survivors' pensions were based on 50% of their monthly pension instead of 75%; iv) the pensions were not adjusted to the salary of active personnel but periodically (from 2% to 10% every five years); v) a 10% contribution was imposed on members and 15% on the government or the actuarially determined rate whichever was greater; vi) under consideration were to reassign the 5% provident fund contribution to the pension fund and to modify the guaranteed 6% interest. These changes would be applied to new entrants after the enactment of the reform law, except for the adjustment of pensions that would be enforced for all. AFP-RSBS would be terminated and all its funds would be transferred to the new pension fund. The state would provide seed capital of PhP 120 billion in a period of 10 years and would finance all current pension obligations (MPPS Act, 2011; Marayag, 2011-I).

Although the proposed reforms were positive and should reduce costs, they appeared to be insufficient because: i) the reformed entitlement conditions and benefits were still considerably more generous than those in the SSS, GSIS and most of the other separate schemes; ii) the proposed age of 58 was still two years lower than the 60, which was previously set and the retirement with 30 years of service permitted to do it as early as age 47; iii) calculating the pension on the last salary substantially increased future costs; iv) the burden for the state would be enormous even with the proposed reforms and there was a risk that under an economic crisis it would not meet the financial obligations, hence reducing pensions substantially; v) the proposed 25% contribution (10% by members and 15% by the government) was only four points higher than in the GSIS that has stricter entitlement conditions and benefits than AFP-RSBS, plus a substantial reserve; and vi) the AFP-RSBS ratio of contributors to one pensioner has steadily decreased to 1.1 hence making it extremely difficult to finance the system unless a huge contribution was set. The AFP reformers asked to calculate the equilibrium contribution without reforms, the GSIS actuary set it at 52%, twice the proposed 25% (AFP-

RSBS, 2011; Maragay, 2011-I). Due to such heavy burden, the way to make the system sustainable would be by further tightening entitlement conditions and benefits.

d) Other separate schemes

We lack information on actuarial studies in other separate schemes, but their liberal entitlement conditions and generous benefits, particularly of justices/judges, suggest that pension liabilities should be huge, so as the fiscal costs. The Department of Budget and Management (DBM) asked PID researchers to estimate the contribution needed to equilibrate the schemes of uniformed personnel and justices/judges but it could not be done due to lack of hard data on expenditures of those schemes (Orbeta, 2011-I; see Table 21).The DBM (2011) now projects that the cost of pensions of uniformed personnel (excluding justices and judges) will jump from PhP68.8 billion in 2006 to PhP111 billion in 2013.

e) ECC

The SIF for work-related risks in SSS and GSIS is managed by them. Both schemes must annually report the state of the SIF but only to provide contribution income and expenditures (no data on investment and the reserve). The SIF resources apparently are merged with other funds in each scheme (Villasoto, 2011-I). In 2000-2009, the combined financial balance in SSS and GSIS was negative, half of the period with the worst deficit (PhP1 million) was in 2002; the other years, it generated a small surplus, the largest (PhP530, 000) was in 2005, but GSIS has not provided figures after 2005 (BLES, 2010a).

There have been two actuarial valuations of the SIF in SSS: (1) 1977 has projected a deficit for 2028, and (2) 1995 has projected the life of the fund to 2026 or 2030, hence it was earlier than in the previous valuation. The GSIS actuarial valuation of 1999 has found out that the ECC scheme need urgent remedial measures; the latest valuation (2010) did not project SIF-ECC years of the deficit and the fund life (GSIS, 2010b).

CONCLUSIONS AND POLICY RECOMENDATIONS

This section summarizes the major findings and challenges in the Philippine pension system in each of the six key aspects that were analyzed in the diagnosis. There are proposed recommendations to confront the challenges and to improve the system. In addition to their own suggestions, the authors have incorporated recommendations from other sources: Gonzalez and Manasan, 2002; Serrano, 2006; TSG, 2007; Mesa-Lago, 2008, 2010, 2012; De la Rama, 2009; Manasan, 2009a, 2009b; Orbeta, 2009; Asher, 2009, 2010, 2011; TUCP, 2009; Verceles and Pineda, 2009; Ginneken, 2010; ILO, 2010; ISSA, 2010a, 2010b, 2011; NAPC, 2011; and Pineda, 2010, as well as from the interviewees.

Based on the previous diagnosis of the pension system, parametric and legal reforms are recommended to improve the six key aspects that were analyzed. The World Bank, IMF, regional financial organizations, and experts recommended a structural reform and full or partial privatization.[69] The 20-30 year experience of countries that followed the said approach indicates a few positive outcomes, like a high and growing capitalization and improvements in efficiency. However, the majority of reform assumptions have not materialized in most countries because the coverage has not increased although there were higher promised pensions that still need to be tested; the competition does not exist or is inadequate, the administrative costs remain high and show little decrease, and the portfolio diversification has not yet occurred. On the other hand, privatization has brought new problems such as lack of social solidarity, accentuation of gender inequality, and very high transition costs that linger for at least 30 years and are quite difficult to finance (Mesa-Lago, 2008). In 2008-2011, four countries that totally or partially privatized their fully-funded pension systems have undertaken “re-reforms.” These are Argentina, Bolivia and Hungary and Chile. The first three countries shut down the private system or pillar and transferred all their insured funds to the public, pay-as-you-go (PAYG) system; while, Chile maintained the system but keep improving some key aspects such as coverage, solidarity, pensions and gender equity (Mesa-Lago, 2009; Simovitz, 2011).

This study recommends many parametric reforms and some commentators suggested establishing priorities among them. However, the authors feel that is better to provide a wide set of policies, within the structure of the study, and leave the decision of what to tackle first to the policy makers, in view of probable differences in criteria on this issue. In any case, the reforms should be preceded by a national social dialogue with representation of all pertinent stakeholders to promote a feasible consensus, to legitimize and to improve the political sustainability of the changes. Prior to the reforms, an actuarial study should evaluate the proposals and their financial viability.

[69] In the early 1990s the SSS president proposed the privatization of the scheme but it was opposed and failed (Edralin, 2011-l).

Unity

1. Integration or harmonization of highly segmented system. Despite some positive steps, such as portability, discussion on a potential special unit to manage pensions of uniformed personnel, and the establishment of the NSWD to coordinate agencies on social protection, the pension system remains highly-segmented with 15 separate schemes and needs better integration or at least harmonization. The same can be said of the social protection system. Such segmentation affects the other five key social security principles.

A study should be done on a gradual merge of SSS with GSIS with a transition period to gradually harmonize or standardize entitlement conditions, benefits and contributions.[70] That merge would lead to lower administrative costs, would eliminate double boards, would take advantage of economies of scale, making portability easier, would help eliminate duplicate cover and would create a larger pool for investment. An even more important merge is strongly advised for the schemes of AFP-RSBS, PNP, BJMP, BFP and Coast Guard, into one standardized scheme for all uniformed personnel. The scheme of justices/judges should be integrated into the GSIS or into an eventual unified scheme of SSS/GSIS for civilian personnel. Those currently retired and close to the retirement age would keep the entitlements and benefits of the separate schemes but new entrants and young members should abide by the merged-scheme entitlement conditions and benefits. Consequently, the creation of new separate schemes should be banned. The incorporation of separate schemes of powerful groups is politically difficult. It requires a national education campaign to explain their unjustified generous conditions/benefits and high, regressive and unsustainable fiscal costs. If unification is politically unviable, any existing fiscal transfers to privileged schemes should be eliminated. The scheme should be financed by contributions from workers and employers plus the investment yields. The new entrants should be obliged to join the principal program. The various programs within SSS and GSIS should be separated. They have their own funds and financial-actuarial balance to improve transparency and allow better evaluation of financial-actuarial equilibrium in each.

There is a Bill in the House of Representatives that attempts to solve the current fragmentation in the administration of work-related risks by dissolving the ECC and by creating a new entity with full powers to collect contributions, to manage the Fund, to invest its resources and to pay benefits, independently from SSS and GSIS. But, this would have some adverse effects. These effects include expansion of a new entity bureaucracy, duplication of the collection of contributions, increase in administrative costs, which will place a significant sum for investment under a new entity without any previous experience on that matter, and deterioration of the current segmentation of the system. A better alternative would be that the work-related program be fully managed by the SSS and by the GSIS (or the potentially merged scheme for civilian personnel) but with a separate State Social Insurance Fund exclusively for work-related contingencies and adequate external supervision

[70] At this study presentation, Daniel Edralin suggested a gradual harmonization of entitlement conditions, definition of "contributors," and so forth. In turn, Katarina Constantino-David (GSIS) argued that the significant differences between the two schemes (entitlement conditions, labor rules, wages) would be serious obstacles to integration, and that GSIS better compliance would lead to subsidies to SSS (the latter could be tackled with one single administration but two separate funds). Aniceto Orbeta rebutted that there are no technical reasons for separate schemes.

and an appeal before special social security courts. Medical-hospital and rehabilitation services could be integrated into a special branch of PhilHealth. ECC could then be dissolved. The savings on personnel, buildings and equipment are transferred to the institutions that handle the work-related monetary and the health benefits. Some improvements in the Bill could be incorporated into the laws of those institutions.

2. Role of the state. The state should play a more active constructive role in the pension system by: a) integrating or coordinating all separated pension schemes and programs; b) strengthening current powers of the COA, establishing an ad hoc single autonomous, technical agency (e.g., a Pension Insurance Commission or Superintendence of Pensions) with regulatory, or overseeing and auditing powers over all schemes/programmes both contributory and non-contributory, public and private; c) designing a plan to extend coverage with a time table, in cooperation with the pension schemes; and d) ensuring the financial sustainability of the system by requiring annual actuarial valuations and passing the needed legislation to maintain equilibrium (for instance, mandating or pressuring for increases in contribution rates and eliminating the ceiling on taxable salaries). The state is expected to guarantee pensions in case of financial deficit and of depletion of the reserves hence should plan ahead and take proper actions to avoid that scenario.

On the other hand, the government should abstain from intruding in the management and in investment of reserves of pension schemes, like appointing of members to commissions/boards, and pressuring to invest in reserves of government projects or social assistance for the poor or for people in need due to natural phenomena or economic crises.

