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Senator Edgardo J. Angara
Speaker

The current credit crisis has caused many Filipinos to reconsider the safety of their money invested in local banks and insurance policies, and worry whether their pension is still intact.

For many Filipinos, savings and pension are precious lifelines for their retirement years. But the absence of a dependable retirement plan – and thus the financial uncertainty that goes with it – could make retirement a source of insecurity rather than comfort.

In normal times, Filipino workers, unlike their counterparts in developed countries generally look at retirement with apprehension as it translates to a loss of income and the lack of retirement benefits.

One outstanding example is the experience of Overseas Filipino Workers (OFWs). More than eight million Filipinos, out of a population of 90 million, work abroad. Their remittances are a major source of foreign exchange and are a significant contributor to the country's gross national product.

Filipinos abroad has sent home \$9.6 billion in the first seven months of the year. In July alone, remittances reached \$1.37 billion, a whopping 24.6 percent increase from the same period last year. Total remittances are expected to reach \$15.9 billion by the end of the year.¹

¹ Data from Bangko Sentral ng Pilipinas

These remittances provide for their families' present consumption – the purchase of housing units, payment of tuition, and setting up of small-scale productive ventures – but leave very little savings for one's retirement.

OFWs are not compulsorily covered under the Social Security System ("SSS") retirement benefits. And those who do voluntarily contribute to the SSS cannot expect much in terms of monthly pension which averages P2,546.00 per month.

The lack of a dependable retirement plan is true not only for OFWs but also for most of the domestic labor force.

The National Statistics Office reported that the country has a labor force of about 35.81 million, representing a 64% labor participation rate. Of this, only 78% are members of government-initiated pension funds: 26.49 million for SSS and 1.4 million for GSIS. About 8 million Filipinos have no pension or retirement savings to look forward to.

Unless steps are undertaken now, a World Bank study showed that reserves of the government-run SSS and the Government Service Insurance System ("GSIS") would run out by years 2011 and 2040, respectively.

While the government backing of the SSS and GSIS obligations help ease the retirement concern for working Filipinos that government guarantee also presents a potential fiscal liability, commonly known as implicit public debt, which puts excessive pressure on the country's national budget.

Hence, many Filipinos are at risk of financial instability when they reach their retirement – and this is the problem that we are trying to solve through the establishment of a Personal Equity and Retirement Account (PERA), which was signed into law last month.

PERA is a supplementary voluntary retirement plan for all public and private employees but will especially benefit overseas Filipino workers (OFWs) and small entrepreneurs.

The law was crafted with the assistance of experts including Atty. Francis Lim of the Philippine Stock Exchange, former Chair of the Capital Market Development Council (CMDC) Conchita "Chit" Manabat, and present Chair David Balangue, and with the cooperation of the country's financial institutions. Representative Juan Edgardo Angara sponsored the bill in the House of Representatives, while I principally authored and sponsored it in the Senate.

PERA is I believe one of the best ways to accumulate savings and to assure the hardworking Filipino of a comfortable retirement.

Under the PERA law, an individual contributor may make a total maximum annual contribution of P100,000.00 in up to five PERA accounts. If the contributor is an OFW, he shall be allowed to contribute double the maximum amount.

Private employers may contribute to their employee's PERA, in addition to the mandatory SSS contribution and retirement pay under the Labor Code.

PERA contributors shall be given an income tax credit equivalent to five percent (5%) of the total PERA contribution. Income from the contribution is exempt from the 20% final tax, as it is considered a long term investment.

This amount is withdrawable when the contributor reaches the age of 55. In the same vein, all distributions from the PERA are tax-exempt. The contributor will be granted a tax incentive upon his receipt of the PERA benefits, which will encourage a contributor to tie-up his money for a long period of time.

Pension savers are looking at the longest time horizon compared to other types of investors. Investments in PERA products locked in for a long period, i.e. up to age 55 and held for a minimum of 5 years. This could very well translate to 35 years of accumulated savings, assuming entry age into the labor force starts at age 20.

Savings generated from PERA accounts are necessarily long-term and can help mobilize domestic capital market investments, particularly in the fixed income and equity markets.

Today, banks hold more than 90% of the financial system's resources, largely funded by short-term deposits. This is not a healthy profile for the financial system. Moreover, bank savings are easily withdrawn and do not always encourage long-term saving.

The introduction of PERA products will expand choices available to our savers. This financial diversification will empower the hardworking Filipino with financial tools to enable them to manage their retirement benefits and look beyond present consumption needs.

PERA will encourage long-term saving and reduce our heavy reliance on the already overwhelmed publicly-funded retirement scheme. More importantly, it will fill a void in the country's retirement scheme where a large number of working Filipinos are slipping through.

Further, PERA will serve to strengthen our capital market through the development of more long-dated financial instruments. At present, the Philippines lags behind its Asian neighbors in terms of market capitalization at 34% of GDP, compared to 154% for Malaysia, 197% for Singapore and 528% for Hong Kong. As a developing economy, we need

long-term resources to match the long-term requirements of growth and development.

Moreover, PERA has the potential to drive down the cost of government borrowings. In other countries, government securities attract a large share of pension fund investments. With enhanced depth and liquidity in the market, government could enjoy reduced cost of domestic borrowings, improve its ability to source funds locally and lengthen its debt maturity profile.

This is consistent with the overall public debt management policy of reducing cost of borrowings, tapping the domestic capital market to eliminate foreign exchange vulnerabilities and re-profiling the maturity structure of government debt.

Aside from government securities, investment in equities is encouraged through PERA. Enterprises will be motivated to source their financial requirements from the equities market rather than from traditional bank loans.

Hence, PERA's benefits encompass both the individual and the financial system in general. It assures financial stability for the retiree, while developing our country's capital market.

Thank you. (30)