
NATIONAL REPORT FOR THE PHILIPPINES

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The Philippines is an archipelago of 7,100 islands. The capital of the Philippines is Manila in the main northern island of Luzon.

The population is estimated at 68 million according to the 1995 census and is expected to grow at about 2% per annum. The Metro Manila area alone has a population of over ten million.

The Philippines was colonized by the Spanish in the 16th century who named it after Philip II of Spain. Spain ruled the Philippines until it was defeated by the Americans in 1898 during the Spanish-American War. Important legacies of Spain were Catholicism (the Philippines is the only predominantly Christian country in Asia) and an extensive bureaucracy and legal system. The period of American rule ended with independence in 1946. Those years were marked by an emphasis on widespread education and the introduction of English as a medium of instruction, business and government.

This report provides a brief profile on the Philippine economy, social security programs, the mandatory provident fund, retirement plans, life insurance industry, and the actuarial profession.

I. PHILIPPINE ECONOMY

There has been a significant trend toward liberalization and privatization in the last few years. The Philippine government aims to create an economic environment more conducive to business expansion. Extensive reforms by the government, notably in foreign investments, trade liberalization and foreign exchange controls, have been put in place.

Inflation Rate

The annual inflation rates from 1992 to 1996 are as follows:

| | Philippine Inflation Rate (% p.a.) |
|------|--|
| 1992 | 9.00 |
| 1993 | 7.60 |
| 1994 | 9.00 |
| 1995 | 8.10 |
| 1996 | 8.40 |

The inflation rate for 1997 is expected to average from about 6.0 to 6.5.

Interest Rate

The following table shows the average annual interest rates for treasury bills and time deposits (all maturities):

| | Treasury Bills (% p.a.) | Time Deposits (% p.a.) |
|------------------|----------------------------|---------------------------|
| 1992 | 16.90 | 14.08 |
| 1993 | 13.10 | 10.07 |
| 1994 | 13.44 | 10.56 |
| 1995 | 12.62 | 9.08 |
| 1996 | 12.94 | 11.25 |
| 1st Quarter 1997 | 10.98 | 9.37 |
| 2nd Quarter 1997 | 10.96 | 8.36 |
| 3rd Quarter 1997 | 14.49 | 12.37 |

Currency

The Philippines has not been spared from the recent attack on Asian currencies in the last few months. The Central Bank (CB) of the Philippines reference of the Philippines Pesos to the U.S. dollar since 1992 are presented below.

| Date | CB Reference Rate (P) |
|----------|--------------------------|
| 12/31/92 | 25.10 |
| 12/31/93 | 27.74 |
| 12/31/94 | 24.42 |
| 12/31/95 | 26.21 |
| 12/31/96 | 26.29 |
| 6/30/97 | 26.38 |
| 7/31/97 | 29.00 |
| 8/31/97 | 30.27 |
| 9/30/97 | 33.87 |
| 10/31/97 | 35.42 |
| 11/30/97 | 35.02 |

On December 15, 1997, the CB reference rate was already at ₱38.85 to the U.S. \$ 1.00 and is still rising.

GNP/GDP

The growth in the Gross National Product (GNP) is shown below.

| | Growth of Gross National Product (% p.a.) |
|------|---|
| 1992 | 2.05 |
| 1993 | 2.62 |
| 1994 | 3.89 |
| 1995 | 4.96 |
| 1996 | 6.94 |

II. SOCIAL SECURITY PROGRAMS

Social Security Programs

The Social Security program provides old-age, disability, and survivors benefits, as well as maternity and sickness income.

The Social Security System (SSS) was inaugurated in 1957 and covers private sector employees. The public sector employees are covered separately by the Government Service Insurance System (GSIS) which was established in 1937.

Coverage is compulsory for all private and public sector employees including expatriate and third-country national employees. Coverage is also compulsory for domestic helpers earning at least one thousand pesos per month and certain specified groups of self-employed persons. Voluntary coverage may be available to certain other employees such as the self-employed and overseas contractual workers.

SSS

Contributions to the SSS program are expressed as a percentage of the employee's Monthly Salary Credit (MSC). Monthly contribution rates are as follows:

| Percentage of MSC (%) | | |
|-----------------------|----------|-------|
| Employer | Employee | Total |
| 5.07% | 3.33% | 8.40% |

The maximum MSC is ₱11,000 effective January 1, 1998. The maximum MSC is scheduled to increase by ₱1,000 per year up to 1999.

