Policy Brief
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Call of Duty: Reforming the MUP Pension System

The MUP pension system is essentially in debt by PhP14 trillion, up from PhP9.6 trillion in 2019.

Reforming the MUP pension system requires close collaboration among the administration, senior military and uniformed service leaders, and Congress, along with a shared commitment to invest political capital.

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I. Introduction

Pension and retirement benefits of military and uniformed personnel (MUP) account for a significant portion of the national budget. In 2023, spending for the MUP pension program amounted to PhP128.66 billion, or 2.4 percent of the budget. If not addressed urgently, this cost will continue to rise, and covering it will be at the expense of other critical development initiatives such as those for infrastructure, food, medicine, or even digital transformation (Guinigundo 2021).

Due to the urgency of the matter, the MUP pension reform, as part of a broader issue of fiscal sustainability, was included as one of the priority legislative measures of the Legislative-Executive Development Advisory Council (LEDAC) for the 19th Congress. The reform consists of establishing a contributions-based system, sharing the burden between MUP and the national government, removing the indexation policy, and increasing the retirement age.

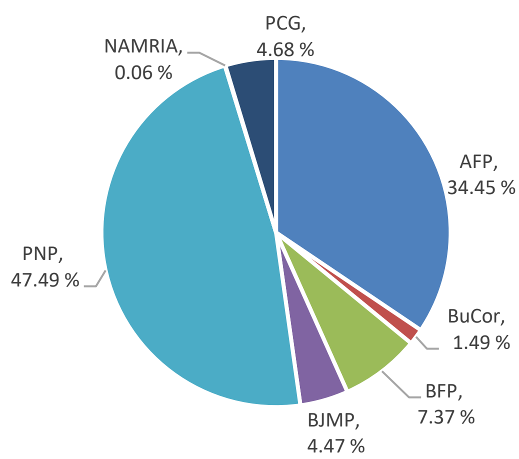
In advocating for a more sustainable and equitable pension system for MUP, this paper aims to: (1) provide a brief background on the MUP as a special group of public servants and their pension and retirement benefits; (2) analyze the policy issues and underlying conditions that undermine the sustainability of such special pension scheme; and (3) offer policy options or considerations.

II. MUP Pension: Social Insurance for Special Groups of Public Servants

The MUP pension is one of the components of the old-age pension system in the Philippines, which include: (1) non-contributory social assistance, e.g., Social Pension for Indigent Senior Citizens; (2) non-contributory social insurance, e.g., pensions for special groups of public servants; (3) contributory social insurance, e.g., Government Service Insurance System (GSIS) and the Social Security System (SSS) and (4) voluntary schemes, e.g., occupational, private pension schemes (ASEAN 2020, 174). Because of the unique nature of their work and the inherent risks associated with it, MUP are accorded a pension scheme that falls under the non-contributory social insurance or pensions for special groups of public servants.[1]

The MUP are collectively comprised of the military personnel of the Armed Forces of the Philippines (AFP) and the uniformed personnel of the Philippine National Police (PNP), Bureau of Fire Protection (BFP), Bureau of Jail Management and Penology (BJMP), Bureau of Corrections (BuCor), Philippine Coast Guard (PCG), and National Mapping and Resource Information Authority (NAMRIA). The separate and slightly different MUP retirement schemes for each agency are collectively referred to as the MUP pension system. It is a defined-benefit scheme with a lump-sum payment upon retirement and monthly pensions indexed on the current wages of active MUP.

Figure 1. MUP Active Members, 2022



Source: DBM, Staffing Summary 2022

MUP Active Members and Pensioners. In 2022, there were 470,073 active MUP, comprised mostly of police officers under the PNP (47.49%) and military personnel under the AFP (34.45%). The BuCor and NAMRIA have the smallest shares of MUP at 1.49 percent and 0.06 percent, respectively (Figure 1). During the same year, there were 174,500 regular MUP pensioners. This indicates that for every 100 active MUP, there were 37 regular pensioners.

Data provided by the AFP also show that the average age of MUP in 2019 was 35, with an average length of service of 10 years. Monthly compensation averaged PhP39,687. Meanwhile, pensioners received an average monthly pension of PhP43,475 during the said period. The mean age of pensioners was 63, while the average age at retirement was 48. Table 1 shows the number of pensioners for each MUP agency.

