

Committee on Government Corporations and Public Enterprises
Joint with
Committee on Labor, Employment and Human Resources

December 17, 2004, Friday
10:07 a.m. – 12:32 p.m.
Senator Claro M. Recto Room, Second Floor
Senate of the Philippines, Pasay City

MEMBERS/SENATORS PRESENT: Senators Richard J. Gordon (Chair, Committee on Government Corporations and Public Enterprises) Enrile (Member) and Flavier (President Pro Tempore and Ex-Officio Member)

GUESTS/RESOURCE PERSONS: Ms. Corazon S. De La Paz (President & Chief Executive Officer, Social Security System (SSS)), Mr. Jose L. Cuisia (President & Chief Executive Officer, Philam & President, Philam Group of Companies), Mr. Horacio T. Templo (Chief Actuary & EVP for Branch Operation, SSS), Mr. Rizaldy Capulong (Deputy Chief Actuary & AVP, SSS), Atty Ignacio Macrohon, Jr. (Vice President, Philippine Insurance Association), Mr. Honesto General (President for Philippine Association of Retired Persons), Mr. Amado Cabaero (Philippine association of Retired Persons), Ms. Rosalinda Bactol (Supervising Insurance Specialist, Insurance Commission), Ms. Maricel Basallote (Supervising Insurance Specialist, Insurance Commission), Mr. Joselito A. Vivit (Senior Atty, SSS), and Ms. Hermy Patsy (Commission on Audit, Auditor, SSS)

AGENDA:

Senate Bills Nos. 393, 669 and 1136 entitled: "AN ACT AMENDING SECTION 12 (B) Republic Act No. 8282, OTHERWISE KNOWN AS THE "SOCIAL SECURITY ACT OF 1977" (*Introduced by Senators Osmeña III, Villar, Jr. and Pimentel. Jr.*)

HIGHLIGHTS

The Chair explained that the hearing was convened to look into the main issues raised and identified in the proposed measures. These issues, the Chair said, would be reviewed and validated in order to aid the Committee in coming up with a decision in the course of its hearings.

Likewise, the Chair announced that position papers have been submitted by the the following officials / agencies: SSS, President and Chief Executive Officer Corazon S. Dela Paz, Commission on Audit, SSS, Resident COA Auditor Hilconeda P. Abril, Chief Insurance Specialists Reynaldo M. Vergara and Lorna D. De Leon of the Insurance Commission, former Bank Governor, and Philamlife President and Chief Executive Officer Jose L. Cuisia, and SSS Assistant Vice President and Deputy Chief Actuary Rizaldy T. Capulong. The Chair noted that they outline more practical means of achieving the proposed measure's intent before any benefit enhancements can be effected, taking into account the financial viability of the SSS Fund.

Furthermore, the Chair also added that the measure may also include the review of Republic Act No. 1616, of the "Government Service Insurance Act of 1997," (GSIS)

which allows government employees to avail retirement claims, to better respond to the needs of its membership.

For her part, Ms. Dela Paz clarified that based on the result of the actuarial study, if Senate Bills Nos. 393 and 669 would be passed into law, increasing the minimum monthly pension for retirees with at least 20 credited years of service (CYS) by P1,200 for every additional 10 CYS, the life of the fund would last only until 2011.

Under Senate Bill No. 1136 Ms. Dela Paz further stated that setting the minimum monthly pension for retirees at P3,000 (to increase by P500 annually until it reaches P5,000), would further shorten the life of the fund to 2008. Hence, increasing the minimum pension would adversely affect the SSS Fund due to expected higher benefit payment.

Ms. De La Paz concluded that with the above-mentioned comments and for the sake of future generations retirees, the SSS registered its strong objection to these proposed measures. Ms. Dela Paz also pointed out that in ensuring the fiscal solvency of the SSS and the GSIS, it is fair and equitable that both institutions provide the same level of protection common for both institutions.

SSS, Chief Actuary & EVP for Branch Operations Horacio T. Templo supported the observation of Ms. Dela Paz that before any changes in the program can be effected involving benefit enhancements, contribution increases or even the possible need to acquire government subsidy, an actuarial study should first be undertaken to determine the soundness of the changes.

On the query of the Chair as to the impact of actuarial studies on the return of investment (ROI) Mr. Templo explained that a lot of investment assumptions made in 1990 has been changed in 1995 and 1999. Like for instance, from the minimum pension of only P500 in the 1990 valuation, there is an increased to P1,000 and P1,200 in the year 1995, in fact as of today the minimum pensions have been pegged at P1,000, P1,200 and P2,400. This ROI has been a significant factor that has been drastically reduced. So, this 1999 valuation therefore, is less optimistic compared to the previous valuations, he added.