The basic monthly pension formula under the SSS program is:

$$\text{₱}300 + [20\% \times \text{AMSC}] + [2\% \times \text{AMSC} \times (\text{CYS}-10)]$$

subject to a minimum monthly pension of ₱1,000 or ₱1,200 for those members who have paid at least 240 monthly contributions.

AMSC is the average MSC in the last 60 months immediately preceding the semester of contingency and CYS is the credited years of service.

In addition to the basic pension, a dependent's pension is payable at the rate of 10% of the basic pension for each of up to five dependent unmarried children under the age of 21.

An amendment to the SSS law effective May 1, 1997 has allowed the SSS to establish a provident fund for members to hold voluntary employee and/or employee contributions and corresponding earnings. No such fund has as yet been established.

GSIS

The GSIS program has a different set of contributions and benefit formulas from the SSS.

The current schedule of contribution rates is as follows:

| Monthly Compensation | Percentage of Monthly Compensation Payable by | |
|-------------------------|---|----------|
| | Member | Employer |
| First ₱10,000.00 | 9.0% | 12.0% |
| In Excess of ₱10,000.00 | 2.0% | 12.0% |

The basic monthly pension (BMP) formula under the GSIS program is:

- $37.5\% \times \text{RAMC}$, if total service is fifteen (15) years or less; or
- $37.5\% \times \text{RAMC} + [2.5\% \times \text{RAMC} \times (\text{YOS} - 15)]$, if total service is more than fifteen (15) years

Where:

RAMC is the revalued average monthly compensation computed as:

- $170\% \times \text{AMC}$, if the AMC is ₱1,000.00 or less; or
- $\text{AMC} + \text{P}700$, if the AMC is more than ₱1,000.00

AMC is the total compensation received during the last thirty-six (36) months of service preceding separation/retirement/disability/death over thirty-six (36) but not to exceed ₱10,000.00.

Prior to a June 24, 1997 amendment to the GSIS law, the maximum AMC was only ₱3,000.

SSS and GSIS Portability

A law, which took effect in 1994, allows recognition of all credited services or contributions in the SSS and GSIS in the case where an employee transfers from one system to another. This law institutes a portability scheme between the social security systems schemes by totalizing a worker's years of service or contributions in each system for purposes of determining eligibility and computation of benefits.

The amount of benefits to be paid by one system is in proportion to the services rendered or periods of contributions made to that system.

Employees' Compensation / Medicare Programs

Membership in the Social Security programs automatically includes membership in Medicare and Employees' Compensation (EC) programs.

The EC program provides income benefits and medical related benefits in the event of a work-connected death or disablement. Contributions to the EC program is equal to one percent (1%) of the member's MSC paid solely by the employer. The current maximum MSC for Employees' Compensation is ₱1,000 pesos.

The Medicare program covers hospitalization expenses only. It pays for room and board expenses, medical expenses (hospital services, diagnostic services, cost of drugs and supplies), and professional fees up to specified maximums.

Medicare contribution is 2.5% of MSC divided equally between the employee and the employer up to a maximum contribution which currently stands at ₱75 pesos per month.

Medicare also covers retirees of the SSS and GSIS.

National Health Insurance

On February 14, 1995, a new law was passed which established the National Health Insurance Program (NHIP) for all Filipinos. This act creates the Philippine Health Insurance Corporation (PHIC) which will be in charge of administering the NHIP. The PHIC will take-over the Philippine Medical Care Commission which currently administers the Medicare program.

PHIC took over GSIS Medicare in October 1997. PHIC will take over SSS Medicare in September 1998.

The NHIP expands medical coverage provided by the government to all Filipinos. Whereas before, only SSS and GSIS members are covered under Medicare, the NHIP will cover non-members of the SSS and GSIS and indigent families.

Implementation of the program will be gradual and phased in over a maximum of fifteen (15) years. It shall initially consist of the Medicare program and later on expand to constitute one universal health insurance program for the entire population.

Current Medicare members will continue to pay the same monthly contributions until the PHIC determines a new contribution schedule; self-employed members are also required to contribute based on a Means Test which will be administered at the barangay level. Contributions for indigent members will be shouldered by the national government and local government units.

A member will be entitled to the following benefits:

1. Inpatient hospital care
2. Outpatient care
3. Emergency and transfer services
4. Other health care services that the PHIC determines appropriate and cost-effective.

HMOs will be tapped by the national government to provide health care services to NHIP members. In return, the government will pay a capitation rate to providers according to a fee schedule negotiable every three (3) years.