Table 1. Total Number of Regular and Survivorship Pensioners, 2019 and 2022

Branch of Service	No. of Pensioners			
	Regular Pensioners		Survivorship Pensioners	
	2019	2022	2019	2022
AFP	131,115	83,748	52,418	52,597
PNP	55,563	75,512	36,350	
BJMP	1,599	3,388	1,005	
BFP	5,827	9,938	2,802	3,372
PCG	1,884	1,892	583	711
NAMRIA*	16	22	14	12
BuCor**	NA	NA	NA	NA
Total	**196,004**	**174,500**	**93,172**	**56,692**

**Notes*
**The 58 active members of NAMRIA are all Commissioned Officers. Commissioned Officers of NAMRIA are covered under Republic Act (RA) 5976, while Non-commissioned Officers are covered under RA 8291 or the "GSIS Act of 1997."*
***The existing regular and survivorship pensioners of BuCor are still covered under the GSIS.*

MUP retirement benefits. For military personnel, the compulsory retirement age is 57, regardless of years of service. Alternatively, they may retire after completing 30 years of service, irrespective of age. Upon retirement, the monthly pension is set at 85 percent of their monthly salary and longevity pay at the next higher grade. After reaching 20 years of service, they achieve veteran status, which entitles them to other benefits. On the other hand, uniformed personnel have varying pension schemes. For PNP, BFP, BJMP, and Coast Guard, regular retirement is set at age 56, irrespective of years of service. They may also retire after completion of 20 years of service regardless of age, except for the Coast Guard, where 30 years of service is required (Mesa-Lago et al. 2011, 43). Table 2 shows the additional subsidies and benefits for the MUP.

[1] Other special groups of public servants with separate pension schemes include the judiciary and constitutional commissions.

Table 2. Various MUP Pension Schemes: Eligibility Criteria and Benefits

Benefits	Armed Force (AFP-RSBS)	Veterans (PVAO)	Policemen (PNP)	Fireman (BFP)	Jail/ Penology (BJMP)	Coast Guard (PCG)
Legal Basis	RA 340, PD 361, PD 1638, PD 1656, & RA 6963	RA 6948, amended by RA 7696 & RA 9396; RA 6963	RA 6975, as amended by RA 8551; RA 6963	RA 6975 & RA 6963	RA 6975	RA 9933 & PD 1638
Retirement Age & service years	57* regardless of service or 30 years of service regardless of age	65 regardless service	56 regardless of service or 20 years of service regardless of age (30 years for Coast Guard)			
Others	age 60 + 15 service		Early: 10 years of service, three before retirement	Early: age 56 and 15 years of service for the separation pay	Early: age 56 and 15 years of service	Early: 20 years of service regardless of age
Base Salary	Max: 85% of salary + longevity of next higher grade		Max 90% of salary + longevity of next higher grade for 36 years of service			
Benefits	Lump-sum or monthly pension; 2.5% each year of service and 2) 75%-month retirement pay	PhP5,000 monthly	50% of the last salary (75% Coast Guard) + longevity, plus 2.5% for each year after 20, or 3-year lump sum (5 in PNP) & life pension after			
Pension Adjustment	All: Automatic salary raise in the previous post, except veterans					
Disability						
Permanent Total	20 years of service: 50% of salary + longevity of next higher grade. -20 years of service: 50% of salary + longevity pay	From PhP1,000 (30% rate) to PhP1,770 (100% rate) If 100% rate: PhP500 for each spouse & minor child	1 year salary & life-time pension=80% last salary	20 years of service: compulsory; -20 years separation pay + 1 1/4 months base pay + longevity of grade held		20 years of service: 50% salary + longevity of next higher grade. -20 years of service: 50% of salary + longevity
Not Permanent Total or Permanent Partial	20 years of service month annuity 75% of salary + longevity. -20 years of service: 1 month + longevity	At age 70=100% rate				
Survivors	20 years of service: annuity 75% of retirement pay. -20 years of service: annuity 50% salary + longevity	Monthly: spouse/child each PhP1,000; parents, each PhP1,000 Not KIA 50%	After five years of retirement: spouse/minor children pension for rest of five years	75% base pay + longevity + 1 year gratuity, if children until age 18		20 years of service: annuity 75% of retirement pay. -20 years of service: annuity 50% salary + longevity
Other Benefits						
Provident Fund	Savings, 6% annual interest: lump sum at retirement	No	No	No	No	No
Life Insurance	Benefit for disability and death: natural, accident, or KIA[a]	No	Work-related: major PhP20,000, minor PhP10,00, survivors PhP25,000	Under Mutual Benefit Association, Inc. (MBAI); voluntary BFP Benefit for death & disability: natural, accident, or KIA[b]		Recently covered under MBAI
Funeral	Yes	PhP10,000		3-month salary		PhP30,000 member; PhP5,000 dependent
		PNP, BFP, BJMP & Coast Guard work-related under Employees' Compensation Commission (ECC): PhP3,000				

Source: Mesa-Lago et al. 2011, 42

Notes : Longevity: 10% of the basic monthly salary for each five years of service, maximum of 50% basic pay. [a]Includes AFP military personnel that were disabled or died during active service with 20 years of service, excludes insurgency wars that the Special Fund Office of the President covers. [b]Higher benefit for disability depends on face amount, natural death face amount, and equity fund; accidental is 150% of face amount and equity fund; if killed in action (KIA), there is 150% of face amount, equity fund, and PhP50,000 given.

