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Hot Topic: Philippines

Proposals to create an Employee Pension and Retirement Income Account

October 2021

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Assess the impact on current retirement benefits and understand more on the changes.

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What has happened?

Under the proposed Capital Market Development Act (House Bill 9343) ("the Act"), now pending in the Senate before passing into law, there are measures to establish an Employee Pension and Retirement Income (EPRI) account which will be **mandatory, fully funded and portable**. The bill aims to "develop a sustainable corporate pension system to help secure the future of workers and their families while making more capital available in the financial sector to stimulate economic growth". Highlights of the scheme under the proposals include:

- **EPRI Account:** Must be established at the start of employment. An employee would only have one account. The EPRI account would be permanent until retirement and would be owned, maintained, and managed by the owner regardless of changes in employment or transfer of employer.
- **Coverage:** Compulsory to cover all employees and employers in the private sector (with exceptions). Self-employed and professionals may opt for voluntary coverage.
- **Employer and Employee Contributions:** Contributions will be determined by the Insurance Commission in the implementing rules and regulations. Initial proposed mandatory contributions are based on monthly basic salary - Employer: 4% and Employees: 1%. Both the Employer and Employee may increase contributions up to a maximum of 5% each and both subject to a cap of PHP 160,000 each (around 3,000 USD). The maximum contribution shall be adjusted for inflation every 3 years.
- **Investments:** The EPRI owner will make all investment decisions on the investment of their contributions. The regulatory authorities will determine the available investment products and the default investment product for those EPRI owners who do not make an investment choice.
- **Retirement Benefit:** On reaching age 60, the EPRI owner will be entitled to all the assets in their EPRI account. The benefit may be paid as a lump sum, a fixed term pension or lifetime pension.
- **Taxation:**
  - Employer contributions: treated as tax deductible expense
  - Employee contributions: subject to income tax
  - Investment income and benefits paid: tax exempt

Why does this matter to employers?

The proposals will have an impact on the current mandatory retirement benefit under RA 7641 and existing supplementary retirement plans.

Transitional arrangements once the proposed Act is effective:

- Employees will be allowed one year to make a one-time option to remain under the coverage of RA 7641 or an existing supplementary retirement plan. If they choose to remain, they will be exempt from this Act.
- Those who do not make a choice or those entering the workforce for the first time will be subject to the provisions of the Act.
- If an employee who is covered by an existing supplementary plan chooses to be covered by the Act, the contributions paid by the employer and employee, including investment returns, will be transferred to the employee's EPRI account.

What are employers thinking?

Allowing portability and preservation of benefits is likely to be generally welcomed.

Will the Act increase employer costs? Funding for employees' retirement may increase for some employers, particularly those employers who currently only provide retirement benefits under RA 7641.

Should I still set up a supplementary retirement plan? Employers who are thinking of setting up retirement plans in the near future should assess the impact of this proposed Act. The Act offers a "ready made" retirement plan. However, the prescribed design may not achieve your desired objectives.

What will happen to our existing supplementary retirement plan? Employees are likely to opt to stay in the plan if the level of employer funding/benefit is more attractive than EPRI. With new employees covered under the Act, existing plans may close to new members or operate as top up plans to ensure adequate retirement savings for employees and to help to attract and retain talent.

What actions should be taken now?

The passing of the bill is likely to take several years and is likely to be hindered by the ongoing Covid 19 pandemic situation. Further clarity on the provisions and implementation will only become clearer once the Act is passed.

In the meantime, Employers should assess the impact of the Act and be aware of the upcoming changes and any impact it may have on existing retirement benefits e.g., exercise of one-time option.

You can access more details on Philippine retirement plan design and benchmarking via this link.