



The AFP Pension System At A Glance



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The Armed Forces of the Philippines Retirement and Separation Benefits System (AFP-RSBS) was established on December 30, 1973 by virtue of Presidential Decree (PD) No. 361, as amended by PD 1656, to provide retirement and separation benefits to the military members of the AFP. However, because it failed on its mandate to become a self-sustaining military pension fund, the AFP-RSBS was eventually dissolved on December 31, 2006 thru Executive Order No. 590. With the growing number of pensioners and their benefits continuously being fully funded out of the annual appropriations for the AFP, fears of a looming pension crisis is now growing. Based on records of the AFP Pension and Gratuity Management Center (AFP-PGMC), the government has yet to pay pension arrears amounting to PhP16 billion for almost 112,000 military personnel.

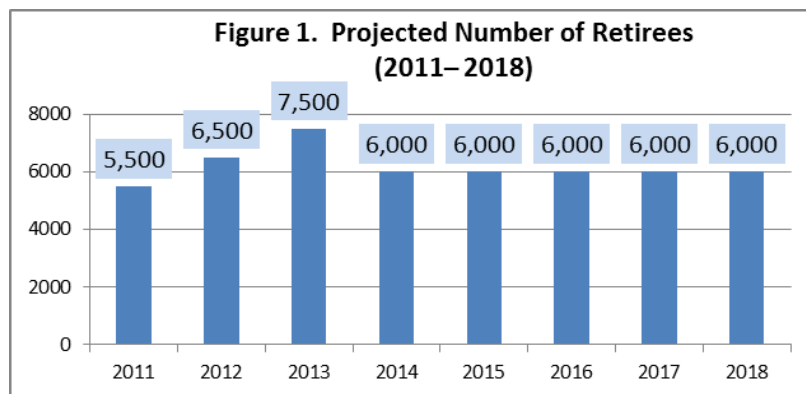
AFP Retirees. Of the total number of retirees from the different service units of the AFP, those from the Philippine Army account for more than half (67.4%) while the Philippine Air Force and the Philippine Navy account for 15.7% and 14.8%, respectively. The Technical Administrative Service, which includes the personnel from the General Headquarters Proper, the AFP Medical Center, the Philippine Military Academy and the Presidential Security Group, has the lowest share at only 2.1%. From 2005 to 2010, an average of 5,419 military men retired every year. Based on the projections of the AFP-PGMC, about 6,000 personnel will retire annually from 2011 to 2018¹.

AFP pensioners. With the constant slew of military men retiring every year, the number of pensioners in the AFP continuously increased. From 2005 to 2010, the pace of growth in the number of AFP pensioners even exceeded the growth rate of AFP personnel in active service. While pensioners grew by an annual average of 2.65%, the average annual growth rate of the number of active personnel declined by 2.29% during the said period. However, starting 2008, the number of personnel in active service has started increasing again.

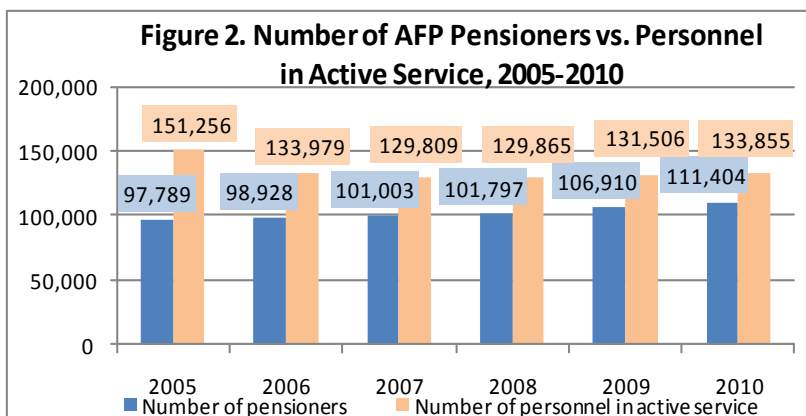
Table 1. Actual Number of AFP Retirees, 2005-2010

Branch of Service	2005	2006	2007	2008	2009	2010
Phil. Army	3,097	3,509	4,431	3,259	3,599	3,097
Phil. Air Force	763	1,032	879	772	721	720
Phil. Navy	888	1,110	1,128	1,191	1,084	682
Tech. Admin. Service	88	103	99	81	88	95
Total	4,836	5,754	6,537	5,303	5,492	4,594

Source of basic data: AFP-PGMC



Source: AFP-PGMC



Source: AFP-PGMC

¹ This includes the retirees under Section 4 and Section 5(a) of PD 1638. Section 4 is an optional retirement for uniformed personnel who have rendered at least 20 years of active service while Section 5(a) is compulsory retirement for uniformed personnel at the age of 60 and have rendered at least 15 years of active service.

The AFP Pension Budget.

Accordingly, from merely PhP9.7 billion in 2005, the budget for military pension and retirement benefits ballooned to PhP24.1 billion in 2011, a 149% increase in a span of seven (7) years.

