

NINETEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
Second Regular Session)



23 SEP -7 A11 :46

SENATE
S.B. No. 2434

RECEIVED BY

Introduced by **SENATOR IMEE R. MARCOS**

AN ACT
CREATING A SUSTAINABLE FRAMEWORK FOR THE PENSION SYSTEM OF
THE ARMED FORCES OF THE PHILIPPINES, APPROPRIATING FUNDS
THEREFOR, AND FOR OTHER PURPOSES

EXPLANATORY NOTE

Article XVI, Section VIII of the 1987 Philippine Constitution provides that the State shall, from time to time, review to increase the pensions and other benefits due to retirees of both the government and the private sectors.

Under the present system, the pension requirements of the Military and Uniformed Personnel retirees, which are solely funded by the General Appropriations Act of the National Government, have become onerous and unaffordable. Pension benefits increase alongside the salary hikes of those in active service as retired uniformed personnel enjoy indexation of benefits. Hence, there is a need for additional sources of financing besides the National Budget.

Further, the State recognizes the crucial role of the Armed Forces of the Philippines (AFP) in protecting the Filipino people, and in ensuring the sovereignty and territorial integrity of the Philippines. The State also recognizes the extraordinary dangers, hazards, risks and perils that members of the AFP encounter in the performance of their official functions and duties. It is, thus, the State's primary concern that they receive the adequate benefits and pension due to them.

As of 31 December 2022, the payroll records of the Armed Forces of the Philippines showed that there are 137,649 pensioners covered by the monthly pension requirement for the first quarter of 2023.

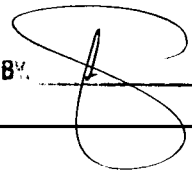
This bill seeks to create and provide a sustainable framework for the pension system of the Armed Forces of the Philippines. Therefore, the passage of this bill is earnestly sought.

IMEE R. MARCOS

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Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

1 **Section 1. Short Title.** – This law shall be known as the “Armed Forces of
2 the Philippines (AFP) Pension System Act”.

3
4 **Sec. 2. Declaration of State Policy.** – The State duly recognizes the vital role
5 of the Armed Forces of the Philippines (AFP) in ensuring security and promoting
6 peace and order and further strengthening the local government capability aimed
7 towards the effective delivery of basic services to the citizenry. The State also
8 recognizes the extraordinary hazards, risks, perils and dangers that the members
9 of the AFP encounter in the performance of their official functions and duties.

10
11 To compensate the invaluable service that they have provided during their
12 years in active service, it shall be the State’s primary concern to provide all retirees
13 of the AFP, as well as their surviving spouses and orphans, adequate pensions and
14 retirement benefits.

15
16 **Sec. 3. Funding Sources.** – The following shall be the source of funds for
17 the pensions and retirement benefits of AFP members:

- 18
19 (a) New entrants to the AFP shall contribute nine percent (9%) of their basic
20 monthly compensation as their personal share to the AFP Trust Funds
21 while twelve percent (12%) shall be provided by the National
22 Government as its share to the AFP Trust Funds. Provided that, for
23 purposes of this Act, “new entrant” shall refer to newly-appointed, newly-
24 recruited or newly re-admitted military and uniformed personnel after the
25 effectivity of this Act. Provided further that, the AFP Trust Fund

- 1 Committee created under Sec. 10 of this Act may determine the amount
2 necessary to capitalize and sustain the AFP Trust Funds;
- 3 (b) Residual assets of the AFP Retirement Separation Benefits System;
- 4 (c) The proceeds from the sale of military reservations, as may be authorized
5 by Congress, pursuant to the provisions of existing laws and regulations
6 governing sales of government properties, including such immovable and
7 other facilities as may be found therein, not otherwise covered by the
8 Bases Conversion and Development Authority, as provided for in Republic
9 Act No. 7227, as amended;
- 10 (d) The proceeds from the lease or joint development of military reservations,
11 as may be authorized by the President, pursuant to the provisions of
12 existing laws and regulations governing lease or joint development of
13 government properties, including such immovables and other facilities as
14 may be found therein, not specifically enumerated under Republic Act No.
15 7227, as amended;
- 16 (e) Shares of the AFP from the proceeds of the sale of military camps
17 provided for under Republic Act No. 7227, as amended, and at least fifty
18 percent (50%) of the proceeds, net of direct expenses authorized to be
19 deducted from such proceeds from the lease and/or joint venture
20 agreements and such other dispositions pertaining to the same camps in
21 accordance with applicable and/or existing orders, rules, regulations and
22 issuances; and
- 23 (f) Proceeds derived from public-private partnerships entered into by the
24 Department of National Defense (DND) or the AFP, as may be authorized
25 by the President, pursuant to the provisions of existing laws and
26 regulations.