In the above content it is important to note that social insurance does not only promote social welfare but it also makes positive contributions to labor productivity, economic growth and political stability. If the pension programs go broke, the positive results would not just vanish but catastrophic effects would also occur impacting in the economy, society and political stability.

Coverage

1. Legal coverage. Within East and Southeast Asia, the Philippines has a wide legal coverage, mandatory and voluntary, to embrace the informal sector and other groups who are difficult to incorporate. The SSS has gradually expanded such legal coverage. Several measures have also been implemented to facilitate enrolment and payment of contributions of informal workers and OFWs.

2. Statistical coverage of the EAP and the elderly. Despite the expansion in legal coverage, statistical coverage of the EAP relying on contributors only rose from 27% to 28% in 2000-2010, slightly increasing in SSS (88% of contributors) and declining in GSIS (12%). The estimates of coverage, based on SSS members who have paid only one contribution, are almost three times than those of the contributors who paid a contribution in the year. They are also inflated due to multiple registrations, therefore unreliable. The EAP coverage, including separate schemes, was about 29%. The important expansion of legal coverage has generated results on voluntary members, excluding the self-employed, since 2000 due to the shrunk in both absolute and percentage terms. On the other hand, the coverage of the elderly by contributory old-age pensions rose from 8% to 15% in 2000-2010, adding separate

schemes of 18%. Therefore, about 71% of the EAP and about 82% of the elderly are not covered. This is partly due to the large informal sector (42% of the EAP in 2010) and to the high population poverty incidence (26.5% in 2009). Both of which probably increased during the global crisis, making effective extension more difficult. The other reasons include poor enforcement of legal coverage to the informal sector and similar groups, declining proportion of members that contribute (33.5% in SSS), and high unemployment and underemployment (7.5% and 19.4%). A study is needed to accurately determine the weight of each of these causes. The global crisis did not apparently reduce overall coverage, which has happened in many countries in the world; but it may have increased informality and poverty, aggravating the existing exclusion.

3. Strategies to extend effective coverage**.** Extending coverage is a long-standing priority of the International Labor Organization (ILO) and of the International Social Security Association (ISSA). The ILO (2001) has called for "social security for all" as a fundamental and universal human right, a core instrument of redistribution for reducing inequality, and a tool for stimulating economic and social development. The ISSA's (2010a) new strategy for extension of coverage combines social insurance and social assistance, emphasizing the needs of low-and-middle-income countries, such as the Philippines, and exhorting social security organizations to use their capacity to incorporate informal and other excluded workers. The strategy provides useful guidelines on coverage extension and makes a case for more cooperation among international agencies in support of coverage extension. The Asian Roundtable on Social Security (AROSS) held in 2009, also supported universal and comprehensive social security coverage for all Asian peoples (Pineda, 2010).

The SSS should be more inclusive to reach uncovered groups, especially those who are in the informal sector, such as street vendors and peddlers, seasonal workers, tricycle drivers and so forth, and to design special programs with lower contributions, where benefits are proportionally calculated. Mandatory legal coverage of the self-employed should be actively enforced. Successful extension, however, demands that the targeted group must have sufficient workers with relatively homogenous characteristics, and must develop specific contribution modalities, eligibility criteria and benefit packages for each group.

Examples of incorporation policies are: flexible programmes adapted to excluded workers' socio-economic conditions, such as weekly, quarterly or annual except monthly contribution, jointly payable with taxes; contributions/benefits customized to payment capacity of excluded workers; obligation to enterprises that hire self-employed workers to collect their contributions; tying the granting of licenses to some self-employed workers (taxi drivers, market vendors) to affiliate in social insurance. The state and SSS should support cooperatives, which have been accredited by SSS in 2011, or associations of informal[71] and rural workers and women, as well as of the indigenous schemes such as *damayan,* that can operate as intermediaries to help affiliate members and to collect their contributions under proper state regulations and monitoring. Strong cooperation with local governments has been quite successful in PhilHealth to increase coverage at twice the level than the pension program; hence SSS should adopt a similar approach. The government should incentivize formalization by simplifying tax declaration for small enterprises, allowing tax deductions for self-employed contributions and providing coverage for

[71] The President of the Alliance of Workers in the Informal Economy Sector supported several measures that were suggested in the text (Tesiorna, 2011-l)

work-related risks. To incentivize affiliation, a fiscal subsidy could be provided to low-income self-employed workers, in lieu of the employer contribution.

The SSS has signed bilateral agreements on social security for OFW with eleven countries and has established foreign offices to promote its programs. Such agreements ensure that workers and employers do not pay social security contributions in more than one country, therefore, avoiding them to pay both in the Philippines and in the current country that they are working with. These agreements should be signed together with other developed Asian countries recipients of Filipino workers, such as Singapore and Malaysia. ASEAN is in the process of establishing bi-lateral and multi-lateral social security agreements that would help cover migrant workers.

The Magna Carta for Workers in the Informal Sector should be approved by the Congress and be implemented to promote and expand associations of informal workers, to strengthen, to empower and to mobilize them in pursuit of inclusion in the pension and other social insurance programs.

4. Need of reliable data. Coverage extension demands reliable data on the excluded workers and their socio-economic conditions; and, collects either from improved social insurance statistics or labor/ household surveys. The labor survey should include questions on pension coverage in all schemes and should disaggregate data by class of worker, income, education, gender, location and enterprise size (data on all pensioners should be also collected by household surveys). Social Protection Surveys, taken in other developing countries, such as in Latin America, provide panel data on the socio-economic characteristics of the excluded workers, thus helping design the appropriate coverage extension plans and estimate the contributing capacity of the excluded. A clear definition of “contributor” with a standardized contribution period is needed for accurate calculations of coverage. The inflated coverage is based on “members” and the underestimation is based on “contributors.” For example, members who have paid a contribution in the last six months instead of one in a whole year or once in their working lives, the registry should be fully cleaned of multiple registrations by the same worker. It could be facilitated by the new ID in SSS and GSIS. Data on SSS and GSIS coverage by region should be collected and be regressed with their respective population poverty incidence. More accurate and recent data are needed to measure poverty incidence among the elderly.

Benefits

1. Generous entitlement conditions and benefits. The entitlement conditions, the pension formula and the benefits are mostly liberal and generous, particularly in the separate schemes and in the GSIS. Virtually, all pension schemes have many other benefits such as lending, life insurance, provident fund, funeral aid and Christmas gift, as well as government insurance property in GSIS. These pension schemes are not central to the principal objective of providing income at old-age, disability and for dependent survivors. Such wide, ambitious scope of benefits results in higher contributions. Narrowing those multiple objectives and concentrating on pensions would help in controlling the rise of contributions, allowing pension improvement, facilitating the administration and reducing its costs, and promoting better accountability.

The pension terminology should be standardized, particularly in SSS and GSIS, in order to facilitate understanding and comparison of entitlement conditions and calculations of benefits in both schemes. The comparative tables on entitlement and benefits developed in this study are a starting step toward a more comprehensive and standardized comparison that would give an even better understanding of the complexity and significant differences among the schemes.

2. Changes in entitlements conditions. Although the age of 60 in SSS and GSIS is above the East and Southeast Asian average, in view of the ageing process, it is advisable to study the gradual rise of that age in tandem with life expectancy at the retirement age.[72] The requirement of 10 years of contributions at age 60 in SSS (15 years in GSIS) is too short compared with those in the six East and Southeast Asian nations and other countries with similar level of development; hence, such period should be expanded. The years of contribution should be standardized at 15 in both schemes. There are very short spans to estimate the base salary. In SSS, it is the highest salary (AMSC) in the last five years or the average in the last six months prior to retirement. In GSIS, it is the last three years (AMC); in the judiciary, it is the last month of salary, and in the armed forces, it is the salary plus the longevity of the next higher grade. Such short spans encourage under-reporting of salary during most of the working life and full-or-over-reporting in the years close to retirement in order to increase the pension. Furthermore, they penalize manual workers whose salary declines with age due to physical deterioration. The universal trend is to lengthen the number of years used to calculate the base salary approximating the working life of the insured, but inflation may erode the salary value in early years. Therefore short spans in the Philippines should be gradually lengthened, but should adjust wages to inflation. Replacement rates are among the top 1-4 highest in East and Southeast Asia, including in more developed countries namely, Japan, Korea and Singapore. These rates are also above the OECD average of 30 countries. The 2011 SSS and actuarial valuations should consider a reduction of such rates to more financially sustainable levels.[73] The SSS ban on re-employment of those retired before age 65, following international trends should be lifted.[74] SSS should increase the number of contributions required to gain the funeral aid.

The extremely liberal entitlement conditions and the benefits in the separate schemes have been analyzed in this study. The AFP-RSBS, PNP, BFP, BJMP, Coast Guard and Justices/Judges do not pay any contributions; therefore, they are unsustainable. They should be drastically reformed, preferably within the recommended unified scheme for uniformed personnel and within the tailored entitlement conditions and benefits of soldiers vis-à-vis officers. The proposed reforms in AFP-RSBS are positive but they are insufficient, hence, should be deepened (see III-F-8).

The above measures are technically needed but politically difficult. Therefore, an education campaign for trade unions and for the general public must be demanded, explaining the reasons and giving examples of many countries that have increased the retirement age and have expanded the contribution years and the base salary in computing the pension.

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[72] In 2007, the average life span of a retired male at age 60 was 21.8 years and that of a female was 22.6 years (SSS, 2007b), with 10 years of contributions. An average retiree could be supported for more than twice that period. The actual retirement age averaged 61.7 and showed an increasing trend since 1998, a strong argument to increase such age from 60 to 62.

[73] TSG (2007) recommends replacement rates in the range of 40-50% average of full-career worker's lifetime average salary. It is adjusted for wage growth.

[74] The TUCP (2009) has proposed a bill that includes this provision.

On the other hand, the average retirement/old-age monthly pension in SSS is very low. It only costs PhP 3,524 but in GSIS, it is much higher, with the amount of PhP 8,965. Furthermore, other pensions are even lower. These pension levels, except GSIS old-age, are below the estimated monthly minimum wage in Metro Manila, which costs PhP8, 100, albeit the minimum wage in the regions is lower; however, they are still above the monthly poverty threshold, which costs PhP 1,300. It is important to assess if the average pension, particularly in SSS, is sufficient to access the basic basket of goods and services.