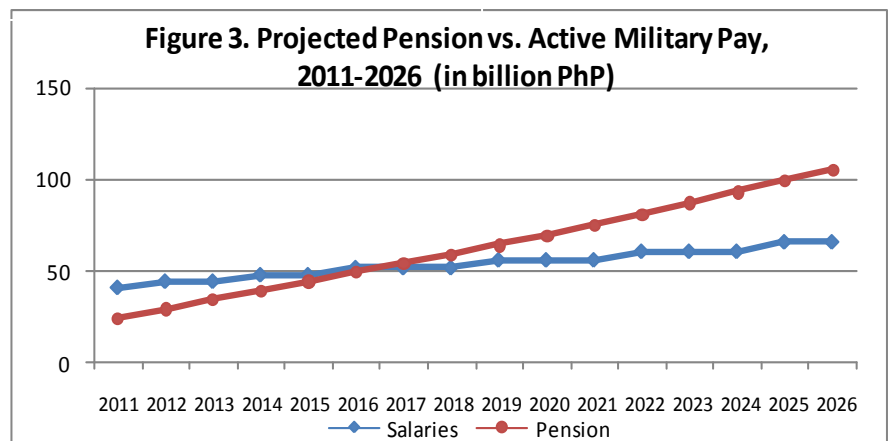
While the annual budget for those in active service grew by a yearly average of 3.6% or about PhP1.3 billion from 2005 to 2010, the allocation for pensioners increased by an annual average rate of 15.1% or by PhP1.9 billion every year.

It is projected that the budget for AFP pensioners will overtake the salary allocation for active servicemen by 2017. On the said year, pension pay is expected to amount to PhP54.1 billion compared to the salary of active military personnel which is estimated at PhP51.9 billion.

Table 2. Actual Number of AFP Retirees, 2005-2010 (in billion PhP)

	2005	2006	2007	2008	2009	2010
AFP Budget for Personnel in Active Service	35.9	35.8	36.3	36.7	41.6	42.6
Phil. Army	20.1	20.1	21.9	22.2	25.5	25.6
Phil. Air Force	4.6	4.4	4.9	4.9	5.5	5.5
Phil. Navy	6.5	6.7	7.1	7.5	8.2	9.1
Tech. Admin. Service	4.7	4.7	2.4	2.1	2.4	2.4
AFP Budget for Pension and Retirement Benefits	9.7	10.0	11.4	13.5	15.9	19.4
Phil. Army	5.9	6.1	7.7	8.2	10.4	13.0
Phil. Air Force	1.7	1.8	1.5	2.0	2.1	3.1
Phil. Navy	1.8	1.9	1.9	3.0	3.2	2.9
Tech. Admin. Service	0.2	0.2	0.2	0.3	0.3	0.4

Source: AFP-PGMC



Source: AFP-PGMC

Separation and Retirement Benefits. At present, an amount equivalent to five percent (5%) of their monthly base pay is automatically deducted from the salaries of all active officers and enlisted personnel of the AFP. Upon a personnel’s separation or retirement from the service, he or she is refunded in one lump sum all of his or her contributions².

PD 1638 otherwise known as the AFP Retirement Law of 1979 also provides that when an AFP officer or enlisted personnel is retired from the AFP, he or she shall, at his or her option, receive a gratuity equivalent to one (1) month of base and longevity pay of the grade next higher than the permanent grade he or she last held for every year of service. This gratuity is payable in one (1) lump sum or a monthly retirement pay, the equivalent of which is computed as follows:

$$\text{Monthly Pension} = (\text{Base Pay} + \text{Longevity Pay}) \times (2.5 \text{ Percent} \times \text{Number of Years in Service})$$

Survivors of AFP officers and enlisted personnel also receive survivorship benefits. In addition, Section 17 of PD 1638 provides that when the salaries of active soldiers increase, the pension of retirees also increase. AFP pensioners are, thus, also benefiting from the on-going implementation of the Salary Standardization Law III³.

Reforming the AFP Pension Scheme. To reduce the government’s ballooning pension requirements, the AFP management is currently drafting a proposal which aims to reform the Armed Forces’ retirement scheme and create the Philippine Military Pension System or the PMPS. The PMPS is envisioned to function as a government-owned and controlled corporation which will establish a self-reliant funding scheme to guarantee the payment of benefits of AFP retirees and pensioners. Other reform proposals include the repeal of the automatic indexation of the pension to the prevailing salaries of active soldiers, the raising of the mandatory retirement age to 58 from 56, the increase in the minimum years of service to 25 years from 20 years, as well as the reduction of the survivorship benefit to 50% of a soldier’s pension from the current 75%.

² By virtue of PD 1656.

³ Passed in 2008, the Salary Standardization Law III increased the salaries of all government employees. The salary adjustments are to be made in four (4) tranches, the last of which is scheduled in 2012.