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UNDERSTANDING SSS AND THE SOCIAL SECURITY PROGRAM

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I. SOCIAL SECURITY AS A SOCIAL INSURANCE PROGRAM

The Social Security System, was established in September 1957 primarily to provide a social safety net to workers of the private sector and their beneficiaries against sickness, maternity, death, disability, old age, and other uncertainties that result in loss of income or financial burden. It accomplishes this through two major programs: the Social Security program, and the Employees' Compensation program. It re-distributes income through cross-subsidies where the young pay for the old; the able for the disabled; the healthy for the sick; and the higher income for the lower income group. Moreover, the SSS serves as a catalyst for national growth and development through its loan programs that finances small-and-medium scale enterprises, housing, construction of schools and hospitals, as well as investments in government and private securities that help fund developmental projects and stimulate business activities.

As a social insurance program, the SSS has the following features:

(1) It is compulsory for the workers in the private sector as well as self-employed individuals;

(2) Employers and employees share in the payment of contributions that are pooled together into a fund to cover benefit payments;

(3) A member's right to benefits is assured by the number of contributions he has paid; and

(4) Surplus funds – or funds not immediately needed to pay benefits and cover operating expenses – are put on reserve and are invested to make them grow to fund future obligations;

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The social insurance program of SSS is a defined-benefit scheme, which simply means that there is a formula that determines the SSS benefit amount on the basis of pay and number of contributing years. To fund this defined-benefit scheme, the SSS uses the scaled premium method: an earnings-related contribution rate is set such that over a period of, say 20 years, the fund is able to cumulate reserves, with investment earnings of the reserves becoming an additional source of funding. Investment earnings affect the capacity of the Fund to enhance or increase benefits or time when a contribution rate increase is needed. Thus, when members start collecting on their benefits, and as benefit payments catch up with contribution collections and investment earnings, the contribution rate would have to be adjusted upward to allow the fund to cumulate reserves once more. Over the long haul, increases in the contribution rate are part and parcel of the actuarial design of the social security program.

II. SSS FUND MANAGEMENT

Similar to any business enterprise, the SSS needs to ensure that its revenues always exceed its expenditures. But with the SSS, fund management has a long-term viability component, as it must always ensure fund build-up to cover future benefit obligations. On the SSS revenue side are the members' contributions and its investment income. On the expenditure side are its benefit payments and operating expenses. Ideally, member contributions must always be sufficient to cover member benefits as well as operating expenses. Anything collected in excess are pooled into a reserve fund that is then invested and made to grow to finance future benefit payments.

However, there have been instances in the past when benefit payments totally exceeded contribution collections, such as in the early 2000s. It was in those times when investment earnings helped save SSS. Without investment income to cover operational expenses and shortfalls in collections, the SSS fund would have long been depleted.

Fortunately, thanks to timely reforms, the SSS was able to increase significantly contribution collections in the past recent years. As a result, starting 2012, contribution

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collections were at levels that could fully fund both benefit payments and operating expenses, without having to dip into investment income. In fact, from January to October 2016, the contribution surplus was at P3.69 billion. This means that investment income was used solely to grow the Investment Reserve Fund.

III. MEMBERSHIP COVERAGE AND CONTRIBUTIONS

SSS coverage is mandatory to all private sector workers, including the self-employed, whose monthly earnings are at least P1,000, and who are not over 60 years old upon initial coverage. Membership is on a voluntary basis, on the other hand, for workers separated from employment, for non-working spouses, and for overseas Filipino workers.

Technically, employers or companies are not considered members, since they do not directly receive benefits. However, they are important to SSS, as employers have a share in the payment of their workers' contributions and act as conduits in the remittance of contributions and loan amortizations to SSS and the payment of SSS benefits to their workers. As of October 2016, there are 932,293 registered employers with SSS.

Registered members, meanwhile, number over 34.65 million as of October 2016, and this is composed of over 25.07 million employees, 4.57 million self-employed workers, 3.79 million voluntary members, and 1.22 million OFW members.

Monthly contributions are based on the compensation of members and payable under the two (2) programs. For Social Security, the contribution rate is ELEVEN PERCENT (11%) of the monthly salary credit (MSC) not exceeding P16,000, and paid by both employer (7.37%) and employee (3.63%), effective January 1, 2014. For Employees Compensation (EC), which is paid only by the employer, it is TEN PESOS (P10) for employees with an MSC of P14,500 and below, and THIRTY PESOS (P30) for employees with an MSC of P15,000 and up, effective January 1, 2007.

The MSC means the compensation base for contributions and benefits related to the total earnings for the month. The maximum covered earnings or compensation, or the maximum MSC, is P16,000 since January 1, 2014.