The calculation of benefits and multiple options, the lump sum plus the pension, are complex. It is probably hard to understand by the members and to make appropriate choices, thus, making it more difficult to project the costs of benefits. Simplifying those options would solve or would alleviate some of those problems. Furthermore, taking a lump sum instead of a monthly pension would create a risk if the pensioner would outlive that sum.

An adequate ratio of 2.9 currently exists between the level of the minimum pension and the average contributory pension; hence, such gap should be maintained. The new non-contributory "social" pension is only half of that in the SSS as compared to those with less than 10 years of contribution, hence need not be increased to avoid disincentives for affiliation.

3. Adjustment of pensions. In 2000-2010, real pensions declined by 24% points in SSS but increased 3% in GSIS (decreased 4% relative to 2007), and jumped to 38% in AFP-RSBS. Instead of sporadic and discretionary increments often granted after an inflationary spur, it would be better and would be more stable if it would be introduced by law to have an automatic mechanism in adjusting pensions to the CPI, while submitting to a previous actuarial evaluation.[75] An inflationary rebound could severely reduce the real value of pensions, as well as the importance of such mechanism.

4. Supplemental pensions. Social insurance contributory pensions provide a basic benefit that is normally insufficient to maintain the pre-retirement income level. It should be supplemented by other savings, particularly for members at a certain salary level that have the capacity to save. The GSIS mandatory life insurance and the SSS optional provident fund could play that role but an assessment is needed. The AFP-RSBS, with a generous mandatory provident fund, is financially difficult to maintain. These supplementary plans could be of DB or DB and could be financed by contributions of workers and willing employers. Deferring the income tax on contributions for supplementary pensions would be an important incentive. The tax is paid at the time of withdrawal of savings. The PERA Act of 2008 was enacted stipulating the creation of DC, tax deferred plans for SSS, GSIS and OFW members, and opening accounts with a maximum annual contribution of PhP 100,000 (PhP 200,000 for OFW). It is also to be managed by the administrators and to be regulated by various government agencies. But the implementation rules, as of November 2011, have been delayed because of the fear of a tax revenue loss. The PE-

[75] There is no consensus on this issue. The president of FFW was not too concerned with adjusting pensions to the cost of living in view of the relatively "low inflation" (Matula, 2011-I). The chairperson of APL was worried that the adjustment would threaten the financial sustainability of the fund (Edralin, 2011-I). The TUCP (2011) endorsed pension adjustment either to wages or the CPI. The vice president of ECP supported adjustment to the CPI (Palileo, 2011-I). SSS acting actuary did a simulation in 2001 to assess the financial viability of pension adjustment to CPI. SSS also thinks that it should be tied to an increase in contributions (Capulong, 2011-I).

RA law needs to be improved including adequate caps on tax exemptions. One of the interesting proposals is to unify all company-funded retirement funds, including those negotiated by unions and a potential second-tier voluntary DC in SSS, into a single DC scheme. It would then make benefits portable (Asper, 2011).

5. Extension of the non-contributory pension. The "social pension" began in April 2011. By mid-September, it already covered 87,050 extreme poor, ages 77 and above, wherein 6.7% are of the elderly poor. The goal for 2012 is to have a figure of 181,000 beneficiaries. It is 14% of the elderly poor. They are paid PhP1, 500 quarterly or PhP500/US$12 monthly. This pension is granted at a very high age where few poor are able to reach. The goal is to extend it to those ages 70 and over, and to all the poor.

A significant increase in the budget is strongly recommended to rapidly expand the number of social pension beneficiaries. First, to cover all the extreme poor and then the relatively poor. This action would follow the ILO-led initiative for a "Social Protection Floor" (ILO, 2010) that recommends a public scheme first pillar to reduce poverty. The population ages 65 and over in Philippines is projected to increase by 500% in 2010-2090; hence, this measure is of crucial importance (OECD-WB, 2009). The current age for the social pension should be cut from 77 to 70, still 10 years higher than the minimum retirement age in SSS and GSIS. The social pension level is one-half of the minimum pensions paid to SSS members with less than 10 years of contributions, but 15.6% of the SSS average pension and 7% of the GSIS average pension which is an adequate relationship. Hence, it should not be increased unless the SSS minimum pension is raised, avoiding disincentives to join SSS.

The tax-financed targeted social pension is more fitted to the Philippine level of development and poverty incidence. It would be less costly and would avoid regressive effects caused by a "universal" pension, which is granted regardless of income. The current cost of the social pension is 0.01% of GDP. Based on the poverty line, income at age 70, projected at 0.05% in 2069, a "universal" pension would then cost six times more (Table 22; TSG, 2007). Abundant evidence proves that a targeted pension would significantly reduce poverty but it requires good targeting techniques to prevent fraud or moral hazard. More accurate and recent data on poverty incidence among the elderly is needed. The 2012 survey, which measures the impact of conditional cash transfers, should include the social pension.

Social Solidarity and Gender Equity

1. Social solidarity. The public pension system embodies several elements favorable to social solidarity, which is not usually found in private systems; however, there are more elements against solidarity. The poorest 30% of families receive 7% of pensions whereas the wealthiest 20% gets 42%. The highly segmented system, with 15 separate schemes, generates inequalities and erodes social solidarity. Hence, there is a need to harmonize or standardize politically feasible schemes, generous entitlement conditions and benefits. This action would reduce unjustified substantial differences between pensions. The average judges' pension is 18 times the SSS average pension, while, the uniformed-personnel pension is 3-6 times. Members of separate schemes who want to keep their liberal entitlement conditions/benefits should pay through supplementary pension schemes, but not subsidized with fiscal transfers.

The implementation of suggestions that are previously offered would improve social solidarity such as: (a) enforcing of legal mandatory coverage of informal workers, domestic helpers and similar groups; (b) extending of the non-contributory pension for the elderly poor; and (c) granting a fiscal subsidy to low-income self-employed in lieu of the employer's contribution. Surveys and institutional statistics should gather data on EAP coverage disaggregated by education, urban-rural location, economic branch and size of enterprise, as well as elderly coverage by some of those variables. Survey data are needed to assess the effect of the crisis on inequalities in coverage of the EAP and the elderly.

2. Gender equity. The separation of causes of gender inequality is important to design proper policies to tackle it. The indicators of labour-market gender discrimination include women labor participation, 50% of women versus 79% of men. The female's share of employment in private enterprises is 29% versus 71% of men; however, women have much higher share in domestic help than of men, with 84% compared to 16%, respectively. Women are being paid 58% of men's salary for equal task. Such inequalities should be corrected by enforcing a law that prescribes to pay women equal wages as men for the same work, to expand hours in childcare facilities to increase female labor participation, and to promote in-work training of women to help them access decent work. Pension statistics should be systematically disaggregated by gender to better assess the situation of women and to design corrective policies.

Public pension systems tend to soothe gender inequality whereas private systems accentuate it. Although there are differences between SSS and GSIS; in the former, women have a lower share than men both in membership and pensioners. Whereas, the opposite is true in GSIS. The main reason is that women enjoy a much higher participation in the public sector than in the private sector. They are largely domestic helpers, unpaid family members and non-working spouses. They also concentrate to occupations that are not covered by social insurance or to tasks done voluntarily with little actual inclusion. Women probably have a lower density of contribution than men that should result in lower female pensions. The equal age of retirement for both sexes allows women to have more contributions but it could possibly be insufficient to compensate for a higher female life expectancy. Notwithstanding, replacement rates are reportedly similar in the two sexes. Data on average pensions of males and females could not be obtained but it needs to be generated and to be published for proper assessment. Improving the access of women to "decent work" would help increase their contribution density and pensions. The lack of compensation of women allows them to exit the labor force, thus continue to raise their children. However, it could also be ameliorated by granting a child bonus, just how it was done in some Latin American countries with a similar level of development to the Philippines. Widows that receive a survivor pension should be allowed to keep it even if they remarry. Women should have better representation in administrative commissions/boards in order to empower them to push for the needed measures and to fight gender discrimination. Extending the social pension to the elderly poor will particularly help women.

Efficiency, Administrative Costs, and Representation

1. Efficiency. SSS and GSIS have achieved improvements in efficiency such as development of sophisticated computer systems and software (particularly SSS); facilitation of the collection of contributions and payment of benefits, reducing the time to process pensions; and provision of more information to members through diverse electronic means. Both have started a new ID (together with ECC and PhilHealth) that stores information on members and facilitates transactions and payments as well as reduces fraud. Despite those facts, problems still persist, such as the members' complaints on lack of information, the long delay in crediting contributions, understaffing of local offices that either lack computers or are not connected to the data base, the remains of manual processing, and backlog on non-credited contributions, computer crashing and so forth. These flaws need to be corrected.

SSS conducts national satisfaction surveys. In the 2008 survey done by an outside firm, it got an overall satisfaction of 77% but 61% of respondents did not answer or ignored the question, indicating lack of knowledge or interest in the program. There is also a revealing vacuum that should be tackled by the Commission. GSIS has conducted internal surveys based on the answers in office kiosks. A pilot survey in 2011 had negative results but a copy of it could not be obtained. These surveys should be done regularly by an independent professional firm with adequate methodology. Their results must be published or posted in the Internet for public knowledge and discussion. Adequate channels should also be opened to hear and to process members' claims, for instance through an expansion of current Ombudsman jurisdiction to social insurance, which is now limited to hear charges against its officials, or through a creation of an Office to Protect Insured Rights.

2. Administrative costs. The ratio of total employees for 1,000 contributors in all programs was almost stagnant in SSS and in GSIS during the decade even if they excluded contractual employees. These have declined since 2010; however, the lack of data impedes an accurate comparison with the previous years. The SSS ratio is one-fourth of that of GSIS partly due to a larger number of contributors who take advantage of the economies of scale. The administrative costs as percentage of total expenditures have declined in SSS and GSIS. In 2010, they were 8.4% and 9.9% in SSS and GSIS respectively. Such costs also decreased like the percentage of contribution revenue. By 2010, both schemes were around 8.8%. The drop was due to the cuts in generous salaries and in benefits of top executives and some personnel, as well as in office space rentals, etc. Moreover, corruption seems to be less too. Despite the decrease, the SSS administrative costs are 3 to 12 times higher than those of other Southeast Asian pension schemes; the GSIS costs are even higher. The SSS contribution for their employees' enrolment is smaller compared to the employees' enrollment in GSIS. The GSIS and SSS contributions to their respective provident funds are 40-45% of the salaries, wherein in SSS, account for administrative costs is 39%.