* Based on RA 11939, signed by President Marcos on 17 May 2023, which limits the tour of duty of key AFP officials and the adjustment of the retirement age of officers from 56 to 57.

III. Policy Issues and Underlying Concerns

The challenge of reforming public pension programs is a global issue. In most countries, special pensions like those for the MUP and other civil servants usually feature lower retirement ages, favorable contributory conditions, or higher benefits. Such preferential schemes, however, are generally the factors that contribute to the pension's unsustainability. Consequently, international reforms to phase out such schemes have recently been initiated or are underway, especially for MUP and other government employees (Eckefeldt and Patarau 2020, 3). Notably, even the United States has transitioned from a non-contributory to a partial-contributory military pension system. In this context, it raises the question of why the Philippines is maintaining its special pension scheme for the MUP.

Based on the 2022 Global Pension Index, the Philippines is ranked as the second worst pension system in the world. Like other public pension programs in the country, the MUP pension system faces critical issues related to adequacy, equity, efficiency, and sustainability. Specifically, concerns within the MUP pension policy encompass the following key points: (1) the failure and subsequent abolition of the separate pension scheme for the military; (2) the escalating cost of MUP pensions, entirely funded by taxpayers; (3) the ongoing influx of new MUP; (4) the automatic indexation policy, which links retired MUP's pensions to the salaries of their active-duty counterparts; and (5) the relatively low optional or mandatory retirement age, which does not account for the increasing longevity of retirees, among other factors.

3.1. Failure of the Military Pension Reform

The issues surrounding the MUP pension stem from the historical development of public policies concerning the country's all-volunteer military system, particularly the provision of deferred compensation or pension as an integral part of the military's recruitment and retention efforts. Previously, AFP members, including the Philippine Constabulary (predecessor of the PNP) and the Coast Guard, were covered by the contributory pension system of GSIS under Commonwealth Act 186 of 1936 (GSIS 2014, 5).[2] Subsequent policies introduced separate non-contributory pension schemes for various military branches. RA 340 of 1948 eventually established a uniform retirement system for the AFP, drawing inspiration from the non-contributory military retirement program in the United States that involved retainer payments rather than traditional veteran pensions and allowed the reactivation of retired military personnel in times of war.

Following RA 340, Presidential Decree (PD) 361 created the AFP Retirement and Separation Benefits System (AFP-RSBS) in December 1973, which aims to provide a self-reliant funding mechanism for the AFP retirement program, akin to the GSIS and SSS. The AFP-RSBS became operational in October 1976. The law underwent revisions through PD 1638 and PD 1656. However, despite or perhaps because of its generous pension structure, the AFP-RSBS faced severe funding challenges and governance issues such as graft and corruption. Without sufficient government support, it failed to fulfill its mandate and was deactivated in December 2006 and eventually abolished in 2016 (COA 2022, 1).

The pension provided by AFP-RSBS, described as the most generous military pension worldwide (Diokno 2013, para. 10), influenced the PNP and PCG's retention of similar pension schemes after their civilianization in 1986. Furthermore, policies extending the military's pension scheme to other civilian uniformed personnel, including those from the paramilitary national police force that formed part of the BFP and BJMP, significantly increased budgetary demands for what would now be known as the MUP pension system.

3.2. Sovereign Guarantee: Rising Spending for Non-Contributory Pension

The failure of the AFP-RSBS has led the government to take responsibility for pension payments owed to military personnel until a new pension system is established by law. This reflects the government's policy on sovereign guarantee, which is also extended to GSIS members in the event of social insurance bankruptcy (Valderrama 2016, 14).

[2] Eventually, PD 1146 or the Revised Government Service Insurance Act of 1977 excluded the period of military service (for which an employee receives separation, retirement, or disability pay) from the computations of service for calculating the pension of government employees covered by GSIS.

Figure 2. MUP Pension per Agency
(in PHP Billion)