Senator Enrile recalled that during his time as Secretary of National Defense they established stricter guidelines about the establishment of Retired Service Benefit System (RSBS). And the said fund expanded, but after he left they started to ignored the quality of the said guidelines, as a result they are now bankrupt, he added. Senator Enrile also broached the need for the establishment of stricter guidelines on the fiduciary obligation of the institution especially the people who would be working to administer the fund, because this trust fund answer to the future claims and benefits of the members.

Mr. Cuisia further added, that the point discussed by Senator Enrile refers not just to SSS and GSIS but to all other financial institutions especially those that are getting money from the government. He also pointed out that while there are some institutions that were provided independence, he believed that they should also be accountable because they are using the taxpayers money.

Mr. Cuisia also recalled that in 1998 the investment gains of SSS were more than enough to cover the SSS deficits caused by the higher benefits than contributions. However, he stressed that the fact that at the time all SSS funds were in fixed income and or government securities they were able to convince former President Corazon Aquino that 10 percent of the SSS investible funds be invested in equities. He also recalled that they had a Committee that review the investments before they would go to the Commission. Mr. Cuisia clarified however, that in 1988 that Investment Committee was abolished and replaced by the management group, that eventually made recommendations to the Commission directly. This was one of the changes during the term of Mr. Arellano, he pointed out. Mr Cuisia also emphasized that one particular investment that was done both by the SSS and GSIS without any due diligence was the investment made in Equitable PCI-Bank. As a result that lead, a substantial losses detrimental in the investment portfolio that affected the System.

As such, the Chair then requested Ms. De La Paz to submit to the Committee in the next public hearing the guidelines during the time of Mr. Cuisia, wherein that 10 percent referred to a listed equities was increased to 30 percent through a charter amendment by Congress during the time of former SSS Administrator Renato Valencia up to the present by each administrator's term. And the impact on how those investments guidelines changes would be affected by the SSS System.

As to the document that evidenced the assumption of delinquencies, SSS Senior Atty. Joselito A. Vivit stated that they have a pending criminal complaints of 4,265 for violations of the SSS Law with the prosecutor's office. As this juncture, Ms. De La Paz stated that when they started running out of funds they have double the number of account officers or field officers to remedy the situation. They have mapping operations in all parts of the country to ensure that they are covering everyone, she added.

Head for Philippine Association of Retired Persons (PARP), Honesto General and Mr. Amado Cabaero both stated that efforts have been exerted in the PARP proposed amendments for inclusion in the SSS Law that provision in the Corporation Code which would make losses in a company due to collusion or bad faith should be made responsible for their act.

Mr. Amado Cabaero, continuing with the rates of contribution and collection added, that more attention should be directed toward collection effort and not really increasing the rate of contribution because comparatively we have the lowest in the region. If the country's contributions would be corrected and materially in full, we would not talk about increase in rates, he pointed out.

Mr. Cuisia asserted that even if you have a 100 percent collection it would not be sufficient because of the total benefits to be paid by the SSS to the pensioner versus total contribution during the pensioner's life, during his employment. It's such a big disparity Mr. Cuisia added.

Ms. De la Paz then promised to submit to the Committee the actuarial studies that are being finalized by the System showing the improvements on reforms and initiatives SSS have undertaken.

She also clarified that although some of the actuarial studies show that they are expanding the System's base would not be really in a more viable situation, because there are certain benefits that they granted even if the member's contribution is only very small amount. Like in funeral expenses, for instance, one payment of P94 gives them the right to collect P20,000 funeral expenses. Thus, everybody's going to die sooner or later, so they have that obligation and politicians who encourage their constituents to pay even just once so that they could avail such benefit, she pointed out.

At this juncture, the Chair remarked that the proper direction is to tell the members the truth regarding the mechanics of the P94 and the P20,000 funeral expenses otherwise the System would collapse. Mr. Cabaero also stated that these benefits are mandated by law, and whether we like it or not, the provisions are there to be followed by the SSS.

The Chair also requested Ms De La Paz to submit an overview of those equity portfolios raised during the hearing. The loans / peoples that the System having trouble with including the employers whom they filed cases for non payment of remittances.

The Chair then announced that since there are many other things to take up the Committee would reschedule a follow-up public hearing.

The Chair then adjourned the public hearing.

It was 12:32 p.m.