EXPLORATORY STUDY OF MICRO-PENSIONS IN THE PHILIPPINES

Camilo Casals

TABLE OF CONTENTS

ABBREVIATIONS

ARMM	Autonomous Region of Muslim Mindanao
CAR	Cordillera Autonomous Region
CARAGA	Political Region made up of
CARD	Center for Agriculture and Rural Development
COSE	Coalition for Services to the Elderly
DOH	Department of Health
DOLE	Department of Labor and Employment
DSWD	Department of Social Welfare and Development
FGD	Focus Group Discussion
GSIS	Government Service Insurance System
NCR	National Capital Region
MBA	Mutual Benefit Association
MFI	Microfinance Institution
MPC	Multi-Purpose Cooperative
OFW	Overseas Filipino Worker
PD	Presidential Decree
PERA	Personal Equity and Retirement Account
RA	Republic Act
SEC	Securities and Exchange Commission
SSS	Social Security System
SWOT	Strengths-Weaknesses-Opportunities-Threats

Executive Summary

The research sought to answer issues with respect to regulation and policy, the characteristics of demand and supply of micro-pension products and the solutions to gaps and challenges in the provision of micro-pension products to the poor.

Research methodology included industry analysis, market research on extent of awareness, usage and interest of micro-finance clients in micro-pension products and assessment of strengths, weaknesses, opportunities and threats to micro-pension schemes.

Market Demand

Industry analysis indicates that demographic trends, employment, employability and level of income are key determinants of effective demand.

Population projections for the Philippines indicates that the percentage of the population aged 60 and over is projected to increase from 6.1% in 2005 to 9% in 2020, 13.6% in 2035 and 21% by 2050. There will be increasing need and demand for pensions across all socio-economic segments in the country.

Many elderly people are poor and unable to participate in contributory pensions. Poverty, unemployment and un-employability influence whether or not more Filipinos will qualify for legally mandated retirement benefits or will be able to afford commercial pensions. If current levels of unemployment and underemployment continue, a significant number of Filipinos will grow old without pension support. Women make up 54% of the elderly and bear additional risks and burdens in old age.

Microfinance clients are willing and able to make contributions to a pension fund. The median acceptable amount of contribution is from P20 to P25 per week. The median acceptable benefit is for either a lump sum in the range of P50,000 to P100,000 or a monthly receipt of P1,000 to P2,000. Needless to say, actual price/benefit packages will have to vary from one MFI area to another.

The core needs of microfinance clients are to e a sense of family and self reliance (i.e., not being a burden but rather still able to make a contribution to family and community) in their old age.

Pension Providers

Industry analysis also indicates that supply conditions limit coverage to those who earn at least P1,000/month, can make regular contribution at designated payment centers and sustain payments over at least 10 years.

In general, there are no fully satisfactory pension programs or products for the poor or for microfinance clients. Contributory schemes are not affordable for the very poor or those whose sustained earning is less than P1,000 a month.

Commercial Providers Commercial pre-need and insurance companies are generally not aware or interested in lower income segments. Pre-need companies face declining sales as they struggle to correct a negative public image created by non-payment by 2 major companies of maturing plans. Insurance companies are moving towards investment linked products or insurance policies with an investment feature.

At any rate, pension products and investment linked policies are beyond the reach of microfinance clients with the exception of those who are in the highest loan cycles.

A survey of microfinance institutions reveals only 1 commercial insurance company, i.e., Mercantile Insurance Co. as active in the microfinance sector. Their product is a life policy with accident and permanent disability riders as well as a lump sum benefit that matures 15 years from start of payment. Weekly payment is P20 per week and is collected and paid out through a partner agent arrangement with MFI clients.

MFI Providers Several MFIs, particularly co-ops, are implementing in-house pension products. This practice indicates demand for the product but represents a very risky and unregulated method of pension delivery. The majority of MFI respondents to a survey indicates they prefer an in-house arrangement or to set up a separate organization to handle pensions and related products. A majority also wanted to start a pension program within the next 12 months and wanted to see a product concept or business plan.

MBA Providers Micro-insurance MBAs like CARD MBA have a P5 weekly contribution scheme that accumulates and earns interest based on market rates. Total contributions can be withdrawn as a lump sum upon resignation from CARD MBA or upon reaching 65 yrs.

SSS The Social Security System has an extensive coverage and membership outreach but limits membership to those who are earning a minimum of P1,000/month. Payments also have to be made at selected centers or designated banks.

SSS, Mercantile and CARD MBA are able to provide affordable pension schemes within the P20 to P25 weekly contribution that is indicative of what MFI clients say they are willing to pay. The challenge however is to make payment of weekly contributions convenient as well as to maximize benefits to match the expectation of clients.

SSS is able to guarantee a monthly lifetime annuity of P2,400/month provided a member has contributed for at least 20 years.

Mercantile guarantees future lump sum payments depending on how many years after maturity. Clients make weekly payment so of P20 for 10 years and wait 5 years before being entitled to a lump sum of P10,000.

CARD MBA members contribute P5/week and are entitled to a lump sum upon redemption based on average investment return of the MBA. Future value projections for the CARD MBA approach for an equivalent P20 weekly contribution over 10 years is about P12,450 assuming a conservative average of 5% investment return. This outcome would be better than the Mercantile lump sum and would be available immediately after 10 years.

These crude comparisons indicate that SSS contributions can give the best lifetime annuities if members somehow complete 20 years of contribution. A crude projection model indicates that MBAs could approximate this SSS annuity only at high rates of investment return, i.e., rates greater than 10% p.a., with tax exemptions and a very wide member base.

Regulation and Policy

The fundamental issues in the regulation of the pension providers have to do with responsibility and capacity to monitor and supervise pension providers. In particular, the issue of whether or not to transfer supervision of pre-need companies to the Insurance Commission is unsettled. There is also still no independent oversight of the Social Security System, a governance and management risk that needs to be addressed given the history of political interference and behest loans of the SSS.

Since a tedious amendment to the Insurance Code and other laws will be needed to settle these issues, a more pragmatic though temporary short term measure would be to strengthen internal control within the Securities and Exchange Commission and the SSS with respect to valuation of reserves, asset liability matching and investment fund management.

There are several other regulatory issues that relate to both commercial providers and the SSS and GSIS but those that directly impact on micro-pension providers have to do with an enabling environment that will allow and support MBAs in developing and promoting micro-pension products to their members.

In particular, favourable policies that will facilitate licensing of pension products by MBAs in addition to life products, maintaining tax exemptions, allowing for access to long term, low risk instruments overseas and the possible fielding of trained underwriters need to be formulated and implemented.

Performance standards with respect to solvency, efficiency and earnings, governance, product understanding, risk management, affordability, development and outreach have to be defined for micro-pension providers.

More fundamentally, regulators in the Philippines still need to learn to detect and act on performance issues well before providers compromise the trust and guarantees they have made to policyholders. The tendency to enforce standards only when there is a public outcry needs to be replaced by more proactive risk based and strict supervision of all types of pension providers.

Challenges and Solutions

1. The very poor are excluded from current contributory pension schemes. Even as legislated non-contributory social pension schemes are being explored, the possibility of pooling solidarity and mortuary funds generated by community based association of the elderly and other sectors with those of MBAs can be studied to determine what kind of improvements in future values can be gained through this approach.

2. The possibility of a partner agent relationship between the SSS and MFIs/MBAs similar to that under the PhilHealth – MFI partnership under the KASAPI program can be explored.

3. Micro-pension products can be developed and positioned by micro-insurance MBAs either as complementary to SSS contributions or in certain parts of the country where SSS is non-functional or dysfunctional as the primary pension option of their members.

In this regard, a favourable policy environment for MBAs to act as micro-pension providers should be put in place. Guidelines for licensing the additional pension product, training MBA/MFI staff to underwrite the product, allowing for investment overseas in long term, low risk bonds and similar instruments should be developed and implemented.

4. In the immediate term, educating MFI/MBA clients/members as well as the board of directors, officers and staff of these institutions about personal and household financial management and retirement planning may improve plans and decisions of households with respect to their retirement options and facilitate micro-pension product design and implementation.

5. International development partners of MFIs/MBAs can facilitate the education of board, officers and staff of these institutions by providing technical assistance that will educate them about local and foreign options for maximizing return to investment funds.

Linkages with European ethical funds and financial institutions that can link micro-pension providers with long term low risk investment options would be very critical in ensuring the viability, solvency and competitiveness of micro-insurance providers.