SSS and GSIS should provide annually the total number of employees disaggregated by employment status, whether regular or contractual, whereas the latter will gradually be eliminated. Cuts are needed in SSS, especially in GSIS, through reduction in the number of personnel in the latter in order to further increase efficiency in both. The current legal percentages for administrative expenses should be reduced. SSS employees should be covered by that scheme. The employee's contribution to the provident fund should be significantly increased from the current 5% to reduce both the SSS/GSIS contribution and administrative costs or to reconsider the viability of the provident funds. Principles of transparency and accountability must be respected. An annual auditing of all pension schemes should be effectively conducted.

3. Social representation. Workers and employers are a tiny minority in most boards/commissions; but, in SSS, they are the majority, and include one woman. The President of the Republic appoints all members, including workers and employers representatives, where the criterion was predominantly political connection rather than technical expertise and knowledge. Experts recommend that such practice be halted. Workers and pension beneficiaries who paid contributions should have majority representation in the board of GSIS and other schemes. The election of workers and employers representatives must be done in a democratic manner taking into account their management skills, government and political intrusion should not allowed.[76] Informal workers should be represented in the SSS Commission and in the GSIS Board; more women must be in the latter. Greater accountability ought to be demanded from workers' and employers' representatives. A recall system has been introduced so that the president and the representatives failing to comply with their duties are replaced. Members of the commissions/boards should have legal fiduciary responsibility to make exclusive decisions focusing on the interest of members. Strict rules should be implemented to prevent conflict of interest and to ensure financial disclosure, accountability and transparency.

Financial Sustainability

1. Contributions. An improvement has been achieved in the creation of innovative channels and agencies to collect contributions from informal workers, domestic helpers and similar groups. Contributions paid by employers are mandated in all schemes and the worker should not pay more than 50% of the total. The employer actually pays 68% in SSS and 57% in GSIS. The approval of the 11% increase in SSS contribution and of the maximum MSC to PhP20,000 would expand the life of the fund, as well as other additional gradual increments that were recommended in the 2007 actuarial valuation.

The current contribution rate is higher compared to other countries that are more developed. Furthermore, increasing the contribution may create disincentives for affiliation, may expand evasion and payment delays, may raise barriers for the incorporation of informal workers, and may increase costs of hiring workers by enterprises; hence, prudence must be exercised in scaling up the contributions.[77] Priority should be given to increase or to eliminate the SSS salary ceiling for contributions; GSIS does not have such ceiling. The SSS ceiling is relatively low but it would have progressive effects. A reform of the tax system could be studied to improve collection efficiency, to reduce regressive effects and to widen the state capacity to fund programs in order to fight poverty, which must not be financed by the social insurance pension funds.

[76] Employers have only one association (ECOP). It facilitates the election of representatives because ECOP is recognized by the ILO (Palileo, 2011-I).Workers have three federations (APL, FFW and TUCP) making the process more complex. The one that is recognized by the ILO usually makes the selection.

[77] Trade union confederations and the employer federation oppose an increase in the contribution. They are more favorable to have a raise in the salary ceiling (Edralin, 2011-I; Bagtas, 2011-I; Palileo, 2011-I) or to have higher contributions to those with salaries over PhP 20,000 (TUCP, 2009).

Employers and employees on all separate schemes must pay contributions, set by actuarial valuation, in order to make their benefits financially and actuarially sustainable.

2. Reassigning fiscal subsidies. Own-account workers, spouses of working members and similar groups are charged by a percentage contribution which is thrice as high as those paid by salaried employees. Based on an actuarial study, subsidies from the national and local governments should be granted to low-income informal workers, to self-employed workers and to other groups lacking an employer. A full or partial replacement of the employers' contribution would reduce the current heavy rate of 10.4%. It is charged to such groups to stimulate affiliation and to expand affective coverage. The actual cost of all pensions is 1.3% of GDP, whereas the ILO calls for 6% to achieve universal coverage by 2015, even in low-income countries.

The state should explore new sources of revenue or initiate tax reforms to finance both the non-contributory pension and the subsidies in order to incorporate those excluded low-income informal workers, as well as to help cope with potential financial deficit when population aging accelerates in the immediate future. Regressive subsidies on higher education, housing and other goods/services that favor middle-and-high-income groups should be eliminated. The saved resources should be shifted to help the poor. There should be a reassignment of the part of the current expenditure of PhP 29,011 million on non-contributory pensions for separate groups with middle and high income, vis-à-vis PhP830 million on non-contributory pensions for the elderly. These are towards the expansion of coverage of informal workers and to the social pension for all the elderly poor. These actions would create a more equitable and progressive social security system and society.

3. Strengthening compliance. In SSS, only 33.5% of the members, 35% of the employers and 20% of the self-employed contribute. There is no data available for GSIS. This data should be provided by GSIS. Although figures on SSS members are inflated and both institutions have taken measures to improve compliance-- the new joint ID--there is still ample space to enforce the law and to strengthen the monitoring of evasion and payment delays, especially in SSS subdivisions/branches, and in medium and small enterprises. In GSIS, out of all suspended non-compliant agencies in 2010 (owing contributions and penalties seven times the sum due to SSS) only 22% signed payment agreements and nine of them were defaulted. Several measures were suggested to cope with non-compliance.

Collection of SSS and GSIS contributions and monitoring of compliance should be done by a single agency in order to cut the costs, based on economies of scale. Banks and other entities must comply with SSS rules and guidelines, particularly with regards to acceptance of minimum payments. Both schemes should exchange data with state tax-collection agencies and DOLE, should increase the number of inspectors, should impose stronger sanctions on those who fail to comply, should execute more suspensions of delinquent agencies (in GSIS, should), impose longer prison terms and bigger fines, should simplify/shorten the collection process, and should publicly reveal delinquent employers, agencies and officials. The Labor Code stipulates that workers who denounce evasion or payment delays from their employers should be effectively protected against dismissals or reprisals. Unions have demanded to be active partners in order to discourage delinquent employers. This offer should be taken.

In SSS and GSIS, fines for non-compliance were legally set 14 years ago and their real values have decreased with inflation and are, now, too low. It would be better to fix fines as a percentage of the outstanding debt (for instance, ECC monthly charges 3% of the sum owed from the date the remittance is due); also, interest charged for non-compliance is set in nominal terms and the law should instead fix it, adjusted to inflation. Collecting procedures are cumbersome and protracted for years. Establishing special courts on labor and social security issues (like in Singapore and Chile) would expedite the process of law enforcement, sanction of delinquent employers and officers, and collection of the money owed. Amnesties do not seem to deliver very good results and condone penalties to delinquent employers; hence, a professional assessment should be conducted to ascertain if it is worthwhile to continue such practice. Educational campaigns or public outreach activities (as in Japan) should be done to explain the importance of compliance for members, the pension scheme and society as a whole.

4. Financial balance. SSS and GSIS rely on a collective partially-funded method that is in equilibrium for a given period; then, the fund accumulates reserves until expenditures exceed income, generates a deficit and eventually depletes the fund. Based on total revenue minus total expenditures, both schemes generated a rising financial surplus in the period, increasing as percentage of GDP in SSS and decreasing in GSIS, still the latter surplus in 2010 was 1.6 times bigger than the former but rapidly closing the gap. Based on contributions and benefits alone, SSS endured a deficit in 2000-2004, met with capital returns, but converted it in surplus since 2005 by raising the contribution and the minimum and maximum AMSC. Despite the crisis, the surplus in 2008 in both schemes peaked but it took a toll in 2009. The recovery in 2010 helped increase the SSS surplus but that of the GSIS further shrank. Several policies are suggested below to maintain a surplus and to postpone the year of the deficit.

5. Reserves and capital returns. The value of the reserves in absolute terms increased in both schemes. As the percentage of GDP rose in GSIS, that of the SSS fell and became stagnant, almost half of the GSIS level in 2010, having the values of 6.2% and 3.4% respectively. The investment share of total revenue decreased in SSS and increased in GSIS, 26% and 36% in 2010, respectively. This is due to the latter's better performance on capital returns (ROI), both overall and by key instrument, essential to finance a major share of pensions in the long run. Nominal ROI was augmented in both schemes until the 2009 crisis. The real ROI, which is adjusted for inflation, has oscillated even though it is steadily positive in GSIS and negative in SSS for two years. The ten-year average real annual nominal ROI was 8.4% in SSS and 10.2% in GSIS, whereas the real ROI averaged 3.3% and 5.1% respectively. Both ROI were lower compared to other Asian countries. The SSS average nominal ROI in 1975-2007 was also lower than the 91-day T-Bill and the Phisix Return averages. The SSS actual nominal ROI average was lower than that of the ROI fixed by actuarial valuations to maintain the life fund. On the other hand, the GSIS actual ROI in 2009-2010 was also lower than the set in the 2010 valuation. Since the inception of the schemes, the SSS and the GSIS actuarial valuations lack estimates of average long-term real capital returns.

SSS and GSIS should estimate a real ROI annually and a cumulative average from the inception of the schemes to detect trends. The actuarial valuations should set ROI in real terms based in alternative inflation scenarios. SSS must increase the actual nominal ROI by 2.2 percentage points to meet the required 10.6% set in the 2007 valuation in order to maintain the fund life until 2039. GSIS should increase the actual nominal ROI above its 2009-2010 level to meet the 9% ROI set in the

2010 valuation so as to maintain the fund life to 2051. SSS must increase real ROI in key instruments. The trends in financial balances, reserves and real ROI indicate that both schemes may face financial difficulties in the future, which, in the long run, would demand better performance and/or parametric reforms.

