SOCIAL ADEQUACY AND ECONOMIC EFFECTS OF SOCIAL SECURITY: THE PHILIPPINE CASE

by

*MARIO B. LAMBERTE**

STAFF PAPER SERIES NO. 85-09

*Research Fellow, Philippine Institute for Development Studies (PIDS). The author is grateful to Ms. Evangeline Yu for her able research assistance and Ms. Juanita E. Tolentino for word processing assistance, and Ms. Lilia Q. Santiago for her editorial assistance.

A paper prepared for the 10th Conference of the Federat of ASEAN Economic Associations Singapore, 5-7 November 1985.

TABLE OF CONTENTS

I. INTRODUCTION

The social security system is one of those Western institutions transferred to the Philippines. The first social security program in the Philippines started operating in 1937, two years after the U.S. formally instituted her own social security program.[1/]

However, the early Philippine social security system vastly differed in substance from the early American system or from any European social security system. A number of changes have been introduced to the Philippine social security system to cope with the demands of the changing social and economic environments. Coverage has been widened and benefits have been increased.

The social security system has been growing quite rapidly both in membership and financial resources. Its importance to individual members, in particular, and to society, in general, cannot therefore be understated.

1/ It should be noted that the Philippines was still under the American occupation during this time. The quickness of the transfer of such institution is therefore understandable.

The social security system provides protection against the hazards of disability, sickness, old age and death for members. It also performs other functions, such as redistribution of income and augmenting investible funds of the financial system. Lately, its system of benefits has been modified to help the population program of the government attain its objectives. For example, benefits are given only up to a maximum of five dependents. Because of its large financial resources, the system has also been called upon to aid distressed corporations. Indeed, the potential use of the system in attaining certain economic and social goals has slowly been explored.

This paper examines the social adequacy and economic effects of the social security system of the Philippines. It should be noted at the outset that the Philippines has two social security systems, one for the government sector and another one for the private sector. This analysis focuses on the social security system as a whole, and only minimal efforts at a comparative study of the social adequacy and economic effects of both systems will be made.

Section II is devoted to a discussion of the arguments for and against having a social security program. Section III presents the objectives and legal framework of social security in the Philippines. The social adequacy of social security is examined in Section IV. Section V analyzes the economic effects of the social security system. The last section concludes the study.

II. THE NEED FOR A SOCIAL SECURITY PROGRAM

This section discusses the fundamental issue of whether a social security program is needed in the Philippines. The arguments for and against having a social security program are indeed numerous, but this paper confines itself only to a few, but the most important ones.

The most general objection against a social security program that applies to both developed and less developed economies will be considered first. It is argued that if left to themselves, individuals will achieve the best allocation of their income between consumption and saving that accords well with their taste. Any compulsory saving program, therefore, would distort such allocation. More specifically, the intervention would result in an intertemporally inefficient allocation of resources in the sense of Pareto; hence, the objection against social security program. This can, however, be proven otherwise by using Samuelson's (1958) pure-consumption-loans model. Consider individuals who live two periods: the first period is a working period; the second period is a retirement period. The economy does not have capital goods.
All individuals have identical preference denoted by $U(c^1, c^2)$, where c^1 refers to first period consumption and c^2, to second period consumption, and earn real income

equaling unity. In the absence of government intervention, each individual will be maximizing $U(c^1, c^2)$ subject to the following budget constraint

$$c^1 + c^2 \leq 1 \tag{2.1}$$

If the population grows at the rate of $n > 0$ per period, and if the young generation consisting of L individuals saves sL, where $s > 0$ is the amount of savings by each individual in his working period, while the old generation, L_{-1}, dissaves sL_{-1}, then the net aggregate savings per period is $S = sL - sL_{-1} = sLn/(1 + n)$, since by assumption $L = (1 + n) L_{-1}$. Under this condition, each individual will not earn a positive rate of interest on his savings. The reason is straightforward. The individual who saves does not like to lend even at positive rate of interest to the older generation who cannot repay because they do not have any income; his contemporaries who have preferences identical with his do not like to borrow; the succeeding generation does not also wish to borrow. However, the presence of a government, an institution with permanent life, can improve the situation. The government collects individual savings by offering savers a rate of return equaling n and transfers the savings to the old generation. Unable to pay, the old generation leaves the government a debt to the younger generation amounting to $(1 + n)$ sL. The government pays it by collecting savings equivalent to sL from the new young generation. This is enough to repay the principal and interest on the old loan, i.e., $sL_{+1} = (1 + n) sL$.

Since the government pays an interest rate equaling n to savings, the budget constraint of the individual now becomes

$$c^1 + \frac{c^2}{1 + n} \leq 1 \tag{2.2}$$

Therefore, the opportunity set given by (2.2) is greater than the one given by (2.1). This proves that a centralized social security program run by government yields a Pareto-superior allocation.

Another objection raised against having a social security program has to do with the degree of development of a particular country. It is argued that less developed-countries (LDCs) cannot afford a social security program. In the first place, low-income earners do not save at all, hence, a compulsory saving program would be too onerous to them. Secondly, a social security program that increases the cost of labor to employers distorts factor proportions, thus, resulting in higher unemployment rate. Also, if the payroll tax is not shifted to the employees or consumers, the program reduces the firm's profits. This could slow down capital formation.

Studies on saving behavior on LDCs have disputed the argument that low-income earners do not save.[1/] What is however worrisome is that small savers do not have access to high-yielding, but more sophisticated financial instruments. Thus, a person who is saving for retirement is usually locked in fixed-yield assets that offer little protection against inflation. A social security program whose benefits are adjusted to inflation from time to time is certainly a welcome alternative for low-income earners.

Since the payroll tax collected by a social security agency usually exceeds benefit payments especially in the first few years, the reserve funds may be invested in economic development projects and/or in projects that yield attractive returns. Hence, capital accumulation may not slow down at all under this scheme.

Rosenberg (1970) has pointed out that the objection raised against having a social security program in LDCs is anchored on the old view of economic development. In contrast, the new view puts investment in human resources and income distribution on equal footing with capital accumulation. The social security program in LDCs

---

1/ See McKinnon (1973), Adams (1978) and Vogel (1981), among others.

addresses these concerns. If the expected old-age economic security value of children helps determine fertility preferences, then security substitutes for children, such as the government pension scheme, could possibly decrease the demand for children.[2/] And investment in the reduction of population growth and the economic benefits from this reduction have been shown to be at least equal and quite possibly far greater than traditional investment (Rosenberg, 1970: pp.2-3). Both the payroll tax and benefits are usually progressive in a social security program. The effect of income distribution on demand is also worth mentioning here. As noted by Rosenberg, "income transfers affect the structure of demand, which in turn affects the structure of industry, which in turn affects the growth of the economy...." and so on.

Perhaps, one important reason why a social security program is not needed is that the cultural values of a particular country make it redundant. More specifically, parents regard children as their old age economic security, and therefore they have less demand for institutionalized pension arrangements. In the case of the Philippines, the evidence seems to support this view. Table II.1

2/ A more detailed discussion of this issue is presented below.

shows the economic security value of children in the Philippines. Eighty-nine (89) percent of the total respondents mentioned importance of having someone to depend on when old as a reason for having a child; 90 percent expected financial support from their children when they grow old; and the probability of having an old age support is expected to increase with the number of children. There are clear advantages to this kind of arrangement. Parents can readily influence their children to adjust their economic support to them whenever the need arises; whereas with the institutionalized pension program, they are always at the mercy of policy makers whom they do not have direct contact. In addition, by being dependent on their children for old age economic support, parents are able to maintain a channel whereby they can solicit emotional support from their children.[3/]

Economic development and modernization have however caused some changes in cultural values, including the value of children as old age economic security. The findings presented in Table II.2 seem to suggest that the amount of reliance on children as old age economic security has a negative relation to family income, husband's occupational

---

3/ See Lamberte *et al*. (1985)

Table II.1

PERCENTAGE DISTRIBUTION OF RESPONSES TO CLOSE-ENDED QUESTIONS ABOUT THE OLD-AGE SUPPORT VALUE OF CHILDREN PHILIPPINES (1975)

Question and Response	Percent
Importance of having someone to depend when old as a reason for having a child	
Not important	2
Somewhat important	9
Very important	89
Importance of being sure that you will have someone to help you in old age as a reason for wanting an additional child	
Not important	10
Somewhat important	12
Very important	78
Amount of expected reliance on children.a/	
None	10
A little	55
A great deal	35

a/ Responses to this question are derived from responses to the two previous questions. Percentages represent respondents who expected to rely on daughters or sons not at all, somewhat, or a great deal.

Source: De Vos (1983)

Table II.2

SUPPORT EXPECTATIONS BY SELECTED SOCIOECONOMIC CHARACTERISTICS: PHILIPPINES (1975)

Characteristic	Support Expectations (%)			a/
	None	Little	Great	Phil
Total	10	55	35	
Family Income b/				.19*
10,000 +	33	54	13	
4,500/5,000-9,999	19	56	25	
2,000-4,499/3,000-4,999	9	59	32	
<2,000/<3,000	6	48	46	
Husband's Occupation c/				.19*
Upper white collar	21	64	14	
Mid/Low white-collar	12	61	27	
Upper blue-collar	na	na	na	
Lower blue-collar	8	62	30	
Farming/fishing	5	49	46	
Education				.18*
College	29	32	19	
Senior high	15	63	23	
Junior high	9	58	33	
Grammar	8	55	37	
< Grammar	6	49	46	

= Significant at .05 if simple random sample
a common measure of association, Phi can be used like X but is not dependent on N and can be used for asymetrically sized tables. Its formula is (X /N)1/2.
Pesos per annum.
Upper white-collar occupations refer to professional, technical, administrative, executive, and managerial workers. In the Philippines lower white-collar and upper blue-collar occupations are combined into middle occupations. Lower blue collar occupations refer to low-skilled or unskilled worker and lower service workers.
Barangay = town center in the Philippines. Barangay residents were divided into those with urban experience (urban barangay) and those with rural backgrounds (rural barangay).

status and respondent's education. This trend is expected to continue in the near future as economic development and modernization proceed; and the social security program is then expected to play a greater role.

The foregoing have discussed some arguments in favor and not in favor of having a social security program. Undoubtedly, there is strong and adequate support for having a social security program in the Philippines.

III. LEGAL FRAMEWORK AND OBJECTIVES OF THE SOCIAL SECURITY SYSTEM

The Philippines has two social security systems,namely: (1) the Government Service and Insurance System (GSIS) which services the government sector; and (2) the Social Security System (SSS) which takes care of the private sector. Both are government-owned corporations created by Congress.1/ GSIS started operating in 1937, but initially provided only life insurance to government employees. It added retirement benefits in 1951. The corporate powers and functions of the GSIS are vested in, and exercised by the Board of Trustees composed of the President of GSIS and seven other members appointed by the President of the Philippines, three of whom representing three leading organizations or associations of government employees.

The SSS, on the other hand, is a late comer, although the idea of creating it started as early as 1948. After, ironing out objections coming from both the employers and the labor sector, SSS finally started operating in 1957. Initially, it covered only employers in private business and

---

1/ Commonwealth Act No. 186 - known as the GSIS Charter - was approved on 14 Nov. 1936; while Republic Act No. 1161 - known as the Social Security Act - was signed into law in 1954.

industry with 50 or more employees. Unlike GSIS, SSS had already included retirement benefits as one of its major benefits when it started operating. It is under the general supervision of a Social Security Commission composed of the Secretary of Labor, the SSS Administrator and six appointive members, two of whom representing the labor group, two, the management group and two, the general public, to be appointed by the President of the Philippines.

Both systems are supervised by the Insurance Commission, a regulatory body of all insurance firms in the Philippines.

The objectives of the two systems are the following:

a) For GSIS: to promote the efficiency and welfare of the employees of the Government of the Philippines.

b) For SSS: to provide to covered employees and their families protection against the hazards of disability, sickness, old age, and death with a view to promoting their well-being in the spirit of justice.

Although differently worded, the objectives of the two systems are essentially the same. They contain two basic elements. The first element is that social security as espoused by both systems is an income-replacement program. The program protects families from a sharp decline in income due to sickness, disability, death, or retirement of the family's income earner. It is to be noted that the benefits are intended to only partially replace the income lost, hence there is still a big room for families, especially high-income families, to buy private insurance.

The proportion of lost income to be replaced is indeed a ticklish issue. How much should be replaced? Should it be proportional to income from which contributions are based? Indeed, one can gather from the objective that the systems also concern themselves with income distribution. As will be discussed later on, the systems' structure of contributions and benefits really expresses this concern.

The second element is that both systems guarantee minimum income support for the aged, the disabled, and the dependent survivors. Thus, social adequacy is also emphasized by the systems. As Munell points out, "social adequacy is essentially a welfare criterion, which measures benefits not against lifetime contributions but rather against the standard of living beneath which society feels no one should fall" (p.6). In this case, the two systems are compelled to make adjustments in the benefits over time, especially during inflationary periods, to prevent beneficiaries from falling into abject poverty. The extent of adjustments is, however, a sensitive issue. Adjustments in the benefits have also to be made across families to take into consideration the number of dependents.

IV. SOCIAL ADEQUACY OF THE PHILIPPINE SOCIAL SECURITY SYSTEM

To determine the social adequacy of social security the coverage, benefits and constributions of members or the payroll tax are examined.[1/]

A. Coverage

Originally, membership in GSIS was compulsory upon all regularly and permanently appointed employees. This was revised in 1957 to include employees of government-owned or controlled corporations and casual, substitute or temporary employees of government offices. The coverage was again revised in 1977 to include all employees of the Government regardless of employment status.

On its first year of operation, SSS compulsory membership was limited only to employees and employers of private business and industry with 50 or more employees. In the following year, the coverage was extended to employees and employers of private business and industry with at least

---

1/ From here on, social security system refers to both the GSIS and the SSS, unless otherwise indicated.

6 employees. In 1960, the coverage was revised to include all private enterprises with at least one employee. An important revision was effected in 1980 when compulsory coverage of the self-employed persons below 61 years of age and earning ₱1,800 or more per annum was added. Therefore, a larger portion of the labor force is presently included in the coverage.

Although coverage in the SSS is at present compulsory upon all employees not over sixty years of age and their employers, there are however exemptions. As provided for by the SSS charter, employment is defined as any service performed by an employee for his employer, except:

(1) Agricultural labor when performed by a share or leasehold tenant or worker who is not paid any regular daily wage or base pay and who does not work for an uninterrupted period of at least six months in a year;

(2) Domestic service in a private home;

(3) Employment purely casual and not for the purpose of occupation or business of the employer;

(4) Service performed by an individual in the employ of his son, daughter, or spouse, and service performed by a child under the age of twenty one years in the employ of his parents;

(5) Service performed on or in connection with an

alien vessel by an employee if he is employed when such vessel is outside the Philippines.