1. Background

Cordaid is, in collaboration with the Dutch NGO World Granny, active in the field of safeguarding a dignified and respectful retirement for the elderly in developing countries. Two aspects of this engagement with the elderly have become the direct focus: sustainable income and care. To get more attention for these aspects and create entries for further policy development and active participation, a conference will be organized at the end of October on income and care for the elderly in developing countries.

A sustainable income for the elderly is a prime component of enabling a dignified and respectful retirement. Such income would ideally be provided by the state (public pension or social security) and is defined as first pillar pension systems. Since public pension system only occasionally exist is less developed countries, or when they do, they do not reach those elderly in society who are entitled to it, there is focus in this conference to promote this. In the absence of such non discriminatory and fully accessible first pillar pension schemes, there is also a need for ways in ensuring a sustainable income for the elderly through private pension schemes, the so called second pillar.

The prime focus of the micro pension study is on these private pension schemes in the the Philippines. The choice for these countries is related to strong microfinance development in the countries and Cordaid involvement through a variety of partnerships with local organizations. The assumption is that these private pension schemes are run by NGOs, MFIs or MBAs or other organizations that are not specifically specialized in providing these services. In order to make a good judgement on the developments in micro pension and to determine what role can be played by whom, more knowledge is needed. Therefore this exploratory study is issued to gain the basic and necessary insights.

2. Purpose and Objectives

The purpose of this study is to assess prospects and options for developing private pension programs that address the needs of the elderly in the Philippines.

In particular, the following issues are addressed:

1) Regulation/Policy

a) What are the key regulatory issues?
b) What are the bottlenecks?
c) What policy initiatives are necessary to create an enabling environment?

2) Models/Products/Distribution

a) What have been the developments so far with regard to micro pensions in the Philippines?
b) What is the demand for micro pensions and how is this demand articulated and identified?
c) What kinds of models are used?
d) What target clientele is addressed is there a specific focus to elderly poor people?

e) What specific products are available and what are their features?
f) How are these products distributed (MFIs vs. Other Channels)?
g) What roles do intermediaries play and what roles should they play?
h) All of these plus more to be outlined with examples, outreach, kind of clients etc.)

3) Gaps, Challenges, Solutions
a) Are there any gaps in the development of these micro pension models/products etc?
b) Are there any bottlenecks that hamper further development?
c) How to fill these gaps?
d) What roles will different stakeholders play in these?
e) Is there any role for outside experts, like Dutch private pension schemes, to support the development of micro pensions (knowledge transfer, funding, research, capacity building etc)
f) To what level is the European private pension model applicable/ feasible for the Philippine demand in micro pension?

3. Research Process

Industry research on the pre-need and to some extent the insurance sectors was undertaken in order to assess demand and supply conditions with respect to pension products and programs, the strengths and weaknesses of the sector and the regulatory environment for these products and programs. This was done through both key informant interviews and analysis of industry performance data.

Market research was also conducted to evaluate effective demand among microfinance clients and among the very poor elderly. This was done through focus group discussions with CARD, Kasagana Ka, Ad Jesum Development Foundation, Inc., Cooperative Rural Bank of Bulacan and Gulf Bank. Research focused on feelings, wants, needs and preferences of clients with respect to old age as well as awareness, extent of participation and further interest in pension products and programs. Interviews with leaders of the Coalition of Services for the Elderly were also conducted.

Questionnaires were also sent out to 21 MFIs also to assess extent of awareness, usage and interest in pension products and programs. Of these MFIs, 13 sent back their replies. These were tabulated and analyzed to address issues about interest and demand for pension products as well as identify pension providers who were active among MFIs.

SWOT analysis was used as the framework for analyzing data on the pension industry as well as on market research findings. This analysis was also the principal means for identifying possible approaches and solutions to gaps and constraints in developing pension programs that address the needs of the poor and possibly, the very poor.

4. Major Findings

4.1 Profile of the Pension and Pre-need Sector in the Philippines

Regulators prefer to define the sector in terms of a 4 tier social protection system that is made up of:

1. Social welfare services for the very poor,
2. Mandatory and defined pension programs for both private sector (Social Security System) and government employees (Government Service Insurance System),
3. Mandatory retirement funds such as that required of employers and the Pag-ibig Program (a contributory housing fund)
4. Private pension schemes

Since employment is a pre-requisite for coverage for Tiers 2 to 4 and a P1,000/month minimum is required for the self-employed under Tier 2, a large segment of the population is effectively shut out of the social protection tiers. Interviews with the Coalition of Services to the Elderly indicate that social welfare programs for the elderly are very inadequate and can not be delivered effectively by under-funded government agencies. Payment collection schemes also prove to be a constraint for some segments of the poor who qualify for Tier 2 and have some capacity to pay.

The private pension providers cater primarily to lower middle and upper income market segments. Among other things, this sector is still recovering from negative and high profile legal issues involving non-payment of maturing plans held by the customers.

The challenge therefore is to identify strategies that will address current constraints and gaps in meeting the needs of at least a large segment of the poor who are willing and able to pay and who as microfinance clients have access to a fairly extensive and efficient collection system. The challenge is also to assess the prospects for linking other segments of the poor including associations of the elderly who are mobilized through community based programs for self-help and empowerment.

4.2 Demand Conditions

The 2000 Census of Population and Housing showed that 4.6 million Filipinos were 60 years old and older at that time. This represented a 22% increase in the number of elderly people in 1995. About 2.5 million or 54% of the elderly in 2000 were female. A Special Report on Senior Citizens by the National Statistics Office projected that there would be about 7 million elderly people by 2010.

Among the elderly, about 31.4 % or 1.4 million were estimated to be poor. The following table (Table 1) presents a regional profile of poverty incidence among the elderly. The need for pensions is particularly acute within this segment.

Table 1
Poverty Profile of older People in the Philippines (By Region): 2001

Region	Total No. of Older People[1]	Est. No. of Poor Older People[2]	% of Total Older People in Region	% of Total Poor in the Region[3]
Philippines	4,565,650	1,433,165	31.4	5.4
NCR	468,876	28,016	6.0	3.3
CAR	86,741	37,935	43.7	7.0
1	377,797	97,924	25.9	6.7
2	179,655	40,169	22.4	5.0
3	482,333	61,654	12.8	3.8
4	648,495	120,859	18.6	4.1
5	313,531	202,979	64.7	6.2
6	473,752	185,024	39.1	6.5
7	403,791	158,558	38.7	7.6
8	270,447	270,447	40.5	6.6
9	157,324	157,324	45.9	5.2
10	155,273	155,273	37.3	5.3
11	259,533	259,533	34.4	4.6
12	120,425	120,425	46.6	4.2
ARMM	76,590	39,244	51.2	2.4
CARAGA	124,283	67,561	54.4	6.4

Source: Special Report on Senior Citizens (SRSC). National Statistics Office
1. SRSC
2. based on estimates of the Department of Social Welfare and Development
3. based on regional poverty incidences

A 2004 United Nations report on World Population Prospects reported that the percentage of the population aged 60 and over is projected to increase from 6.1% of the total Philippine population in 2005 to 9% in 2020 and 13.6% in 2035.

By these indications, the need and demand for pensions should be increasing in the coming decades. Old age dependency ratios (no. of elderly over total population) are projected to rise to up to 21% by 2050.

Market Segments

The capacity to engage in some means of livelihood is a key determinant of effective demand and access to various pension schemes. The most prevalent forms of pension schemes in the Philippines (i.e., Social Security System and Government Service Insurance System) require a minimum monthly income even for the self-employed. Indeed the destitute elderly are excluded from these schemes through their inability to demonstrate some form of income earning capability.

In this regard, the following table indicates that employment will still be a major constraint for many Filipinos in terms of qualifying for access to social protection and pension programs in the country.

Table 2 - KEY EMPLOYMENT INDICATORS PHILIPPINES: July 2006-2007 (in thousands except rates)

Indicator	July 2007p	July 2006	Year-On-Year Change
Household Population 15 Years Old and Over	56,863	55,475	1,388
Labor Force	36,161	35,844	317
− Employed Persons	33,334	32,926	408
− Unemployed Persons	2,827	2,918	-91
Underemployed Persons	7,332	7,718	-386
− Visibly underemployed	3,732	4,368	-636
LFPR (%)	63.6	64.6	
Unemployment Rate (%)	7.8	8.1	
Underemployment Rate (%)	22.0	23.4	
− Visible Underemployment Rate (%)	11.2	13.3	

p Preliminary.
Source: National Statistics Office, Labor Force Survey.

Data indicate that people will likely still need to work well into their old age provided they are employable still or can operate at least a micro-enterprise.