6. Portfolio composition. Portfolio composition partly determines capital returns. Although the law is not strictly comparable, SSS excludes government and government-guaranteed debt instruments from the legal maximum imposed on the other instruments; whereas, GSIS sets a maximum of 60% to government securities and labels them with “risk-free.” Loans of diverse types, including housing, salary, development, education, and calamities, have a *minimum* of 40% in GSIS, whereas it is a maximum in SSS allotting the 35% in housing and 10% in loans of members. Most loans had very low or negative returns until stricter rules were recently implemented. Stocks comprise a maximum of 20% in GSIS and mutual funds have 20% in SSS, whereas foreign mutual funds have 2.5% and 7.5% respectively. In SSS, investment in foreign instruments never materialized; whereas, it briefly did in GSIS before the crisis. Political intrusion in investment was common in all schemes but they seem to be less now. Portfolio composition in 2010 showed that government securities had the highest share, 38% in SSS and 40% in GSIS, declining in the former and increasing in the latter. Loans were the second highest share, with 27% and 32%, declining in both schemes. Equities were the third, with 30% and 20%, respectively; however, it is sharply increasing in SSS and declining in GSIS. Real estate was small in both. The combined share of government securities and loans was 65% in SSS and 72% in GSIS, whereas the equity share was only 30% and 20%, respectively. The SSS portfolio appeared less concentrated as compared with the GSIS, but the latter’s real ROI averaged 1.8 points higher, reflecting a better performance virtually in all instruments. Perhaps, it is due to its entrusting the investment management to specialized financial groups. Portfolio composition in AFP-RSBS was very different. It was 58% in real estate, which mostly covered the AFP buildings and facilities, 22% in equities, 12% in industrial park leases and only 8% in loans.

The ISSA (2004) guidelines for investment of social insurance funds should be followed, including further portfolio diversification. The SSS 2007 actuarial valuation recommended moving away from subsidized loans towards equities. This recommendation was partly followed by both schemes. In SSS, legal limits should be imposed on government and government-guaranteed debt instruments. Rules on loans have been tightened and interest rates have been increased. Still, it is advisable that an external independent professional evaluation determine if investment on all loans is financially profitable, specifically the recovery rate of loans and if the interest rates are indeed below the market rates. If the evaluation result is negative, the current loan shares of 27% in SSS and 32% in GSIS should be further reduced or eliminated. In all cases, the *minimum* 40% investment in GSIS should be eliminated. The HDMF and other government financial and banking corporations should be fully entrusted with lending. GSIS loans to the government and public institutions should be terminated. Financing or providing direct aid to educational and health institutions, as well as loans for construction of low-cost housing, should be banned because these activities should be fully funded by the state. A wide educational campaign could explain the rationality of that policy to members and employees. Their short-term needs, such as coping with emergencies or acquiring homes, would not be met due to the cost of sacrificing the fundamental objective of a pension program, which is to pay decent pensions.

The domestic capital market is small, illiquid and underdeveloped; whereas, investments in foreign instruments have low caps and have been tagged unpatriotic or resisted with the argument that GSIS had losses during the global financial crisis. These are the problems that explain the high concentration on public debt and loans. Profitable investment in domestic equities should be promoted but this requires an expansion of instruments, which in turn demands greater financial sector development. Investment on infrastructure could be tested by starting with small amounts, under careful regulation and monitoring of its results before expansion. The global economic recovery has been weak. Financial markets remain highly volatile, which reflects a possibility of another financial crisis. But the lessons show that pension portfolio diversification, including investment in foreign instruments, pays in the long run. In case of a second recession, a drastic shift towards very low-risk instruments should be avoided because it would affect the long-term capital returns. The SSS acting actuary is favorable to cautious foreign investment, particularly in emerging markets that have not been affected by the global protracted recession. It is suggested that SSS invest in foreign instruments up to the legal maximum, carefully assess the results and, if positive, gradually raise the ceiling. The new GSIS investment guidelines ratify direct investment in foreign emissions but also allow debt issue guaranteed by foreign governments.

Outsourcing investment management to qualified and reliable companies has been recommended by experts and in actuarial valuations and has been proven to be positive in the GSIS; hence, should also be considered by the SSS, provided that such companies are submitted to strict regulation, monitoring and auditing. Another alternative would be to create, in each scheme, an independent professional investment board, regulated by law, whose members would be chosen based on their experience and merit.

Investment of reserves should be made more transparent by publishing periodical statements on the distribution of the portfolio by instrument in GSIS. The *real* capital return of each instrument in both SSS and GSIS should be published to allow a better evaluation of their profitability, public discussions and potential changes, including those suggested on lending.

7. Aging and ratio of contributors to one pensioner. As a result of population aging and growing maturity of the pension system, the ratio of contributors to one pensioner dwindled from 8.8 to 6.3 in SSS and from 9.8 to 4.7 in GSIS. The cause of the difference is the expanding contributors in the former versus the stagnant contributors in the latter. An effective extension of coverage in SSS would halt and would even reverse that trend, which is something more difficult in GSIS.

8. Actuarial valuations. There are reforms introduced during the first decade of the 21st century which prolonged the life of the SSS fund. However, the 2007 actuarial valuation realistic scenario projected the financial deficit in 2030 and the fund depletion in 2039. To improve the life span of the fund, the said valuation made several recommendations: a) increase the contribution rate to 11% in 2011 (expected at the end of 2011), 12% in 2016 and 13% in 2021; b) raise the minimum AMSC to PhP 3000 in 2011, PhP 4,000 in 2016, and PhP 5,000 in 2021, as well as the maximum AMSC to PhP20,000 in 2011 (already approved), PhP 25,000 in 2016 and PhP 30,000 in 2021; c) improve the contribution collection and the employer compliance (aiming at 12 monthly contributions yearly) with strengthened inspection, stricter enforcement of sanctions, cross-data with the Bureau of Internal Revenue (BIR) and local governments, and better information system; d) tighten qualifications for eligibility of pensions, increasing gradually the number of years of contri-

butions (from 12 to 18 in ten years) and requiring recent payments for disability and death benefits; e) gradually raise the retirement age according to life expectancy; and f) maximize the investment yield, moving further away from subsidized member loans toward high-yielding equities, and more effective loan administration. These measures should be implemented, a couple of them are already in process, and, if done, might allow the periodical adjustment of pensions to the CPI, which would have a previous actuarial verification. The actuarial valuation was finished at the end of 2007 but it has not been officially presented to the SSS Commission, for almost four years; while, the 2011 valuation is now in the process. The SSS law should be amended to mandate actuarial valuations from every four years to annually (as in GSIS). The actuarial valuation should be promptly and officially presented to the Commission.

Since 2004, GSIS has conducted internal actuarial valuations. It showed that in 2004-2008, the year of the financial deficit was postponed from 2016 to 2035; whereas, the life of the fund was extended from 2026 to 2064. However, the latest actuarial report (2010 with 2009 data) projected six years earlier in the financial deficit (from 2035 to 2029). It was 13 years shorter in the fund life (from 2064 to 2051). This is officially explained by the exclusion and subsequent re-inclusion of employed survivor pensioners in the projections. Such explanation appeared to be insufficient for a significant cut in the fund life. The 2011 valuation should have this checked and should offer recommendations to cope with the problem.

The latest actuarial valuation in SSS was based on the 2006 data; hence, it could not take into account the global financial crisis' adverse effects in 2008-2009. Therefore, SSS should rapidly complete the actuarial valuation of 2011 and should submit it to the Commission, so it could assess the potential impact of the crisis on actuarial equilibrium and to implement the needed adjustments. The GSIS actuarial valuation of 2010 must have taken into account the crisis' effects because it was based on the 2009 data; however, it says nothing about the matter. The 2011 valuation, which is in the process, should consider the following: (a) the doubts explained on the three key assumptions of the projections done in 2010 that might shorten the year of the deficit and the life fund; (b) an evaluation of the potential impact on capital returns of the change in investment policy guidelines; (c) measures to avoid a severe deterioration in the real value of pensions, and; (d) the identification of the data problems confronted and recommended steps to cope with them. Actuarial studies should include an understandable summary of the current system status and alternative recommendations for public scrutiny and debate. The successful wide public diffusion of the SSS 1999 valuation is an example to follow.

The State Insurance Fund (SIF), managed by SSS and GSIS, reports annually to the ECC on contribution revenue and benefits. It reported that there was a deficit, half of the time in the last decade. The reports did not provide data on investments and reserves. The latest actuarial valuation of the ECC in SSS, done in 1995, projected the life of the SIF to 2026 or 2027. The GSIS valuation of 2010 failed to project the year of the deficit and the fund depletion. It is not clear if the legal mandate that the SIF is used only for ECC benefits is fully honored. There is an incongruity that should be corrected: SSS maximum contribution payment is 10% of that of GSIS but some benefits are more than twice higher in the former than in the latter. It is recommended that the SIF is separated from other SSS and GSIS programs funds; and annual reports include full information on SIF contributions, benefits, investments and reserves. Furthermore, overall actuarial valuations in both schemes should include a separate and thorough evaluation of SIF and proposed measures.

Proposed reforms on the AFP-RSBS pension systems are positive and should reduce costs, but are insufficient. The GSIS actuary calculated as 52% of the needed contribution to sustain the current scheme without reforms (but including a 2% annual increase in pensions), twice the proposed contribution of 25%. Therefore, there must be further tightening of entitlement conditions and benefits by: a) raising the age of retirement from the proposed 58 to 60 and eliminate retirement based on 30-36 years of service regardless of age (maintain age 60 plus 25 years of service); b) calculating the pension based on a salary average of the last five years instead of the last salary; c) changing the current automatic pension indexation to salary of active personnel by annual adjustment to CPI (the proposed AFP-RSBS modest reform on indexation would cut the contribution from 52% to 45%); and d) closing the provident fund for future entrants and transfer its 5% contribution to the pension fund.

Projected costs of pensions of uniformed personnel, including AFP-RSBS but excluding justices/judges, jumped from PhP68.8 billion to PhP111 billion in 2006-2013. This is also unsustainable, demanding similar restrictions in the generous entitlement conditions/benefits and establishing adequate contributions to members.

