



P E R A

Embracing Challenges for Growth and Opportunities

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Retirement Income Provision in the Philippine Setting

| | | |
|-----------------------------|--|--|
| VOLUNTARY (Portable) | PERA | PERA |
| VOLUNTARY (Non-Portable) | EMPLOYER RELATED CONTRIBUTORY PLANS | EMPLOYER RELATED CONTRIBUTORY PLANS |
| MANDATORY | EMPLOYER RELATED RA 7641 | NONE |
| MANDATORY | SSS | GSIS |
| | PRIVATE SECTOR | GOVERNMENT SECTOR |

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Personal Equity and Retirement Account

- Refers to the **voluntary** retirement account established by and for the **exclusive** use and benefit of the **Contributor** for the purpose of being invested solely in **PERA investment products** in the Philippines



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Legal Framework and Regulatory Issuances

- ❑ RA 9505 (PERA Act of 2008)
- ❑ Implementing Rules and Regulations (PERA Rules)
- ❑ BIR Revenue Regulations No. 17-2011
- ❑ BSP Issuances –
 - Circular Nos. 860, 878, 879, 880
 - Memo to All Supervised Entities dated 2014-045



Contributor



Any person of legal age and has a Tax Identification Number (TIN)

- A contributor may establish a PERA with a maximum annual contribution of Php100,000 or its foreign currency equivalent;
- In case of married individual, each spouse shall be entitled to make a maximum annual contribution of Php 100,000;
- Employer may contribute in behalf of the employee provided:
 - *Total contributions to employee's PERA will not exceed P100K p.a.*
 - *Deductible from employer's gross income*



Overseas Filipinos (OF) as Contributors



- Filipino citizens living or deriving income abroad'
- Individuals who have retained or reacquired their Filipino citizenship
 - *OFs may establish a PERA with a maximum annual contribution of Php200,000 or its foreign currency equivalent*
 - *Spouse and children of OFs may also open a PERA*

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Maximum Annual PERA Contributions

| Contributor | Maximum Qualified PERA Contribution in Peso* |
|--|--|
| Unmarried Filipino Citizen | Php100,000.00 |
| Married Filipino Citizen and both spouses qualify as a Contributor | Php100,000.00 for each qualified contributor |
| Married Filipino Citizen and only one spouse qualifies as a Contributor | Php100,000.00 |
| Unmarried Overseas Filipino | Php200,000.00 |
| Married Overseas Filipino whose legitimate spouse is neither an Overseas Filipino nor a qualified Contributor | Php200,000.00 |
| <p>*Or its equivalent in any convertible foreign currency at the prevailing rate at the time of actual contribution.</p> | |



Maximum Annual PERA Contributions (cont.)

| Contributor | Maximum Qualified PERA Contribution in Peso* |
|--|--|
| Married Overseas Filipino whose legitimate spouse and children (not otherwise disqualified as contributors) of an Overseas Filipino who did not directly open any PERA | Php200,000.00, cumulative for the spouse and children in representation of the Overseas Filipino |
| Married Overseas Filipino whose legitimate spouse is also an Overseas Filipino | Php200,000.00 for each qualified contributor |
| Married Overseas Filipino whose legitimate children are not Overseas Filipinos and are not qualified Contributors | Php200,000.00 for the Overseas Filipino |
| *Or its equivalent in any convertible foreign currency at the prevailing rate at the time of actual contribution. | |



PERA INVESTMENTS

- The contributor shall make all investment decisions pertaining to his PERA (purely directional)
- Contributor can specify the investment guidelines
 - Limited to investment products accredited by the PERA Regulatory authorities
 - Unit investment trust fund
 - Mutual fund
 - Annuity contract
 - Insurance pension products
 - Pre-need pension plan
 - Shares of listed stocks
 - Government Securities
 - Securities traded in a local exchange



What's in it for the Contributor? WHY PERA?

TAX INCENTIVE ON THE CONTRIBUTIONS

- Contributor shall be given an income tax credit equivalent to 5% of the total PERA contribution
- If an OF, he shall be entitled to claim tax credit from any tax payable to the National Government under the NIRC

TAX INCENTIVE ON EARNINGS

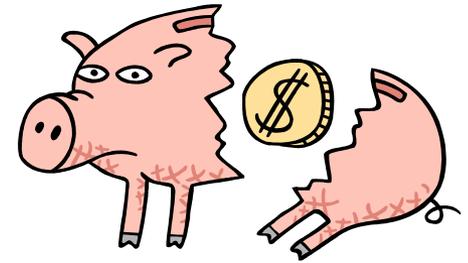
- All income earned by PERA investment products are tax-exempt, including income from reinvestments

TAX-FREE DISTRIBUTIONS

- Provided that the Contributor is at least 55 years of age and has made contributions to the PERA for at least 5 years (55/5 Rule)
- Death
- Exempt from estate taxes