Table 3: Number of Older Persons Gainfully Employed: 2000

Region	Total No. of Older People[a]	Est. No. of Gainful Older People[b]	% of Total Older People in Region	% of Total Senior Citizens in the Region[c]
Philippines	4,565,650	2,600,000	100.0	57.1
NCR	468,876	271,834	10.5	58.4
CAR	86,741	57,680	2.2	66.6
1	377,797	166,591	6.4	49.4
2	179,655	89,969	3.5	50.1
3	482,333	232,976	9.0	48.3
4	648,495	382,976	14.7	59.1
5	313,531	176,314	6.8	56.3
6	473,752	239,328	9.2	50.6
7	403,791	238,086	9.2	58.2
8	270,447	161,224	6.2	59.7
9	157,324	106,706	4.1	68.0
10	155,273	100,933	3.9	65.1
11	259,533	167,760	6.5	64.8

12	120,425	71,715	2.8	59.7
ARMM	76,590	63,,486	2.4	82.9
CARAGA	124,283	73,026	2.8	58.8

Source: Special Report on Senior Citizens. National Statistics Office.

The following table indicates the type of employment of elderly:

Table 4: Gainfully Employed Older Persons By Class of Employment and Sex: 2000

Employment Category	Total No. of Older People[a]	Male	Female
Total Philippines	2,600,990	1,628,384	972,606
Employed in private household	87,015	53,947	34,068
Private business/enterprise/farm	309,169	239,327	69,842
Government or government corporation	70,647	42,256	28,391
Self-employed w/o paid workers	536,434	394,602	141,832
Employer in own farm or business	231,408	183,894	47,514
Worked w/o pay in own family operated farm/business	1,679	1,117	562
Worked w/o pay in own family operated farm/business	1,364,638	714,241	650,397

Source: Special Report on Senior Citizens. National Statistics Office

4.2.1 Market Segment: Earning at Least P1,000/month

In this context, the demand for pensions in the Philippines may be said to mirror a 3 tier system of protection1 classified according to targeted socio-economic segments.

The broadest segments of pension contributors in the country are the members of the second tier Social Security System (SSS) and to a lesser extent, the Government Service Insurance System (GSIS). This segment is made up of both compulsory and voluntary contributors to what are basically mandated parallel social insurance systems for private sector and government employees. SSS members are either private sector employees, domestic employees or self-employed persons who are in all cases earning at least P1,000 and less than 60 years of age. On the other hand, GSIS members are government employees.

The relatively low qualifying monthly income and the inclusion of self-employed persons in the SSS system opens membership to low income households that have some means of livelihood. Through these criteria, this segment cuts across a wide cross section of socio-economic classes in the country. However, access, affordability and adequacy considerations are important constraints to outreach and sustained participation of the very poor in these systems. Research conducted for the Coalition of Services of the Elderly estimated that only about 12% of the elderly are covered by the SSS, GSIS or war veteran pensions.

4.2.2 Market Segments: The Very Poor

The very poor, i.e., those who are chronically unemployed and do not have the means even to undertake micro-enterprise activities have been singled out as a segment of the population who are marginalized and shut out of any meaningful social protection program. From among their ranks come most of the present and future generations of the destitute elderly people in the Philippines. While there are a number of social assistance programs being implemented by welfare agencies such as the Department of Social Welfare and Development (DSWD) and the Department of Labor and Employment (DOLE) as well as legislated senior citizen discounts, there is no real social pension scheme that is in place for very poor old persons in the Philippines.

This segment is made up of persons who have been or are likely to be unemployed long enough to be disqualified from the minimum number of monthly contributions to either the SSS or GSIS programs. This eligibility requirement was set at a minimum of 120 months of contribution completed before the 6 month period (either January to June or July to December) in which the first pension is paid.

Chronic unemployment, lack of employability skills and inability to start even a micro-enterprise characterize this segment. Also, even in their old age, the elderly may need to continue working. As may be inferred from Table 3, the percentage of older persons not gainfully employed, i.e., about 43% above, may serve as a very rough indicator of the size of this segment. If we assume from Table 4 that 34% - if anything, poverty incidence would probably be higher in this category - of the elderly are poor, then around 13% of the elderly not gainfully employed are perhaps in this destitute category. There are significantly more women in this category.

Contributory pensions are highly improbable for this category of the elderly. Younger age groups that are chronically unemployed, with low employability capabilities and/or unable to start a business are likely to also end up in this category.

4.2.3 Market

The very poor, i.e., those who are chronically unemployed and do not have the means even to undertake micro-enterprise activities have been singled out as a segment of the population who are marginalized and shut out of any meaningful social protection program. From among their ranks come most of the present and future generations of the destitute elderly people in the Philippines. While there are a number of social assistance programs being implemented by welfare agencies such as the Department of Social

Welfare and Development (DSWD) and the Department of Labor and Employment (DOLE) as well as legislated senior citizen discounts, there is no real social pension scheme that is in place for very poor old persons in the Philippines.

4.2.3 Market Segments: Employed and Self-Employed in the Formal Economy

This market segment makes up what is most commonly regarded as the commercial pre-need market. Pension plan clients are generally from the lower middle to the upper income classes of the country. Although the client base is narrow as a fraction of the entire population, plan contribution and benefit values are high and significantly beyond the reach of low income families.

The following table traces the annual changes in the value of pension plans sold commercially by private companies:

Table 5: Pension Plan Sales and Collections: 2000 -2006

Year	No. of Pensions	Sales Value	Annual Collection
2000	291,379	17,155,486,900	1,135,264,065
2001	358,314	20,911,843,928	1,829,064,929
2002	343,620	22,375,913,814	2,349,578,096
2003	280,734	17,570,893,200	2,080,498,463
2004	253,842	19,430,554,833	2,621,260,598
2005	138,451	11,004,476,647	1,382,056,877
2006	122,567	12,559,182,803	1,849,688,638

Source: Securities and Exchange Commission

Since 2000, the number of pensions sold has been declining even if sales value and collections fluctuate from year to year. This general decline may be attributed to 2 major factors. During this period, there were well publicized controversies involving the solvency of 2 high profile pre-need companies. The legal issues arising out of the inability of the College Assurance Plans to meet maturing educational plans of its policyholders and the 2004 spin off by Pacific Plans of plan holdings into Lifetime Plans, Inc. during this period may have significantly and adversely impacted on demand for pre-need products including pensions.

At the same time, there may be a growing shift away from traditional pension annuities and towards wealth management services that include among other things endowments and investment in the money markets. Variable or investment linked insurance policies have recently experienced an upsurge. In 2005, only 8 insurance companies offered variable policies. This number increased to 10 in 2006.

Table 6: Share of Investment Linked Products in New Business, 2006

Type of Policy	Total Policies (billion pesos)	New Policies in 2006	
		# Policies	Value (billion pesos)
Ordinary Life	35.181	374,222	7.57
Group Life	5.503	3,790	1.40
Variable or Investment Linked	14.700	40,488	13.78

Variable investment linked policies were the top new premium earners in 2006. This outcome reflects the trend towards wealth management by the higher income families responding to retirement and longevity needs.

4.2.4 Market Segments: Enterprising Poor

The enterprising poor have the capability in terms of assets, knowledge, skills and/or experience to start and maintain at least a micro-enterprise activity. They would still fall below the poverty threshold (estimated for 2006 at P6,200 for a family of 5 living outside Metro Manila and P8,250 for a family of 5 in Metro Manila) but above P1,000 a month. The income stream generally qualifies them for at least SSS membership as well as gives them some amount of purchasing power for a pension product. This segment is presumably the potential market for micro-pensions.

To further define this segment, benchmark indicators might be borrowed from a 2003 study on effective demand for micro-insurance by Valdellon and Tan in selected cities and towns south of Metro Manila in areas where CARD NGO and CARD Bank were active. The study indicated that families with a monthly income range of from P3,000 to P10,000 were the most likely market for micro-insurance products. Families with less than P3,000 monthly income had affordability issues while those with more than P10,000 a month were likely to look for commercial insurance products.

This segment is also delineated from other segments because they are within the financial transactions network of various microfinance institutions that provide a range of pension products both formal and informal. In a manner of speaking, being part of a microfinance payments system makes their demand more effective than households within the same income brackets but outside a convenient network of making regular payments.

Focus Group Research Among Selected MFI Clients

As part of this study, focus group discussions were conducted with selected microfinance institutions to identify extent of usage, awareness and/or interest of their clients in pensions.