It is suggested that an agreement be signed with the ILO Actuarial Division in Geneva (via the Philippines country office in Manila), which counts with experts on actuarial science with long experience in developing countries including Asia, for two purposes: revise the 2011 actuarial valuations from SSS and GSIS, and develop and train local personnel on a simulation program to project outcomes of potential reforms on entitlement conditions and benefits, as well as to estimate the needed contribution to maintain long-run financial and actuarial equilibrium

A Final Observation

All previous recommendations should be submitted to a national commission with adequate representation from members (including women and informal workers), employers, pensioners, the SSS, GSIS, AFP-RSBS and other separate schemes, as well as government pertinent agencies and prominent experts, for their discussion and eventually a consensus. This is in order for the commission to submit a report to the Executive and the Congress on the agreed-upon reforms. If this is achieved and reforms are approved, the Philippine pension system would be more integrated, extend real coverage, improve benefits, infuse more social solidarity and gender equity, raise efficiency and social representation, reduce administrative costs, and reinforce financial-actuarial sustainability. The nation, workers and pensioners would be the greatest beneficiaries of these reforms.

APPENDICES

1. Economically Active Population, Employment and Unemployment, 1987-2010
(In thousands except rates)

ear	EAP	Employed	Employment Rate (%)	Unemployed	Unemployment Rate (%)
1987	23,066	20,833	90.4	2,233	9.7
1988	23,449	21,205	90.4	2,244	9.6
1989	24,120	21,908	90.8	2,212	9.2
1990	24,244	22,212	91.6	2,032	8.4
1991	25,631	22,914	89.4	2,717	10.6
1992	26,290	23,696	90.1	2,594	9.9
1993	26,879	24,382	90.7	2,497	9.3
1994	27,654	25,032	90.5	2,622	9.5
1995	28,380	25,676	90.5	2,704	9.5
1996	29,733	27,186	91.4	2,547	8.6
1997	30,355	27,715	91.3	2,640	8.7
1998	31,056	27,913	89.9	3,143	10.1
1999	32,081	29,980	90.3	3,101	9.7
2000	30,911	27,453	88.8	3,458	11.2
2001	32,809	29,156	88.9	3,653	11.1
2002	33,936	30,062	88.6	3,874	11.4
2003	34,571	30,635	88.6	3,936	11.4
2004	35,862	31,613	88.2	4,249	11.8
2005	[a]	32,313	[a]	[a]	[a]
2006	35,786	32,961	92.1	2,825	7.9
2007	36,213	33,560	92.7	2,653	7.3
2008	36,805	34,089	92.6	2,716	7.4
2009	37,892	35,061	92.5	2,831	7.5
2010	38,894	36,035	92.6	2,859	7.4

[a] Employment and unemployment figures for 2005 and thereafter are not comparable to earlier years due to a new unemployment definition since 2005.

Source: Based on BLES, 2005, 2010a, 2011a.

2. Employed EAP by Type of Worker, 1980-2010 *(in thousands)*

Year	Formal			Informal					
	Public Sector [b]	Private Sector [a]	Total [c]	Self-employed	Employer	Unpaid Family Work	Private Household	Paid Family Operated Activity	Total [d]
1980				6,266		3,415			9,681
1981				6,668		3,618			10,286
1982				6,856		3,843			10,699
1983				7,226		3,826			11,052
1984				7,365		3,103			10,468
1985				7,716		3,235			10,951
1986				8,140		3,549			11,689
1987	1,705	7,431	9,136	7,419	671	3,609			11,699
1988	1,711	7,851	9,562	7,533	568	3,543			11,644
1989	1,846	8,259	10,105	7,758	654	3,391			11,803
1990	1,908	8,198	10,106	7,895	719	3,433			12,047
1991	1,866	8,598	10,464	8,183	741	3,525			12,449
1992	1,878	8,771	10,649	8,709	769	3,569			13,047
1993	1,901	8,887	10,788	9,002	731	3,861			13,594
1994	1,903	9,421	11,324	8,971	792	3,946			13,709
1995	2,041	9,829	11,870	9,111	894	3,801			13,806
1996	2,079	10,571	12,650	9,330	996	4,211			14,537
1997	2,138	11,323	13,461	9,348	1,004	3,902			14,254
1998	2,186	11,493	13,679	9,450	1,017	3,766			14,233
1999	2,243	11,889	14,132	9,360	1,432	4,056			14,848
2000	2,268	11,657	13,925	8,868	1,315	3,344			13,527
2001	2,337	12,102	14,439	9,375	1,552	3,792			14,719
2002	2,378	12,275	14,653	9,737	1,662	4,009			15,408
2003	2,367	11,294	13,661	9,912	1,605	3,765	1,553	139	16,974
2004	2,420	12,552	14,972	10,011	1,604	3,527	1,371	129	16,642
2005	2,454	12,261	14,715	10,584	1,520	3,893	1,474	128	17,599
2006	2,533	12,489	15,022	10,667	1,467	4,038	1,640	127	17,939
2007	2,623	12,950	15,573	10,570	1,430	4,052	1,738	153	17,943
2008	2,723	13,283	16,006	10,654	1,427	4,162	1,736	106	18,085
2009	2,866	13,824	16,690	10,724	1,438	4,218	1,880	110	18,370
2010	3,025	14,566	17,591	10,858	1,393	4,157	1,925	111	18,444

[a] Private sector in 2003 to 2010 excludes private households and paid family operated activity. Private sector in 1980-2002 includes private household and paid family operated activity. [g] government and government corporations. [c] Total formal workers from 1980 to 2002 includes workers in private households and paid family operated activity. [d] Total informal workers from 1980 to 2002 excludes workers in private households and paid family operated activity.
Source: Based on BLES, 1995- 2000, 2005, 2010a, 2011a.

3. SSS Active Contributors by Type of Worker, 2000-2010

Year	Employed	Self-Employed	Voluntary	OFW	Total
2000	5,519,471	1,007,051	335,645	89,199	6,951,366
2001	5,491,108	968,968	437,171	87,652	6,984,899
2002	5,587,965	922,693	611,640	92,683	7,214,981
2003	5,686,234	826,360	713,906	99,052	7,325,552
2004	5,891,519	719,309	774,423	111,533	7,496,784
2005	6,054,166	692,993	769,854	111,782	7,628,795
2006	6,326,931	662,379	870,419	141,086	8,000,815
2007	6,591,819	631,709	940,879	158,302	8,322,709
2008	6,882,926	663,728	1,126,688	188,983	8,862,325
2009	6,870,556	658,459	1,264,931	217,953	9,011,899
2010	7,373,436	690,409	1,347,901	247,587	9,659,333

Source: SSS, 2011d.

4. Population Poverty Magnitude by Group, 2000-2010

Year	Women	Elderly	Formal & Migrants	Farmers	Fisherman
2000	12,227,315	1,277,139	2,622,324	2,431,995	450,020
2003	11,602,634	969,906	2,886,445	2,027,689	440,579
2006	12,806,177	1,297,159	3,229,424	2,095,646	482,477

Source: Based on NSCB, 2011b.

5. Population Poverty Magnitude and Incidence by Region, 2003, 2006, 2009

Region	Magnitude of Poor Population			Poverty Incidence Among Total Population (%)			
	2003	2006	2009	1991	2003	2006	2009[d]
NCR [a]	346,747	594,368	447,891	7.6	3.2	5.4	4.0
Region IV-A	1,244,809	1,303,044	1,566,359	24.8	12.1	12.3	13.9
Region III	1,084,339	1,406,844	1,457,004	21.8	12.4	15.2	15.3
Region II	528,493	563,902	545,053	30.6	19.6	20.0	18.8
CAR [b]	299,757	338,270	346,193	37.3	21.7	23.0	22.9
Region I	953,379	1,192,868	1,085,078	34.6	22.8	26.6	23.3
Region VI	1,855,768	1,848,604	2,113,255	42.1	30.6	28.6	31.2
Region XI	1,202,478	1,258,629	1,278,985	39.3	31.0	31.7	31.3
Region IV-B	906,572	1,122,040	980,542	43.8	37.5	42.2	35.0
Region VII	2,175,266	2,425,645	2,368,361	42.4	37.2	38.8	35.5
Region XII	1,137,167	1,203,715	1,332,061	50.4	33.1	33.1	35.7
Region X	1,382,699	1,529,932	1,586,668	45.3	38.8	39.7	39.6
Region VIII	1,416,548	1,565,067	1,731,617	45.1	37.6	39.0	41.4
Region IX	1,325,790	1,273,852	1,361,287	35.8	45.7	39.8	43.1
Region V	2,200,436	2,335,684	2,422,267	54.6	45.8	45.2	45.1
ARMM [c]	816,040	1,232,152	1,388,856	21.5	31.4	42.8	45.9
Caraga	920,666	978,574	1,131,004	45.0	44.7	44.0	47.8
Totals/Average	19,796,954	22,173,190	23,142,481	33.1	24.9	26.4	26.5

[a] NCR = National Capital Region. [b] CAR = Cordillera Administrative Region. [c] Autonomous Region of Muslim Mindanao. [d] Regions ranked from lower to higher incidence in 2009.

Source: Based on NSCB, 2011b.

6. Number of Pensioners by Type of Pension in SSS and GSI, 2000-2010

Year	SSS					GSIS				Total
	Old Age	Disability	Survivors	EC [a]	Sub-Total	Old Age	Disability	Survivors	Sub-Total[b]	
2000	358,826	59,903	353,948	17,153	789,830	104,884	1,677	55,639	162,200	952,030
2001	387,756	64,033	384,619	18,014	854,422	108,098	2,063	61,435	171,596	1,026,018
2002	418,936	66,985	419,230	18,975	924,126	119,268	2,645	68,720	190,633	1,114,759
2003	453,701	64,014	456,016	19,308	993,039	120,105	2,794	70,702	193,601	1,186,640
2004	478,568	64,601	441,761	17,820	1,002,750	130,507	3,015	78,646	212,168	1,214,918
2005	507,542	57,376	490,068	18,350	1,073,336	127,973	3,060	82,717	213,750	1,287,086
2006	550,380	56,918	527,729	23,978	1,159,005	139,681	3,114	81,897	224,692	1,383,697
2007	596,776	57,612	575,298	19,094	1,249,191	149,271	3,062	64,700	217,033	1,466,224
2008	642,819	58,346	609,574	19,051	1,330,223	178,851	3,354	81,418	263,623	1,593,846
2009	697,779	58,786	651,684	19,349	1,428,059	188,485	3,006	87,520	279,011	1,707,070
2010	757,289	60,968	698,463	19,594	1,536,807	198,106	3,262	91,921	293,289	1,830,096

[a] EC=Employees' Compensation, not available in GSIS. [b] The actual subtotal should be higher because excludes EC pensioners.

