

PERA as a Powerful Retirement Tool

By Jose Recon S. Tano, Director and Head, BSP PERA Technical Working Group

“You can be young without money, but you can’t be old without it”, a line in the classic movie *The Cat on a Hot Tin Roof*, has today more than ever reverberated to the consciousness of everyone, particularly during this challenging time.

For some, having a comfortable retirement is an aspirational goal that figures prominently in one’s financial decisions, even at a young age. For the many Filipinos, however, preparing for retirement is not a priority. This may be attributed to a number of factors - from structural constraints, the supposed lack of financial capacity, to inadequate financial literacy. Considering the long-term horizon associated with retirement, it often takes a backseat when it comes to the priority list of a typical Filipino.

A Glimpse of the Philippine Pension System and Pension Savings

According to the Allianz Pension Report 2020, demographic changes necessitate responsive pension policies. Demographic changes are happening, with average life expectancy increasing by four years or up to 83 years old in some countries, with people in retirement age doubling in year 2050. The Allianz Pension Index (API) showed that the Philippines ranked midway at 37th among 70 countries in terms of sustainability and adequacy of pension systems. It ranked 57th in the adequacy sub-index, demonstrating that its pension system may not be able to provide adequate standard of living for old-age people. On the other hand, the Philippines ranked second in the financial and demographic starting point sub-index, indicating that with a young population, the old-age benefits and old-age dependency ratios are still relatively low and that there is still a big opportunity to build a sustainable and adequate pension system.

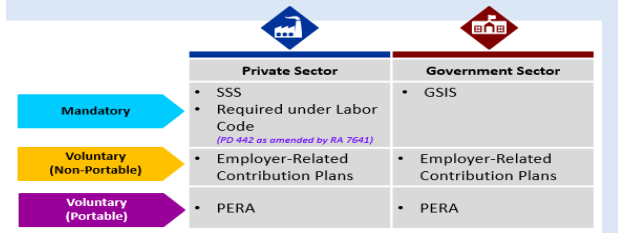
The latest data from the Philippine Statistics Authority (PSA) showed that the Philippines has around 7.6 million Filipinos aged 60 years old and above, of which only 20 percent are covered by either Social Security System (SSS) or Government Service Insurance System (GSIS) pension. Eighty percent of senior citizens have no mandatory pension at all. Retirees who are covered by state-sponsored retirement systems receive an average monthly pension of P5,123 for SSS and P18,525 for GSIS, which for most are not enough in meeting old-age needs.

Much is to be improved in the mindset of the Filipinos when it comes to retirement. According to a 2018 Manulife Investor Sentiment Index (MISI) survey, Filipinos set aside only 3.6 months’ worth of income for retirement, way below the average in Asia of 2.9 years. PSA reported that the share of social security benefits to Gross Domestic Product also remains relatively low at around 2.0 percent from 2012 to 2017.

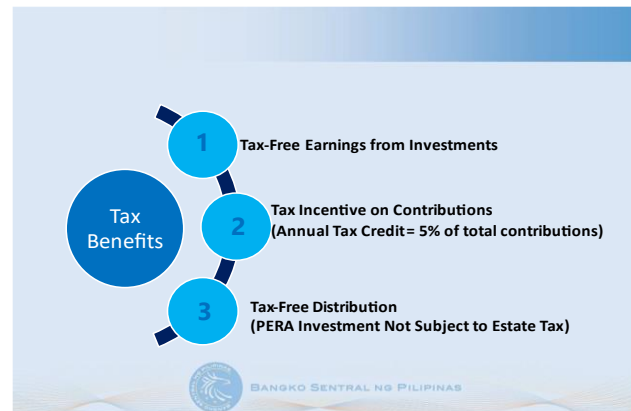
PERA as a Powerful Retirement Savings Tool

To address this low level of pension savings and benefits, the government has instituted pension reforms with the end goal of increasing contractual savings that will likewise support economic growth and capital market development. These also aim to lay the foundation for a robust private corporate pension system. The action points are to be undertaken by different regulatory agencies and institutions such as the Department of Finance, Bureau of Treasury, Bureau of Internal Revenue, Insurance Commission, and of course, the Bangko Sentral ng Pilipinas (BSP). At the forefront of the BSP's participation in the pension reform is the development of a conducive regulatory environment for Personal Equity Retirement Account (PERA), a voluntary retirement savings program which serves as an additional pillar in the pension system. PERA supplements the mandatory state-sponsored retirement system (i.e., SSS and GSIS) and corporate retirement programs.