The following table presents a profile of the MFIs and respondents who participated in the FGDs:

Table 7
Profile of MFIs and Client-Respondents Participating in Focus Group Discussions

	CARD	**CARD Bank**	**Kasagana Ka**	**Co-op Rural Bank**	**Gulf Bank**	**Ad Jesum**
MFI type	NGO	Bank	NGO	Co-op Bank	Bank	NGO
Active clients	159,673	40,634	10,000	69,533	9,867	13,800
Location of FGDs	Bicol	Los Banos	Metro Manila	Bulacan	Pangasinan	Mati, Davao Or.
No. of respondents	25	32	13	17	28	7
Ave. age	45	35	35	39	50	48
Sex	All female	All female	All female	All female	All female	All female
Civil Status **M- married** **S- single** **W- widow**	M - 19 S - 5 W - 1	M - 32	M - 13	M – 11 S – 4 W - 2	M - 22 S - 1 W - 5	M - 7
Ave. no. of children	4	3	4	2	5	5
Average monthly food expenses	2,264	4,920	3,900	4,400	5,500	3,500

A mix of MFIs was sampled to include clients from different income categories of cities and municipalities. Different types of MFIs, i.e., NGOs, banks and a co-op were also covered to capture possible differences in perspectives. Respondent clients were all active borrowers in selected MFIs. All were women and in almost all cases married. Average ages range from 35 to 50. Average number of children was about 4.

When compared to the food poverty thresholds, the levels of spending on food indicated that bank clients tend to be relatively well off. In fact their spending on food was above poverty levels.

CARD's own poverty means test indicated that the Bicol respondents were balanced between vary poor, moderately poor and not poor clients. On the other hand, CARD Bank respondents were mostly "not poor."

FGD Findings

The following tables summarize the results of MFI focus group replies to questions about what a good life was when they were retired and how confident they were that they would actually have what they wanted.

Table 8: Ranking of Elements of a Good Life When Old: Aided Responses

	CARD NGO	CARD BANK	Kasagana Ka	CRBBI	Gulf Bank	Ad Jesum
First	House	Health	House	Health & House	Health	House
Second	Health	Housing	Health		House	Children
Third	Money	Children	Money	Money & Children	Money	Health
Fourth	Children	Money	Business		Children	Money

Table 9: Degree of Assurance Over Elements of a Good Life When Old

	CARD NGO	CARD BANK	Kasagana Ka	CRBBI	Gulf Bank	Ad Jesum
Housing	Very sure	Very sure	Very sure or sure	Very sure	Very sure	Very sure
Health	50 % sure	50% very sure; 50% unsure	Not sure	Majority sure	Majority sure	Not sure
Money	Not Sure	75% not sure	50% sure; 50% undecided	Not sure	Not sure	Undecided
Children	Very sure or sure	75% very sure	50% sure; 50% undecided	Majority sure	Majority sure	Very sure

CARD clients were also members of CARD MBA. They were asked about their feelings about the retirement savings plan that they were participating in. In this regard, there was very strong awareness, knowledge and participation in this program. However, there were some areas for improvement that surfaced.

Table 10: CARD NGO: 4 Focus Groups Tally

How satisfied are you with the terms and conditions of the CARD pension product?					
	Very Satisfied	**Satisfied**	**Neither satisfied nor dissatisfied**	**Dissatisfied**	**Very Dissatisfied**
Amount of contribution		**3**	**1**		
Frequency of payment		**4**			
Amount of benefit		**1**	**1**	**2**	
No. of years I have to pay		**4**			
No of years before I can withdraw		**3**	**1**		
Interest on contributions	**2**	**1**		**1**	

Table 11: CARD Bank: 4 Focus Groups Tally

How satisfied are you with the terms and conditions of the CARD pension product?					
	Very Satisfied	Satisfied	Neither satisfied nor dissatisfied	Dissatisfied	Very Dissatisfied
Amount of contribution		2		2	
Frequency of payment	2	2			
Amount of benefit		2		2	
No. of years I have to pay		3		1	
No of years before I can withdraw		3		1	
Interest on contributions		2			

Respondents from MFIs that had no pension product were asked about the possibility of contributing to a pension fund and under what terms and conditions thy might participate. In this regard, there was nearly 100% interest and willingness to participate in a pension program but under certain pricing and benefit conditions as shown in the following tables.

Table 12
Maximum Contribution: FGD Responses (by consensus unless otherwise indicated)

At what weekly contribution would you stop participating in a pension fund?						
Amount (pesos)	CARD NGO	CARD Bank	Kasagana Ka	Co-op Rural Bank[1]	Gulf Bank[1]	Ad Jesum[1]
P 5						25%
10					3%	25%
15	2	1				
20	1	1		39%	42%	
25	1	2		23%	23%	50%
40				8%	7%	
50			1	30%	10%	
100			1		16%	

1. By number of individual responses (%)

Table 13
Minimum Benefit: (group consensus unless otherwise indicated)

What is the minimum amount of benefit that you will accept for contributing to a pension fund?						
Minimum Amount	**CARD NGO**[1]	**CARD Bank**	**Kasagana Ka**[1]	**Co-op Rural Bank**[2]	**Gulf Bank**[2]	**Ad Jesum**[2]
< 1000						**70%**
1500						**30%**
2000					**52%**	
2500					**14%**	
3000					**14%**	
5,000		**2**		**35%**	**19%**	
10,000		**1**		**30%**		
15,000		**1**		**35%**		
50,000	**2**					
75,000						
100,000	**2**		**1**			
150,000			**1**			

1. Response was in lump sum preference
2. Individual tally of responses

The following demand characteristics come out of an analysis of FGD responses:

1. Old age was thought to start in the mid or late 60s. Respondents aged 30 or below had a tendency to think old age started in the mid-50s.

2. Shown a list of several items that might be important to them, respondents in practically all groups invariably ranked housing and health as the top 2 most important things they would want to have when they were old.

3. Money and good times with their children also very consistently ranked third and fourth among respondent priorities.

4. The core needs indicated by respondents were for family and independence. When asked and probed about their ranking, children were almost always mentioned as a factor in their choice of housing, health and money.

   Similarly, respondents did not want to have to depend on their children or on others for their well being in old age. Rather, they wished to be of help especially to children and grandchildren and even continue working on some kind of business. Many respondents also thought their children would support them when they were old.

5. Respondents were fairly confident that they would have a place of their own to stay in when old. In some cases, this confidence was well founded since a number

of them were living in socialized housing project areas. In other cases, they had built their houses but did not have titles to the land on which their houses stood.

6. As may be expected, they were less sure about what their health would be in old age. Those who were sure about their health were confident they could rely on community health workers or town and city health clinics.

7. There was a great deal of uncertainty about whether they would have enough money in their old age.

8. There was awareness of pension products across all groups. However, there was much greater awareness of the Social Security System and the Government Service Insurance System than of employment related pensions or private pension plans.

   In fact, apart from the pension product of CARD Mutual Benefit Association (MBA) and Mercantile Insurance Co., (delivered through selected MFI partners) there was very little familiarity with private pension plans. Only 2 respondents (out of the 122) had spouses who had private pension plans.

9. Among the participating MFIs, Ad Jesum arranged for their clients to have the option to enroll with the insurance cum endowment policy of Mercantile Insurance Co. while CARD clients were members of the CARD Mutual Benefit Association and were making a P5 weekly contribution to a retirement savings plan that could be liquidated upon resignation or upon reaching the age of 60.

   Upon setting up the Ad Jesum Mutual Benefit Association, the Mercantile Plan option was phased out. Although clients had the option to continue with Mercantile, very few have chosen to do so. The Ad Jesum MBA currently does not offer a pension or endowment option to members.

10. On the other hand, CARD MBA offered a P5 week contributory retirement plan. Members were generally satisfied with the plan. CARD NGO clients were particularly pleased that it was earning interest.

    However, there was some dissatisfaction with the small amount of the benefit they would be getting after many years of contribution. This dissatisfaction was more apparent among the relatively more well-off CARD Bank clients. The perceived amount they expected to receive apparently fell short of what they thought they needed or wanted for their old age.

11. Perhaps because of the general uncertainty about having enough money for their old age, nearly all respondents were willing to make weekly contributions towards a retirement fund.

CARD clients indicated that they might be willing to pay higher weekly contributions in exchange for a better benefit package. Client respondents of other MFIs were open to the concept of paying weekly to a pension fund.

12. A majority of respondents across all MFIs would apparently agree to a P20 weekly contribution to a pension fund. More than 30% of the Co-op Bank and Gulf Bank clients said they were willing to pay up to P40 weekly.