(6) Service performed in the employ of the Philippine Government or instrumentality or agency thereof;

(7) Service performed in the employ of a foreign government or international organization, or their wholly-owned instrumentality;

(8) Such other services performed by temporary employees which may be excluded by regulation of the Commission. Employees of bona fide independent contractors shall not be deemed employees of the employer engaging the services of said contractors.

Indeed, changes in the coverage of the system over the years reflect the sentiments in Philippine society to make social security universal. Whether this was followed in reality is, of course, another matter.

Table IV.1 presents the actual coverage of the social security system. GSIS members constitute between 11 to 12 percent of the total membership in the system during the period 1976-83; the rest are accounted for by SSS members. Interestingly, the annual growth rates of total membership in the system during the period 1981-83 were considerably lower than those of the previous period, i.e., 1976-80

Table IV.1

ACTUAL COVERAGE OF THE SOCIAL SECURITY SYSTEM
(IN THOUSANDS)

Year	(1) Total Membership	(2) GSIS	(3) SSS	(4) Employed Persons	(5) Labor Force	(6) (1)/(4) (In %)	(7) (1)/(5) (In %)
1975	5.66	0.75	4.91	14.52	15.16	38.9	37.3
1976	6.38 (12.7)	0.79 (5.3)	5.59 (13.8)	14.24 (-1.9)	15.07 (-0.6)	44.8	42.3
1977	6.98 (9.4)	0.83 (5.1)	6.15 (10.0)	14.33 (0.7)	15.00 (-0.5)	48.7	46.5
1978	7.64 (9.5)	0.87 (4.8)	6.77 (10.0)	16.10 (12.3)	16.79 (11.9)	47.4	45.1
1979	8.34 (9.2)	0.95 (9.2)	7.39 (9.2)	16.54 (2.6)	16.94 (0.9)	50.4	49.2
1980	9.15 (9.7)	1.09 (14.7)	8.06 (9.1)	16.43 (-0.7)	17.31 (2.2)	55.7	52.9
1981	9.71 (6.1)	1.18 (8.3)	8.53 (5.8)	17.45 (6.2)	18.42 (6.4)	55.6	52.7
1982	10.3 (6.1)	1.27 (7.6)	9.03 (5.9)	17.37 (-0.5)	18.47 (2.7)	59.3	55.8
1983	10.92 (6.0)	1.39 (9.4)	9.53 (5.5)	19.21 (10.6)	20.31 (10.0)	56.8	53.8
1984	11.15 (2.1)	1.29 (9.3)	9.86 (3.5)	19.67 (2.4)	20.97 (3.2)	56.7	53.2

Note: Figures in parentheses are annual growth rates in percent.

Source: Philippine Statistical Yearbook (1985).

despite the widening in legal coverage. This could be due to the slowing down of the domestic economy as a consequence of the second oil shock and the prolonged recession experienced by important trading partners. The growth rates in GSIS and SSS membership provide more interesting insights. SSS experienced a lower annual growth rates in membership during the period 1981-83 compared to the previous period, despite the compulsory coverage of self-employed earning P1,800 or more per annum starting 1980. The weakening of the economy after 1980 thus affected the private sector. In contrast, GSIS realized relatively higher annual growth rates of membership during the period 1981-83. This reflects the stabilization efforts of the government which resulted in hiring more people who automatically became members of GSIS.

As one of the measures of social adequacy, the ratio of total membership in the system to total number of employed persons is computed (See Table IV.1). Between 1975 and 1977, the system saw sharp increases in actual coverage in relative terms. However, the ratio fluctuated between 49 percent to 61 percent thereafter. This means that about 40 percent of the total number of employed persons are not yet covered by the system. This group mainly consists of those who are legally excluded from coverage and self-employed, especially low-income earners but otherwise would qualify for membership, like sari-sari store owners, sidewalk vendors, etc., who did not register. As of December 1983, only 2.8 percent of the total self-employed persons are SSS members. The system has not yet found an effective mechanism for monitoring the latter group of income earners, hence it lacks the ability to enforce the compulsory coverage for qualified self-employed.

The ratio of total membership in the system to the total number of persons in the labor force is also taken since the latter includes employed and unemployed persons who are economically active (see Table IV.1). Some unemployed persons may have been laid-off/terminated or may have resigned from their jobs, but are still members of the system. Results show that the social security program covers only a little over 50 percent of the working population. Thus, it can be said that the system is still far from being universal. A system that is regarded by society as important, and yet excludes a significant proportion of the population certainly leaves much to be desired.

B. Benefits

The benefits currently offered by GSIS and SSS are summarized in the Tables IV.2 and IV.3, respectively.

TABLE IV.2

GSIS STRUCTURE OF BENEFITS

Benefits and Services	Important Qualifications	Amount of Benefits
A. Social Security Benefits		
1. Retirement		
a) Under Republic Act (RA) No. 1616 or the Gratuity Retirement Benefit(s)		
Gratuity Benefits	Any official or employee regardless of age provided he has rendered at least 20 years of service, the last 3 years of which are continuous.	Equivalent to 1 month salary for each year of service for the first 20 years, 1.5 months salary for each year of service in excess of 20 up to 30 years and 2 months salary for each year of service over 30 years, based on the highest salary rate.
Refund of retiree's personal contribution	-same-	Personal contributions with interest and corresponding government contributions without interest.
b) Under RA 660 or the Annuity (Pension) Benefit Plan	He has attained and/or completed the required age and length of service as indicated below: Age : 52 53 54 55 56 57 58 59 Service : 35 34 33 32 31 30 28 26 Age : 60 61 62 63 64 65 or Service : 24 22 20 18 16 15 over	At age 57 years: monthly annuity (pension) shall be P30 plus 1.2% of each year of service rendered before June 16, 1951 and 2% for each year of service from June 16, 1951 of the average monthly salary received during the last 3 years prior to date of retirement, but amount must not exceed 75% of average monthly salary.
c) Under PD 1146	Any official or employee regardless of age provided he has rendered at least 15 years of service. If he is below 60 years of age upon retirement, he may avail of the retirement benefit only upon attaining age 60 years.	

Old-Age Benefit:		
Basic Monthly Pension	He has rendered at least 15 years service. He is at least 60 years old and is separated from the service.	Equal to 37.5% of the revalued average monthly compensation plus 2.5% of the said revalued average monthly compensation for each year of service in excess of 15 years but not to exceed 90% of the average monthly compensation.
Cash Payment	He has rendered at least 3 years but less than 15 years service. He is at least 60 years of age and is separated from the service.	Equal to 100% of the average monthly compensation for every year of service with an employer.
2. Disability		
Permanent Total Permanent Partial	He has paid at least 36 monthly contributions during the last five years immediately preceding the date of disability or He has paid a total of not less than 180 monthly contributions prior to the date of disability and his disability is not compensable under any other law.	Monthly Pension
Temporary Total	He has paid at least 6 monthly contributions during the 12-month period immediately preceding the date of disability.	
3. Survivorship		
Upon Death of a Member	a) Qualified under Old-Age Pension at the time of death. Age 60 with 15 years service.	Basic monthly pension guaranteed for 5 years which may be converted to lump sum. After the guaranteed period, they shall receive the survivorship pension so long as they are qualified.
	b) Not qualified for Old-Age Pension at the time of death but had paid at least:	Basic survivorship pension guaranteed for 30 months, and dependent pension for so long as they are qualified.

	i) 36 monthly contributions within the 5 year period immediately prior to his death; or	
	ii) 180 monthly contributions (prior to his death) while in the service.	
	c) Not qualified for benefit in (a) & (b) above.	Cash payment equal to 100% average monthly compensation for each year member paid contributions but not less than P500.
Upon Death of a Pensioner	a) If a pensioner received lump sum or died after the guaranteed period	Primary beneficiaries shall receive survivorship pension after guaranteed period so long as they are qualified
	b) If pensioner had not received lump sum and died within guaranteed period.	If a disability pensioner, primary beneficiaries shall receive survivorship pension for so long as they are qualified. If deceased was an old-age pensioner, his primary beneficiaries shall receive basic monthly pension up to the end of the guaranteed period convertible to lump sum. Thereafter, they shall receive survivorship pension for as long as they are qualified
4 <u>Compulsory Life Insurance</u>	All employees of the government as long as they are in service.	
Maturity Benefits		Upon maturity, the face amount of a policy less any indebtedness thereon shall be paid to the members.
Death Benefit		When a member dies prior to the maturity of his insurance and during its continuance, the system shall pay to the designated beneficiaries the face amount of the policy less any indebtedness thereon.
Accidental Death Benefits		System shall pay to designated heirs, an additional amount equivalent to the face amount of his compulsory insurance.

Cash Surrender Value	Member's insurance should have been in force for one year.	A member separated from the service prior to the maturity of the insurance maybe paid cash value less any indebtedness thereon.
Insurance Loan	Member should have been insured for for at least one year	Member maybe granted a policy loan not exceeding 50% of the the cash value of his insurance. He may also avail of salary loans.
Dividends	Member's policy should have been in force for at least one year as of the date dividends are declared by the system.	Entitled to certain sums as shares out of the earnings of the Life Insurance Fund. Dividends are distributed twice a year, in June & December of each year.

B. <u>Medicare</u>

1. Hospitalization Expenses

1. Member or his legal dependents must be confined in a hospital due to illness or injury requiring hospitalization.

2. Member has paid at least 3 monthly Medicare contributions within the 12-month period immediately prior to the month of hospitalization.

   However, for self-employed members, payment of such Medicare contributions should be made THREE months or earlier before the first day of confinement.

a. The corresponding rates for room and board of accredited hospitals which are categorized according to their facilities are as follows:

	Members	Dependents
PRIMARY	₱16/day	₱14/day
SECONDARY	₱22/day	₱16/day
TERTIARY	₱30/day	₱18/day

b. Allowances for drugs and laboratory examination including x-ray, etc. for a single period of confinement are as follows:

	Members	Dependents
For ordinary cases	₱175	₱150

		For cases requiring intensive care, medium or major surgery, or which endangers the patients life ₱350 ₱250
2. Surgical Expense In Case of Operation	-same-	a. Surgeon's Fee: Members / Dependents Minor Surgery: ₱ 65 MAX / ₱ 50 MAX Medium Surgery: ₱325 MAX / ₱250 MAX Major Surgery: ₱650 MAX / ₱500 MAX Surgical expense benefit for surgeries done on qualified members shall be compensated under a relative value system adopted by the Medicare Commission at the rate of [illegible] per unit value. The rate [illegible] dependents is ₱30 per [illegible] value The surgical fee covers also two (2) days of pre-operative care and five (5) days post-operative care. b. Anaesthesiologist Fee • Members - 30% [illegible] surgeon[illegible] • Dependents - -same-

		c. Operating Room Fee:
3. Medical Expense for Professional Services	-same-	a. Members - ₱15/day but not to exceed ₱200 for every single period of confinement for ordinary cases and not to exceed ₱300 for intensive care cases. b. Dependents - ₱10/day but not to exceed ₱200 for every single period of confinement for all cases.
4. Sterilization Expense	-same-	Members who are operated on for sterilization would be reimbursed for hospitalization expenses due to the operation based on the following rates: VASECTOMY - ₱125 TUBAL LIGATION - ₱200 The foregoing benefit is limited to the member and lega dependent spouse.

	Members	Dependents
Minor Surgery	₱ 20	₱20
Medium Surgery	₱ 50	₱50
Major Surgery	₱100	₱75

C. <u>Employee's Compensation</u>

1. Medical Services, appliances and supplies provided to the afflicted member beginning on the first day of injury or sickness, during the	1. Employee has been duly reported to the SSS/GSIS. 2. Sickness, injury or death is work connected; and

subsequent period of his disability, and as the progress of his recovery may require. These benefits, however, are limited to the ward services only of an accredited hospital and physician.

2. Rehabilitation services consisting of medical, surgical, and hospital treatment, including a balanced program of remedial treatment for handicapped members, which shall be provided as soon as practicable.

3. Income cash benefit for:

   a. Temporary total disability or sickness.

      An income cash benefit equivalent to 90% of the average daily salary credit with a minimum of ₱4.[illegible] and a maximum of ₱25.00 is payable for a period not longer than 120 consecutive days. If the injury requires more extensive treatment that will last beyond 120 days, it is payable up to 240 days. If it persists after this period, the same shall be deemed permanent total disability.

   b. Permanent total disability (loss of two limbs, permanent complete paralysis of two limbs, etc.)

      An employee who is entitled to this benefit shall be paid a monthly income benefit for as long as he lives plus 10% for each of the 5 dependent children beginning with the youngest and without substitution.

      The monthly income benefit shall be guaranteed for [illegible] years but shall be suspended if the employee is gainfully

3. The SSS/GSIS has been duly notified of such sickness, injury or death.

An injury or the resulting disability or death from an employment accident is compensable if:

1. The employee is injured at the place where his work requires him to be;

2. The employee is performing his official functions; and

3. If the injury is sustained elsewhere, the employee is executing an order for the employer.

employed, recovers from the permanent total disability, or fails to present himself for examination at least once a year upon notice by the System.

The minimum monthly income benefit shall not be less than ₱120 for SSS and ₱120.75 for GSIS.

Upon the death of a covered employee who is receiving permanent total disability monthly income benefit, the System shall pay to the primary beneficiaries eighty percent of the monthly income benefit, provided that the marriage must have been subsisting at the time of disability. In addition, his dependents (minor legitimate children) shall be paid the dependents' pension.

c. Permanent partial disability (loss of one thumb, finger, leg, etc.)

A monthly income benefit is also provided equivalent to the income benefit for permanent total disability but limited to the number of months designated by law for a particular disability. The minimum monthly income benefit, shall not be less than ₱120 for SSS & ₱120.75 for GSIS. However, if the period of permanent partial disability pension does not exceed one year of the same may be paid in lump sum.

d. Death

d.1 Monthly income benefit

This is provided to the deceased member's primary beneficiaries, plus 10% of such benefit for each of 5 dependent children, subject to some limitations. In the absence of primary beneficiaries, the secondary beneficiaries are entitled to a lump sum benefit equivalent to thirty five times the monthly income benefit.

		Likewise, the minimum monthly income benefit shall not be less than ₱120 for SSS and ₱120.75 for GSIS.
d.2 Funeral benefit		A funeral benefit of one thousand pesos (₱1,000) shall be paid to the beneficiaries or to any person who actually shouldered the burial expenses of the deceased member or permanent total disability pensioner.