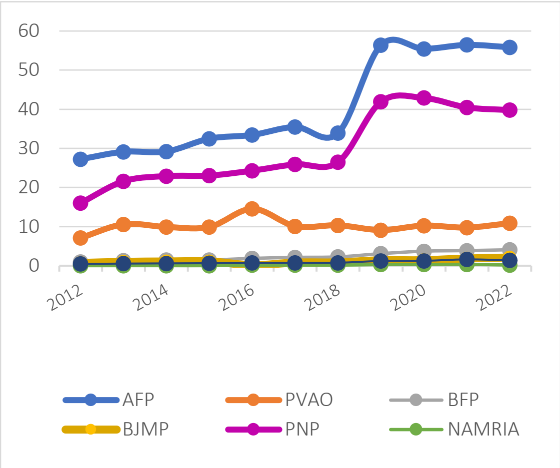
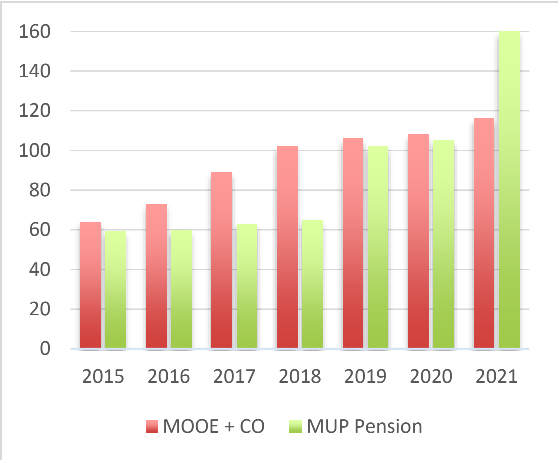
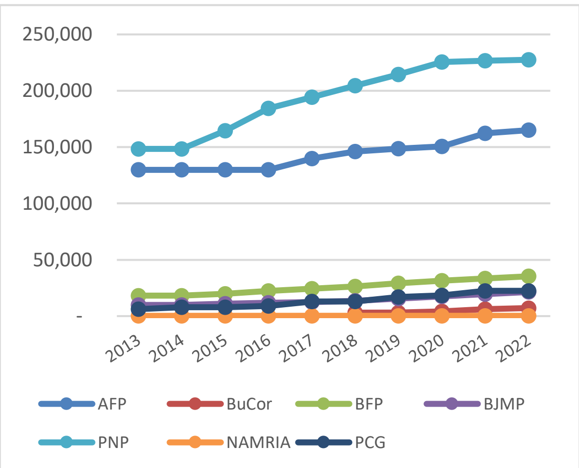


Figure 3. MUP Pension vs MOOE & CO
(in PHP Billion)



Note: Data provided by DBM and 2021 includes the proposed supplemental budget of around 43 billion for the MUP pension (without PVAO arrears)
Source: Presentation of Hon. Joey Salceda at House of Representatives hearing on military pensions

Figure 4. Number of MUP Active Members



Source: DBM, Staffing Summary 2013-2022

Currently, the national government fully subsidizes the retirement and pension benefits for both military and uniformed service personnel. As a result, the financial burden of the MUP pension has increased steadily over time. Total budget for MUP pension grew by an average growth rate of 17.85 percent from 2012 to 2022. From PhP58 billion, MUP pension spending ballooned to PhP124 billion in 2022. It even exceeded the combined expenditures on Capital Outlays (CO) and Maintenance and Other Operating Expenses (MOOE) of the military and uniformed services (Figure 3) in 2021.

3.3. Increasing Number of New Members or Future Pensioners

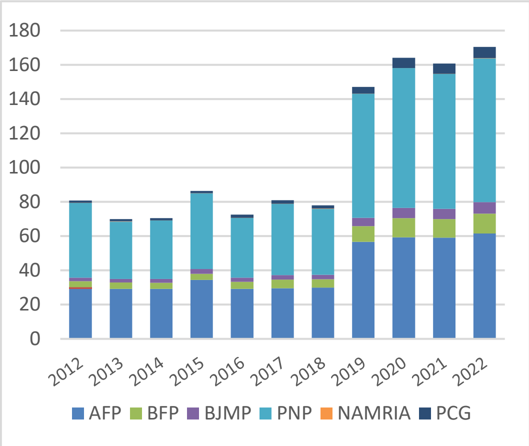
The surge in pension spending is directly tied to the expansion in the number of MUP, mainly through the recruitment of new personnel. Among the MUP agencies, it is the PNP that significantly contributed to the increase in active members from 2013 to 2022 (Figure 4). In 2021, it allocated a substantial portion of its budget to the creation of 10,000 Police Officer 1 positions. This was intended to achieve a 1:505 police-to-population ratio, closely aligning it with the ideal 1:500 ratio as mandated by Section 27 of RA 6975 or the Department of the Interior and Local Government (DILG) Act of 1990.

3.4. Providing Automatic Indexation

The rise in pension funds is not solely attributed to the growing number of pensioners. It is also largely influenced by the generous MUP pension package, particularly due to the indexation policy. Even after MUP retirees have left service, their pensions continue to increase whenever their active counterparts are granted salary raise. Moreover, MUP retire at the next grade higher than their last held position, with exceptions for: (a) certain naval officers, as outlined in Section 9 of PD 1638, and (b) uniformed personnel that have not served at least one year of active service in the permanent grade, per Section 75 of RA 6975.