Source: Based on SSS, 2007b, 2011d; GSIS, 2011a, 2011c.

7. Annual Expenditures on Pensions in SSS and GSIS, 2000-2010 (million PhP)

Years	Old-age	Disability	Survivors	EC	Total
SSS					
2000	12,241	1,899	9,219	695	24,054
2001	13,650	2,103	10,694	772	27,219
2002	14,845	2,218	11,727	817	29,607
2003	15,946	2,190	12,682	836	31,654
2004	17,041	2,146	13,503	831	33,521
2005	18,069	2,053	14,083	815	35,020
2006	20,026	2,047	15,292	824	38,189
2007	24,638	2,300	18,686	825	46,449
2008	27,952	2,337	21,201	842	52,333
2009	29,910	2,320	22,320	845	55,395
2010	32,023	2,386	23,810	856	59,075
GSIS					
2000	6,516	181	1,476	729	8,902
2001	7,252	278	2,493	768	10,793
2002	8,352	137	2,478	763	11,730
2003[a]	7,433	75	2,348	532	10,388
2004	10,862	100	2,529	556	14,047
2005	11,643	58	2,733	560	14,994
2006	12,677	81	2,757	174	15,689
2007	13,914	79	2,834	66	16,893
2008	16,948	42	2,685	47	19,722
2009	18,750	120	3,183	65	22,118
2010	21,312	146	3,869	31	25,358

[a] The decline in this year is due to cleaning of members' list and reconciliation of records.

Source: Based on SSS, 2011d; GSIS, 2011a.

8. Average Nominal Monthly Pension Per Pensioner in SSS and GSIS, 2001-2010 (in PhP)

Year	Old-age		Survivorship		Disability		EC
	GSIS	SSS	GSIS	SSS	GSIS	SSS	(SSS)
2000	5,177	2,842	2,210	2,170	8,864	2,641	3,376
2001	5,590	2,933	3,382	2,376	11,230	2,737	3,511
2002	5,835	2,952	3,004	2,331	4,316	2,759	3,588
2003	6,189	2,929	2,767	2,317	2,237	2,851	3,608
2004	6,935	2,967	2,680	2,547	2,764	2,793	3,886
2005	7,582	2,966	2,753	2,395	1,580	2,981	3,701
2006	7,563	3,032	2,805	2,398	2,168	2,968	3,633
2007	7,768	3,440	3,650	2,705	2,150	3,327	3,593
2008	7,897	3,624	2,748	2,898	1,043	3,338	3,676
2009	8,290	3,572	3,031	2,852	3,326	3,289	3,632
2010	8,965	3,524	3,508	2,834	3,729	3,261	3,633

Source: Authors' estimates based on Appendices 6 and 7.

9. Average Real Monthly Pension per Pensioner in SSS and GSIS, 2000-2010 (in PhP)

Year	Old-age		Survivorship		Disability		EC
	GSIS	SSS	GSIS	SSS	GSIS	SSS	SSS
2000	5,177	2,842	2,210	2,170	8,864	2,641	3,376
2001	5,234	2,746	3,167	2,225	10,515	2,563	3,287
2002	5,305	2,684	2,731	2,119	3,924	2,508	3,262
2003	5,438	2,574	2,431	2,036	1,966	2,505	3,170
2004	5,750	2,460	2,222	2,112	2,292	2,316	3,222
2005	5,841	2,285	2,121	1,845	1,217	2,297	2,851
2006	5,484	2,199	2,034	1,739	1,572	2,152	2,635
2007	5,478	2,426	2,574	1,908	1,516	2,346	2,534
2008	5,095	2,338	1,773	1,870	673	2,154	2,372
2009	5,181	2,233	1,894	1,783	2,079	2,056	2,270
2010	5,397	2,122	2,112	1,706	2,245	1,963	2,187

Source: Authors estimates based on Appendix 8 and IPC.

10. Membership based on Gender and Income in GSIS, 2000, 2005, 2010

Income Bracket	2000			2005			2010		
	Female	Male	Total	Female	Male	Total	Female	Male	Total
< 1000	2,538	2,403	4,941	294	202	496	13	7	20
1,000-1,249.99	1,440	1,434	2,874	209	193	402	16	10	26
1,250-1,749.99	1,078	873	1,951	1,005	341	1,346	113	124	237
1,750-2,249.99	1,233	1,582	2,815	200	206	406	24	7	31
2,250-2,749.99	1,575	2,095	3,670	361	400	761	21	9	30
2,750-3,249.99	2,603	2,986	5,589	644	803	1447	80	64	144
3,250-3,749.99	4,283	6,507	10,790	1,567	2,384	3,951	259	279	538
3,750-4,249.99	6,447	10,590	17,037	3,394	5,346	8,740	647	835	1482
4,250-4749.99	10,808	20,021	30,829	5,854	9,706	15,560	1,259	1,701	2,960
4,750-5,249.99	19,427	38,147	57,574	19,490	37,934	57,424	2,534	3,821	6,355
5,250-5,749.99	13,704	28,663	42,367	11,412	22,924	34,336	3,097	5,026	8,123
5,750-6,249.99	28,410	46,570	74,980	19,222	40,420	59,642	8,397	14,457	22,854
6,250-6,749.99	17,546	25,330	42,876	23,297	34,134	57,431	6,503	11,122	17,625
6,750-7,249.99	19,545	26,058	45,603	16,200	27,888	44,088	10,041	17,127	27,168
7,250-7,749.99	15,424	14,889	30,313	16,814	19,006	35,820	12,122	25,513	37,635
7,750-8,249.99	14,038	15,221	29,259	20,436	20,981	41,417	12,869	25,107	37,976
8,250-8,749.99	27,117	22,202	49,319	17,401	16,526	33,927	11,966	22,173	34,139
8,750-9,249.99	17,790	11,711	29,501	14,652	11,006	25,658	12,211	20,600	32,811
9,250-9,749.99	136,595	34,122	170,717	17,639	13,902	31,541	14,962	20,454	35,416
9,750-10,249.99	83,838	24,742	108,580	133,513	35,470	168,983	15,824	19,230	35,054
10,250-10,749.99	78,972	21,244	100,216	92,072	25,827	117,899	11,781	15,533	27,314
10,750-11,249.99	41,013	12,669	53,682	88,028	24,052	112,080	16,021	14,289	30,310
11,250-11,749.99	35,190	11,308	46,498	51,411	12,163	63,574	11,923	11,759	23,682
11,750-12,249.99	15,877	7,582	23,459	42,197	13,039	55,236	13,252	9,534	22,786
12,250-12,749.99	17,002	9,745	26,747	21,504	7,699	29,203	14,311	12,285	26,596
12,750-13,249.99	9,505	5,583	15,088	7,679	2,947	10,626	8,640	5,401	14,041
13,250-13,749.99	23,017	11,369	34,386	18,925	11,120	30,045	12,255	7,761	20,016
13,750-14,249.99	19,455	10,756	30,211	22,239	9,273	31,512	20,168	9,370	29,538
14,250-14,749.99	7,559	4,795	12,354	12,845	7,603	20,448	16,219	8,244	24,463
>= 14750	87,657	83,905	171,562	127,819	108,966	236,785	606,675	236,985	843,660
Total	760,686	515,102	1,275,788	808323	522461	1,330,784	844203	518827	1,363,030

Source: GSIS-ITSG, 2011.

11. Contribution Revenue, Benefit Expense and Balance in SSS and GSIS, 2000-2010 (in million PhP)

Year	SSS			GSIS		
	Contribution Revenue	Benefit Expense	Balance	Contribution Revenue	Benefit Expense	Balance
2000	30,321	33,889	-3569	34,562	18,225	16,337
2001	31,372	39,015	-7643	36,560	22,881	13,679
2002	34,188	40,872	-6684	38,596	25,981	12,615
2003	39,420	42,806	-3386	39,129	28,044	11,085
2004	43,936	44,883	-947	39,508	32,264	7,244
2005	47,483	46,270	1214	39,765	33,098	6,667
2006	52,544	52,122	422	38,593	32,672	5,921
2007	61,829	60,747	1083	39,938	34,496	5,442
2008	68,879	67,917	962	44,048	36,857	7,191
2009	72,351	72,050	301	49,012	39,701	9,311
2010	79,270	77,170	2100	56,213	45,027	11,186

Source: Based on SSS, 2001a-2011a; GSIS, 2011a.

12. Total Revenue Disaggregated by Contribution and Investment Revenue in SSS and GSIS, 2000-2010 (in million PhP and percentages)

Year	Total Revenue		Contribution Revenue		Investment Revenue		Contribution/ Total Revenue (%)		Investment / Total Revenue (%)	
	SSS	GSIS	SSS	GSIS	SSS	GSIS	SSS	GSIS	SSS	GSIS
2000	42,662	46,725	30,321	34,562	12,341	12,092	71.1	74.0	28.9	25.9
2001	45,611	50,109	31,372	36,560	14,239	13,472	68.8	73.0	31.2	26.9
2002	45,893	57,237	34,188	38,596	11,705	19,341	74.5	67.4	25.5	33.8
2003	52,184	65,667	39,420	39,129	12,763	18,880	75.5	59.6	24.5	28.8
2004	52,789	66,472	43,936	39,508	8,853	26,805	83.2	59.4	16.8	40.3
2005	59,800	70,932	47,483	39,765	12,316	30,978	79.4	56.1	20.6	43.7
2006	64,652	74,816	52,544	38,593	12,108	35,352	81.3	51.6	18.7	47.3
2007	79,699	76,517	61,829	39,938	17,870	34,709	77.6	52.2	22.4	45.4
2008	97,968	91,099	68,879	44,048	29,089	43,795	70.3	48.4	29.7	48.1
2009	95,337	88,618	72,351	49,012	22,986	37,601	75.9	55.3	24.1	42.4
2010	107,120	87,289	79,270	56,213	27,850	31,074	74.0	64.4	26.0	35.6

Source: Based on SSS,2010a-2011a; GSIS, 2011a.