D. Service Loans

1. Policy	All members with policies in force for at least a year except holders of terms, term renewal policies.	Loan value of a policy is either 50% or 90% or its cash value.
50% policy loans	Regular endowment policies which are policies with definite maturity and with cash and loan values after at least 1 year in force.	
90% policy loans	Optional additional policies for which the holders pay for all the premium due and policies of members already separated from the service but are still in force and for which premiums are fully shouldered by the policy holders.	
2. Salary	Any member-employee with a regular policy which has been in force for at least 20 months.	Policy in force and its equivalent loan: 20 months - 1 month loan 40 months - 2 month loan 60 months - 3 month loan

Sources: Government Social Insurance Service; Philippine Medicare Commission; Employees Compensation Commision

Table IV.3

SSS STRUCTURE OF BENEFITS

Benefits and Services	Important Qualifications	Amount of Benefits/Loans
A. Social Security Benefits		
1. Retirement		
a. Monthly Pension		
Monthly Pension	1. He is 60 years old, separated from employment and has paid at least 120 monthly contributions before the semester of retirement; or	Minimum monthly pension - ₱120. The monthly pension shall be the sum of the average monthly salary credit multiplied by the replacement ratio and 1 1/2 of the average monthly salary credit for each credited year of service in excess of 10 years.
	2. He is 65 years old and has paid at least 120 monthly contributions before the semester of retirement.	
Dependents' Pension	1. This is granted to each of the five dependent children of an old-age pensioner beginning with the youngest and without substitution, equivalent to 10% of the monthly pension.	Minimum dependents' pension for each child - ₱12.
b. Lump Sum Amount	This is granted to a member who is 60 years old or over, separated from employment, has paid less than 120 monthly contributions and is not voluntarily paying contributions.	Equivalent to total contributions paid plus 6% interest thereon from the day he qualifies to the benefits.
2. Death		
a. Monthly Pension		
Monthly Pension	This is granted only to the primary beneficiaries of a deceased member who has paid 36 monthly contributions prior to the semester of death.	Minimum monthly pension - ₱120. Pension is computed as in retirement.
Dependents' Pension	This is granted to each of the five dependent children of a deceased	Minimum dependents' pension for each child - ₱12.

	member beginning with the youngest and without substitution, equivalent to 10% of the monthly pension.	
b. Lump Sum Amount	This is granted to primary beneficiaries of a deceased member who has paid less than 36 monthly contributions prior to the semester of death or in the absence of primary beneficiaries to the secondary beneficiaries or to any person designated by the member regardless of the number of contributions paid.	Minimum lump sum amount -₱1,00
c. Funeral Grant Benefit	This is payable to the beneficiaries or to any person who actually shouldered the burial expenses of the deceased member or pensioner.	₱1,000
3. Disability		
a. Monthly Pension	This is granted to a member who suffers permanent total or partial disability and who has paid at least 36 monthly contributions before the semester of disability.	Minimum monthly pension - ₱120. Pension is computed as in retirement.
Dependents' Pension	This is granted to each of the five dependent children of a permanent total disability pensioner beginning with the youngest and without substitution equivalent to 10% of the monthly pension.	Minimum dependents' pension for each child - ₱12.
b. Lump Sum Amount	This is granted to a member who suffers permanent total or partial disability but has paid less than 36 monthly contributions before the semester of disability.	Minimum lump sum amount for permanent total disability - ₱1,000
4. Sickness	He is confined for at least 4 days due to sickness or injury and has paid at least 3 monthly contributions within the 12-month period immediately before the semester of sickness.	The daily cash allowance is equivalent to 85% the average daily salary credit with a minimum of ₱4 and a maximum of ₱20.
5. Maternity	This is granted due to childbirth, miscarriage or abortion. Member should have paid 3 monthly maternity contributions within 12-month period immediately before the semester of the contingency. Only the first	The daily maternity allowance is equivalent to 100% of the member's average daily sal. credit multiplied by 45 days.

four deliveries are covered.

B. <u>Medicare</u> (same as in GSIS)

C. <u>Employees' Compensation</u> (same as in GSIS)

D. <u>Service Loans</u>

1. Salary	Member has paid 34 monthly contributions and has not yet been granted retirement benefit or permanent total disability benefit.	One month salary but not to exceed ₱1,030.
2. Educational	Member has paid 24 monthly contributions under current employer or 34 under various employers and has not yet been granted retirement benefit or permanent total disability benefit.	One month salary but not to exceed ₱1,000.
3. Housing	Member has paid at least 12 monthly contributions; he is not a home-owner; he has not yet been granted an SSS housing loan; and he is not more than 65 years of age.	The maximum loan, which shall not exceed ₱100,000, shall be the lowest of the ff. amounts: 1. Amount applied for; 2. Amount justified by the paying capacity; 3. Loan value of the collaterals; or 4. Actual need as determined by the SSS.
4. Community Hospital	1. Applicant must be a corporation duly incorporated under the Philippine Corporation law. 2. At least 5 of its incorporators or stockholders are doctors of medicine or auxiliary medical personnel. 3. Minimum paid-up capital is equal to 25% of the loan to be applied for.	Loan shall not exceed ₱470,000 for a 25-bed hospital or ₱700,000 for a 50-bed hospital.

Sources: <u>SSS Coverage, Benefits & Loans, Information and Claim Guide;</u>
<u>Philippine Medicare Commision;</u>

<u>Employees' Compensation Commission</u>

Benefits of both systems have been expanded since the start of their operations. GSIS retirement benefit was introduced only in 1951 to complement life insurance benefit. In the case of SSS, disability benefit was added in 1975, and maternity benefit in 1978. In 1972, both systems started to implement the provisions of Republic Act (R.A.) 6111 otherwise known as the Philippine Medicare Act which provides cash payments for medical, surgical and hospitalization expenses of the system's members and their dependents. In 1975, GSIS and SSS began implementing the provisions of Presidential Decree (PD) NO. 626 otherwise known as the Employees' Compensation (EC) and State Insurance Fund. The EC's program pays for medical services, including rehabilitation services, and provides cash benefits to the system's members who suffer work-related sickness, disability and death. Note that aside from social security benefits, both systems also offer service loans to their respective members, thus increasing total benefits that a member can derive from the system.

Aside from adding new benefits, existing benefits were also revised to help moderate the decline in living standards when the earnings of family head cease because of retirement, disability or death. For example, in July 1975 SSS started giving monthly pension to each dependent child not to exceed five equivalent to 10 percent of the basic monthly pension in addition to the retiree's pension. Likewise, monthly pension is given to each dependent child not to exceed five in the event of death of a disabled member.

As may be gleaned from Tables IV.2 and IV.3, both social security systems try as much as possible to protect the employee and his/her family from almost all contingencies that would lead to a sharp reduction in family income. Whether the cash benefits derived therein are adequate to meet the financial requirements of a member and his/her family after the occurence of a particular contingency is of course another matter. We turn now to this issue.

Since one of the objectives of the social security system is to replace income of employees, the system's replacement ratio, i.e., the ratio between cash benefits and income lost due to the occurrence of a particular contingency will be considered first. Note that GSIS and SSS have different methods in arriving at the cash benefits, specifically pension benefits, for their members. These methods are discussed in detail in Appendix I. However, a few comments are in order. First, the benefits are based on the monthly salary of members in the most recent past: the last 60 months immediately preceeding the occurrence of a contingency for SSS, and the last 36 months for GSIS.

This method yields higher cash benefits than if lifetime coverage earnings were used. Second, a maximum monthly salary credit is prescribed: ₱1,000 for SSS and ₱3,000 for GSIS. This is because the social security is aimed at replacing only a portion of the lost income deemed necessary to meet the basic needs of the family. High income earners can buy private insurance if they want to be covered more than the basic necessities.

Table IV.4 presents the monthly retirement pension and replacement ratios for different monthly salary credits using the formulae given in Appendix I and assuming 20 years of service. As expected, the replacement ratio decreases as the salary credit increases. It means that the system seeks to protect the low income earners more than high income earners. Note that the replacement ratio of SSS is considerably higher than that of GSIS at the lower income brackets. It exceeds unity at the lowest monthly salary credit because of the ₱120 minimum monthly pension it enforces. However, the SSS replacement ratio decreases more rapidly than the GSIS replacement ratio. Because of the ₱1,000 ceiling on the monthly salary credit for SSS, its replacement ratio is substantially lower than that of GSIS beyond the said ceiling. However, the GSIS replacement ratio drops precipituously beyond ₱3,000 which is its ceiling on the monthly salary credit.

Table IV.4

RETIREMENT PENSION AND REPLACEMENT RATIOS OF GSIS AND SSS
(Years of Service: 20)

Monthly Salary Credit	GSIS		SSS	
	Monthly Pension(₱)	Replacement Ratio(%)	Monthly Pension(₱)	Replacement Ratio(%)
₱ 25	₱ 21.25	₱85.00	₱ 120.00	₱ 4.80
125	106.19	85.0	124.40	99.5
300	220.00	73.3	245.60	81.9
600	370.00	61.7	401.50	66.9
800	470.00	58.8	490.53	61.3
1,000	570.00	57.0	573.90	57.4
3,000	1,570.00	52.0	573.90	19.1

NOTE: Replacement ratio is the ratio between the monthly pension and salary credit. This measure is different from the replacement ratio found in equation (1) of Appendix I. It is assumed that the monthly salary credit for SSS is equal to the average monthly compensation for GSIS.

The replacement ratios presented in Table IV. 4 may have understated the actual replacement ratios since social security benefits are not taxed, while preretirement earnings are subject to income tax. If we still subtract expenses such as food, transportation, etc., incurred by workers for reporting to work from preretirement earnings, then the replacement ratios could have been a lot higher.

The replacement ratios are indeed relatively high. Using income replacement as a criterion for social adequacy, it might be said that the Philippine social security system provides adequate protection to its members because it replaces a significant proportion of the lost income of members, especially low income earners. However, there are certain qualifications. The average legislated minimum wage rate for the past five years was ₱874 per month for workers in the National Capital Region and ₱850 per month for workers outside the National Capital Region (see Table IV.5). It means that monthly salary credits below ₱800 become irrelevant for members retiring after 1984. Hence, the actual replacement ratio for new retirees must be lower than 61 percent. Replacement ratios for most workers who are going to retire in the near future are expected to go down unless the ceiling on salary credit is revised upwards. There is now a proposal to increase the ceiling on the monthly salary credit for SSS from ₱1,000 to ₱3,000, but this was met with strong resistance from employers who are severely affected by deteriorating economic conditions. Government employees have also proposed the revision of the ceiling on the monthly salary credit from ₱3,000 to ₱7,000. But this is likely to be disapproved because currently the government is exerting effort to reduce its budgetary deficits.

The other objective of the social security system is to guarantee a minimum income support for the aged, the disabled, and dependent survivors. The minimum income must however be related to the average cost of obtaining basic needs. Table IV. 6 shows the average cost of monthly basic needs including food for a reference family of six. Assuming that the husband and the wife support only themselves during their retirement age, then they will be spending about ₱985 per month to satisfy their basic needs. If both were bona fide members of the social security system for 20 years,[2/] then they should be earning not less than P800 per month to enjoy a pension that can meet their basic needs (see Table IV.4). Since the average legislated minimum monthly wages for the past five years was above ₱800, it can therefore be said that the pension benefits given by the social security system are adequate to meet the retiree's basic needs.

2/ This is a reasonable assumption since the National Census and Statistics Office reported that the average number of employed workers per family is 2.0.

Table IV.5

LEGISLATED MINIMUM WAGES FOR NON-AGRICULTURAL WORKERS
(In Pesos Per Month)

Year		National Capital Region	Areas Outside the National Capital Region
1975		253.51	253.51
1976		305.27	287.09
1977		363.60	336.33
1978		397.44	369.91
1979		508.28	480.00
1980		698.42	671.14
1981		779.72	767.85
1982		803.46	776.18
1983		865.06	837.80
1984		223.87	1,196.34
Average:	1975-1979	365.62	345.37
	1980-1984	874.11	849.86

Note: Figures assume an average of 25.25 working days per month.

Source of Basic Data: National Wages Council, Ministry of Labor and Employment

The analysis above has focused on the adequacy of retirement benefits of those who are going to retire in 1985. How about the pensions of those who retired earlier? Were they sufficiently adjusted to cope with the rising cost of living?

The social security system has been adjusting its cash benefits in response to rising prices since its inception (see Appendix II). Since 1980, SSS adjusted the retirement benefits three times (see Table V.7). To see whether the adjustments were sufficient, let us consider a minimum wage worker who retired on the last day of December 1979. His/her average monthly salary income amounts to ₱365.62 which earns him/her a monthly salary credit of ₱425 (see Table IV.6 and Appendix I). His/her corresponding monthly pension then is ₱315.42. If his/her pension were immediately adjusted in 1980, then by 1984, his/her monthly pension shall have reached ₱522.34, an increase of 65.6 percent over his/her initial pension. However, the general price level (using CPI) rose by 105.2 percent during the same period. This suggests that old retirees are getting worse off since the increase in their pension lags very much behind the increase in the cost of living.

The basis for arriving at death and permanent disability benefits is more or less the same as that for retirement benefit. So, we have more or less a fair idea of the adequacy of these benefits.

Table IV.6

AVERAGE COST OF MONTHLY BASIC NEEDS IN NON-AGRICULTURE,
NATIONAL CAPITAL REGION BASED ON A GIVEN
PATTERN OF FAMILY EXPENDITURES
(For a reference family of six)

Year	Monthly
1975	P 823.90
1976	875.10
1977	944.40
1978	1,015.50
1979	1,206.60
1980	1,408.80
1981	1,563.90
1982	1,784.40
1983	1,978.20
1984	2,954.10

Note: The National Wages Council (NWC) estimated the average cost of daily food and other basic necessities (ACDFOBN) to be P52.13 as of June 1981. Using the growth rate of the over-all CPI for Metro Manila, the average cost of daily food and other basic necessities were derived then multiplied by 30 days to obtain the average cost of monthly basic needs.

Source of Basic Data: National Wages Council, Ministry of Labor and Employment

Table IV.7

ADJUSTED PENSION OF A MINIMUM WAGE WORKER WHO RETIRED AT THE END OF 1979
(Starting Pension: ₱315.42 per month)

Year	Adjustment In the Pension(%)	Adjusted Pension	CPI (1972=100)
1980	20.0	₱378.50	294.6
1982	20.0	454.20	364.9
1984	15.0	522.34	604.4
Increase:	1980-1984	65.6%	105.2%

Note: The starting pension was derived using Table IV.5 and Appendix I.