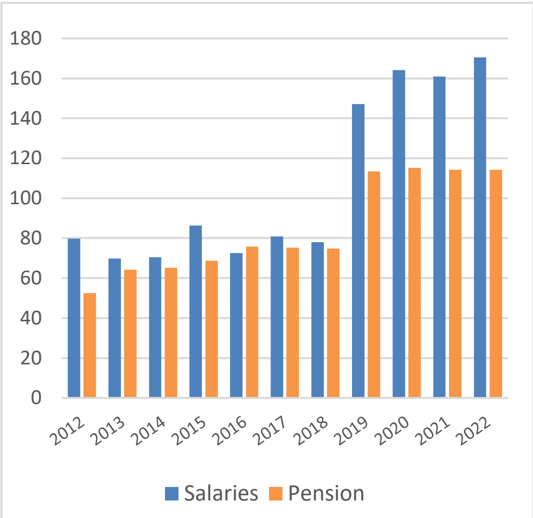
The fiscal strain of this pension system design intensified in 2018 when the government, through a Joint Resolution of Congress, doubled the monthly basic salaries of a private in the AFP and the lowest-ranking police officer in the PNP. This move resulted in an overall MUP salary increase of nearly 59 percent for all ranks. Furthermore, Congress authorized the implementation of a second base pay schedule the following year, culminating in an average adjustment of more than 72 percent. The Department of Budget and Management (DBM), via National Budget Circular 574, funded this initiative from MUP agencies' budgets and from the Miscellaneous Personnel Benefits Fund, which amounted to approximately PhP64 billion (Guinigundo 2021, para. 10).

Figure 5. Agency Composition of MUP Salaries
(in PHP Billion)



Source: DBM, Staffing Summary 2012-2022

Figure 6. MUP Salaries vs MUP Pension
(in PHP Billion)



Source: DBM, Staffing Summary 2012-2022

The DBM and the Department of Finance (DOF) both underscored the financial unviability and unsustainability of the indexation-based pension scheme. Sensitivity scenarios conducted by the GSIS in 2019 revealed that eliminating indexation alone would reduce the estimated total funding requirement for MUP pensions by 39.92 percent, from a base case scenario of PhP5.71 trillion to PhP3.43 trillion. Consequently, annual amortization would decrease to PhP303 billion (from PhP504 billion) over the next 20 years, highlighting the financial implications of this adjustment.

3.5. Retaining Low Retirement Age

MUP in the Philippines generally have two retirement options: voluntary and mandatory. Those who have rendered at least 20 years of active service can choose to retire voluntarily, while those who either reach the mandatory retirement age of 57 or complete 30 years of active service are required to retire. This means that for as long as the 20-year service requirement is met, personnel who opt to retire in their 40s can start receiving pensions.

The country's MUP service threshold requirement is mostly patterned after the US military retirement system where members of the armed forces who have served full-time for at least 20 years can retire as early as age 37, with a defined-benefit pension.[3] However, a report by the Pension Policy Center in Washington, DC argued that the US military needs to modernize its pension system, and its principal recommendation is to raise the eligibility age for benefits. The report found that the average eligibility age for US military pensions is 15 years lower than in the United Kingdom and 20 years lower than in other NATO countries. Additionally, the eligibility age has remained the same over 70 years, even though life expectancy has increased dramatically during this period (Tergesen 2015, para. 5).

Similarly, in the Philippines, the 20-year early retirement provision was introduced in 1948 under RA 340. As it has been in effect for more than seven decades already, it is time to assess whether it should be continued or discontinued, at least for MUP in occupations or assignments not demanding exceptional youth and vigor. A review can determine whether the early retirement option effectively and efficiently attracts new members, or whether it resulted in retaining more personnel than necessary, incentivizes experienced staff to leave prematurely, or limits career opportunities for MUP members.

[3] The US Department of Defense justifies this length of service as necessary to retain a young and vigorous force and attract and retain servicemen. However, most retirees' career time was spent in occupations that did not demand exceptional youth and vigor (GAO 1978, i).

3.6. Failing to Consider Increased Longevity

Despite the Philippines having one of the youngest populations in East and Southeast Asia, demographic projections for 2045-2050 signal a rapid aging trend. Anticipated increases in life expectancy (from 71.7 to 78.7 years), the population aged 60 and over (from 6 percent to 18.2 percent), and the old-age dependency ratio (from 6 to 19.61) pose challenges for public pension costs and financing (Asher and Parulian 2011 In Mesa-Lago et al. 2011, 83; PSA 2022, 6; UN 2019, 9). This risk is particularly pronounced in long-term military and uniformed service careers, influencing longer life expectancies, even when excluding apparent dangers such as battlefield mortality (Hartal et al. 2015, 2; Spiro et al. 2016, 5). A notable example is the aging Filipino World War II veterans, whose average age exceeds 85.

The AFP-RSBS, for instance, has cited the increase in number of pensioners and the improved life expectancy of retirees as among the reasons that contributed to the escalation in pension requirements (which outpaced the yield of RSBS investments) and the eventual failure of the military pension system. Given current life expectancies, MUP, on average, can expect to receive a pension for more than twice the duration of their military service. This discrepancy emphasizes the need for strategic adjustments to ensure the sustainability of pension systems amid increasing life expectancies and aging populations.

