Ensuring Sustainable Pension Benefits for the Military and Uniformed Personnel
PCEDS Strategic Analysis – July 2021
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Article XVI, Section 7 of the 1987 Constitution[1] states that the State must furnish swift and sufficient benefits to veterans of war and military campaigns, as well as their spouses and orphans. Moreover, the State must evaluate to upgrade the benefits suitable for the retirees, as cited in Section 8 of the same article. Recently, the issues in the pension system of the Military and Uniformed Personnel (MUP) have become the center of debate in the legislative and executive departments, as questions of sustainability and problem mitigation were raised. But these problems are not new – such complications have been considered as 'long-standing issues' in the system. If issues are not resolved urgently, it will cost the government billions of pesos annually to fund the retirees' pension. Considering the duties of the State and the complexities raised, it is high time to reassess and resolve the issues, as such may further cause financial burden to the country's annual budget. This article aims to provide an overview of the issues in the MUP pension system, present the various reform proposals, and recommend possible measures to further develop the policies that are being forwarded.

Roots of the MUP Pension Problem

At first, the MUP pension benefits were not directly obtained from the budget of the national government. To assure uninterrupted support for the military pension system, the Armed Forces of the Philippines Retirement and Separation Benefits System[2] (AFP-RSBS) was established in 1973 through Presidential Decree (P.D.) 361. According to Aurea Hernandez-Sempio of the Congressional Policy and Budget Research Department of the House of Representatives, the system was initially constructed for the AFP's active military members.[3] Further, it is funded through the seed money amounting to ₱200 million appropriated by the National Government, the contributions of officers and enlisted personnel of the AFP which is equivalent to 4% of their monthly base and longevity pay, the system's tax-free earnings, donations, and the supplementary lump sum fund amounting to ₱200 million enforced by P.D. 1909 signed in 1984. An addition to the system was the membership of retired members who are obliged to impart 5% of their gross monthly pension. However, as raised by the officials from the Social Security System (SSS) and the Government Services Insurance System (GSIS), the AFP-RSBS[4] was not able to support the pension system due to the following reasons:

- The system being underfunded since the beginning;
- Absence of government counterpart in the contribution structure;

[1] Const., 1987.
[2] AFP Retirement and Separation Benefits System, n.d.
[3] Hernandez-Sempio, 2017.
[4] AFP Retirement and Separation Benefits System, ibid.

- Contributions being given back to the active soldiers or military retirees upon the end of service for the former or the end of entitlement to retirement pension for the latter;
- Increase in pensioners; and
- Generous retirement package.

Because of this, the AFP-RSBS was deactivated through Executive Order No. 590, s. 2006, and was abolished in 2016 through Memorandum Order No. 90.

To elaborate the issue regarding generous retirement package, the AFP pension benefits are said to be more liberal relative to other countries because of the indexation policy[5], automatic remuneration upgrades upon separation or retirement, pension being granted earlier at the age of 56 years old, and higher survivorship benefits (75% of pension) given to the deceased dependents. Initially, the extraordinary pension package was only directed to the military personnel, but eventually, uniformed personnel from the Philippine National Police (PNP), Bureau of Jail Management and Penology (BJMP), Bureau of Fire Protection (BFP), Philippine Coast Guard (PCG) and National Mapping and Resource Information Authority (NAMRIA) were also included. Because of the inclusion of other uniformed personnel, significant increases in budgetary demands for the MUP pension system were evident. In a Key Informant Interview with Mr. Jesse Pascasio from the Department of National Defense - Office of the Strategic Assessment and Planning, he also mentioned that one of the weaknesses of the system is that the MUP pension system does not compensate differently per military and uniformed service agency: the benefits intended for the military personnel are also being enjoyed by other uniformed personnel, despite the differences in the nature of work. Because of this, a surplus of benefits arises.

Another problem that was associated with the MUP pension is the poor monitoring of the system. According to the Commission on Audit's Annual Audit Report in 2015, the unreliable databases of the Pension Management Information System of the AFP resulted in the below-par supervision of the pension system, which was exhibited through the occurrence of issues on overpayments and unclaimed checks.[6] Moreover, the report included careless data entry control in the system, as there are 46 accounts with no date of birth and/or status of MUP regarding their separation from service.