There are two (2) benefit confinement packages that are available to members - the basic benefit package which is available to all members and the supplemental benefit package which is available only to SSS and overseas contract workers and their dependents.

The basic benefit package shall be progressively expanded so that the same benefits are extended to all members of the Program within five (5) years after implementation of the Act.

III. HOME DEVELOPMENT MUTUAL FUND (HDMF)

The HDMF (or most commonly known as Pag-IBIG) is a mandatory provident fund established primarily to provide the government with funds for housing loans.

Coverage under Pag-IBIG is mandatory to all employers and employees covered by SSS and GSIS. However, membership to Pag-IBIG for those employees whose monthly compensation is less than ₱4,000 pesos is voluntary.

Contributions under Pag-IBIG are a percentage of monthly compensation as follows:

| Monthly Compensation | Pag-IBIG Contribution Rates (%) | |
|---------------------------|---------------------------------|----------|
| | Employee | Employer |
| < = 1,500 pesos more than | 1% | 2% |
| 1,500 pesos | 2% | 2% |

The maximum monthly compensation to be used in calculating contributions is ₱5,000 pesos per month. The maximum monthly contribution by the employer and by the employee is ₱100 pesos each.

Membership may be terminated with respect to any one member upon the occurrence of any of the following:

- membership maturity - completion of 20 years of membership
- death of the member
- retirement
- insanity
- departure from country or other causes as may be provided by the Board of Trustees of the HDMF.

Upon termination of membership, members receives the total accumulated value of all his or her contributions and employer contributions made on his behalf.

Members may apply for housing loans from Pag-IBIG.

Members earning more than P5,000 may also elect to contribute another P500 per month into the Pag-IBIG fund. This would entitle them to higher housing loan amount.

IV. MINIMUM MANDATED RETIREMENT BENEFIT

A law, which was passed in 1993 amending the Labor Code, requires private employers to provide minimum retirement benefits to employees who have reached the age of 60 or over with at least five years of service with the employer.

The law stipulates that the minimum retirement benefit of eligible employees is equivalent to "one-half (1/2) month salary" per year of service. Service is calculated so that a fraction of at least six months is considered as one full year.

The components of "one-half (1/2) month salary" for purposes of determining the minimum retirement benefit under this law are the following:

- Fifteen (15) days salary of the employee based on his latest salary rate;
- Cash equivalent of five (5) days of service incentive leaves;
- One-twelfth (1/12th) of the thirteen month pay due to the employee; and
- All other benefits that the employer and employee may agree upon that should be included in the computation of the employee's retirement pay.

Retirement benefits received from Pag-IBIG and private retirement schemes may be used to satisfy the requirements of the minimum retirement benefit law.

V. PRIVATE RETIREMENT SCHEMES

Tax Qualification

The Philippine Bureau of Internal Revenue (BIR) grants tax qualification to retirement plans after submission of all the relevant plan documents. Any amendments to a plan must also be submitted to the BIR for approval.

The BIR requires that a tax qualified plan fulfill the following conditions:

- It must be a definite written program.
- It must be permanent in character.
- It must cover at least 70% of all officials and employees, or otherwise cover a particular class of employees.
- It must be non-discriminatory.
- It must be properly funded.
- It must provide that no part of the corpus or income of the fund shall be used for, or diverted to, purposes other than for the exclusive benefit of the members and their beneficiaries.
- It must be externally funded.
- It must provide that any forfeited benefits are to be used to reduce future employer contribution and not to increase the benefits of remaining members.

The tax advantages of a qualified plan are:

1. Employer contributions to a trustee qualified plan are tax deductible.
2. The investment income of a trustee qualified plan is exempt from tax.
3. Retirement benefits received from a qualified plan are subject to once-in-a-lifetime tax exemption, provided that the employee is at least 50 years old and had rendered at least ten years of service with the employer.
4. Employer contributions are not considered items to the employee.

Retirement benefits which do not meet the above criteria, as well as voluntary resignation benefits, are considered taxable income. Benefits payable on death, disability, or other involuntary termination (e.g. retrenchment, redundancy) are exempt from tax.

Typical Retirement Plans in the Philippines

Most retirement plans in the Philippines are of the defined benefit type. The vast majority provide for immediate lump sum benefit payment at retirement or early separation. Even the few pension-type plans usually allow lump sum conversions.

The normal retirement age is generally set at age 60. Early retirement eligibility is usually age and service related (e.g. age 50 with at least 10 years of service).