3.7. Discounting Equity and Fairness

Special pensions are frequently criticized for contributing to perceived inequities, particularly when comparing designs for private sector workers with those for military and civil service personnel. In the Philippines, mandatory defined-benefit programs are governed by distinct laws and administered by separate government-run pension institutions. This separation has resulted in variations in design and implementation, prompting concerns about fairness and sustainability.

For instance, without contributing to their pension, MUP receive an average regular pension of PhP39,520, or nearly equivalent to the average salary of PhP39,687. This amount significantly surpasses the average pension of private sector retirees under the SSS and the GSIS, being nine times and three times higher, respectively (GSIS 2022; Guinigundo 2021).

The MUP pension system stands out with an automatic adjustment mechanism, a feature absent in the GSIS and SSS pension systems. While adjustments in SSS are made on an ad hoc basis, theoretically based on changes in prices and wages, they are subject to the SSS' financial situation and approval by the Board. Similarly, the GSIS law mandates "periodic adjustments," but the frequency is unspecified and contingent on recommendations from the GSIS actuary and Board approval. In contrast, all separate MUP schemes, excluding veterans' pensions, automatically adjust pensions to match active personnel salary increases (Mesa-Lago et al. 2011, 46).

It is also noteworthy that the MUP receives additional benefits in the event of work-related injuries, sickness, disability, and death through the Employees' Compensation Insurance Fund administered by the GSIS. These benefits encompass medical services, rehabilitation, temporary total disability, permanent total disability, permanent partial disability, death, and funeral benefits, further enhancing their comprehensive retirement scheme.

IV. Policy Options and Recommendations

Several policy options are available to achieve the multiple objectives of recognizing the contributions of MUP in their duties, establishing a professional, competent, and accountable pension system, ensuring the financial sustainability of the MUP pension system, and achieving good fiscal standing. Some of these options or their variations have already been included in legislative proposals being deliberated in Congress.[4]

In general, the ideal retirement system alternative would be an improvement over the current system on at least the following dimensions:

[4] In September 2023, the House of Representatives has approved House Bill No. 8969 or the Unified System of Separation, Retirement and Pension for Military and Uniformed Personnel (MUPs) Act while in the Senate, Senate Bill No. 2501 is pending on second reading.

retention, productivity, cost, force management flexibility, portability, voluntary separations, and political acceptability.

4.1. Establish a Military and Uniformed Personnel Compensation and Retirement Modernization Commission

The government may consider establishing an independent commission — a Military and Uniformed Personnel Compensation and Retirement Modernization Commission (MUPCRMC) — to review the military compensation and retirement systems and propose strategies for their modernization. Drawing a parallel to the US, the concept is akin to the Military Compensation and Retirement Modernization Commission (MCRMC) initiated by the US government through the National Defense Authorization Act for FY 2013 (Asch et al. 2015, 1). This commission consisted of experts with in-depth knowledge of military retirement and compensation systems, featuring former senators, representatives, executive appointees, and staff from congressional defense committees. The MCRMC is widely recognized for its instrumental role in successfully reforming the US military's retirement benefits (Junor et al. 2017, 73-75). A similar commission could play a pivotal role in influencing the legitimacy, credibility, and acceptability of pension reforms in the Philippines, particularly from the perspective of active MUP.

The MUPCRMC can engage the Philippine Institute for Development Studies, the National Defense College of the Philippines, the GSIS, and other relevant think tanks or institutions to provide analytical support during its internal discussions and decision-making process concerning the structure and particulars of its retirement scheme. They can use a dynamic programming model to analyze active-component retention and reserve-component participation choices. The model can be estimated based on longitudinal data and simulate alternative compensation policies. An essential analysis criterion should be whether a reform could sustain the current force size and shape (Asch et al. 2015, 3).

The said Commission can draw up a plan to decrease the cost of providing for the MUP pension including a report on estimated savings figures. It can take off from the actuarial study by the GSIS, which projects unfunded liabilities to go down by 75 percent to PhP2.4 trillion, from PhP9.6 trillion under the status quo, if the following conditions covering new entrants and active personnel are met: (1) no indexation but with an increase of 1.5 percent annually, (2) 21 percent mandatory contribution, (3) pensionable age of 57 years old, (4) retirement at actual rank, and (5) compulsory retirement at 60 years old. This means that the government would only have to shell out around PhP208.6 billion annually for the next 20 years, against the previously projected PhP848.4 billion.

The Commission can also provide recommendations on alternative defined-contribution schemes, indexation, retirement age, mandatory contributions, and a separate pension scheme for the military.

4.2. Provide a Separate Pension Scheme for the Military

A separate pension scheme can be created specifically for military personnel. This is in line with other current systems for the military that are distinct from civilian systems, such as the military court or military justice system and proposed defense procurement. The unique nature of the military is well established. Citing jurisprudence, Defense Secretary Gilberto Teodoro Jr. has emphasized that the military is *sui generis*. The military is fundamentally different from other uniformed service agencies, which are essentially civilian. A separate pension plan would address a weakness in the current MUP pension system, which treats military and other uniformed personnel equally.