27 **Sec. 4. *Compulsory and Optional Retirement.*** – Active AFP personnel shall
28 be compulsorily retired upon reaching the age of fifty-seven (57) years old and may
29 voluntarily retire upon accumulation of twenty (20) years of satisfactory active
30 service, subject to the approval of the appropriate authority.

31
32 **Sec. 5. *Retirement Pay.*** – Monthly retirement pay shall be fifty percent
33 (50%) of the base pay and longevity pay of the grade next higher than the
34 permanent grade last held by the personnel in case of twenty (20) years in active
35 service, increasing by two and one-half percent (2.5%) for every year of active
36 service rendered beyond twenty years to a maximum of ninety percent (90%) for
37 thirty-six (36) years of active service and over. Provided that, nothing in this Section
38 shall be construed as authorizing adjustment of pay or payment of any differential
39 in retirement pay to AFP personnel who are already retired prior to the approval of
40 this Act.

41
42 **Sec. 6. *Separation Pay.*** – Any AFP personnel who shall separate or resign
43 from the service without reaching twenty (20) years of satisfactory active service

1 shall receive a separation pay equivalent to one-month base pay plus longevity pay
2 of the permanent grade the AFP personnel holds at the time of separation for every
3 year of active service.

4
5 **Sec. 7. Capped Automatic Indexation to Adjustments.** – The pension of
6 retired AFP Personnel and survivorship pension of qualified survivors shall be
7 subject to an automatic indexation of one hundred percent (100%) of the increase
8 in the base pay of the AFP Personnel in active service holding the same rank during
9 the same year. Provided that, the President of the Philippines, upon
10 recommendation of the AFP Personnel Trust Fund Committee, is authorized to
11 adjust the pension and survivorship pension at a rate lower than what is prescribed
12 herein due to adverse economic conditions, as certified by the Development Budget
13 Coordination Committee.

14
15 **Sec. 8. Armed Forces of the Philippines (AFP) Trust Fund.** – The Armed
16 Forces of the Philippines (AFP) Trust Fund shall be created to support the separation
17 and retirement benefits of the AFP, including the payment of disability and
18 survivorship pension under existing laws.

19
20 **Sec. 9. Armed Forces of the Philippines (AFP) Trust Fund Committee.** – An
21 AFP Trust Fund Committee shall be created after the effectivity of this Act which
22 shall consist of the following members:

- 23
24 a) Secretary of Finance (as Chairperson);
25 b) Chief of Staff of the AFP;
26 c) Secretary of National Defense;
27 d) Administrator of the Philippine Veterans Affairs Office;
28 e) President and General Manager of the Government Service Insurance
29 System; and
30 f) Four (4) qualified and competent economic managers with business and
31 financial experience and expertise who shall be appointed by the
32 President.

33 The Bureau of Treasury shall serve as the Secretariat of the Committee and
34 maintain the records and accounts of all investments, receipts, disbursements, and
35 other transactions relating to the management, administration, and utilization of
36 the AFP Trust Fund. Provided that, such records and accounts shall be maintained
37 in accordance with existing accounting and auditing laws, rules and regulations,
38 and shall be audited by the Commission on Audit.

39
40 **Sec. 10. Powers and Functions of the AFP Trust Fund Committee.** – The
41 Committee shall exercise the following powers and functions:

- 42
43 (a) Act as Trustee of the AFP Trust Fund and such other assets as may be
44 assigned to the pension system of the AFP Personnel;

1 (b) Manage the AFP Trust Fund, through the fund manager designated under
2 Section 11 herein, and ensure that the fund is actuarially and financially optimal
3 and sustainable;

4 (c) Authorize the necessary expenses to manage and administer the AFP
5 Trust Fund;

6 (d) Implement and execute functions related to the disposition of assets
7 identified under this Act;

8 (e) Declare dividends out of the unrestricted earnings of the AFP Trust Fund
9 which shall be payable in cash;

10 (f) Cause the undertaking of a survey or consultation to assess the
11 preferences of the AFP Personnel on the features of the pension system, including
12 the manner to pay for contributions and interest in various benefit and investment
13 schemes;

14 (g) Commission an actuarial evaluation of the fiscal sustainability of the
15 pension scheme, including specific recommendations on the rates for contributions
16 and investment options for the AFP Trust Fund, as applicable;

17 (h) Authorize the necessary expenses to manage and administer the AFP
18 Trust Fund; and

19 (i) Perform other functions, as may be necessary, for the effective
20 management of the AFP Trust Fund;

21
22 Provided that, within one (1) year from the effectivity of this Act, the fund
23 manager shall conduct the studies prescribed under this Section. Provided further
24 that, the findings and recommendations obtained from the studies shall be
25 submitted to the Committee which shall promulgate the implementing rules and
26 regulations with respect to the mandatory contribution scheme, and other features
27 of the pension scheme, as applicable.