Most plans provide benefits upon resignation with 5 or 10 years of service, death, and permanent and total disability.

Retirement plans in the Philippines are seldom integrated with statutory programs or company-sponsored insurance programs.

VI. LIFE INSURANCE INDUSTRY

The Philippine Government has liberalized the insurance industry in the last few years. As of December 31, 1994, there were 26 life insurance companies operating in the Philippines - 22 local and 4 foreign. Some foreign life insurance companies have since been granted licenses to operate in the Philippines. As of August 1, 1997, there are 34 life insurance companies - 22 local and 12 foreign.

Roughly 12% of the population are insured, including employees covered under company-sponsored group insurance programs. The Philippine Government has embarked on a program spearheaded by the Insurance Commission which calls "Vision 20/20". The goal of "Vision 20/20" is to insure 20% of the Philippine population by the year 2000.

Statistics on the life insurance industry is shown below:

| | Total Business- in-Force (in ₱ Millions) | New Business- in-Force (in ₱ Millions) | Total Premium Income (in ₱ Millions) | Legal Policy Reserves (in ₱ Millions) |
|------|--|--|--|---|
| 1993 | ₱ 379,199 | ₱ 91,911 | ₱ 8,958 | ₱ 19,780.9 |
| 1994 | 456,164 | 93,537 | 10,631 | 23,538.5 |
| 1995 | 612,150 | 110,839 | 12,530 | 27,970.8 |
| 1996 | 653,125 | 138,580 | 15,000 | 33,405.1 |

VII. ACTUARIAL SOCIETY OF THE PHILIPPINES

The Actuarial Society of the Philippines (ASP) was founded in 1953. It serves as the recognized professional membership organization for actuaries in the Philippines. It develops and qualifies competent professional actuaries.

There are three (3) levels of membership in the ASP - Fellows, Associates, and Affiliates. Current membership is at 163. A breakdown of the membership as of July 1, 1997 by Company is shown below.

| Company | Fellows | Associates | Affiliates | Total |
|----------------------------|-----------|------------|------------|------------|
| Life Insurance | 28 | 20 | 57 | 105 |
| Pre-Need | 3 | 4 | 9 | 16 |
| Consulting Firm | 10 | - | 5 | 15 |
| Bank | 1 | 1 | - | 2 |
| Government Agency | - | 4 | 2 | 6 |
| HMO | 3 | 1 | 1 | 5 |
| Mutual Benefit Association | 1 | - | - | 1 |
| Others/Retired | 10 | - | 3 | 13 |
| Total | 56 | 30 | 77 | 163 |

Examination System

Prior to 1994, ASP administered 6 examinations. The first 3 were Associateship exams. These exams basically covers the mathematical side of actuarial science. The last 3 were Fellowship exams mostly covering topics involving Philippines practice and regulations.

Beginning 1994, ASP Associateship examinations are no longer given. Students must take certain examinations of the Society of Actuaries (SA) covering similar topics. With this recent development, more and more ASA's and FSA's under the current syllabus are expected among ASP members in the future.

The ASP continues to give Fellowship examinations. The 3 Fellowship examinations have however been broken up into 10 shorter courses - each course to cover one particular topic.

Fellowship Admissions Session

A Fellowship Admissions Session was introduced in 1992. In addition to passing the Fellowship exams, a student must also go through a Fellowship Admission Session prior to becoming a Fellow. The Fellowship Admission Session is intended to educate would-be actuaries on the accepted standards for professional and ethical practice.

Professional Accreditation

Fellowship in the ASP is required for accreditation by the following Government Services:

- (1) Insurance Commission - for insurance companies
- (2) Securities and Exchange Commission - for pre-need companies.
- (3) Bureau of Internal Revenue - for retirement plans.

Professional Standards

The ASP has adopted a Code of Conduct to guide its members when confronted with questions on ethics and professional conduct. This Code of Conduct is continually being reviewed and refined.

The Code of Conduct sets forth principles on the following areas: professional duty, actuarial principles and practices, relationship with and responsibility to client or employer, relationship with other actuaries, advertising, and use of titles and designations.

The Professional Standards and Review Council is the ASP body charged with the formulation and interpretation of the Code of Conduct and other standards of practice that the Society requires its members to follow. The Council also investigates complaints relating to the conduct of a member and submits to the ASP Board of Governors the result of its investigation as well as its recommended course of action.

The Council is composed of five senior Fellows appointed by the ASP Board of Governors. Each member of the Council has a term of 5 years.