A dedicated pension scheme for the military would acknowledge that a retired military personnel is not just a pensioner but also a crucial member of the armed forces who could be called back to active duty during times of war or national emergency. Military retired pay is different from a civilian pension as it is more similar to retainer pay. The classification of military retired pay as reduced pay for reduced services justifies the exercise of court-martial jurisdiction over military retirees. According to Section 28 of PD 1638, an officer or enlisted man on the retired list is subject to the Articles of War and may be recalled to active duty in the permanent grade he last held before retirement by the President at any time. Refusal to perform duty by a retiree can lead to court-martial action under Article 97 of the Articles of War, which may result in termination of benefits.

4.3. Further Raise the Retirement Age

Raising the retirement age is an option to reflect the increasing longevity in the Philippines and to improve the sustainability of the MUP pension program. International studies have found that an increase in the retirement age provides substantial net benefits to society, even under reasonably negative assumptions about the consequences for retention, motivation, efforts, and the value of elderly MUP. Recently, countries, including the UK, Poland, Ireland, and Sweden, have raised the eligibility age for military pensions (Eckefeldt and Patarau 2020, 10).

Aside from reducing the costs of pensions, there are benefits to having a longer career as an MUP. Extending the voluntary retirement eligibility age benefits the individual MUP, the military and uniformed service, and the nation. First, it will increase opportunities for broadening assignments. Second, it will foster the development of more mature, adaptable leaders (i.e., MUP agencies can extend the promotion timeline and focus more on developing subordinates). Finally, it will result in a more professional force, in keeping with the idea of the military and uniformed profession as a lifelong calling. In many cases, the military, for example, spends years training and educating officers for non-operational and joint staff assignments only to have them retire as soon as they are allowed. This communicates the wrong message to junior officers about what a "lifetime of service" entails.

In reformulating proposed legislative measures on the MUP pension, the Senate may consider the following policy options: (1) revise the military retirement system length-of-service criterion based on the type of duty performed; (2) revise the retired pay system to encourage appropriate career lengths, based on duties performed; and (3) provide some form of vesting for members who do not complete whole careers.

The Senate may also consider assigning the Department of National Defense, the DILG, and other MUP agencies with the responsibility of determining: (1) what specific occupational skills require youth and vigor, (2) a more cost-effective force profile that considers longer careers for skills not requiring youth and vigor, and (3) a more efficient method of retaining required personnel (GAO 1978, 33). In addition, in computing for retired pay, the practice of using constructive service (which counts additional time beyond actual service) and rounding to the nearest year of service should be reconsidered. The suggestion is to adopt rounding to the nearest month of service instead to avoid inflating the total years of service and consequently the amount of pension to be received.

4.4. Require Contributions and Promote Shared Responsibility

As previously discussed, the most pressing challenge confronting public pension schemes stems from the long-standing financial instability caused by the inherent mismatch between benefits and contributions (Moon 2001, 12). The mandatory contribution on the part of the MUP, therefore, should be required to ensure that their retirement benefits and pension scheme are secure, reliable, and sustainable. The MUP's share should be increased in phases with the government counterpart fund to achieve a smooth transition. New entrants and active personnel can be required to contribute the following shares of their base pay: (1) 5 percent for the first three years upon effectivity of the reform, (2) 7 percent for the next three years, and (3) 9 percent every year after that.

Meanwhile, the national government can contribute amounts based on the base pay of MUP: (1) 16 percent for the first three years, (2) 14 percent for the next three years, and (3) 12 percent every year after that. Other policy options may require personal counterparts only from new entrants and propose higher rates for government contributions: 18 percent for new entrants and 22 or 27 percent for active personnel.

4.5. Improve Indexation

Maintaining adequate pension levels throughout retirement is a persistent challenge in old-age protection. Most public pension schemes provide some form of indexation to maintain and improve the actual value of pensions and ensure income security throughout retirement. How pensions in payment are indexed is an essential feature of public pension systems, with fundamental effects on sustainability and the long-term adequacy of pensions in payment. In most countries, pensions are adjusted according to the two traditional indexes, either prices or wages, or some combination of both (mixed and hybrid indexing).

As the fundamental objective of indexation lies in preserving the purchasing power of pension payments, indexation for the MUP pension should be based on the Consumer Price Index (CPI). Such changes will also prevent pension benefits from being adversely affected by, for example, wage moderation due to budget cuts.

4.6. Shift to a Defined-Contribution System

The two main types of pension systems are defined contribution and defined benefit. The Philippine pension system is primarily a defined-benefit scheme, which in practice tends to be a pay-as-you-go system whereby contributions from current workers' pay for the benefits of current retirees (e.g., GSIS and SSS). Many pay-as-you-go, defined-benefit pension schemes are unsustainable in the long run because there is little or no link between one's contributions and benefits.