The sickness benefits of the system are grossly inadequate. In the event of non-work connected sickness or injury that requires the employee to be confined in a hospital, he/she may avail of the sickness income benefit which is not to exceed twenty pesos a day. Additionally, he/she may avail of the Medicare benefits. However, total sickness benefits, i.e., sickness income benefits plus Medicare benefits, are not enough to defray the cost of hospitalization. This is clearly shown below where maximum Medicare benefits are compared with the average price a typical private hospital charges for some of its services;

	Maximum Medicare Benefits	Typical Private Hospital
1. Rates for room and board	₱22/day	₱75/day for ward
2. Operating fee for medium surgery	₱50	₱405
3. Surgeon's fee for medium surgery	₱325	variable - ₱2,000-5,000

C. Financing the Social Security Program

The Philippine social security system follows a reserve method, not a "pay-as-you-go" method, of financing. The system collects contributions from both the employees and employers and sets up a reserve fund to pay current and

Table IV.8

SCHEDULE OF CONTRIBUTIONS FOR SSS AND GSIS

Fund	Salary Base	Contribution Rate/Policy

1. SOCIAL SECURITY PROPER

a. For employees covered by SSS

10 Salary brackets as follows:

Range of Monthly Salary	Monthly Salary Credit
₱ 1.00 - ₱ 49.99	₱ 25.00
50.00 - 99.99	75.00
100.00 - 149.99	125.00
150.00 - 199.99	175.00
200.00 - 249.99	225.00
250.00 - 349.99	300.00
350.00 - 499.99	425.00
500.00 - 699.99	600.00
700.00 - 899.99	800.00
900.00 - OVER	1,000.00

8.4% monthly salary credit.

3.33% to be contributed by employee.

5.07% to be contributed by employer.

For a monthly salary of over ₱1,000, the contribution is based on a monthly salary credit of ₱1,000.00.

b. For employees covered by GSIS

3 Salary brackets as follows:

18% of the actual monthly salary distributed as follows:

Range of Monthly Salary	Employee	Employer
₱ 1.00 - ₱ 200.00 or less	7.5%	10.5%
over 200.00 - 3,000.00 or less	8.5%	9.5%
over 3,000.00 -		
first 3,000.00	8.5%	9.5%
in excess of 3,000.00	3.0%	9.5%

2. Medicare

8 Salary brackets applicable to employees covered by SSS and GSIS, as follows:

Monthly Salary	Monthly Salary Credit
Below ₱ 49.99	₱ 25.00
₱ 50.00 - 99.99	75.00
100.00 - 149.99	125.00

2.5% of the monthly salary credit.

1.25% to be contributed by employer.

1.25% to be contributed by employee.

	150.00 - 199.99	175.00	For a monthly salary [illegible] P600.00, the contrib[illegible] based on a monthly [illegible] credit of P600.00.
	200.00 - 249.99	225.00	
	250.00 - 349.99	300.00	
	350.00 - 499.99	425.00	
	500.00 - OVER	600.00	
3. <u>Employees' Compensation Commission</u>			
a. For employees covered by SSS	18 Salary brackets the same as those under the Social Security Program.		1% of the monthly salary [illegible] to be contributed by the [illegible] yer but not to exceed [illegible] per employee.
b. For employees covered by GSIS.	Actual monthly salary.		1% of the actual mont[illegible] salary to be contributed solely by the employer but no[illegible] exceed P30.00 per employe[illegible]

Sources: <u>Republic Act No. 1161 as amended for SSS;</u>
<u>Commonwealth Act No. 186 as amended for GSIS;</u>
<u>Presidential Decree No. 626 as amended for Employees' Compensation;</u>
<u>Republic Act No. 6111 for Medicare.</u>

future benefits. The government guarantees payment of the prescribed benefits without being diminished and accepts general responsibility for the solvency of the system.

The schedule of contributions for GSIS and SSS is given in Table IV.8. To determine the actual amount of contribution of employees and employers, SSS uses 10 salary brackets with a maximum salary base of ₱1,000 per month. The contribution rate for the SSS's social security proper is 8.4 percent of monthly salary credit divided into the following: 3.33 percent to be shouldered by employees; and 5.07 percent, by employers. The same contribution rate applies for the different monthly salary credits.

Unlike SSS, GSIS does not have a maximum salary base. GSIS' contribution rate is relatively higher - 18 percent of the actual monthly salary. This is to be divided by the employee and employer depending on the former's actual monthly salary. Note that the contribution rate for employees increases as they move up to a higher salary bracket (see Table IV.8).

Table IV.9 gives the amount of contribution due from employees and employers according to monthly salary credit. Note that for salary credits equivalent to ₱1,000 and below, a government employee pays a payroll tax twice greater than an employee in the private sector falling in the same salary credit. Beyond ₱1,000, an SSS member pays a fixed

Table IV.9

MEMBERS' CONTRIBUTIONS TO GSIS & SSS FUNDS

Monthly Salary Credit	GSIS								SSS							
	Social Security		Medicare		Employees' compensation	Total for		Grand	Social Security		Medicare		Employees' Compensation	Total for		Grand
	EE	EMR	EE	EMR	(EMR only)	EE	EMR	Total	EE	EMR	EE	EMR	(EMR only)	EE	EMR	Total
25.00	1.90	2.60	0.30	0.30	0.25	2.20	3.15	5.35	0.40	1.70	0.30	0.30	0.25	0.70	2.25	2.95
75.00	5.60	7.90	0.95	0.95	0.75	6.55	9.60	16.15	2.10	4.30	0.95	0.95	0.75	3.05	6.00	9.05
125.00	9.40	13.10	1.55	1.55	1.25	10.95	15.90	26.85	4.10	6.40	1.55	1.55	1.25	5.65	9.20	14.85
175.00	13.10	18.40	2.20	2.20	1.75	15.30	22.35	37.65	5.70	9.00	2.20	2.20	1.75	7.90	12.95	20.85
225.00	19.10	21.40	2.80	2.80	2.25	21.90	26.45	48.35	7.50	11.40	2.80	2.80	2.25	10.30	16.45	26.75
300.00	25.50	28.50	3.75	3.75	3.00	29.25	35.25	64.50	10.00	15.20	3.75	3.75	3.00	13.75	21.95	35.70
425.00	36.10	40.40	5.35	5.35	4.25	41.45	50.00	91.45	14.10	21.60	5.35	5.35	4.25	19.45	31.20	50.65
600.00	51.00	57.00	7.50	7.50	6.00	58.50	70.50	129.00	20.00	30.40	7.50	7.50	6.00	27.50	43.90	71.40
800.00	68.00	76.00	7.50	7.50	8.00	75.50	91.50	167.00	26.70	40.50	7.50	7.50	8.00	34.20	56.00	90.20
1000.00	85.00	95.00	7.50	7.50	10.00	92.50	112.50	205.00	33.30	50.70	7.50	7.50	10.00	40.00	68.20	109.00
3000.00	255.00	285.00	7.50	7.50	30.00	262.50	322.50	585.00	33.30	50.70	7.50	7.50	10.00	40.00	68.20	109.00
[illegible]	315.00	475.00	7.50	7.50	30.00	322.50	512.50	835.00	33.30	50.70	7.50	7.50	10.00	40.00	68.20	109.00

rate of ₱40.80 per month because of the maximum salary base imposed, whereas a GSIS member pays an increasing amount even beyond ₱3,000. For example, a GSIS member earning ₱5,000 a month contributes ₱322 per month, which is almost 8 times what an SSS member having the same salary pays. Note, however, that GSIS members have more benefits, e.g., life insurance in addition to retirement benefits than SSS members. This somehow justifies a higher contribution rate for GSIS.

SSS self-employed members have to shoulder both the employee's and employer's contributions. It is therefore understandable that many self-employed have shied away from the social security program to free themselves of the additional tax burden.

The total annual contributions of GSIS and SSS member are shown in Table IV.10. Although GSIS members are fewer than SSS members (see Table IV.1), the former's annual contribution exceeds the latter's. This is because the GSIS' contribution rate and salary base are higher than those of SSS.

It is to be noted that the ratio of annual contribution to annual benefits payments greatly exceeded unity for all the years the social security system has been operating (see Table IV.10). However, the ratio declined in the last two years in view of the deteriorating economic conditions. A

Table IV.10

TOTAL CONTRIBUTIONS AND BENEFITS PAYMENTS OF THE SOCIAL SECURITY SYSTEM
(Amount in Million Pesos)

YEAR	G S I S Contributions	G S I S Benefits	G S I S Contributions/ Benefits	S S S Contributions	S S S Benefits	S S S Contributions/ Benefits	SYSTEM Contributions/ Benefits
1962	117.0	44.7	2.6	65.2	9.0	7.2	3.4
63	139.1	49.5	2.8	74.9	11.4	6.6	3.5
64	166.3	54.7	3.0	85.6	14.7	5.8	3.6
65	185.6	60.1	3.1	97.4	14.4	6.8	3.8
66	206.1	75.2	2.7	114.8	18.3	6.3	3.4
67	255.0	88.2	2.9	127.8	28.3	4.5	3.3
68	252.7	96.8	2.6	140.9	37.6	3.7	2.9
69	334.2	129.5	2.6	151.9	43.7	3.5	2.8
70	359.1	142.2	2.5	166.8	49.0	3.4	2.8
71	386.5	190.1	2.0	202.0	55.2	3.6	2.4
72	483.6	195.7	2.5	283.0	71.8	3.9	2.9
73	520.8	314.7	1.6	483.1	117.5	4.1	2.3
74	530.2	336.2	1.6	537.7	250.5	2.1	1.8
75	632.2	350.1	1.8	702.2	270.9	2.5	2.1
76	837.2	437.8	1.9	839.7	335.4	2.5	2.2
77	915.3	467.0	2.0	952.9	337.0	2.8	2.3
78	1159.0	632.6	1.8	1104.6	476.8	2.3	2.0
79	1425.9	654.0	2.2	1445.4	576.7	2.5	2.3
80	1540.8	742.4	2.1	1617.7	660.4	2.4	2.2

81	1842.1	860.3	2.1	1785.9	791.5	2.2	2.2
82	2015.3	1014.3	2.0	1900.3	1016.6	1.9	1.9
83	2170.0	1207.0	1.8	1988.3	1174.2	1.7	1.7

Note: From 1962-76, figures pertaining to GSIS were based on fiscal year while those from 1976-1983 on calendar year.
These figures include contributions and benefit payments from Medicare and Employees' Compensation.

Sources: <u>Philippine Statistical Yearbook, various issues.</u>
<u>Annual Reports of GSIS and SSS, various years.</u>

lot of workers were laid off, and therefore, were not contributing to the system anymore while the number of beneficiaries enjoying the system's benefits has continued to rise.[3/]

Both GSIS and SSS are required by law to put all their revenues, i.e., members' contributions, interest income, etc., not needed to meet their current administrative and operational expenses in the "reserve fund" which shall be used exclusively for the payment of benefits. The persistent excess of contributions over benefits payments has enabled the system to build up its reserves quite rapidly (see Table IV.11). As of December 1983, reserve funds of the system amounted to ₱28B. This is certainly not an insignificant amount. Thus, the system is going to be self-sufficient in the medium term unless its reserve funds are unwisely invested or if its benefits are substantially increased without a corresponding increase in contributions.[4/]

3/ In 1983 alone, 75,428 workers were laid off. This increased to 86,186 workers in 1984.

4/ See Appendix III for the analysis of the rate of return on the reserve fund of GSIS and SSS.

Table IV.11

RESERVE FUNDS
(In Million Pesos)

YEAR	SSS 1/ (P)	SSS 1/ % Growth Rate	GSIS 1/ (P)	GSIS 1/ % Growth Rate	Total (P)	Total % Growth Rate
1957	6.1	-	303.9	-	310.0	-
58	30.8	404.9	363.2	19.5	394.0	27.1
59	67.6	119.4	434.2	19.5	501.8	27.4
60	110.1	62.9	1167.7	168.9	1277.8	154.6
61	164.5	49.4	1143.9	-2.0	1308.4	2.4
62	224.2	36.3	1132.3	-1.0	1357.1	3.7
63	293.2	30.8	1241.6	9.6	1534.8	13.1
64	371.9	26.8	1375.4	10.8	1747.3	13.8
65	465.5	25.2	1537.2	11.8	2002.7	14.6
66	577.0	24.0	1693.3	10.2	2270.3	13.4
67	690.1	19.6	1877.3	10.9	2567.4	13.1
68	814.6	18.0	2087.5	11.2	2902.1	13.0
69	953.7	17.0	2309.7	10.6	3263.4	12.4
70	1116.2	17.0	2524.3	9.3	3604.5	10.4
71	1315.9	17.9	2707.1	7.2	4023.0	11.6
72	1598.5	21.5	2974.2	9.9	4572.7	13.7
73	2054.5	28.5	3258.8	9.6	5313.3	16.2
74	2475.7	20.5	3571.8	9.6	6047.5	13.8
75	3092.3	24.9	3948.9	10.6	7041.2	16.4
76	3855.3	24.7	5022.4	27.2	8877.7	26.1
77	4835.7	25.4	5559.7	10.7	10395.4	17.1

78	5923.7	22.5	5756.8	3.5	11680.5	12.4
79	7375.6	24.5	6738.8	17.0	14114.4	20.8
80	9148.7	24.0	7665.9	[illegible]	16814.6	19.[illegible]
81	11221.1	22.6	9173.2	19.7	20394.3	21.3
82	13515.3	20.4	10838.2	18.2	24353.5	19.4
83	16082.9	19.0	12118.5	11.8	28201.4	15.8

1/ Includes reserve funds from Medicare and Employees' Compensation.

Sources: Philippine Statistical Yearbook, various years.
Annual Reports of GSIS and SSS.

V. ECONOMIC EFFECTS OF SOCIAL SECURITY

Social security is a form of intervention that influences people's behavior. The current pattern of consumption, saving, labor supply and income distribution could have been different if social security were absent. This section examines the effects of social security on saving and investment, labor supply and income distribution.

A. Social Security and Saving

One great concern about having a social security program is that it may have reduced the volume of saving in the economy. The reason is straightforward. Workers may have included future social security benefits in their saving plans. Specifically, workers who regard contributions to the system as saving might save less on their own. There is therefore a substitution of public saving for private saving. National saving will not be affected so long as the decrease in personal saving is offset by an increase in public saving. However, a problem arises if a country uses a "pay-as-you-go" method of financing since in this case, public saving is zero. The net effect therefore is a reduction in the volume of national saving. Assuming foreign saving is zero, then the lower volume of domestic saving reduces investment, and thereby lowers the rate of economic growth.