To add more complications to the system, Congress Joint Resolution No. 1, which authorizes the increase in Base Pay of MUP, was approved on January 1, 2018.[7] Because the suspension of indexation policy was only until January 1, 2019, the succeeding year exhibited an increase of ₱34.2 billion in the MUP pension spending.[8] The figure below shows the growth of MUP pension spending from 2016 to 2019. From the Explanatory Note of House Bill (H.B.)

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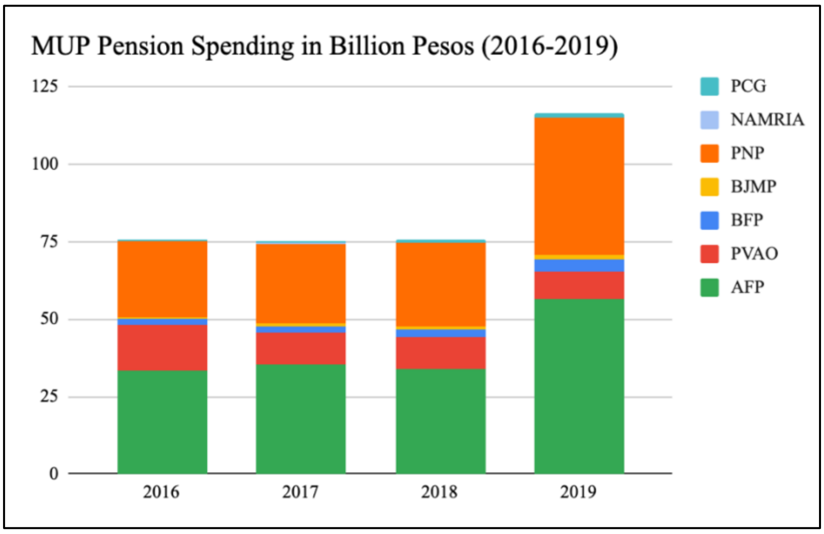
[5] Indexation policy of the MUP pension system refers to the increase in pension acquired by the retirees whenever the remuneration for active personnel increases.
[6] Hernandez-Sempio, 2017.
[7] Congressional Joint Resolution 1, 2018.
[8] Rey & Ranada, 2021.

9271 filed by Rep. Joey Salceda in April 2021, the allocation for pension in the General Appropriations Act has surpassed the maintenance and other operating expenses of active personnel since 2018.[9] This indicates that funding for pensioners is already greater than those who are currently rendering their services to the State. If the government will not be able to solve this problem immediately, an allocation of ₱848.39 billion yearly for the next 20 years will be needed to finance the pension system, according to the projections of GSIS.[10]



Graph by: Regina Romero. Source: National Expenditure Program/ Department of Budget Management, as cited in Rey & Ranada (2021).

Proposed Reform Measures to Address the Pension Issues

During the State of the Nation Address last July 2020, President Duterte mentioned that one of his priority bills is the passage of the Unified System of Separation, Retirement, and Pension of the Military and Uniformed Personnel law.[11] Additionally, he reiterated that if Congress will not pay attention to his demand, the 'ballooning effect' against the budget of the military will be evident in the succeeding years. Due to the urgency to solve this problem, several proposals from various experts, offices, and agencies have already been considered and evaluated by the legislature.

UP School of Economics Professor Emeritus Benjamin Diokno had already recognized the 'huge and ballooning of military pension' in an article[12] he wrote in 2013, and one immediate solution he recommended is to remove the indexation. He also suggested a medium-term solution which is to merge the military personnel to the retirement plan of GSIS; however, he recognized that this will not be plain sailing as the pension benefits enjoyed by the military and the government civilian personnel differ in characteristics. Thus, this could affect the financial stability of the insurance system in the long run. On the other hand, the National

[9] House Bill 9271, 2021.
[10] Rey & Ranada, ibid.
[11] Cepeda, 2020.
[12] Diokno, 2013.

Economic Development Authority (NEDA) also included the introduction of reforms in the MUP pension system in their ‘Legislative Agenda to Sustain a Sound, Stable and Supporting Macroeconomic Environment,’ as stated in the Philippine Development Plan 2017-2022.[13] Some of the measures include a mandatory contribution system and an increase in the compulsory age of retirement.