13. Nominal and Real ROI Averages by Instrument, in GSIS and SSS,2000-2010

Year	Cash & Equivalent	Fixed Income	Equities	Alternative Investment	Real Estate	Loans to Members	External Investment	Total
GSIS								
2000	11	11	3	8	2	11		9
2001	5	11	2	7	2	10		8
2002	3	10	4	21	2	11		10
2003	8	9	4	2	67	10		11
2004	2	10	6	6	3	14		10
2005	2	9	6	7	0.3	17		10
2006	3	9	19	5	3	15		11
2007	23	6	7	6	6	16	5	9
2008	6	7	-15	7	9	12	-5	7
2009	8	6	69	5	6	7	12	10
2010	3	12	25	14	0.01	9	10	10
Average	6.6	9.1	11.8	8.0	9.1	12.0	5.5	9.5
Real [b]	1.5	4.0	6.8	2.9	4.0	6.9	0.4	4.4
Year	**Securities**		**Equities**	**Housing**	**Real Estate**	**Loans to Members**	[a]	**Total**
	Gov't	**Private**						
SSS								
2000	12.4	16.8	-2.9	16.6	0.8	4.4		7.4
2001	13.2	13.8	3.7	13.7	1.2	7.7		9.2
2002	16.5	11.7	2.2	12.4	1.4	5.8		8.1
2003	16.8	11.3	1.9	4.9	2.5	4.6		5.9
2004	11.7	7.1	2.9	5.3	-3.8	7.8		5.1
2005	13.2	6.8	3.4	6.8	8.5	10.2		7.2
2006	12.2	4.6	3.5	5.7	3.0	8.8		6.2
2007	9.7	-9.4	15.0	-3.7	6.2	1.6		8.7
2008								13.8
2009								9.7
2010								10.8
Average	11.1	7.8	3.7	7.7	2.2	6.4		7.2
Real [c]	6.1	2.8	-1.3	2.7	-2.8	1.4		2.2

[a] None. [b] Adjusted to the average inflation rate of 5.1% in 2000-2010. [c] Average in 2000-2007 adjusted to the average inflation rate of 5% in that period.
Source: GSIS, 2011c; SSS 2007b, 2011a, 2011i.

14. Return on Investment (ROI) Using the Annualized Method in SSS 2000-2010

Year	Government Securities & Bank Deposits	Corporate Bonds and Business Loans	Equities	Housing	Properties	Member Loans	Total
2000	12.42	16.85	-2.86	16.58	0.76	4.43	7.42
2001	13.19	13.82	3.69	13.67	1.15	7.70	9.19
2002	16.71	11.73	1.64	12.41	1.36	5.82	8.12
2003	16.25	11.32	2.93	4.90	62.32	4.56	8.57
2004	15.17	7.13	2.80	5.40	-3.77	7.33	5.53
2005	12.33	6.81	3.30	6.69	8.45	9.50	7.20
2006	10.83	4.66	3.44	5.41	2.95	7.90	6.14
2007	8.13	-9.30	14.89	-3.01	1.59	5.80	7.95
2008	8.10	1.97	37.16	5.80	12.24	6.37	13.82
2009	7.35	10.17	20.65	4.20	4.76	5.57	9.71
2010	7.33	7.77	23.35	3.24	17.49	2.25	10.80

Source: SSS, 2011f.

15. Gross Domestic Product at Current Prices, Inflation Rate and GDP at Constant Prices,1980-2010

Year	GDP (billion current PhP)	Inflation Rate (%)	GDP Rate (constant 1980 PhP, %)
1980	243.8	18.2	5.1
1981	281.6	13.1	3.4
1982	317.2	10.2	3.6
1983	369.1	10.0	1.9
1984	524.5	50.3	-7.3
1985	571.9	23.1	-7.3
1986	608.9	0.8	3.4
1987	682.7	3.8	4.3
1988	799.2	8.8	6.8
1989	925.4	10.6	6.2
1990	1,077.2	12.7	3.0
1991	1,248.0	18.5	-0.6
1992	1,351.6	8.6	0.3
1993	1,474.5	6.9	2.1
1994	1,692.9	8.4	4.4
1995	1,906.0	6.7	4.7
1996	2,171.9	7.5	5.8
1997	2,426.7	5.6	5.2
1998	2,665.0	9.3	-0.6
1999	2,976.9	5.9	3.4
2000	3,354.7	4.0	6.0
2001	3,631.5	6.8	1.8
2002	3,963.9	3.0	4.4
2003	4,316.4	3.5	4.9
2004	4,871.6	6.0	6.4
2005	5,444.0	7.6	5.0
2006	6,031.2	6.2	5.3
2007	6,648.6	2.8	7.1
2008	7,409.4	9.3	3.7
2009	7,678.9	3.2	1.1
2010	8,513.0	3.8	7.3

Source: Based on IMF, 2008; NSCB, 2011a.

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INTERVIEWS IN METRO MANILA, 2011

(Interviews are listed in alphabetical order and cited in the text by the last name of the first person interviewed, and 2011-I).

By Carmelo Mesa-Lago[78]

Aguja, Mario “Mayong” J., Trustee, Government Service Insurance System (GSIS);Robert M. Agustin, Senior Vice President Membership Group; Mario C. Angay, Investment Strategy Department; Jesus V. Beringuela Jr., Investment Implementation Department; Rea B. Diaz, Controller Group; James C. Labayo, Investment Strategy Department; Ezra A. Mag-atas, Actuarial Department; Evangelina E. Manila, Corporate Planning Office; Rose Sharon Moscaya, Human Resources Office; Anna Lorraine T. Ocampo, Corporate Planning Office; Rosalyn G. Ramos, Office of TrusteeAguja; SeverinaResurreccion, Actuarial Department; Christine Tirados, Human Resources Office; Ella E. Valencerina, Public Relations and Communications Office, Sept. 7.

Aguja, Mario, Trustee, GSIS, Sept. 14.

Bagtas, Cedric C., Deputy General Secretary, Trade Union Congress of the Philippines (TUCP), Sept. 9.

Bautista, Lynnette Y., Director Department of Social Welfare and Development (DSWD) and ZeidaInocente, Officer, Sept. 16.

Buetjen, Claudia, Principal Country Specialist, Asian Development Bank (ADB), Phillipines Country Office, Sept. 16.

Capulong, Rizaldy T., Active Chief Actuary and Vice-President Capital Market Division, SSS, Sept. 5.

De la Paz-Bernardo, Corazon, Honorary President International Social Security Association and former Commissioner SSS, Sept. 7.

Edralin, Daniel L., Commissioner, Social Security System (SSS); Judy Frances, Senior Vice-President Project Management Group; Edgar Solilapsi, Executive Vice President Investment Sector; Agnes E. San Jose, Vice President Benefits Program, Sept. 5.

Edralin, Daniel L, Commissioner SSS and Chairperson Alliance of Progressive Labor (APL), Sept. 7 and 14.

Johnson, Laurence Jeffrey, Head of ILO Country Office of Philippines, phone interview, Nov. 8.

Guzman, Sotera de, Chief Income and Employment Statistics, National Statistics Office (NSO), Sept. 9.

Manasan, Rosario, Senior Researcher, Philippine Institute for Development Studies (PIDS), Sept. 17.

Marayag, Emilio C., President and Chief Operating Officer, Armed Forces of Philippines Retirement and Separation Benefits System (AFP-RSBS), Sept. 14.

Marquez, Jose Midas P., Court Administrator Chief Public Information Office, Supreme Court, and Lilian C. Barribal-Co, Financial Management Office, Sept. 16.

[78] Some of the interviews were also attended by Berthold Leimbach, Anne-Hélène Vasudevan, Verna Dinah Q. Viajar and Rolly Czar Joseph Castillo.

Matula, Jose Sonny, National President, Federation of Free Workers (FFW); Isidro Antonio C. Asper, Vice President for External Affairs, Sept. 8.

Orbeta, Aniceto C., Senior Research Fellow, Philippine Institute of Development Studies (PIDS), Sept. 6.

Palileo, Fe T., Vice President Employers' Confederation of the Philippines (ECOP), Sept. 8.

Peralta, Teresa, OIC Director, Bureau of Labor and Employment Statistics (BLES), Sept. 9.

Pineda-Ofreneo, Rosalinda, Dean College of Social Work and Community Development, University of Philippines, Sept. 9.

Rocamora, Joel, Secretary National Antipoverty Commission (NAPC), Sept. 15.

Tesiorna, Susanita, President Alliance of Workers in the Informal Economy, Sept. 14.

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Villasoto, Jonathan, Chief Appeals Division, Employee's Compensation Commission (ECC), Sept. 6.

Weber, Axel, former ILO expert on social security (phone interview), Sept. 14.

By Anne-Hélène Vasudevan and Verna Dinah Q. Viajar

Alvin G. Andal, Tito, Internal Auditor,Chona R. Ricamata, Adjuntant Officer, and Kimmy Carrie C. Guzon, Assistant OIC, Morale and Welfare Branch, Philippine Coast Guard, Oct. 19.

Defeo, Joel, Division Chief Claims Department, GSIS, Oct. 14.

Mintar, Jovi, Jail Officer Welfare and Morale Division, Bureau of Jail Management and Penology (BJMP), Oct. 17.

By Rolly Czar Joseph Castillo

Perez, Samuel R., Deputy Chief for Administration/ Officer in Charge, and Fritz A. Alayano, Public Information Service, Bureau of Fire Protection (BFP), Oct. 18.

QUESTIONNAIRES ANSWERED IN MANILA, 2011

Prepared by Verna Dinah Q. Viajar and Rolly Czar Joseph Castillo

SSS coordinated by Judy Frances, Senior Vice President Group Head. Program Management Group, Social Security System, June 24 (cited in text as SSS Frances, 2011-Q)

GSIS coordinated by Nora Saludares, Senior Vice President, Corporate Planning Group, Government Service Insurance System, July 5 (cited in text as GSIS Saludares, 2011-Q).

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