The Philippines does not share the same concern since its social security system utilizes a "reserve", not a "pay-as-you-go" method of financing. Under this scheme, there is just a transfer of saving from the private to the government sector. It may even be argued that the social security system helps increase national saving because it forces members to save a certain portion of their income every month during their working life. Since it is a payroll tax, workers cannot postpone saving regardless of the economic circumstances that may emerge. In the case of voluntary saving, workers have less compulsion to save especially if an emergency arises.

This paper does not concern itself with the way social security affects saving behavior of individuals for several reasons. First of all, a single theory is needed that can adequately describe the saving behavior of people who have diverse socio-economic and cultural characteristics. In economically advanced countries, studies using various models, notably the "life-cycle model," the multi-generation model" and the "short-horizon model," to determine the extent of the association between social security benefits and saving had produced conflicting results.1/ They are not therefore good bases for policy planning and formulation.

1/ See Aaron (1982)

Second, even if we attempt to do similar studies to resolve the question regarding which model best describes the Philippine case, existing data compiled by both the National Census and Statistics and the two social security systems do not permit such kind of analysis. A survey specifically designed to answer the problem is needed. However, the return on this undertaking is unclear. Lastly, since our main concern is with the movement of capital stock, a study to determine the extent of the effect of social security on personal saving is important so long as the decline in personal saving due to social security is not offset by public saving. In the Philippine case, however, the decline in personal saving, if ever there is, due to social security is offset to a certain degree by a rise in public saving; hence a study on the relationship between social security benefits and saving behavior of individuals is less important. The following discussion will instead describe the contribution of the social security system to the flow of loanable funds.

Table V.1 describes the importance of social security in the financial system. Total assets of the social security system comprise between 7 to 9 percent of the total assets of the entire financial system. Its share in total assets is even bigger than that of the private insurance system which includes more than one hundred life and non-life insurance firms. The growth rate of its assets averaged 19 percent annually during the period 1976-1983.

Table V.1

ASSETS OF THE FINANCIAL SYSTEM, PHILIPPINES: 1975-83
(In Million Pesos)

Year	Total Financial System	Government Financial System	Private Insurance System	Social Security System (GSIS & SSS)
1975	96,674.00	57,880.00	4,224.5	7,162.16
	(100.00)	(59.9)	(4.4)	(7.4)
1976	113,959.30	77,370.00	5,230.1	10,148.46
	(100.00)	(67.9)	(4.6)	(8.9)
1977	129,644.00	83,650.00	6,167.5	11,483.80
	(100.00)	(64.5)	(4.8)	(8.8)
1978	162,562.40	101,750.00	7,803.1	13,215.21
	(100.00)	(62.6)	(4.8)	(8.[illegible])
1979	203,613.20	128,160.00	8,955.1	15,633.56
	(100.00)	(62.9)	(4.4)	(7.7)
1980	247,768.70	161,140.00	9,997.4	18,502.70
	(100.00)	(65.0)	(4.0)	(7.5)
1981	289,296.60	181,380.00	11,333.6	20,902.05
	(100.00)	(62.7)	(3.9)	(7.2)
1982	343,970.00	235,580.00	13,715.7	25,145.17
	(100.00)	(68.5)	(4.0)	(7.3)
1983	418,091.40	305,910.00	13,715.7	28,546.60
	(100.00)	(73.2)	(3.3)	(6.8)

Note: Figures in parentheses are percent of the total financial system. It does not add up to total because not all systems are included.

Sources: <u>Nomura Research Studies (1984)</u>
<u>GSIS and SSS Annual Reports, various years.</u>

As pointed out in the earlier section, the social security system has been accumulating large reserves through the years. The charter of GSIS and SSS allows them to invest funds not needed to meet current obligations. It is worthwhile to note that the SSS charter is more specific with regard to where to place its investment funds. Accordingly, excess funds are to be invested in the following: (1) interest-bearing bonds or securities of the government; (2) interest-bearing deposits or securities in any domestic bank doing business in the Philippines; (3) loans or interest-bearing advances to the National Government for the construction of permanent toll bridges, toll roads or government office buildings; (4) direct housing loans to covered employees and housing projects giving priority to the low-income groups; (5) credit facilities for small short term loans to covered employees; and (6) other income-earning projects and investments secured by first mortgages on real estate collaterals. On the other hand, the revised GSIS Charter stipulates that investment of its excess funds is left to the discretion of its Board.[2/] Note that both systems are required to place funds in development projects whose social rate of return is expected to be high and, at the same time would give them a reasonable return on their investments.

2/ Before the revision of its charter in 1977, GSIS used to follow a specific investment guideline similar to that of SSS.

The magnitude of the contribution of the social security system to the total flow of loanable funds can be gleaned from Table V.2. Its loans outstanding comprised between 9 to 11 percent of the total loans outstanding of the financial system during the period 1977-82.3/ However, its biggest relative contribution can be found in investments. Its investments portfolio ranged between 10 to 18 percent of the total investments portfolio of the entire financial system during the same period.

The social security system's impact on gross domestic savings can be observed from Table V.3. The share of the system's contributions (payroll tax) in total gross domestic savings ranges from 7 to 11 percent during the period 1962-1983.

Tables V.4 and V.5 summarize the investment preferences of GSIS and SSS, respectively. GSIS has increased the share of stocks and bonds at the expense of real estate loans. Note that the former mainly consist of private securities issued by private firms most of which were recently acquired or taken over by GSIS. On the other hand, SSS seems to behave more conservatively. A significant proportion of its investible funds are deposited with the two government-owned

---

3/ Earlier years could not be included since the Central Bank started reporting loans only in 1977. Before that, the Central Bank reported statistics on loans granted.

Table V.2

THE SHARE OF GSIS AND SSS IN TOTAL INVESTMENTS AND LOANS PORTFOLIO OF THE FINANCIAL SYSTEM

Year	Investments Portfolio		Loans Outstanding	
	Total (₱M)	(%) Share of GSIS & SSS	Total (₱M)	(%) Share of GSIS & SSS
1977	14,143.2	10.0	63,447.2	11.4
1978	17,324.5	9.9	81,021.2	10.4
1979	21,703.3	16.9	99,418.2	8.6
1980	25,142.9	18.0	115,227.2	8.7
1981	30,462.6	15.6	134,193.6	9.6
1982	38,118.3	17.4	154,359.6	9.2

Sources: Central Bank Statistical Bulletin, 1983;
Annual Reports of GSIS and SSS, various years.

Table V.3

SOCIAL SECURITY SYSTEMS CONTRIBUTIONS, BENEFITS, GROSS DOMESTIC SAVINGS AND GROSS NATIONAL PRODUCT
(Amount in Million Pesos)

Year	(1) 1/ Contributions	(2) 1/ Benefit Payment	(3) Gross Domestic Savings	(4) Gross National Product	(5) 1/3 In %	(6) 1/4 In %	(7) 2/3 In %	(8) 2/4 In %
1962	182.2	53.7	1876	17030	9.7	1.1	2.9	0.3
63	214.0	60.9	3023	19793	7.1	1.1	2.0	0.3
64	252.1	69.4	3218	21383	7.8	1.2	2.2	0.3
65	283.0	74.5	3370	23382	8.4	1.2	2.2	0.3
66	320.9	93.5	3673	25745	8.7	1.2	2.5	0.4
67	382.8	115.5	3525	27477	10.8	1.4	3.3	0.4
68	393.6	134.4	3401	30756	11.6	1.3	4.0	0.4
69	486.1	173.2	3405	34220	14.3	1.4	5.1	0.5
70	527.9	191.2	5067	40821	10.4	1.3	3.8	0.5
71	588.5	245.3	5583	49611	10.5	1.2	4.4	0.5
72	766.8	267.5	6326	55935	12.1	1.4	4.2	0.5
73	1033.9	432.2	12518	72191	8.8	1.4	3.4	0.6
74	1067.9	586.7	17021	99859	6.3	1.1	3.4	0.6
75	1334.4	637.0	18330	114438	7.3	1.2	3.5	0.5
76	1676.9	773.2	20268	134202	8.3	1.2	3.8	0.6
77	1868.2	804.2	23742	153255	7.9	1.2	3.4	0.5
78	2263.6	1111.6	26562	177022	8.5	1.3	4.2	0.6

79	2871.3	1230.7	38539	210831	7.4	1.3	3.2	0.6
80	3166.5	1402.0	43069	264534	7.4	1.2	3.2	0.3
81	3620.0	1559.0	47265	303644	7.7	1.2	3.5	0.5
82	3915.6	2030.9	36518	335416	10.7	1.2	5.6	0.6
83	4166.3	2381.2	38840	379347	10.7	1.1	6.1	0.6

1/ Consist of GSIS, SSS, Medicare, & Employee's Compensation

Sources: <u>Philippine Statistical Yearbook, various years;</u>
<u>SSS and GSIS Annual Reports, various years;</u>
<u>National Accounts Staff, NEDA</u>

banks, namely the Philippine National Bank (PNB) and Development Bank of the Philippines (DBP), which in turn use the funds for development projects. It also lends a substantial amount of money directly to the national government and to the nonfinancial government corporations.

There is no doubt that the social security system has increased the flow of loanable funds of the financial system. Specifically, it has contributed a significant amount of non-inflationary funds to the government and its instrumentalities that can be used for development projects. Whether the investment of the system has been made efficiently, and whether it has helped accelerate the development process are indeed important issues; but they already fall beyond the purview of this paper.

B. Social Security and Labor Supply

Social security affects decisions of workers with regard to work effort and the amount of leisure to be consumed during their whole life time. It may induce more people to retire even at an early age so long as they are assured of an acceptable minimum income support. This consequently reduces labor supply which is badly needed by a growing economy. The social and financial cost of a severely reduced labor supply or labor force participation, especially among the middle aged, is certainly not going to be insignificant.

Table V.4

LOANS AND INVESTMENTS OF GSIS, 1970-83
(in million pesos)

	1970	1971	1972	1973	1974	1975	1976
Policy Loans	156.3 (8.4)	177.3 (8.8)	202.5 (8.5)	225.2 (8.9)	255.3 (9.0)	266.9 (9.5)	332.8 (9.6)
Salary Loans	298.9 (16.1)	393.3 (19.6)	368.1 (15.6)	346.2 (13.5)	353.9 (12.5)	389.9 (13.3)	500.3 (13.0)
Real Estate Loans	1005.7 (54.0)	1076.6 (53.5)	1343.5 (57.0)	1517.1 (59.0)	1673.3 (59.3)	1745.2 (59.4)	2335.4 (60.5)
Stocks and Bonds	370.5 (19.9)	334.0 (16.6)	346.1 (14.7)	338.0 (13.1)	393.0 (13.9)	382.2 (13.0)	636.7 (16.6)
Backpay Certificates	7.4 (0.4)	7.4 (0.4)	2.4 (0.1)	2.4 (0.1)	2.6 (0.1)	1.7 (-)	1.7 (-)
Miscellaneous	22.6 (1.2)	23.5 (1.2)	92.7 (3.9)	157.1 (5.3)	143.6 (5.1)	137.0 (4.7)	43.0 (1.1)
Total	1851.5	2012.7	2355.3	2570.1	2821.5	2937.2	3851.6

	1977	1978	1979	1980	1981	1982	1983
Policy Loans	365.6 (8.5)	414.3 (8.5)	477.8 (8.6)	561.6 (8.7)	632.7 (8.2)	736.4 (7.9)	820.6 (8.3)
Salary Loans	546.7 (12.6)	651.5 (13.3)	802.1 (14.4)	938.5 (13.3)	1202.7 (15.3)	1416.0 (15.2)	1516.6 (15.3)
Real Estate Loans	2477.7 (57.2)	2496.2 (51.3)	2532.1 (45.5)	2685.5 (41.7)	2516.8 (35.8)	2367.5 (35.4)	2658.3 (26.8)
Stocks and Bonds	890.3 (20.6)	1276.5 (26.2)	1714.4 (32.3)	2132.5 (33.1)	2635.2 (37.3)	3744.2 (40.2)	3658.6 (39.0)
Backpay Certificates	1.7 (-)	0.5 (-)	0.5 (-)	0.5	1/	1/	1/
Miscellaneous	42.6 (1.0)	29.4 (0.6)	37.5 (0.7)	124.5 (1.9)	271.5 (3.4)	1059.0 (11.4)	1057.1 (10.7)
Total	4324.0	4860.4	5564.5	6443.2	7059.2	9323.9	9303.4

1/ Included in Miscellaneous.
-Negligible

Table V.5

LOANS AND INVESTMENTS OF SSS, 1973 - 1983
(In Million Pesos)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
PNB/DBP notes	219.4 (20)	232.9 (18)	364.1 (24)	564.1 (30)	827.3 (35)	1099.2 (38)	1732.7 (48)	2445.0 (56)	3173.0 (60)	2675.3 (41)	3540.9 (44)	4496.9 (46)	5250.7 (46)	7114.2 (52)
Other Government Securities	215.9 (20)	279.3 (22)	409.3 (27)	456.1 (24)	529.7 (23)	730.7 (25)	551.1 (16)	367.8 (8)	298.6 (6)	1863.0 (28)	2204.5 (27)	2632.6 (27)	3150.3 (27)	3004.2 (22)
Housing Loans	431.8 (40)	514.5 (41)	511.1 (33)	562.4 (30)	597.9 (25)	667.7 (23)	806.8 (22)	983.9 (23)	1191.8 (22)	1414.4 (21)	1592.9 (20)	1750.1 (18)	1930.6 (17)	2192.4 (16)
Service Loans	122.0 (11)	140.8 (11)	146.2 (10)	179.6 (9)	224.3 (10)	255.4 (9)	326.1 (9)	390.4 (9)	452.5 (9)	540.4 (8)	624.0 (8)	724.1 (7)	801.5 (7)	858.5 (6)
Private Securities	96.4 (9)	98.3 (8)	93.3 (6)	128.2 (7)	169.6 (7)	162.5 (5)	166.3 (5)	161.0 (4)	158.7 (3)	196.7 (2)	104.0 (1)	99.6 (1)	389.3 (3)	462.9 (3)
Total	1085.5 (100)	1265.8 (100)	1519.2 (100)	1990.4 (100)	2348.8 (100)	2915.5 (100)	3597.0 (100)	4340.1 (100)	5276.7 (100)	6600.6 (100)	8066.3 (100)	9711.3 (100)	11530.4 (100)	13623.2 (100)

Note: Figures in parenthesis are portfolio shares in %.