- PERA adds to PH's menu of retirement income provision



Compared with other financial products, PERA is a superior retirement savings option mainly due to the tax benefits it offers to individual contributors: (1) tax exemptions on earnings from PERA investments; (2) 5.0 percent tax credit on the PERA contribution that can be used to pay for national income tax liabilities; and (3) tax-free distribution on qualified withdrawal of PERA investments, subject to compliance with the 55/5 rule (i.e., withdrawal age of at least 55 years old and contribution of at least 5 years). In case of death of the contributor, withdrawal of PERA investment is also exempt from estate taxes. As a result, fund value of PERA investment is likely to grow faster than non-PERA investment due to the tax benefits.



Meanwhile, on an institutional level, companies are incentivized to contribute to PERA in the form of employer-sponsored programs. The PERA contribution by employers for their employees is deductible from corporate gross income and not subject to fringe benefit tax.

Recently, the PERA infrastructure was transformed to make PERA investment more convenient and affordable. The BSP launched the Digital PERA in September 2020.

“The ePERA (Digital PERA) also holds the potential to begin breaking down inter-generational poverty transmission. Children will see a reduced financial burden from their parents in old age, thus allowing more families to build and transfer inter-generational wealth.”

*-Dr. Ramesh Subramaniam, Director General of Asian Development Bank
8 September 2020*

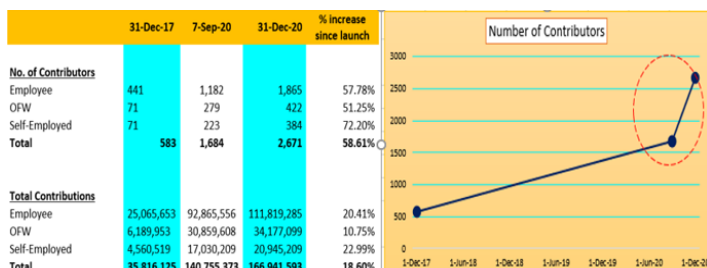
Picture of Dr. Subramaniam within this block

The Digital PERA is envisioned to be a one-stop shop for investor education, client on-boarding, settlement of transactions, monitoring of PERA investments, as well as application for tax credit certificates. With the digitalization of PERA, investing for retirement has now become more accessible and empowering. The current accredited PERA

products in the market in the form of Unit Investment Trust Funds are also affordable with denominations as low as P1,000.

Altering PERA’s Growth Trajectory

The introduction of the end-to-end digitalization altered the growth trajectory for PERA. A little more than a quarter after the launch of Digital PERA, the total number of contributors climbed by more than 50 percent. Since the program’s maiden offering in 2016, the number of contributors has already grown almost five times. It is expected that this trend will continue to rise as more and more Filipinos are able to access PERA conveniently and efficiently.



Call for Industry’s Support Towards a Thriving PERA Ecosystem

Building upon the foundation of the Digital PERA infrastructure, the BSP needs the support of the financial sector to promote widescale adoption of PERA.

The banking, insurance and mutual fund industries need to collaborate to provide the investing public more PERA investment options. For its part, the BSP shall continue to engage with relevant stakeholders to encourage greater participation in the PERA ecosystem. We remain committed to institute policy reforms and support legislative initiatives in order to create a more enabling policy environment. The BSP is also collaborating with various stakeholders to intensify information campaign. These initiatives are intended to bring us closer to our vision of empowering more Filipinos to achieve a more fulfilling retirement.

“I encourage the market players to provide convenient and affordable PERA experience to their customers. I also hope to see more market players participate in the digital PERA ecosystem, such as insurance companies and mutual funds. To all the attendees today, may you promote the value of PERA in your organization, with your colleagues, and with your families. At the end of the day, saving for retirement is a necessity.”

*-Benjamin E. Diokno, Governor of Bangko Sentral ng Pilipinas
8 September 2020*

Picture of Gov. Diokno within this block

On a personal note, I hope that when we retire, we are a blessing, and not a burden to our family. Remember, the money that you may get as financial support from your children is the money that you will take away from your grandchildren. Invest in PERA while you are still young.