13. On the other hand, the minimum acceptable benefit was either a lump sum payment between P50,000 to P100,000 or a monthly payment in the range of P1,000 to P2,500 per month or P5,000 to P15,000 per month.

    When matched with what they were willing to pay using extremely crude future value calculation, the ranges (except possibly those of the CARD Bank clients) were not entirely unrealistic.

14. Microfinance institutions expressed interest and openness to study options for offering pension plans to their clients.

In summary, there was a felt need and apparent effective demand for pension products among micro-entrepreneurs. Current pension contributors expressed willingness to increase contributions in order to have a higher future benefit.

4.3 Supply Conditions

Emilio Aquino Director of the Non-Traditional Securities and Instruments Department of the Securities and Exchange Commission defined four tiers in the provision of pension products and services to Filipinos. The first tier was really just a combination of social assistance schemes that are primarily implemented by the Department of Social Welfare and Development (DSWD), Department of Health (DOH) and Department of Labor and Employment (DOLE) for the benefit of the very poor.

The second tier was a mandatory benefit scheme with options for voluntary membership that is provided for by the Social Security System (SSS) for the private sector workers and the Government Service and Insurance System (GSIS) for the public sector employees.

The third tier included the mandatory deposits maintained at the PAG-IBIG Fund (a contributory fund for housing administered by a government financial institution) which becomes available at retirement and, for workers in the private sector, the mandatory retirement pay provided for under Republic Act 7641.

The fourth tier was a voluntary tier, and this is where individuals, on their own, buy pension plans and other pre-need products from commercial providers to address the many contingencies in life. These pension plans are increasingly linked with life features insurance and insurance products are increasingly marketed as variable investment linked plans. Also, lump sum benefits as opposed to annuities are increasingly becoming the norm in the market.

Under these different tiers, the providers of pension or pension related products and services in the country may be classified as providers of mandated defined benefit schemes, pre-need companies, insurance companies and providers to the informal economy.

4.3.1 Pension Providers for the Very Poor

Apart from various social assistance programs of government welfare agencies, there are no significant forms of social protection for the elderly in the Philippines. Because social pensions – defined by HelpAge International as non-contributory pension funds – do not exist in the Philippines, there is a serious gap in the provision of pension support for those who are ineligible for mandated government pension programs. This gap sets the Philippines apart from the majority of other South and Southeast Asian countries that have some form of social pension scheme in place.

The Coalition of Services of the Elderly (COSE) is actively lobbying for the passage of a bill in Congress and the Senate that would create a mandated means tested non-contributory fund for the elderly who meet certain criteria. The Congress version of the bill would provide a P1,000 monthly pension to qualified beneficiaries while the Senate version provides for a P1,500 monthly pension.

4.3.2 Mandatory Defined Pensions

The Social Security System covers all private sector employees earning at least P1,000 a month up to age 60 , domestic employees up to age 60 earning at least P1,000 and all self-employed persons up to age 60 earning at least P1,000 a month. In addition, there is voluntary coverage for Overseas Filipinos Workers.

Sources of Funds. The SSS fund is generated from mandated and defined contributions based on salary ranges of private sector employees with employer counterparts for those not self-employed. The basic contribution is 3.33% of gross salary according to 29 income classes of which the P1,000 to P1,249.99 is the lowest range. The voluntary contributor pays a gross rate of 9.4% of gross monthly earnings that combines both employee and employer shares of the mandated contributor.

In all cases, the maximum base of monthly earnings that is used for computing both contributions and benefits is P15,000/month. The contribution schedules above also cover sickness, maternity and funeral benefits.

The government is mandated to meet any deficit that the fund may incur.

Qualifying Conditions. As mentioned above, on reaching the age of 60 an SSS contributor must have completed at least 120 months of contribution before the 6 months immediately preceding receipt of the first pension in order to qualify for old age pension. .In this case, all types of employment must have ceased. At age 65, the non-employment clause is waived.

Benefits. The monthly pension is equal to P300 plus 20% of the contributor's average covered monthly earnings plus 2% of the contributor's average monthly earnings for each year of service exceeding 10 years. Alternatively, benefits can be set at 40% of average covered monthly earnings. The higher value using either method of computation is applicable.

Rough estimates of the benefit for a self-employed micro-entrepreneur who completes the minimum number of contributions might be as follows using the straightforward 40% method:

Table 14: Sample SSS Contributions

Declared salary range	Monthly Contribution	Weekly Equivalent	Approximate Benefit
1,000 – 1,249.99	104	26	499.60
1,000 – 1,749.99	156	39	699.60
1,750 – 2,249.99	208	52	899.60
2,250 – 2,749.99	260	65	1,099.60

Note: Calculations subject to more specific assumptions

4.3.3 Pre-need Companies

Pre-need plans are contracts which provide for the delivery of future services or the future payment of cash at a specified and anticipated time of actual need. Plan holders pay in cash or installment at stated prices, with or without interest or insurance coverage. These plans may be for pensions, life, education and/or funeral services.

More specifically, pre-need pension plans in the Philippines have the following features:

a.) Payment of contract price averages ten years. Thus, a 5 or 10-year plan requires payment to be made in monthly, quarterly or yearly installments.

b.) The maturities of pre-need pension plans are either upon reaching a certain age of the plan holder or over a period of years after full payment.

c.) Pension benefits may be paid out in lump sum or installments or both at the option of the plan holder.

d.) In case of death of the plan holder before the maturity date, pay-out will still be at maturity date.

e.) To ensure payment of benefits, pre-need companies are required to contribute to a Trust Fund which are funded from their collections.

Pre-need companies are plan issuers authorized under Republic Act No. 87993 to sell or offer for sale to the public any pre-need plan in accordance with rules and regulations which the Securities and Exchange Commission.

The following table shows how pre-need plans have been on a downward trend in terms of number of plans issued across all types of plans. The sales value of educational plans has been particularly hard hit by recent adverse publicity over failure of major pre-need companies to honor their plans.

Table 15: Decline of Pre-Need Sales
(Sales Value in thousand pesos)

	Pension Plans		Memorial Life Plans		Education Plans	
Year	**No. of Pensions**	**Sales Value**	**No. of Life Plans**	**Sales Value**	**No of Education Plans**	**Sales Value**
2000	291,379	17,155,486	82,186	1,885,049	208,438	17,032,499
2001	358,314	20,911,843	88,989	2,687,027	227,884	15,013,448
2002	343,620	22,375,913	73,776	2,095,676	195,340	13,314,368
2003	280,734	17,570,893	110,870	2,998,419	141,944	12,596,235
2004	253,842	19,430,554	124,621	4,220,925	129,383	13,264,542
2005	138,451	11,004,476	114,706	3,788,136	49,439	5,754,313
2006	122,567	12,559,182	87,502	3,136,385	33,146	4,097,839

Source: Securities and Exchange Commission

The following table identifies the top sellers of pension plans in 2006. Mercantile Care Plans, Inc. has sold the most number of plans but Sun Life Financial has generated the greatest amount of sale.

Table 16
Top 10 Pre-Need Companies Selling Pension Plan

Pre-Need Company	No. of Plans	Sales Value
1. MERCANTILE CARE PLANS, INC.	32,865	187,481,790
2. PRUDENTIALIFE PLANS, INC.	20,060	2,763,601,365
3. PHILAM PLANS, INC.	16,207	2,680,552,640
4. SUN LIFE FINANCIAL PLANS, INC.	10,592	3,033,351,414
5. LOYOLA PLANS CONSOLIDATED, INC.	6,359	571,800,960
6. ETERNAL PLANS, INC.	4,721	342,016,396
7. COCOPLANS, INC.	4,116	97,230,266
8. PET PLANS, INC. [1]	3,241	107,400,872
9. AYALA PLANS, INC.	2,617	318,341,281
10. IDEAL PENSION PLANS CORP.	2,102	68,071,292

Source: Securities and Exchange Commission
1/ Includes dollar plans in peso equivalent.

This result reflects the lower priced plans that Mercantile offers. Indeed, Mercantile has been very active in promoting its pension and insurance plans among MFIs in the country, having at least one major MFI client with a client base of more than 60,000.

4.3.4 Insurance Companies

The Philippine Insurance Code allows insurance companies to offer endowment and annuity contracts which are classified as life insurance contracts for purposes of said law. Old age and regular endowments are availed by those who want guaranteed retirement income without however, entirely losing the protection element of the plans.