Sources: SSS Annual Reports (1981-1983) and WB Study on Housing Finance (1970-1980)

p

There are three reasons why people retire permanently or withdraw their supply of labor from the market. First, they have already reached the age of compulsory retirement. Second, retirees may not like to work to enjoy fully the retirement benefits. This is called the earnings test. And finally, retirement benefits are not substantially below the pre-retirement income. This encourages retirement not only among the aged but also among the younger ones. This is called the benefit effect.[4/] Retirement policies of GSIS are quite different from SSS. For GSIS, retirement is compulsory for an employee at age 65 years with at least 15 years of service. However, if at age 65 the employee has not yet completed 15 years service he may be allowed to continue in the service to complete the 15 years. In the case of SSS, retirement is not compulsory. However, an employee may retire at the age of 60 or 65 years so long as he has paid at least 120 monthly contributions prior to the semester of retirement. This regulation may have conditioned both employers' and employees' attitude toward age 60 or 65 as the normal retirement age; and this gets reflected in company policies. Moreover, the presence of social security may find it socially acceptable for firms to replace aged workers with younger, healthier and better-

---

4/ See Munnel (1977) for a clear exposition of these concepts.

educated workers. This practice may have set the trend for early retirement.

The earnings test, if fully enforced, makes it difficult for retirees to re-enter the labor force. In the case of GSIS, if a pensioner who has received a lump sum is re-employed, he/she shall refund in full to GSIS the amount corresponding to the unexpired portions covered by the lump sum. In addition, his/her pension shall be suspended, unless he receives a compensation lower than his pension, in which case he/she shall receive the difference. In the case of SSS, monthly pension shall be reduced, instead of being suspended, upon re-employment of an old age pensioner who is less than 65 years old. But the reduction is substantial that it discourages the pensioner from joining the labor force again.

Social security benefits may have been attractive enough so that those who qualify for retirement would opt not to extend their working age anymore. As shown in the earlier section, social security benefits replace a substantial proportion of pre-retirement income especially among low-income earners. Thus, there seems to be little incentive for workers to remain in the labor force. High replacement ratio may have been aided by policies that allow early retirement. This is especially true with GSIS. Under its Gratuity Retirement Benefit, any official or employee regardless of age may retire provided he has rendered at least 20 years of service, the last 3 years of which are continuous. Thus, one who joins the civil service at age 20 may retire at age 40. GSIS' Annuity (Pension) Benefit Plan also allows retirement as early as age 52 provided certain qualifications have been satisfied by the employee (see Table IV.2).

The possible reasons why labor force participation among the aged could decline with the presence of social security have been discussed. It is appropriate at this junction to refer to some evidence.

Table V.6 gives the labor force participation rates by age and sex for four selected years. Note that the 1976 and 1984 survey data are not comparable with those of earlier years because of a change in the reference age of persons included in the labor force and the change in the reference period. Despite this difference, one can observe a consistent pattern from the data; that is, the sharpest drop in labor force participation occurred at age 65 years and over. Age 65 may be an important milestone in the average working life in the Philippines.

The 1976 and 1984 data on labor force participation yield several interesting insights. First, a pronounced drop in labor force participation is observed in the 55-64 age cohort. It means that a significant proportion of the relatively younger people have withdrawn their labor supply from the market. One might attribute it to social security, and there seems to be some truth to it. Based on a very rough data provided by GSIS, about 83 percent of the 6898 retirees in 1983 retired in 1983 at the age between 55 and 64 years (see Table V.5).[5/] As expected, a greater proportion of women retired at an early age than men. Thus, retirement policies and benefits of the social security system may have encouraged early retirement. However, caution must be exercised in attributing the decline in the labor force participation among those whose age range between 55 and 64 solely to social security. In the first place, the social security system has covered only about 50 - 57 percent of the labor force (see Table IV.1). Others who retired may have a private pension plan. Secondly, other economic factors, such as rising income of children, difficulty in finding a job, etc., could have been at work which might have helped the aged decide to withdraw their labor supply from the market at a relatively early stage. Unfortunately, lack of data prevents an analysis that could isolate the effect of those factors from the effect of social security on labor force participation. And lastly, life expectancy may have influenced workers to retire at an

---

5/ SSS could not provide us the same information.

Table [illegible]6

LABOR FORCE PARTICIPATION RATES BY AGE AND SEX

Age Group	October 1965			August 1971			Age Group	1976 3rd Quater			1984 3rd Quarter		
	Both Sexes	Male	Female	Both Sexes	Male	Female		Both Sexes	Male	Female	Both Sexes	Male	Female
10 years and over	53.1	71.3	35.3	49.5	67.2	32.2	15 years and over	60.5	81.4	40.1	64.2	80.6	48.3
10 - 24	38.4	47.9	29.2	33.0	41.1	25.2	15 - 19	40.4	48.5	32.4	40.4	48.1	32.6
25 - 44	69.6	97.3	42.7	68.4	96.4	41.7	20 - 24	61.1	79.0	45.0	63.6	77.3	49.9
45 - 64	69.5	94.9	43.2	66.0	92.9	38.4	25 - 34	70.2	96.3	45.8	72.7	94.8	52.4
65 years and over	38.5	56.5	20.9	33.7	52.4	15.6	35 - 44	70.5	98.2	43.2	78.0	97.9	58.8
							45 - 54	70.6	97.2	44.1	76.9	95.2	59.2
							55 - 64	63.2	88.0	35.9	67.2	87.8	48.7
							65 years and over	42.1	62.6	20.3	41.9	59.4	25.9
							Age not reported	12.4	17.9	5.7	50.0	-	50.0

Note: Prior to 1976, labor force referred to the population 10 years old and over who are either employed or unemployed. All information relates to the calendar week (Sunday to Saturday) preceding the visit of the census field worker or interviewer. In 1976, labor force referred to population 15 years old and over who are either employed or unemployed. The past quarter is the reference period for the survey and this refers to 3 months coinciding with the calendar quarter.

[illegible] of Labor Statistics (various issues)
[illegible] Survey Division, NCSO

Table V.7

ACTUAL AGE OF RETIREES UPON RETIRING, GSIS: 1983

Age Group	Total	Male	Female
35 - 44	7 (0.1)	4 (0.1)	3 (0.1)
45 - 54	54 (0.8)	30 (0.7)	24 (0.9)
55 - 64	5,744 (83.3)	3,301 (80.0)	2,443 (88.6)
65 & over	1,093 (15.8)	804 (19.0)	289 (10.5)
Total	98	4,139	2,759

Note: Figures in parentheses are percent of corresponding total. Average Monthly Pension: Male - ₱669.46; Female - ₱766.90. Average Age: Male - 61.49 years; Female - 61.20.

Sources: GSIS - based on 6,898 retirement envelopes (1983).

early age. In the Philippines, life expectancy was 62.5 years as of 1983, which is below the compulsory retirement age of 65 years.

The second important insight that can be obtained from the 1976 and 1984 survey data is that labor force participation rate of almost all age cohorts has tended to increase over time. For the 65 and over age cohort, labor force participation rate virtually remains the same. This trend is the reverse of what can be observed from the 1965 and 1971 survey data. Note that 1984 was the worst year for the Philippines in its post-war history. GNP declined by 5.5 percent inflation rate, averaged 50 percent for the year, and the peso was devalued by 32 percent vis-a-vis the US dollar. Thus, data on labor force participation seem to suggest that during severe economic difficulty when real family income is substantially reduced, more people would tend to join the labor force with the hope of augmenting family income. Those who already left the labor force would re-enter. The aged is not an exception to this case, as may be gathered from the data.

As shown in the earlier part of this section, real income of pensioners has been declining quite rapidly. This could be one of the considerations for retirees to re-enter the labor market. The other is that the earnings test is not effective for at least two reasons. One is that the two social security systems lack the capability to check any violation of the rules and regulations on retirement. Secondly, opportunities for evading the rules and regulations on retirement abound. For example, a retiree may use his lump sum cash benefit in setting up his/her own business and register the said business in the name of one of his/her children.

In sum, the evidence seems to suggest that social security has encouraged early retirement. However, its effect on labor force participation is weakened because of its limited coverage and inability to enforce the earnings test.

C. Social Security and Income Distribution

This part of the paper attempts to show some evidence regarding the effects of social security on income distribution. The results of the study done by Rosenberg (1970) are mainly noted here. Before a summary of his main findings are presented, some comments are in order. First, Rosenberg's study examines only the effects of SSS on income distribution. However, his conclusions can apply as well to GSIS since both social security systems have fundamentally the same structure of benefits and contributions. Second, his study makes use of 1967 data. However, if his methodologies are adopted to analyze more recent data the same conclusions are expected to result. The main reason is that the structure of benefits and contributions of SSS have basically remained the same, although the levels of contributions and benefits have been adjusted upwards.

Table V.8 summarizes the results pertaining to the effects of SSS on income distribution of the whole Philippine population using three family income brackets, namely Low: ₱0 - ₱2,499; Middle: ₱2,500 - ₱4,999; and High ₱5,000 and above.

The distributional impact of the payroll tax was analyzed using three alternative assumptions: A_C = the full employer tax is shifted backward on the workers; B = one-half of the employer tax is shifted backward and one-half forward; and C = the employer tax is borne one-third by the employer, one-third is shifted to consumers, and one-third is shifted onto the worker. The first three columns of Table V.8 show the ratios of contributions to family income. They suggest that contributions or the payroll tax is progressive. That is, the payroll tax takes from high-income families a larger fraction of income than from low-income families.

Table V.8

EFFECTS OF SSS ON INCOME DISTRIBUTION OF THE WHOLE PHILIPPINE POPULATION
(In Percent)

Family Income Brackets	Contributions/Y			Benefits/Y	Interest Savings on Loans/Y	(B + L)/Y	Net (B_B) Transfers/Y		
(Column)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Assumption	A	B	C	B		B	A	B	C
Low ₱0 - 2,499	.36	.57	.42	.29	.00	.30	-.06	-.26	-.12
Middle ₱2,500 -4,999	.93	.93	.74	.18	06	.21	-.72	-.71	-.52
High ₱5,000 & above	1.46	1.27	1.53	.14	44	.59	-.87	-.68	-.94

Notes: A_C = the full employer tax is shifted backward on to workers.

B_C = 1/2 of the employer tax is shifted backward and 1/2 forward.

C_C = the employer tax is borne 1/3 by the employer, 1/3 shifted to consumers, 1/3 shifted backward to the worker.

B_B = benefits after contingency

L = benefit value of loans = interest savings on loans.

Y = family income.

Net Transfer = (Benefits + L) - Contributions

Source: R. E. Rosenberg, "The Effects of the Social Security System (SSS) On Income Redistribution in the Philippines," Unpublished Ph.D Thesis submitted to the University of Wisconsin, 1970.

The effect of benefits on income distribution is analyzed by using after-contingency family income position, i.e., the family income position after taking into account reductions in income caused by retirement and death of the family's bread winner. The ratio of benefits to income given in column (4) indicates that social security benefits are progressive. Low income families have obtained relatively higher benefits than high income families.

It was discussed in the earlier section that aside from the basic social security services, the social security system also gives service loans. For example, SSS may grant a housing loan as much as ₱100,000 to a member at rates substantially lower than the market rate.[6/] The difference between the market rate and the SSS loan rate multiplied by the loan value is then the interest savings on loans realized by a borrower. Column (5) shows the ratio of interest saving on loans to family income. It indicates that the service loans are regressive; that is, service loans favor high-income groups. It should be noted that low income earners do not have access to certain loan

---

6/ The current rates of interest for housing loans are: 6 percent per annum compounded monthly on the first ₱30,000; 9 percent per annum compounded monthly on the next ₱20,000; and 15 percent per annum compounded monthly on any amount in excess of ₱50,000. Note that the lending rate on long-term loans usually ranges between 21 to 27 percent during normal times.

facilities because of certain requirements, such as collateral. If ever they do, they cannot obtain the maximum loan value because of low income. This is particularly true of housing loans. Recently, a scandal shook the SSS when it was discovered that some low income earners with the help of some SSS personnel were able to obtain the maximum amount allowed for housing loans even though the amount of the loan obtained cannot be justified by their paying capacity. Implicitly, it is an action, although an illegal one, taken by low income earners to correct the regressive effect of housing loans.

The combined effect of basic social security benefits and service loans on income distribution is shown in column (6). It is progressive between the low and middle income bracket but regressive between the low and the high and middle and high income brackets. This indicates that the extensive distribution of interest savings on loans to the high income brackets significantly outweighs the less extensive distribution of after-contingency benefits alone to the low income brackets.

The last three columns give the measures of net transfers under three tax incidence assumptions. Results show that net transfers are generally progressive except under incidence assumption B where there is some mild regressivity between the middle and high income brackets. Note that net transfers are negative over all income brackets. This is to be expected since the system is using a reserve method of financing.

So far, the analysis has focused on the effects of social security on each family income bracket by taking into account net transfers. Rosenberg also examined the change in the overall income redistribution brought about by social security. After subtracting net transfers from the initial income distribution, he obtained a GINI coefficient of .510 which is lower than .516, the GINI coefficient before the effects of SSS were taken into account. Thus, social security decreases the inequality of the Philippine income distribution.

VI. SUMMARY, CONCLUSIONS AND POLICY IMPLICATIONS

Social security is one of the institutional transfers the Philippines has received from Western countries. It provides a socially acceptable mechanism for promoting the welfare of workers.

The Government Service and Insurance System (GSIS) which services the government sector started operating in 1937. Then in 1957, after ironing out objections raised by both employers and employees, the Social Security System (SSS) which takes care of the private sector, started operating. Both systems do not only intend to partially replace workers' income lost due to a certain contingency, such as death, sickness, disability and old age, but also guarantee a minimum income support to the workers and their family in case any of these contingencies occur.

Apart from providing workers security against the hazards of disability, old age and death, social security has also certain economic effects. Through its system of contributions and benefits, social security may affect saving behavior of people, and therefore the total volume of domestic savings available for capital formation. It may also influence people's decision regarding work effort, which in turn affects labor force participation or labor supply. Finally, through the structure of its contributions and benefits, social security may have certain income redistributive effects. These are issues which indeed need serious examination.

This paper has examined the social adequacy and economic effects of social security in the Philippines. Important findings are briefly discussed below.

A. Social Adequacy

In determining the social adequacy of social security, the paper has examined the coverage, benefits and financing of social security.