For an employed-member, the MSC is based on the total actual remuneration from employment, including the mandated cost of living allowance, as well as the cash value of any remuneration paid in any medium other than cash, except that part of remuneration received during the month in excess of the maximum MSC as provided under Section 18 of RA 1161 as amended by RA 8282 (Social Security Act of 1997). This means that if an employee earns well above P16,000 a month, his SSS contribution is still based only on the P16,000 maximum MSC.

For self-employed and certain voluntary members, the monthly earnings declared at the time of registration shall be the basis of the MSC. However, the declared earnings should not be lower than P1,000 per month, except for OFW-members whose minimum MSC is pegged at P5,000, effective January 1, 2004.

From January to October 2016, the SSS was able to collect over P119 billion in contributions, 87 percent or P103 billion of which came from employed workers.

IV. BENEFITS

In exchange for their contributions, SSS members get a package of benefits that are categorized according to two types of contingencies: short-term and long-term. Benefits for short-term or immediate contingencies include Sickness benefits, Maternity benefits for female members, and Funeral benefits. Long-term benefits, meanwhile, include Retirement and Disability for members, and Death Survivorship for members' primary beneficiaries.

It is important to note that the SSS does not receive any subsidy from the government. Despite this, SSS has never failed to pay for pensions or benefits, which in the period January to October 2016, totaled over P107 billion under the Social Security Program and P928 million under the EC Program, given to over 2.88 million SSS and EC members and beneficiaries.

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V. OPERATING EXPENSES

Running an institution with 277 local branch offices and 21 foreign offices, manned by over 8,500 regular and contractual employees naturally entails huge operating expenses (OpEx). However, the SSS does not have a free hand when it comes to OpEx, as it is bound by limits set by the SSS Charter, which is not more than TWELVE PERCENT (12%) of total yearly contributions plus THREE PERCENT (3%) of other revenues.

In the early 2000s, SSS found itself close to breaching the Charter limit on OpEx, thus, it had to institute severe austerity measures without sacrificing service delivery capability. As a result, SSS managed to keep the growth of OpEx at prudent levels. Since then, SSS has been keeping a watchful eye on its OpEx and has successfully kept operational spending levels way below the limit. For the period January to October 2016, the Charter limit for OpEx was about P15 billion, but the percentage of OpEx to Charter limit was just 48 percent.

VI. ASSETS AND INVESTMENTS

As of October 2016, the assets of SSS are worth over P487 billion, about P470 billion of which are invested in various instruments. The largest slice of the SSS investment pie, or 39 percent, is in Government Securities. This is followed by Equities, which has 23 percent share, Member Loans at 18 percent, Corporate Notes at eight percent, Bank Deposits at seven percent, and Real estate at four percent.

From January to October 2016, SSS realized investment and other income of over P26 billion, for an average return on investment (ROI) rate of seven percent.

VII. PENSIONS

As of October 2016, the SSS has 2.078 million pensioners, 1.2 million of which are retirement pensioners, over 803,000 are death survivorship pensioners, and over 66,000 are disability pensioners. The basic monthly pension averages P3,276, with P1,000 being the minimum monthly pension, and P17,945 the highest pension amount.

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VIII. CURRENT CHALLENGES

By now, as most of you know, the clamor for an increase in the SSS pensions has already been appeased with the granting by President Rodrigo Duterte of an across-the-board increase in the amount of P1,000, effective January 2016 and another P1,000 by 2022 or earlier. We are grateful to President Duterte that he paid heed to his economic managers' advice that there must be reforms in the income-generation side of SSS as well. Thus, SSS has been given the go-signal to increase the maximum monthly salary ceiling (MSC) to P20,000 from the current P16,000, as well as to increase the contribution rate to 17 percent from the current 11 percent on a staggered basis, beginning with a 1.5 percent contribution rate increase effective May 2017.

It is important to point out, however, that the P1,000 increase in SSS pensions effective January 2017 will be fully financed by current contributions and investment income. The additional contribution hike by May 2017, meanwhile, will be used to enlarge the Investment Reserve Fund, to generate higher yields for investments, and to further strengthen the viability of the pension fund for future obligations.

Thus, the SSS is under pressure to look for other and more lucrative investment opportunities to increase income and grow the social security fund, as well as to keep operating costs at a bare minimum.

To do this, we plan to diversify assets by directly investing in up to 25 percent ownership in a wide range of industries, including infrastructure projects like toll roads, real estate and even lotto operations. We have also cut down operating expenses in our 2017 budget by one billion pesos as we seek measures to improve our services, boost contribution and collection performance, and limit promotions to only exceptional performance and hiring to filling up only very critical posts.

We want a win-win solution for all stakeholders. We will give the pension increase but we have to make sure that future benefits will not be compromised.