


# Philippines

## Philippines: pension system in 2008

Employees up to age 60 earning more than PHP 1 000 a month are covered by the basic, earnings-related and minimum pensions. There are special systems for government employees and military personnel.

## Key indicators

|                         |                             | Philippines | OECD      |
|-------------------------|-----------------------------|-------------|-----------|
| Average earnings        | PHP                         | 85 900      | 1 947 300 |
|                         | USD                         | 1 800       | 40 600    |
| Public pension spending | % of GDP                    |             | 7.0       |
| Life expectancy         | At birth                    | 71.8        | 78.9      |
|                         | At age 65                   | 79.1        | 83.1      |
| Population over age 65  | % of working-age population | 6.9         | 23.6      |

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## Qualifying conditions

Normal pension age is 65 with 120 months of contribution.

## Benefit calculation

### Basic

The monthly basic pension is PHP 300.

All pension payment is made 13 times per year in the Philippines. Indexation rule for all pension payment is decided periodically based on price inflation and wage growth and on the financial state of the fund. In a long run, it is assumed that this *ad hoc* adjustment will be in line with price inflation.

### Earnings-related

Earnings-related pension benefit depends on the greater one between the following two average earnings: the average earnings over five years at six months prior to pension claim or the average earnings for the period in which contribution was paid. The benefit is 20% of workers' average monthly earnings plus 2% of workers' average monthly earnings for each year of service exceeding ten years or 40% of the workers' average monthly earnings, whichever is greater.

### Minimum

The minimum pension for both basic and earnings-related components is PHP 1 200 a month with a contribution period of between 10 years and 20 years and PHP 2 400 for more than 20 years of contribution.

## Variant careers

### Early retirement

People could start receiving pension as early as age 60 with 120 months of contributions at 6 months before retirement. The pension is suspended if an old-age pensioner resumes employment or self-employment before age 65.

**Late retirement**

People can start claiming pension later than normal pension age, but there is no increment for the delayed pension benefits.

**Personal income tax and social security contributions****Taxation of workers****Taxation of worker's income**

| Over         | But not over | Tax rate   |
|--------------|--------------|--|
| PHP 0-10 000 | PHP 10 000   | 5%   |
| PHP 10 000   | PHP 30 000   | PHP 500 + 10% of the excess over PHP 10 000      |
| PHP 30 000   | PHP 70 000   | PHP 2 500 + 15% of the excess over PHP 30 000    |
| PHP 70 000   | PHP 140 000  | PHP 8 500 + 20% of the excess over PHP 70 000    |
| PHP 140 000  | PHP 250 000  | PHP 22 500 + 25% of the excess over PHP 140 000  |
| PHP 250 000  | PHP 500 000  | PHP 50 000 + 30% of the excess over PHP 250 000  |
| PHP 500 000  |              | PHP 125 000 + 32% of the excess over PHP 500 000 |

**Social security contributions payable by workers**

Workers pay 3.33% of monthly gross insured earnings as social security contribution for pension, sickness and maternity and funeral benefits and the gross insured earnings are set based on 29 income classes. The maximum insured monthly earnings for contribution are PHP 15 000.

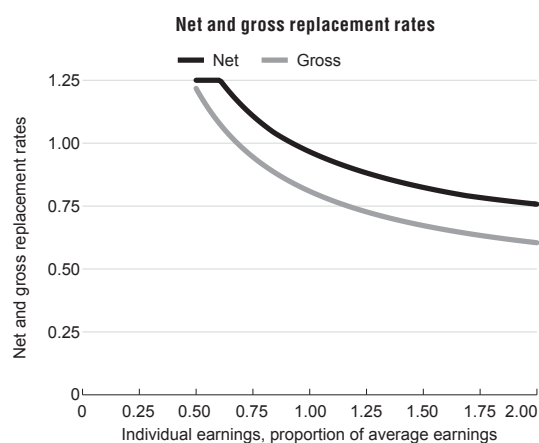
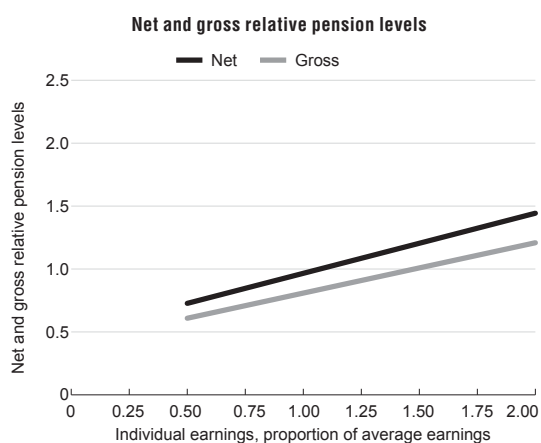
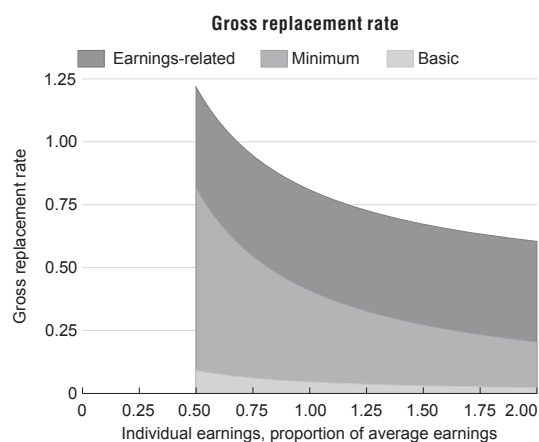
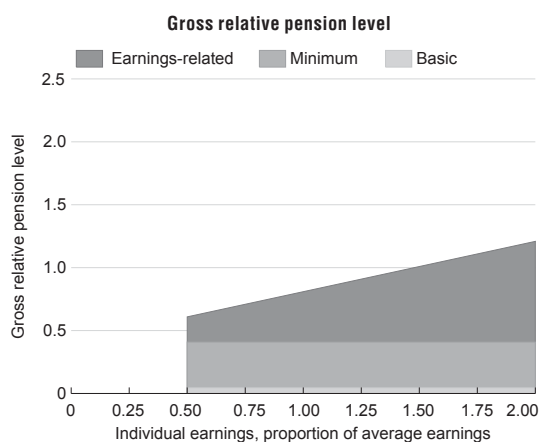
**Taxation of pensioners**