1. Coverage. The social security system started with a very limited coverage.[1/] Through time, coverage has been widened, reflecting the desire of society to make social security universal. Thus, compulsory coverage has been extended to all government employees regardless of their status, to any employee in the private sector, and to the self-employed earning at least ₱1,800 per annum. Membership in the social security system has grown quite rapidly in the last decade, except during the period 1981-1983 when the economy performed miserably. However, despite the widening in legal coverage, the system up to 1984 still covers only a little over 50 percent of the entire labor force. Those who

---

1/ Social security system refers to both GSIS and SSS, unless otherwise indicated.

were not covered consist of those who are legally excluded from coverage and the self-employed who otherwise would have qualified for membership but opted not to register. It seems that the system still lacks the mechanism to enforce compulsory coverage to otherwise qualified self-employed. A system that is regarded by society as important, and yet excludes a significant proportion of the working population certainly leaves much to be desired.

2. Benefits. The existing structure and number of social security benefits reflect the desire of the system to protect workers from almost all contingencies. The replacement ratios are quite high, especially for low income earners. Cash benefits of newly-retired members who were earning at least the legislated minimum wage for the past five years are sufficient to cover their basic needs. However, old retirees are getting worse-off each year since their pensions are not proportionately adjusted to price increases. To date, there is no formula that automatically adjusts pensions in accordance with movements of the general price level. So far, the rate of adjustment in the pension has been left to the discretion of the President of the Philippines, and adjustments were made only in certain years without any regularity. It might be worthwhile to consider at this point a formula for automatically adjusting pensions of retirees without having to seek approval from the President.

The Sickness and Medicare Benefits offered by the system have also been examined. We found them severely inadequate to defray medical expenses to be incurred by an employee if hospitalized due to sickness. Perhaps, this is one area where the system can explore possibilities for expanding benefits to cover a substantial portion of total medical costs to be incurred by workers in case of sickness.

3. Financing Social Security. The social security system follows a "reserve" method, not a "pay-as-you-go" method of financing. Employers and employees share the payroll tax. However, self-employed have to shoulder the share of both the employers and employees. This may be one reason why many self-employed did not register as members of the system. Total contributions are based on salary credits of the employee concerned.

The ratio of annual contributions to annual benefits payments greatly exceeded unity for all the years the social security system has been operating. This has enabled the system to build up its reserves quite rapidly. The system is going to be self-sufficient in the medium term, unless its reserve funds are unwisely invested or individual benefits are substantially increased without a corresponding increase in individual contributions.

B. Economic Effects

The effects of social security on saving and investment, labor force participation and income distribution have also been investigated.

1. Saving and Investment. The paper did not study the effects of social security on saving behavior of individuals. Instead, it has focused on the contribution of the system to the flow of loanable funds.

It has been argued that social security helps increase national saving because it forces members to save a certain portion of their income per period. The system has been accumulating large reserves which are placed in interest-earning assets. Its investments and loans portfolios comprise a significant proportion of the total investments and loans portfolios of the total financial system. Thus, its contribution to the total financial system's resources is indeed significant. It is to be noted that it has contributed a substantial amount of non-inflationary funds to the national government and its instrumentalities that can be used for development projects.

2. Labor Force Participation. It has been hypothesized that social security encourages early retirement and thus results in a sharp reduction in labor force participation, especially among the elderly. The evidence seems to suggest that social security has encouraged early retirement among members of the system. However, its effect on labor force participation is weakened

because of its limited coverage, that is, it covers only a little over one-half of the entire labor force, and its inability to enforce the earnings test.

The Philippines has yet to come up with an unequivocal policy regarding retirement. In a labor-surplus economy, like the Philippines, it may be worthwhile to encourage early retirement in order to give way to new entrants to the labor market. Hence enforcement of the earnings test becomes crucial here. But if pensions of retirees are not adjusted in accordance with movements of the general price level, then it would indeed be very difficult to pursue such policy. This issue should be considered seriously by policy makers.

3. Income Distribution. The payroll tax and the basic social security benefits tend to be progressive. However, service loans offered by the system seems to be regressive. Net transfers were negative over all income brackets. This is to be expected since the system follows a reserve method of financing.

By examining the GINI coefficient before and after the effects of social security were taken into account, result show that social security indeed decreases the inequality of the Philippine income distribution.

The social security system need to re-examine its service loans policy in view of its regressive effects. As it is now, the maximum amount that one can borrow is tied up to the repaying capacity of the worker. For example, a worker who is earning ₱800 per month may avail of the salary loan facility up to ₱800 only, whereas another worker who is earning ₱1,000 or more per month may avail of the same facility up to ₱1,000. Considering that the interest rate on salary loans is only 6 percent per annum compared to the market rate of between 21 to 27 percent per annum, the interest savings realized by high income earners is definitely larger than that enjoyed by low-income earners. Other service loans bear basically the same bias. Perhaps, the system should start considering other alternative mechanisms-- such as tying up interest rate on service loans to the income of members, or using the market rate of interest to totally eliminate interest rate savings--to correct the regressive effects of its service loans.

REFERENCES

Aaron, Henry J., Economic Effects of Social Security (Washington D.C.: The Brookings Institution, 1982).

Adams, Dale, "Mobilization Household Savings through Rural Financial Markets," Economic Development and Cultural Change, Vol. 26 (April 1978).

De Vos, Susan, The Old-Age Economic Security Value of Children in the Philippines and Taiwan. (Madison: University of Wisconsin, 1984).

Government Social Insurance System, Annual Reports (various years) and Information Manuals.

Lamberte, Exaltacion et al., "Attitudinal Disposition and Views Toward Institutionalization of the Aged: A Comparative Study of the Institutionalized and Non-Institutionalized Elderly," Unpublished Paper, University of the Philippines, Department of Sociology (1985).

McKinnon, Ronald I., Money and Capital in Economic Development (Washington D.C.: The Brookings Institution, 1973).

Manuel, Alicia H., The Future of Social Security (Washington D.C.: The Brookings Institution, 1977).

Pechman, Joseph A., Henry J. Aaron, and Michael K. Taussig, Social Security: Perspective for Reforms. (Washington D.C.: The Brookings Institution, 1968).

Rosenberg, Richard Earl, "The Effects of the Social Security System (SSS) on Income Redistribution in the Philippines," Unpublished Ph.D. Thesis, University of Wisconsin , 1970.

Social Security System, Annual Reports (various years) and Information Manuals.

Vogel, Robert C., "Savings Mobilization: The Forgotten Half of Rural Finance," in Adams, Graham and Von Pischkee (eds.), Limitations of Cheap Credit in Promoting Rural Development (Washington D.C.: The World Bank, 1983).

Appendix I

COMPUTATION FOR THE MONTHLY PENSION FOR RETIREMENT

I. For SSS

STEP 1. Computation of the Average Monthly Salary Credit (AMSC).

A. Retirement Benefits

1. Add the monthly salary credits (MSC) in the 60-month period immediately preceding the semester of retirement and divide the sume by 60; or

2. Add all the monthly salary credits paid prior to the semester of retirement and divide by the number of months of coverage in the same period.

The bigger of 1 and 2 is the Average monthly salary credit (AMSC)

STEP 2. Computation of the Credited Years of Service (CYS)

A. For a member covered in or after 1975 -

CYS = number of calendar years in which six or more contributions have been paid from the year of coverage up to the calendar year containing the semester prior to the contingency.

B. For a member covered prior to January 1975 -

CYS = 1975 - Calendar Year of Coverage + number of calendar years in which 6 or more contributions have been paid from January 1975 up to the calendar year containing the semester prior to the contingency.

STEP 3. Computation of the Replacement Ratio (RR)

The Replacement Ratio (RR) is the sum of twenty percent and the quotient obtained by dividing three hundred by the sum of three hundred forty and the average monthly salary credit.

In mathematical formula, the replacement ratio is given by:

$$RR = .20 + \frac{300}{340 + AMSC}$$

Note: The Replacement Ratio (RR) must be computed up to at least six (6) decimal places.

STEP 4. Computation of the Monthly Pension (MP)

A. Basic Pension

Basic Pension = Average Monthly Salary Credit x Replacement Ratio

or

Basic Pension = AMSC x RR

Note: Do not round yet the result.

B. Increment

If the credited years of service (CYS) is less than or equal to 10...

Increment = 0

If the credited years of service (CYS) is more than 10....

Increment = 0.015 x AMSC x (CYS-10)

Note: Do not round yet the result.

C. Monthly Pension

If (Basic Pension + Increment) is less than or equal to ₱120, then ....

Monthly Pension = ₱120.00

Otherwise,

Monthly Pension = Basic Pension + Increment

Note: The Monthly Pension is rounded to 2 decimal places.

II. For GSIS

1. Computation of basic monthly pension and cash payment.

a. The basic monthly pension (BMP) shall be computed as follows:

BMP = 37.5% (RAMC), if total service is 15 years or less; or

= 37.5% (RAMC) + 2.5% (RAMC) (Total years of service - 15), if total service is more than 15 years; but BMP must not exceed 90% of AMC.

where,

AMC = Average Monthly Compensation

$$\text{AMC} = \frac{\text{Total Compensation received during the last three years}}{\text{Total number of months during which compensation was received, but in no case to exceed ₱3,000.}}$$

RAMC = Revalued Average Monthly Compensation

RAMC = 170% (AMC), if AMC is not more than ₱200;
= or AMC + ₱140, if AMC is more than ₱200 but not more than ₱3,000, but in no case to exceed ₱3,140

b. The Cash Payment (CP) shall be computed as follows:

CP = AMC x Total years of service.

Appendix II

HISTORICAL HIGHLIGHTS OF GSIS AND SSS

I. SSS

January 26, 1948 - Enactment of a law to establish a social security system for wage-earners and low-salaried employees recommended to Congress.

June 18, 1954 - The Social Security Act of 1954, R.A. 1161 was signed into law.

September 1,1957 - This date marks the implementation of the Social Security Act, as amended by R. A. 1792 approved on June 22, 1957. Coverage of all employers in private business and industry with 50 or more employees commences.

October 1, 1957 - SSS starts a housing program through grant of loans for home-building to SSS members, in cooperation with the Home Financing Commission.

September 1,1958 - First anniversary of the Social Security System. Coverage extended not only to employers with 50 employees but also to those with at least 6 employees. Start of grant of sickness benefit to SSS member-employees with one-year membership. Laying of the cornerstone of the present home of SSS at Quezon City.

March 30, 1959 - The system begins to grant direct housing loans to its members, an important aid to social security.

June 18, 1960 - R.A. 2658 amending the Social Security Act is approved providing for:

a. Coverage of all private enterprises with at least one employee.

b. Amounts of benefits liberalized and increased.

c. Coverage extended to certain types of agricultural workers.

June 22, 1963 - R. A. 3839, the third amendment to the Social Security Act, is approved providing for:

a. Amount of retirement benefit increased in changes effected in Section 9.

b. Coverage of employees of foreign governments or international organizations or their wholly owned instrumentalities in the Philippines, upon agreement with the Philippine Government made possible.

c. Non-transferability of benefit (section 15).

September 16,1964 -Start of salary loans program to SSS member-employees, payable in one year in 12 equal monthly installments. Stopped refund of SSS contributions.

June 19, 1965 - R.A. 4482 signed, amending Section 14, on sickness benefits.

June 21, 1966 - Upon instructions of President Marcos, the educational loans program is introduced as an added service feature for SSS member-employees connected with their current employers for the past two years.

September 19,1966- R.A. 4857, brings about the most significant changes and substantial increases in benefits, wider coverage, simplication of administrative procedures and implementation of decentralized services under President Ferdinand E. Marcos' administration. The most important features of the 1966 amendments include substantial increases in benefits as follows:

a. A 60% average increase in retirement benefits.

b. A 25% increase in death benefits for part time and seasonal workers.

c. Increase in sickness benefits, including an increase in the maximum daily allowance from ₱7.00 to ₱8.00.

d. Replacement of the lump sum benefit for permanently and totally disabled employees who have paid at least thirty six (36) monthly contributions by monthly pension equivalent to the proposed old-age retirement pension. The new disability pension amounts to about 200% of the lump sum benefit in terms of percentage increase in value.

January, 1968 - Launching of new low-cost housing program benefiting a greater number of SSS member-employees.

January 1, 1972 - The SSS implements the provisions of R.A. 6111 known as the Philippine Medical Care Act which provides cash payments for medical, surgical and hospitalization expenses of SSS members and their dependents.

October 19, 1972 - President Marcos signs Presidential Decree No. 24 into law, the first of a series of amendatory decrees under the New Society which provided for substantial increases in SSS benefits, introduced new benefits and new social security programs, expanded the categories of beneficiaries, and liberalized the eligibility conditions for benefits. Among the salient features of PD 24 were:

a. Increase in retirement benefits by 50% effective December 1, 1972 and thereafter.

b. Increase in sickness benefits for persons without dependents by 75% and increase in the maximum daily sickness allowance from ₱8.00 to ₱12.00.

c. Increase in direct housing loans up to a maximum of 90% instead of the former 60% of the appraised value of the mortgaged property.

d. Condonation of 3% per month penalties of delinquent employers should they update their contribution remittances within six months, starting October 19, 1972 to April 19, 1973.

e. Increase of contributions by 1% of the monthly compensation base, first on January 1, 1974 and then on January 1, 1979. Increase in the maximum compensation base, for contributions from ₱500.00 to ₱1,000.

f. Prior registration with SSS of employment applicants.

April 23, 1973 - PD 177 is signed into law providing, among others, for:

a. Coverage of Filipinos recruited in the Philippines by foreign based employers for employment abroad, on a voluntary basis and in accordance with the rules and regulations as the SSS Commission may prescribe.

b. Increase in retirement benefits to take effect January 1, 1974.

c. Inclusion of illegitimate children among the beneficiaries that a member may designate, and deletion of brothers and sisters, as beneficiaries.

d. Criminal prosecution of employers who fail or refuse to register employees, or to deduct contributions and remit the same to the SSS.

January 1, 1974 - Implementation of PD 347 providing for a funeral benefit of ₱750 to be paid immediately upon the death of SSS members, including retirees, and the survivors' pension to the legitimate children of deceased SSS members not exceeding five.

January 1, 1975 - The SSS implements the provisions of PD 626 otherwise known as the Employees' Compensation and State Insurance Fund. Replacing the old Workmen's Compensation, the Employees Compensation program (EC) pays for medical services, including rehabilitative services, and provides cash benefits to SSS members who suffer work-related sickness, disability and death.