As discussed in Section 4.2.3 above, insurance companies have in recent years been shifting towards investment linked insurance products, a trend that blurs the distinction between pensions and endowments.

Another trend among providers is the increasing popularity of lump sum premiums, i.e., one time payments for a policy that will mature as an endowment in the future. This trend involves larger reserve provisioning and challenges providers to maximize yields on their investments and trust accounts.

Investment yields have played an increasingly critical role in the profitability of the industry as the sector manages to increase gross revenues in spite of decreases in new policies. This dependency becomes very worrisome in an environment of falling interest rates as has been the case in 2006.

Table 17: Sample of Products Valued at P500,000 for Client Aged 40

	Sun Life	Manulife	PRUlife UK	Ayala	Prudential	Pioneer
Annual premium	13,650	17,440	10,000	40,500	66,100	17,560
# years to pay	20	15	25	5	5	25
Yrs between last payment and maturity	5	10	0	20	15	0
Additional Benefits	-	Accidental death .5M	-	Accidental death 1 M	Money back at 70	-

Source: quotations from insurance agents

At any rate, outreach of the entire insurance industry has hovered around 13% of the population from 2001 to 2006. But based on policies in force as of December 31, 2006, the private insurance sector would have reached only 4% of the Philippine population of about 85 million.

4.3.5 Providers in the Informal Economy

Questionnaires were faxed to 29 microfinance institutions in order to assess how prevalent pension products were in the sector and whether or not MFI officers and managers were interested in arranging for their clients to avail of these products. 12 MFIs sent back answered questionnaires.

Table 18: Extent of Pension Offering Among Selected MFIs

	Do you have pensions?	**No. enrolled?**	**Paying how much?**	**How often?**	**How much benefit?**	**Payable When?**
Serviamus	Mercantile	560	25	weekly	10,000	After 15 yrs
Northern Samar Workers Co-op	In-house	1,200	300	Once/yr	10,000 to 60,000	10 years
Ormoc Credit Co-op	In-house	14,000	20	Linked to mortuary plan	Linked to mortuary plan	10 years

Only 3 of the responding MFIs reported having a pension product for their clients. Mercantile Insurance is probably the only private insurance company that has made and kept notable inroads into the MFI sector. Among co-ops, it would not be surprising to note – with some concern – the prevalence of in-house pension remedies.

On the other hand, 12 out of the 13 respondents were interested in pensions for their clients/members. Among them, half of them wanted a product at most within a year and were keeping an open mind about whether they would link with a commercial provider or set up a separate organization to provide a product.

Table 19: Level of Interest among MFIs in Pensions for Clients

	Interested to provide pensions?	**How soon?**	**Link with provider?**	**Set up new firm?**	**Do it in -house?**
Serviamus	Yes	Within 1 year	No	No	Yes
Samar MPC	Yes	3-5 years	No reply	No reply	No reply
Northern Samar Workers Co-op	Yes	1 year	possibly	possibly	possibly
Ormoc Credit Co-op	Yes	Waiting for RIMANSI	possibly	possibly	Already doing it
Gata Daku MPC	Yes	As soon as possible			
Malig Plains Rural Bank	Yes	1 year	No	possibly	possibly
Rural Bank of Placer	Yes	In 2 years	depends on study	depends on study	depends on study
Fairbank, Inc	Yes	depends on study	depends on study	depends on study	depends on study

Rural Bank of Montevista Bank	Yes	1 year	No reply	possibly	possibly
Rural Bank of Malasique	No				
Cooperative Rural Bank of Bulacan	Yes	As soon as possible	No reply	No reply	Yes
Bukidnon Cooperative Bank	Yes	In 2 years	possibly	possibly	No
Cooperative Bank of Agusan del Sur	Yes	As soon as possible	No reply	No reply	Yes

Among the MFIs that participated in the focus group discussions, all – Ad Jesum Kasagana Ka, Cooperative Rural Bank of Bulacan and Gulf Bank - were positive about providing clients with pension products. Ad Jesum and Kasagana Ka chose to explore options through their partner mutual benefit association.

4.4 Regulation of Pensions

The legal framework for establishing various tiers of social protection has been put in place by virtue of various laws that mandate compulsory retirement benefits for private sector and public employees and allow for as well as regulate voluntary personal pension plans. In particular Republic Act No. 7641 provided for mandatory payment of by employers of retirement benefits over and above that of the Social Security System.

The SSS itself was established through the Social Security Act of 1954 (R.A. 1161) and strengthened by the Social Security Act of 1997 (R.A. 8282) to provide better benefits, expanded coverage, more flexible investments and stronger sanctions.

The legal basis for setting up and licensing pre-need companies including pension providers was provided by the Securities Regulation Code (Republic Act No. 8799).

Section 16 of this Code required all sellers of pre-need plans to comply with rules and regulations set by the Securities and Exchange Commission insofar as registration of pre-need plans, licensing of persons involved in the sale of pre-need plans, requiring disclosures to prospective plan holders, prescribing advertising guidelines, providing for uniform accounting system, reports and record keeping with respect to such plans, imposing capital, bonding and other financial responsibility, and establishing trust funds for the payment of benefits under such plans. In this regard, the Securities and Exchange Commission formulated the New Pre-Need Rules on Registration and Sales of Pre-Need Plans on August 16, 2001.

As mentioned earlier, the Philippine Insurance Code (P.D. 612) allowed insurance companies to offer endowment and annuity contracts which could be classified as life insurance. Through these contracts, old age and regular endowments could be availed by those who wanted guaranteed retirement income without entirely losing the protection element of the plans.

The same Code allowed for the licensing of mutual benefit associations as providers of basic life insurance plans.

Issues in Regulation and Performance

Table 20 summarizes past and present performance issues that have bedeviled the pre-need industry as well as actual and potential measures to address these issues.

1. Solvency has been a key issue for pre-need companies in the last few years. Several high profile defaults by major companies on their educational plans have drastically eroded the credibility of the sector. The litigation brought against the pre-need company by plan holders continues unresolved. The SEC has since raised minimum paid up capital of new and existing pre-need companies to P100 million. A standard chart of accounts

(Pre-Need Uniform Chart of Accounts) that incorporated about 60 accounts peculiar to the industry has been defined and more strictly enforced by SEC.

A parallel move in the insurance industry to raise minimum paid up capital requirements has been made.

Table 20: Performance Issues

Performance Indicators	Issues	Remedies and Approaches
Solvency	Insolvency of pre-need companies; non-standard reporting and accounting	More rigorous policy on admitted assets and closer compliance monitoring. Higher capitalization. Standard chart of accounts; stringent audits and penalties
Efficiency and Earnings	Current squeeze on investment yields	Investment overseas for wider range of investments within accepted risk rating. Higher capitalization. Development of long term bond markets and capital instruments
Governance and Management	Circumvention of accountability to plan holders;; insurance accounting vs. pre-need accounting	Enforcement of penalties and suspension of licenses.
Understanding by	Complicated products and lack of transparency in marketing;	Enforcement of training and accreditation of selling agents.

Client of Products	knowledge of fund status	Simplified and standard product presentation. Complaints hot line. Consumer education and financial literacy
Risk Management	Admitted assets definition and portfolio risk; phase out of traditional products	More stringent requirements on investment portfolios. Phase in of fixed value plans.
Affordability and Adequacy	high premiums not affordable by poor; absence of options for poorest of the poor	Social pension scheme for the very poor. Development of more options – financial and non-financial - for retirement
Development	Little flexibility and few choices among standard pension products	Proposed Personal Equity and Retirement Account (PERA) Act of 2002; customized micro-pensions
Outreach	Poor industry outreach; high lapse rates	Development of alternative institutional channels

2. Efficiency and earnings. The trend towards lump sum premiums increases the pressure on both pre-need and insurance companies to earn an adequate yield on mandated reserves. More efficient fund management, strict compliance monitoring of portfolio investments and development of longer term bond and securities markets are some of the relevant measures in this case. The GSIS has already started investing overseas in foreign investment instruments with similar or lower risk rating. The SSS has recently announced its intention to follow suit in 2008.

3. Governance and Management. A major pre-need company had spun off its low risk fixed value policies into a new firm while keeping its less profitable traditional plans in-house so as to liquidate these through an application with the SEC for financial rehabilitation. Only a public outcry from affected plan holders alerted SEC to revoke the spin-off firm's license. A more proactive regulatory position that re-assures consumers about the quality of governance and management of pension providers is required in this case.

SEC has required all pre-need companies to submit a manual of good corporate governance in order to institutionalize the principles of good corporate governance in the entire organization. The Board of Directors and Management, employees and shareholders, are bound to adhere to corporate governance as a necessary component of what constitutes sound strategic business management.