28
29 **Sec. 11. *Manager of the AFP Trust Fund.*** - The Government Service
30 Insurance System (GSIS) shall be designated as the fund manager and benefits
31 administrator of the AFP Trust Fund, and shall perform the following:

32
33 (a) implement an investment management and benefits administration
34 strategy as directed by the Committee;

35 (b) monitor market and economic trends and track securities to make
36 informed investment decisions;

37 (c) recommend its portfolio strategy to the Committee;

38 (d) track financial results of companies in the portfolio and its various
39 metrics, including price-to-earnings ratios, inflation-adjusted return, sales,
40 earnings, and dividends; and

41 (e) perform other acts necessary to fulfill its mandate under this Act, or such
42 acts, as may be delegated by the Committee.

43
44 **Sec. 12. *Structure, Staffing Pattern, and Operating Budget.*** - The
45 organizational structure and staffing pattern for the management of the AFP Trust
46 Fund within the GSIS and for the creation of the AFP Trust Fund Secretariat within

1 the Bureau of the Treasury shall be approved by the Committee within ninety (90)
2 days from the effectivity of this Act. Provided that, appointees of various positions
3 shall comply with the qualification standards approved by the Civil Service
4 Commission (CSC). Provided further that, the GSIS shall be entitled to management
5 fees, to be charged against the AFP Trust Fund.
6

7 **Sec. 13. *Government Guarantee.*** – The government of the Republic of the
8 Philippines hereby guarantees the fulfillment of the obligations of the AFP Trust
9 Fund to its members as and when they fall due.

10 **Sec. 14. *Administration Fees.*** – Any cost, expense or other payment directly
11 attributable to the administration of the AFP Trust Fund shall be charged to the AFP
12 Trust Fund.
13

14 **Sec. 15. *Exemptions from Tax, Legal Process, and Lien.*** – All laws to the
15 contrary notwithstanding, all contributions to the AFP Trust Fund and all accruals
16 thereto and income or investment earnings therefrom shall be exempt from any
17 tax, assessment, fee, charge, or custom or import duty in accordance with Section
18 39 of RA 8291, otherwise known as "The Government Service Insurance System
19 Act of 1997".
20

21 **Sec. 16. *Non-encumbrance of Benefits.*** – The benefits authorized under this
22 Act, except as provided herein, are not subject to attachment, garnishment, levy,
23 execution or any tax whatsoever, and may not be assigned, ceded, or conveyed to
24 any third person. Provided that, if a retired or separated military personnel who is
25 entitled to any benefit under this Act has unsettled money or property
26 accountabilities incurred while in the active service, an amount not exceeding fifty
27 percent (50%) of the pension gratuity or other payment due to the military
28 personnel or their survivors under this Act may be withheld and be applied to settle
29 such accountabilities.
30

31 **Sec. 17. *Appropriations.*** – Upon effectivity of this Act, an amount of twenty-
32 five million pesos (Php 25,000,000.00) shall be allocated to the AFP Trust Fund.
33 Thereafter, the amount necessary for the effective implementation of this Act shall
34 be included in the annual General Appropriations Act (GAA).
35

36 **Sec. 18. *Implementing Rules and Regulations.*** – Within ninety (90) days
37 from the effectivity of this Act, the Committee, in coordination with the GSIS, shall
38 promulgate the rules and regulations to effectively implement the provisions of this
39 Act.
40

41 **Sec. 19. *Separability Clause.*** - If, for any reason, any section or provision of
42 this Act is declared unconstitutional or invalid, other sections or provisions which are
43 not affected thereby shall continue to be in full force and effect.
44
45

1 **Sec. 20. *Repealing Clause.*** - All laws, decrees, executive orders,
2 proclamations, rules and regulations, and other issuances, or parts thereof, which
3 are inconsistent with the provisions of this Act are hereby repealed or modified
4 accordingly.

5
6 **Sec. 21. *Effectivity Clause.*** - This Act shall take effect fifteen (15) days
7 following its publication in the Official Gazette or in two (2) newspapers of general
8 circulation.

Approved,