In the case of the AFP, Defense Secretary Delfin Lorenzana recommended in a Senate Hearing held in February 2021 that the military should have its own pension plan since the military is different from other uniformed service agencies, as the latter are civilian in essence.[14] Considering the above-mentioned deficiency in the MUP pension system where it does not compensate differently per service agency as mentioned by Mr. Pascasio in the interview, this could be a potential solution to the problem. Mr. Pascasio also mentioned that the agency advocates for a separate retirement law for the military where provisions i.e., contributory scheme and removal of indexation are incorporated. This proposal has already been submitted to Congress for review.

On the other hand, both chambers of Congress have also received various proposals to ease the complications in the system. Among the bills filed in the Lower House, H.B. 9271 has been supported by the Bureau of Treasury and the GSIS.[15] Initially, the proposal contains the following essential provisions:

- Implementation of a contributions-based system
- MUP and government’s shared responsibility in the contribution
- Removal of the indexation policy;
- Basing the benefits on the pay of the permanent grade last held;
- Adjustment of compulsory age of retirement from 56 years old to 60 years old;
- Non-returnable contributions upon separation or retirement; and
- Establishment of Military and Uniformed Personnel Trust Fund, with GSIS as the assigned fund manager.

On June 23, 2021, the Lower House’s ad hoc panel on MUP approved the new substitute bill for H.B. 9271.[16] The new bill focuses only on cutting down the salary increases to 5% for 10 years, as well as pushing through with the measure on the services personnel contributing to the pension fund. Rep. Salceda asserted that the complexities in the system are rooted in salary increases, but he also mentioned that the average nominal salary hike was only 4.4% in the past 10 years. This whole new proposal deviated from the discussions of the Upper House wherein the suggested reforms tackled are rejecting the indexation for new entrants, instituting a mandatory contribution-based system, and retaining the ranks of MUP once they retire. Some

[13] NEDA, 2021.
[14] Mangosing, 2021.
[15] Estrada & Gonzales, 2021.
[16] Rey, 2021.

of the measures tackled in the Senate are similar to what has already been proposed initially by the Lower House.

Supplemental Recommendations for a Sustainable MUP System

In reforming a pension system, the World Bank, through its Pension Framework, suggested three essential criteria under political economy facets that must be considered.[17] First, the reform measure must be in line with the political economy of the state, and must be backed by an unambiguous political authority. Second, the preparation to reform a pension system has to be spearheaded by the government and must be communicated to its stakeholders. Lastly, constructing a legal framework is necessary, however, it is only an initial step. Ample capacity-building and support to implement the framework are also needed to effectively execute the program.

As much as the recommended reforms tackled have the potential to mitigate the fiscal chaos in the MUP pension system, there is still a lack of consensus on what path should be taken: whether the indexation scheme must be remove or retained, whether the pension system of service agencies must be separated or lumped, and whether it is necessary to have a cap on salaries or not. Nevertheless, it is the duty of the legislative body to reconsider and weigh different policy choices forwarded by their colleagues and the stakeholders involved. On the other hand, experts must reassess the potential consequences of the reform choices crafted in Congress.

Although the issue is economic in nature, internal performances in the respective service agencies must also be evaluated, especially in terms of administering data. One of the problems mentioned was the below-par administration of the pension system which can be rooted in data management issues. This was also mentioned in the interview with Mr. Pascasio, where he also recognized the inefficiencies in handling data. Agencies need to understand that absence of proper data management limits the agency to perform well.[18] Moreover, effective data management is crucial in the decision-making processes and strategic planning of the agency. With this, the service agencies involved must invest in ensuring proper collection and organization of pensioner’s data. Moreover, agencies must also outsource experts i.e., actuarial scientists, economists, and statisticians in their respective departments to assess the possible implications of any policies relating to budget, retirement benefits, and the like that the institution forwards.

To commend the efforts of our military and uniformed personnel in protecting the State, it is just to provide them adequate benefits for their retirement, and as the government achieve this, it must ensure that the country’s fiscal performance will not be jeopardized.

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[17] World Bank, 2008.
[18] Stedman & Vaughan, 2019.

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