Stronger penalties and sanctions on accountants, actuaries and other pre-need professionals for deliberate falsification, misrepresentation or negligence in performance of duties may also be considered.

4. Consumer understanding of pension products needs to be facilitated by marketing agents who are trained to present products according to SEC prescribed features that will simply but comprehensively present value added to the general public. Given the convergence of pension and pension-like products from competing insurance companies and mutual funds, marketing agents need to be re-trained as personal finance counselors who can help clients examine and choose customized financial products for retirement. Publication of plan values and rates of return for easier access and reference by plan holders may also be considered.

5. Risk Management. Traditional products that promised fixed rates of return well into the future had been part of the insolvency problems of the pre-need industry. An inventory and financial phase out plan for these products can not be avoided.

In addition, SEC has put in place a more stringent monitoring of compliance with trust fund investment requirements that includes oversight of how trust fund managers meet portfolio share standards for different types of investment.

An excessive reliance on non-liquid assets had contributed to solvency problems in the past. The following table indicates that for the industry as a whole, since 2000, reliance on real estate and equities has been reduced.

Table 21
Trust Equity Profile of Pre-need Firms: 2000 to 2006

	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Trust Fund Equity (million pesos)	**94,850**	**75,672**	**65,592**	**57.788**	**50.391**	**36.506**	**32,959**
	%	**%**	**%**	**%**	**%**	**%**	**%**
Cash on Hand	.12	1.08	.5	1.1	.2	.8	1.4
Government Securities	60.39	74.93	66	63.4	59.3	35.9	30.9
Time Deposit	2.14	2.04	3	2.5	3.8	7.2	12.2
Commercial Papers	.05	.4	.3	.4	.5	2.2	1,4
Private Bonds	9.46	2.38	3.5	5.6	6.2	.4	-
Direct Loans	1.52	1.14	1.6	1.5	1.8	3.4	3.8
Common Trust Fund	3.65	2.31	3.2	3.2	1.0	.4	.8
Mutual Funds	.57	.44	.3	.4	.4	.4	.5
Equities	15.5	9.54	13.9	13.8	16.5	20.5	23.9
Real Estate	7.51	9.23	12.1	12.6	14	18.5	20.3
Other investments	.74	.47	.4	.4	.4	5.5	-
Receivables and other assets (net)	(1.65)	(3.59)	(4.7)	(5.3)	(4.2)	4.6	4.7

Three SEC Circulars also strengthen the following policy areas: (a) Standards for Valuation of Actuarial Reserve Liabilities for Pre-Need Plans; (b) Required Information to Accompany the Actuarial Reserve Valuation Report of Pre-Need Companies; and (c) Responsibilities of Actuaries in the Submission of Actuarial Reserve Valuation Report.

These circulars provide for interest rate assumption benchmarks, minimum termination values and prescribe the net level reserving method.

6. Balancing the affordability and adequacy of plans is another key result area that needs more creative options and solutions. Customized products including micro-pensions may provide a better fit for clients with different socio-economic backgrounds.

7. The development of new products for new and existing market segments is also important in maintaining the relevance of the pre-need industry to the general public especially at a time when their industry credibility is low and there is increasing competition from insurance companies and mutual funds.

In this regard, the market may get a boost if and when proposed Personal Equity and Retirement Account (PERA) Act of 2002 is enacted as law. The proposed law calls for the establishment of voluntary individual retirement accounts that would receive favorable tax treatment. Its purpose is to encourage more private saving for retirement. An important secondary objective of the PERA reform is to induce capital-market innovation through competition among financial institutions trying to attract savers to open PERAs.

All PERA investment earnings are to be tax exempt. All withdrawals are to be excluded from income taxation, while early withdrawals, defined as those made before age fifty, may be subject to penalty.

8. Outreach. Like the insurance industry, private pension providers reach only a very small fraction of the population. In addition, its image has been weakened by a few high profile liquidation issues. Exploring alternative institutional channels to deliver pension products to hard to reach areas may also be utilized.

5. SWOT Analysis

An analysis and comparison of opportunities and constraints to offering micro-pension products in the Philippines and an assessment of the relative strengths and weaknesses of potential providers was done to identify gaps and bottlenecks as well as possible solutions and approaches.

5.1 Opportunities and Threats to Micro-pensions

In terms of opportunities for promoting micro-pensions, the market research done indicates that a segment of the poor that are active in microfinance networks are willing and able to contribute to pension funds. The median amount of contribution revealed in focus group discussion is about P20 to P25 per week. On the other hand, expected benefit was about P50,000 to P100,000 lump sum or P1,000 to P2,000 monthly payout.

In addition, MFI managers and officers are very receptive to the concept and would like to explore and possibly implement a scheme within the next 12 months.

Finally, the projected demographics of the country indicates a growing need and demand for pensions in the next few decades.

On the supply side, the same opportunities for building on the social and financial transactions networks of MFIs in the country that existed for micro-insurance also exist for micro-pensions.

The same potential for risk pooling across the client bases of several MFIs also exist. This translates into potential savings in administration and operating costs.

There is also a risk pooling opportunity for partnership with community based associations of the elderly such as the Coalition for Services to the Elderly (COSE) insofar as they are also implementing small contributory programs for mortuary assistance.

Private micro-pension providers may also work in a complementary manner with mandated defined pensions such as the Social Security System. Wherever MFI clients have spouses or are themselves contributing as self-employed individuals there can be a complementary positioning to increase levels of social protection.
The current social, economic and political climate in the country is currently stable and may be expected to support economic and business development

On the other hand, interest rates are low and declining. Long term bond markets are very limited. These factors constrain the ability of pension provides to design and offer products that are solidly backed by long term assets.

In spite of recent reforms, both the Securities and Exchange Commission still has to demonstrate that it can proactively enforce standards and requirements on a sustained basis acting on the interests of plan holders. Its behavior in recent years suggests that a public outcry is needed before it will react strongly and apply sanctions and do its job in a rigorous and consistent manner.

It is likewise hard to assess to what extent the Commission has developed the capacity for doing an actuarial valuation of reserves that will be required of micro-pension providers. Certainly the issue of whether or not oversight of pensions and pre-needs should be transferred to the Insurance Commission has not yet been resolved.

A related challenge for micro-pension providers would be to clean up the negative image that pre-need companies have left with the public.

At any rate, micro-pensions are not yet in the priority of either SEC or the Insurance Commission. Getting approval for such products may be costly and time consuming for the first few products. Potential providers such as MBAs may experience the same delays and costs at the start.

A potential overlap also exists with the SSS and GSIS since these 2 institutions are mandated, government supported, can adjust their products and pricing without going to the SEC or Insurance Commission for approval. They have tax exemption privileges and have the Philippine government to back up any deficiency in reserves. It is also true however that in spite of the affordability of products, red tape and public relation issues limit accessibility.

In summary however, the environment for micro-pension practice allows for feasible operations provided mitigating measures and programs are implemented.

Some investment in time, money and effort will apparently have to be made in order to convince the Insurance Commission to license providers such as MBAs to offer in micro-pensions. This was the case with micro-insurance; it can also be do-able for micro-pensions. Preserving tax privileges would be a very key part of keeping prices low for clients.

Product development and testing as well as sound business planning will also be needed to design pension products with value added and that will be acceptable to MFIs and their clients.

A very critical requirement for viable and sustainable micro-pension operations – that is also required for micro-insurance – is improved access to long term low risk bond products. Since these are non-existent in the Philippines, technical assistance in accessing European financial markets might be worthwhile exploring.

Table 22: Opportunities and Threats to Micro-pensions

Opportunities	Threats
There is relative political and economic stability in the country. There is a strong felt need for social pensions articulated by the Coalition of Services for the Elderly (COSE) Demographic trends point to increasing demand for pensions. FGDs indicate both willingness and ability to pay for micro-pensions. MFIs signified strong positive interest in distributing or directly providing micro-pensions Alternative means of social security of the poor	Current low interest rates Weak regulation and low capability of regulators. Gray areas in product definition, jurisdiction, reserves valuation, accounting standard and chart of accounts to use (pre-need or insurance) Micro-pensions not in radar screen of regulatory and financial development agencies of government SSS overlap GSIS overlap Availability, accessibility and attractiveness of investment instruments not too many long

are not that attractive – support from children, relatives, government, assets, savings, inheritance Prevalence of several informal, in-house schemes MFI social and financial payments networks have been shown by CARD MBA to be very effective in collecting contributions There are very good potential for pooling contributors to improve payouts. Can also be positioned as complementary to SSS or vice versa.	term (beyond 10 yrs) instruments Absence of clear licensing policies and regulations for micro-pension providers esp for MBAs Negative image of pre-need industry in the Philippines Unclear performance standards

5.2 Relative Strengths and Weaknesses of Potential Providers of Micro-pensions

In terms of delivery channels, Table 23 presents comparative strengths and weaknesses of different potential providers.