A defined contribution plan, on the other hand, does not guarantee a certain number of benefits upon retirement. In these plans, the employer and employee contribute to the employee's account under the plan, often at a fixed rate, such as 5 percent of earnings annually. These contributions are usually invested on the employee's behalf, and the employee will receive the balance in their account based on contributions, plus or minus investment gains or losses. The account's value will fluctuate based on changes in the investment's value.

The defined contribution, a fully funded element of the Philippine pension system, is small. The country still has to develop the necessary infrastructures needed to successfully run an exclusive mandatory defined contribution system – either through the use of private fund managers in Chile's case or through the government in Singapore's case. The trend worldwide is, however, toward more extensive defined-contribution programs as they are the more equitable and sustainable option.

4.7. Adopt a Blended Retirement System

The government can also opt to adopt a blended retirement system (BRS), similar to the current retirement system of the US military. The concept blends two significant sources of retirement income: (1) the existing annuity provision for those who retire after 20 or more years of service and (2) the Thrift Savings Plan (TSP). The TSP is a government-sponsored retirement savings in the US wherein the retirement income will depend on the amount contributed by the military personnel during the active years of service and the earnings on those contributions (i.e., defined contribution). The TSP funds are invested in different funds depending on the military personnel's preference, such as government securities, local and international stock markets, foreign bonds, or all funds mentioned.

The BRS comprises four specific components: defined benefit, defined contribution, continuation pay, and choice of lump-sum payment. The defined benefit is eligible for military personnel who stayed in active service for 20 or more years; the percentage received increases by 2 percent for every year of service. On the other hand, the defined contribution is similar to savings and tax benefits offered to employees by private corporations wherein the military service will match the amount of the military personnel's contribution. Continuation pay is a one-time bonus payment or incentive in exchange for an agreement to perform additional obligated service. Last, the lump-sum option gives retirees an option to select either a 25 or 50 percent discounted portion of their monthly retired pay as a lump sum in exchange for reduced monthly retired pay. Upon reaching the mandated retirement age, military personnel receive the total amount of their monthly pension.

4.8. Privatization

The government may also consider privatizing the MUP pension and other public pension schemes. In essence, this means that public pensions will be substituted by private retirement provisions in the future, i.e., a move to a fully funded pension system. The privatization of pensions has been a fundamental aspect of the neoliberal restructuring that has been advocated by various international organizations, such as the World Bank, the International Monetary Fund, the Organization for Economic Cooperation and Development (OECD), the Inter-American, African, and Asian Development Banks, as well as the US Agency for International Development (Ortiz et al. 2018, 7).

Chile pioneered pension system privatization in 1981, yielding reduced fiscal deficits and additional benefits, including (1) enhanced depth of local capital markets, (2) modernized financial and regulatory systems, and (3) the emergence of an entirely new supporting industry. Inspired by Chile's success, other Latin American countries responded to potential or actual fiscal crises by adopting some form of defined-contribution reform in the 1990s. These countries included Perú (1993), Colombia and Argentina (1994), Uruguay (1996), Mexico (1997), and El Salvador (1998) (Obermann 2005, 2). Some Eastern European and African countries also experimented to privatize pensions. Other countries, including the US, the UK, China, Australia, and New Zealand, also consider privatizing public pension schemes. In all countries, privatized pensions are financially sustainable because they are run as a fully funded, defined contribution system. The political resistance to such changes will not be easy to overcome. Still, many lessons can be learned in the three decades of pension privatization.

V. Conclusion

A pension ultimately promises a future benefit in exchange for a current contribution. While the state recognizes the contribution of MUP in ensuring or upholding public order, safety, peace, and security, it also acknowledges that the existing MUP pension schemes were introduced a long time ago for reasons that may now be obsolete, making them increasingly difficult to justify. Issues on fairness and sustainability undermine public confidence and the national consensus to build a robust MUP pension system. A pension program, after all, is *only as viable as its funding source* (Guinigundo 2021, para. 21).

The current MUP pension system should, therefore, be reformed – it has to evolve into a fiscally viable system – to meet the following goals: (1) to keep the military forces and uniformed service of the Philippines young and vigorous and ensure promotion opportunities for younger members, (2) to enable the MUP to remain competitive with private sector employers and the civil service, (3) to provide a reserve pool of experienced and capable military personnel that can be mobilized to support active forces in times of war or other national emergencies, and (4) to provide economic security for former members of the armed forces and uniformed service during their old age (Kamarck 2022, 1).

MUP retirees, families, and veterans' interest groups closely monitor potential changes to their retirement system. When considering alternatives to the current system, Congress may choose to consider the balance among: (1) the benefits of the MUP retirement system as a retention incentive, (2) budget constraints, and (3) the needs and concerns of constituents.

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