Under the Expanded Senior Citizens Act of 2003, senior citizens (resident citizens of the Philippines at least 60 years old) are exempted from paying individual income taxes provided their annual taxable income does not exceed the poverty level as determined by the National Economic and Development Authority (NEDA) for that year. They are also entitled to a 20% discount on the price of some services and products, including medical services and medicines. The 20% discount then becomes a tax credit for the establishment concerned.


**Taxation of pension income**

All pension incomes are exempt from taxation.

## Pension modelling results: Philippines



| Men<br>Women (where different)                                  | Median earner | Individual earnings, multiple of average |       |      |       |       |
|---|---------------|--|-------|------|-------|-------|
|   |               | 0.5                                      | 0.75  | 1    | 1.5   | 2     |
| Gross relative pension level<br>(% average gross earnings)      | 73.3          | 60.9                                     | 70.9  | 80.9 | 100.9 | 120.9 |
| Net relative pension level<br>(% net average earnings)          | 87.5          | 72.7                                     | 84.6  | 96.6 | 120.5 | 144.4 |
| Gross replacement rate<br>(% individual gross earnings)         | 90.5          | 121.8                                    | 94.5  | 80.9 | 67.3  | 60.4  |
| Net replacement rate<br>(% individual net earnings)             | 106.4         | 140.2                                    | 110.8 | 96.6 | 82.4  | 75.8  |
| Gross pension wealth<br>(multiple of individual gross earnings) | 11.4          | 15.2                                     | 11.9  | 10.3 | 8.6   | 7.8   |
| Net pension wealth<br>(multiple of individual gross earnings)   | 13.5          | 17.9                                     | 14.1  | 12.1 | 10.2  | 9.2   |
| Net pension wealth<br>(multiple of individual net earnings)     | 11.4          | 15.2                                     | 11.9  | 10.3 | 8.6   | 7.8   |
| Net pension wealth<br>(multiple of individual gross earnings)   | 13.5          | 17.9                                     | 14.1  | 12.1 | 10.2  | 9.2   |

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**Alternative economic and career length assumptions**

40 year career under OECD economic assumptions

| Men<br>Women (where different)                                  | Median earner | Individual earnings, multiple of average |              |              |             |            |
|---|---------------|--|--------------|--------------|-------------|------------|
|   |               | 0.5                                      | 0.75         | 1            | 1.5         | 2          |
| Gross relative pension level<br>(% average gross earnings)      | 73.3          | 60.9                                     | 70.9         | 80.9         | 100.9       | 120.9      |
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30 year career under OECD economic assumptions

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**Economy specific assumptions**

40 year career under economy specific assumptions

| Men<br>Women (where different)                                  | Median earner | Individual earnings, multiple of average |              |              |             |            |
|---|---------------|--|--------------|--------------|-------------|------------|
|   |               | 0.5                                      | 0.75         | 1            | 1.5         | 2          |
| Gross relative pension level<br>(% average gross earnings)      | 73.3          | 60.9                                     | 70.9         | 80.9         | 100.9       | 120.9      |
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30 year career under economy specific assumptions


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Real earnings: 6% per year converging steadily to 2%, giving an average of 4%.

Price inflation: 5% per year converging steadily to 2.5%, giving an average of 3.75%.

Real rate of return: 7.5% per year converging steadily to 3.5%, giving an average of 5.5%.

Discount rate (for actuarial calculations): 2% per year.

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