Table 23
Relative Strengths and Weaknesses of Potential Micro-pension Providers

Potential Providers	Market Presence	Weaknesses	Strengths
Pre-need Companies	Only Mercantile Care (pre-need arm of Mercantile Insurance) has a toe hold in the market	• Image problems • Generally unaffordable products • Except for Mercantile, not interested at the moment	• Experience, expertise, systems and financial asset base • Knowledge of the industry • Fund management capability
Insurance Companies	Only Mercantile Insurance in partnership with Mercantile Care and Prudential Life	• High priced • Low price products have comparatively less payouts compared to SSS • Generally not interested at the moment	• Good reserves • Good marketing • At least 1 good MFI partner; several smaller ones • Some experience since 2004 • Strong fund management • Can access international money markets
Social Security	Already present in	• Prone to political	• Government guarantee

System	informal sector particularly for self-employed and OFWs	interference • No real performance oversight • Inconvenient payment • Inflexible product • Red tape in application for membership and service delivery	against insolvency • Good fund management • Going international money markets • Tax free • Wide client base
Micro-insurance Mutual Benefit Associations	Only CARD MBA to date but others with potential Other MBAs are potential providers	• Weak fund management • Limited to a few local investment instruments • Product needs improvement • Client education needed • Needs product license • May need underwriting capability	• Good average investment returns • Collection system • Client contact • RIMANSI network may be used for pooling • Potentially tax free • CARD MBA already has underwriting capability
MFIs	Co-ops tend to do in-house	Risky. Expertise, experience, systems and management capacity	Strong interest. Controls the payments and social networks that make for cost effective delivery of microfinance products

Among potential micro-pension providers, the SSS emerges as perhaps the one with the strongest asset base in terms of both financial capital and client numbers. Government mandates and guarantees ensure this outcome. However, at the moment there is no preferential focus to reach the poor. Both criteria for membership and policies and procedures for membership and payment of contributions have been known to be not very public friendly. Contributors, particularly the self-employed in rural areas or fourth and fifth class municipalities have difficulty to make regular payments. Field office staff are also not models of good customer relations, a possible indication of client overload.

Pricing and benefit packages also do not appear to match what MFI clients identified as their acceptable ranges.

Table 24: Sample SSS pricing and benefit package

Declared salary range	Monthly Contribution	Weekly Equivalent	Approximate Benefit at 65
1,000 – 1,249.99	104	26	499.60
1,000 – 1,749.99	156	39	699.60
1,750 – 2,249.99	208	52	899.60
2,250 – 2,749.99	260	65	1,099.60

On the other hand, MBAs have a much more narrow financial asset and knowledge base. However, their potential for mobilization, collections and payment is much better than that of the SSS because of their close partnership with MFIs. More importantly, they have more flexibility in customizing pension products for their clients.

Very basic calculations by an actuarial specialist indicates the following schedule of prices and benefits that will allow for a P1,000 monthly benefit to a contributor who starts at age 40 and completes payment until age 65. Alternatively, a lump sum of P119,000 can also be given to the client.

Table 25
Sample Micro-pension Price/Benefit Packages With Different Investment Yields

Monthly benefit of 1,000 at Age 65				
Interest rate on investments	**5.00**	**6.00**	**7.00**	**8.00**
Yearly contribution	2,109.99	1,695.67	1,364.00	1,098.48
Monthly	175.83	141.31	113.67	91.54
Weekly	43.96	35.33	28.42	22.89
Residual at age 85	11,001.00	10,870.00	10,742.00	10,619.00

Price may be seen to improve significantly as investment yield increases. This underscores the important role that fund management plays in viability and competitiveness. Further improvements may be derived from increasing client base and pooling risks. Tax benefits are also assumed.

Among pre-need and insurance companies, Mercantile Insurance Co. is probably the best indicator of value offering. In this regard, the fairly standard pension plan offered to microfinance partners was for a P20/week contribution that would provide a P10,000 lump sum benefit after 10 years of contribution and about P50,000 lump sum after 25 years. The benefit was part of a life insurance package with accident and disability riders. Mercantile was the most active private pension provider identified to be working in the MFI client market. There are possibly 1 or 2 other private providers but pre-need and insurance companies have generally not been interested or proactive in this market.

In-house pension providers, especially MFIs, are not seriously considered since this is thought to be generally risky and frowned upon by regulators.

6. Conclusions

6.1 There is both a strong felt need as well as effective demand for micro-pensions. Both demographic trends and focus group discussions on awareness, usage and interest support this.

6.2 None of the current micro-pension products offer a comprehensive solution to the financial security needs of the poor. On one hand, there are no social pension schemes for the poorest of the poor including the destitute elderly who can not afford regular contributions. On the other hand, contributory products are either not affordable (private pension providers) or not enough (SSS, MBAs, Mercantile).

6.3 Given the relative strengths and weaknesses of potential providers, micro-insurance MBAs show the most promise. Notwithstanding a few isolated cases,, there is no apparent awareness or interest among pre-need and insurance companies in systematically targeting and entering the MFI client market. The SSS on the other hand seems too big and monolithic to be interested in customizing more affordable products with more inclusive terms and conditions for application, payment and collection of benefits.

6.4 However, several significant hurdles need to be overcome in order to make this option viable. These challenges and the possible measures to address them include the following:

6.4.1 Product development and design – This involves creating a more definite pension product offering with the corresponding terms and conditions that meet MFI client needs and expectations. The basic mathematical model used in sample calculations above needs to be updated to account for risk pooling and cost share in an MBA's overhead.

Product approval and licensing by the Insurance Commission – This involves obtaining approval of the Insurance Commission for either separate product or combined product offering with basic life insurance. A precedent for this exists in that CARD MBA had already been allowed to attach a retirement savings feature to its basic life package.

CARD MBA had to train and development underwriters from within its MFI partner to get this approval but all micro-insurance MBAs may all have to do this sooner or later as new products are needed by their members.

At any rate, programming the entry of several MBAs into micro-pension will require policy research and advocacy to make stakeholders - especially regulators - aware and supportive of their initiatives.

6.4.2 Business development and mobilization – This involves preparing and implementing a business plan that is customized for each MBA's areas of operation and member characteristics. It also involves risk pooling through effective member mobilization and recruitment.

6.4.3 Ensuring financial competitiveness, viability and sustainability – The outcome of financial modeling in terms of price/benefit packages, solvency, earnings and efficiency and risk depends on variables some of which were within the control of the pension provider (overhead, guaranteed benefit, policies on membership, policies on investment) and others (mortality and drop out rates, market rates of return on investment, regulator's standards and requirements) beyond the control of the provider.

Among the most important determinants of long term viability and competitiveness is the average yield on funds invested. Long term pension liabilities need to be matched with comparably long term low risk assets. Assuming an average age of 40 years and a retirement age of 65, there is potentially a 25 year period within which a pension provider needs to store reserves at stable and optimal rates of return.

Being mostly newly licensed, micro-insurance MBAs need to develop expertise in fund management. More importantly they need to be able to access long term low risk instruments that are simply not available in the country. A possible key role therefore of external technical assistance might be to help in searching European and international financial markets to find suitable investment options that may match the long term liability profiles of micro-pension providers.

While issues 6.4.1 and 6.4.2 above are urgent considerations, maximizing investment yields is very important.

References

Director Emilio B. Antonio. Supervisory Structure for Private Pensions in the Philippines. Securities and Exchange Commission. Paper Presented at Conference on Private Pensions in Asia. Hyderabad, India. May 28-30, 2003

Director Emilio B. Antonio. Private Pension Schemes in the Philippines: A Country Paper. Securities and Exchange Commission. Paper Prepared for Conference on Private Pensions in Asia. Seoul, Korea. October 24 -25, 2002

Coalition of Services to the Elderly. Designing a Non-Contributory Pension Scheme for the Elderly Poor in the Philippines.

Insurance Commission. Annual Insurance Report. 2005.

National Statistics Office. 1995 Census of Population and Housing.

National Statistics Office. Special Report on Senior Citizens.

Social Security System. Guidebook for SSS Members.