July 1, 1975 - Implementation of PD 735 providing, among others, for:

a. Across the board increase in old age pension by another 15% effective July 1, 1975.

b. Monthly pension for each dependent child not to exceed five, beginning with the youngest without substitution, born when the retiree was aged 57 or less, equivalent to 10% of the basic monthly pension in addition to the retiree's pension, effective July 1, 1975. This is a new benefit.

c. Increase in sickness benefits from 70% to 85% of the average daily wage with a reduction of the waiting period for entitlement from 5 to 3 days, and the maximum daily allowance raised from ₱12 to ₱16.

d. Monthly pension for each dependent child not to exceed five, beginning with the youngest without substitution in the event of death of a disability pensioner. This is a new benefit.

e. Monthly pension for a permanently and partially disabled member who has paid 36 monthly contributions, payable not longer than the designated number of months, according to the degree of disability. This is a new feature.

f. Beneficiaries now divided into two categories: primary beneficiaries, to include dependent spouse until he remarries, and dependent children; and secondary beneficiaries to include dependent parents, illegitimate children and legitimate descendants.

g. In the absence of primary beneficiaries, secondary beneficiaries shall be entitled to a lump sum benefit equivalent to 30 times the basic monthly pension of the deceased.

June 7, 1976 - Implementation of PD 932 otherwise known as the "Study-Now-Pay-Later-Plan". Under this decree, the SSS, together with other government financing institutions, extends loans to poor but deserving students to finance their college education payable upon employment after graduation.

January 1, 1978 - Implementation of PD 1202, providing among others, for:

a. Granting of maternity leave benefits equivalent to 100% of the daily salary credit for a period of 45 days to qualified female employees starting January 1, 1978 or for abortions and miscarriages. This is a new benefit.

b. A monthly maternity contribution equivalent to 0.4% of the monthly salary credit of the employee, male and female, shall be paid solely and remitted by the employer to the SSS.

c. Across the board increase in disability and death benefits by 15% effective January 1, 1978.

d. Graduated increase equal to 7.7% of the difference of the monthly pensions and 340 in old age, disability and death monthly pensions which shall not be less than ₱10.00 per month.

e. Increase in the minimum monthly pension for retirement from ₱51.75 to ₱100.00.

f. Increase in the minimum monthly pension for permanent total disability and death from ₱45 to ₱100.00.

g. Increase in the minimum lump sum for permanent total disability and death benefits from ₱500 to ₱1,000.

h. Monthly pension for each dependent child not to exceed five, beginning with the youngest without substitution upon the permanent total disability of a member. This is a new benefit.

i. The secondary beneficiaries, in the absence of the primary beneficiaries, shall receive a lump sum amount equivalent to 35 times the monthly pension of the deceased member.

May 1, 1978 - Implementation of PD 1368 converting the EC disability and death benefits into lifetime pensions and increasing the maximum daily sickness allowance under EC from ₱16 to ₱20.

October 1, 1978 - Implementation of PD 1519 providing for various increases in Medicare benefits as well as an increase in Medicare contributions for those receiving ₱350 a month or more.

January 1, 1980 - Implementation of PD 1636, amending further the provisions of the Social Security Law, providing among others, for:

a. Increase in pension benefits for retirement, disability and death by 20%.

b. Increase in the minimum monthly pension for retirement, disability and death from ₱100.00 to ₱120.00.

c. Increase in the duration of the monthly pension for permanent partial disability.

d. Increase in the minimum/and maximum daily sickness allowance from ₱2.50 to ₱4.00 and from ₱16.00 to ₱20.00, respectively.

e. Primary beneficiaries of old age and permanent total disability pensioners to receive 80% of the monthly pension upon the pensioner's death, regardless of the period the deceased had received his pension.

f. Reduction, instead of suspension, of monthly pension upon the re-employement of an old age pensioner who is less than 65 years old or permanent total disability pensioner.

g. Compulsory SSS coverage of certain groups of self-employed persons not yet 61 years of age and earning at least ₱1,800.00 per annum.

January 1, 1980 - Implementation of PD 1641, amending further the provisions of the Employees' Compensation and State Insurance Fund (EC), providing among others, for:

a. Across-the-board increase in the monthly pension of surviving pensioners by 20%.

b. Increase in the minimum and maximum daily sickness allowance from ₱2.50 to ₱4.00 and from ₱20.00 to ₱25.00, respectively.

c. Increase in the funeral grant benefit from ₱750.00 to ₱1,000.00.

d. Primary beneficiaries of permanent total disability pensioners to receive 80% of the monthly pension upon the pensioner's death regardless of the period the deceased pensioner had received his pension.

June 1, 1981 - Pursuant to the Resolution Nos. 417 and 418, Series of 1981, of the Social Security Commision, which were approved by the President on May 1, 1981, SSS monthly pensions for death, disability and retirement were increased by 20% and the funeral benefit from ₱750.00 to ₱1,000.00, respectively.

June 1, 1982 - Monthly SSS retirement pension was increased by 20% per approval of the President on May 1, 1982.

June 1, 1982 - Monthly EC permanent disabilities (total and partial) and death pensions were increased by 20%.

Sept. 1, 1982 - Monthly SSS permanent disabilities (total and partial) and death pensions were increased by 20% per approval of the President in September 1982.

Sept. 1, 1982 - Monthly EC permanent disabilities (total and partial) and death pensions were increased again by 20%.

January 2, 1984 - The System grants three (3) months salary loan to SSS members who were separated from employment on or after October 1, 1983 due to the present economic crisis, per instructions of the President under LOI 1362.

January 2, 1984 - The System increases the maximum housing loan ceiling from ₱50,000 to ₱100,000, pursuant to SSC Res. No. 1616 - s.83 dated Dec. 14, 1983 and confirmed under Res. No. 1617 dated Dec. 21, 1983.

May 1, 1984 - Implementation of Executive Order No. 949 providing various increases in Medicare allowances without increase in Medicare contributions for qualified members but not for their dependents.

June 1, 1984 - Across-the-board increase in monthly SSS retirement, permanent disabilities (total and partial) and death pensions by 15%, per approval of the President in May, 1984.

June 1, 1984 - Implementation of Presidential Decree No. 1921 providing increases in Employees' Compensation benefits for qualified members and their beneficiaries.

II. GSIS

Nov. 14, 1936 - Commonwealth Act No. 186, known as the GSIS Charter was approved, creating and establishing the System.

May 31, 1937	- The GSIS officially began operations dealing primarily on life insurance.
June 6, 1951	- Republic Act No. 660 was approved amending Commonwealth Act No. 186, providing retirement benefits for government employees in addition to life insurance benefits.
June 20, 1953	- R.A. No. 910 was approved, providing retirement benefits for Justices of the Supreme Court and Court of Appeals.
October 1955	- The GSIS began granting real estate loans to its members and private enterprises.
July 29, 1960	- Burial benefit was increased from ₱120.00 to ₱150.00.
Oct. 24, 1960	- Amount of salary loans granted was increased to an equivalent of three months salary.
June 22, 1963	- R.A. 3593 was approved providing immediate life insurance coverage of compulsory members and increasing the optional insurance coverage to twice the amount of the annual salary.
June 17, 1967	- R.A. 4968 was approved, amending CA 186, increasing the amount of annuity and gratuity benefits. R.A. 4898 was also approved, covering life insurance benefits for barrio officials and now, also including barangay officials.
January, 1971	- The GSIS started its all-out support for the government's low-cost housing project intended for the low-income government workers.
January, 1972	- The GSIS was entrusted with the administration of a Health Insurance Fund (Medicare) by virtue of R.A. 6111 known as the Medicare Bill. The GSIS also started paying dividends twice a year. Burial benefits was increased from ₱150.00 to ₱200.00.

June, 1974	- Burial benefit was increased again, from ₱200.00 to ₱750.00.
Jan. 1, 1975	- The State Insurance Fund was created under P.D. No. 626, as amended, providing benefits for government workers and their dependents thru prompt and adequate financial and medicare benefits in the event of work-connected injury, sickness or death.
April 1, 1975	- Retirement system was converted from "Fixed" annuity to "Index-linked" annuity. This year also started the Five-Year Computerization Program.
May 31, 1977	- The GSIS Charter, CA 186, was amended dramatically. Presidential Decree 1146, otherwise known as the Revised Charter of the Government Service Insurance System which increased and expanded the social welfare benefits of government workers, was approved.
	- PD 1147 amended RA 4898 and extended insurance coverage and benefits enjoyed by Barangay officials to Sangguniang Bayan workers.
	- Burial benefits was increased from ₱750.00 to ₱1,000.00.
Nov. 13, 1977	- GSIS acquired the majority shares of PAL.
Dec. 15, 1977	- Five percent (5%) increase of the monthly annuities (pensions) of retirees under RA 660 was implemented. The increase further raised the amount of the monthly pension which was previously converted to an indexed-linked pension under PD 712 to enable retirees to cope partly with rising costs of living.
May 1, 1978	- PD 1368 was approved amending further PD 626 (Employee Compensation and State Insurance Fund) which expanded employee compensation benefits.

June 11, 1978	- PD 1519 was approved amending RA 6111 (Medical Care Act) which changed and increased further medicare benefits.
Nov. 15, 1978	- Implementation of Join PAL-GSIS Program. "Fly PAL pay later plan", providing for GSIS members domestic travel opportunities through easy installment plan.
Feb. 1, 1979	- Inauguration of first GSIS On-Line Salary Loan Service enabling GSIS members to avail of on-the-spot salary loans. Pilot agencies covered by the on-line service included the CB, PNB, DBP, NPC, BIR, Land Bank, and the MWSS.
April 17, 1979	- Signing of Memorandum Agreement with Metro Manila Commission formalizing the insurance coverage of some 250,000 members of the Baranggay Community Brigades in Metro Manila.

Appendix III

RATE OF RETURN ON THE RESERVE FUNDS OF GSIS AND SSS*

Since the Philippines system is reserve funded, management of these funds is crucial in protecting the real value of contributions and benefits. Successful portfolio management is the only way to provide inflation protection where retaining the reserve funded nature of the system in the long term. I have attempted to extend the author's analysis of the GSIS and SSS fund management.

Table 1 attempts to estimate the income earned on the reserve funds, net of operating expenses.

The last column in each section shows the difference in the change in reserve funds and net contributions, a rough measure of (net) income on RF.

Table 2 uses these figures to approximate the net rate of return for GSIS and SSS.

Estimated net income was divided by the average of the preceeding and current year's RF to approximate the rate of return, net of operating expenses. The performance of GSIS is quite shocking compared to either the SSS performance or, most importantly, to the percentage increase in the CPI. Whether this result is due to excessive operating costs or investment in high risk assets (see page 65) which are also low yielding, such a sustained miserable performance must certainly impair the ability of the system to adjust its benefits for inflation. While the SSS performance is markedly better, even there the net rate of return was less than the increase in the CPI for 5 of the 10 years from 1974-1983. If the data for both systems were aggregated in each year, the net rate of return would have fallen below the increase in the CPI.

---

*This is based on the comments of Prof.David L. Schulze, Dept. of Economics & Statistics, National University of Singapore.

Table 1

Year	GSIS			SSS		
	C - B	Reserve Fund	RF-(C-B)	C - B	Reserve Fund	RF - (C-B)
1973	206.1	284.6	78.5	365.6	456.0	90.4
1974	194.0	313.0	119.0	287.2	421.2	134.0
1975	274.1	377.1	103.0	503.3	616.6	113.3
1976	399.4	1073.5	674.1	504.3	763.0	258.7
1977	477.5	537.3	89.8	615.9	980.4	364.5
1978	526.2	197.1	-329.1	625.8	1088.0	462.2
1979	771.1	982.0	210.9	868.7	1451.9	583.2
1980	806.4	927.1	120.7	957.3	1773.1	815.8
1981	973.8	1507.3	533.5	994.4	2072.4	1078.0
1982	1001.0	1665.0	664.0	883.7	2294.2	1410.5
1983	971.0	1280.3	309.3	814.1	2567.6	1753.5

where C = annual contributions, B = benefits paid,
RF = change in reserve fund, year end to year end.

Table 2

$$\frac{RF - (C - B)}{\frac{RF + RFt-1}{2}}$$

Year	GSTS	SSS	% increase in CPI
1973	2.52	4.95	n/a
1974	3.48	5.92	33.5
1975	2.74	4.07	8.2
1976	15.03	7.45	6.1
1977	1.70	8.39	7.9
1978	-5.82	8.59	7.6
1979	3.37	8.77	18.8
1980	1.68	9.87	17.8
1981	6.34	10.58	10.1
1982	6.64	11.40	14.1
1983	2.69	11.85	10.8

Table 3, which shows total loans plus investments as a percentage of reserve funds, may shed some additional light on this.

These figures approximate the proportion of total assets held in income earning form. They suggest that neither scheme is allocating assets effectively between earning and nonearning assets. While GSIS has improved its performance, nearly one-fifth of total assets were in nonincome earning form in 1983. This is certainly better than the first 7 years shown when the proportion approximated-one-quarter. On the other hand, SSS's performance has deteriorated. Over 15% of total assets were held in nonincome producing form in 1983. These results can be compared to Singapore's reserve funded system where over 95% of total assets have been held in income earning form throughout the life of the system.

Table 4 attempts to summarize the effects of inflation, asset management, and membership growth on the reserves of both systems.

The last column shows real reserve funds per member. Notice that over the 9 years shown, these have declined by over 21 per cent. This is evidence of the inability of the social security system to provide even a constant level of real benefits per member, unless real rates of return have increased. However, as Table 2 suggests, this does not seem to be the case. The real net rate of return on total RF for the system has been consistently negative.

Table 3

Loans + Investments
———
Reserve Funds

Year	SSS	GSIS
1970	97.2	73.7
1971	96.2	74.3
1972	95.0	79.2
1973	92.0	78.9
1974	94.9	79.0
1975	94.3	74.4
1976	93.3	76.7
1977	90.7	77.8
1978	89.1	84.6
1979	89.6	82.6
1980	88.2	84.1
1981	86.5	85.7
1982	85.4	86.0
1983	84.8	81.7

See on page 84- =>move away from
from RF to PAYG system.

Table 4

Year	RF	M	RF/M	real RF / M (1975 = 100)
1975	7841.2	5.88	1333.5	1333.5
1976	8877.7	6.56	1353.3	1275.5
1977	10395.4	7.18	1477.8	1264.5
1978	11680.5	7.85	1488.0	1207.8
1979	14114.4	8.55	1651.0	1127.7
1980	16814.6	9.38	1792.6	1039.8
1981	20394.3	9.95	2049.7	1079.9
1982	24353.5	10.55	2308.4	1065.7
1983	28201.4	11.17	2524.7	1051.5

where RF = total reserve funds in ₱ millions,
M = membership in millions
and real RF = nominal RF deflated by the increase in the CPI.