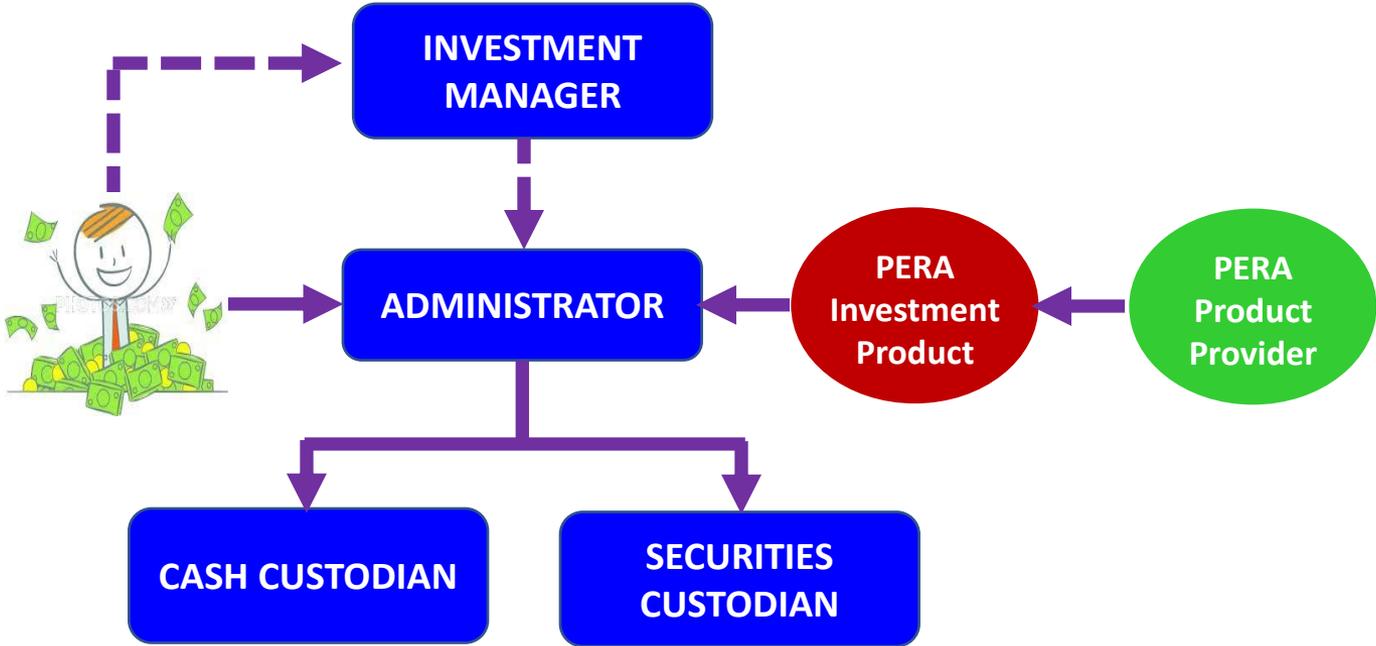
EARLY WITHDRAWALS



- WILL BE SUBJECT TO EARLY WITHDRAWAL PENALTY EXCEPT:
 - ✓ For payment of accident or illness-related hospitalization in excess of 30 days
 - ✓ Contributor's permanent disability or death
 - ✓ Immediate transfer of assets to another PERA eligible investment product/administrator within 2 working days from withdrawal thereof
- PENALTY MEANS REVERSAL OF ALL TAX INCENTIVES AVAILED (*20% flat rate on the earnings and reimbursement of the tax credit on the principal*)



PERA Market Participants



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PERA PARTICIPANT Must Be Accredited by the Concerned PERA Regulatory Authority



- BSP
 - Banks and Trust Entities
- SEC
 - Investment Companies, Investment Houses, Securities Brokers
- Insurance Commission
 - Insurance Companies

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Administrator

Entities eligible to act as Administrator

| Regulatory Authority | Applicant |
|--|---|
| Bangko Sentral ng Pilipinas (BSP) | Banks, trust entities |
| Securities and Exchange Commission (SEC) | Investment company advisers, securities broker, investment houses including those with QB license |
| Insurance Commission (IC) | Insurance companies, insurance brokers |
| Concerned RA | Other entities as maybe determined eligible to act as PERA Administrator |



Role of the PERA Administrator

- Educate the Contributor
- Open PERA account in behalf of Contributor
- Custodize Contributor assets with Cash and Securities Custodian
- Apply for tax credit certificates in behalf of Contributor
- Execute investments for the Contributor or his designated Investment Manager
 - Administrator cannot exercise investment discretion
- Prepare and submit reports to the Contributor and PERA Regulatory Authority
- Enforce PERA guidelines especially on limits
- Collect taxes and penalties

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Qualifications of a PERA Administrator

- Net worth of P100M
- Clear and sufficient organization to conduct PERA Administrator functions
- Adequate systems and technological capability to perform required functions
- Sufficient personnel who have undergone the requisite training



Investment Manager

Entities eligible to act as Investment Manager

| Regulatory Authority | Applicant |
|----------------------|--|
| BSP | Trust entities |
| SEC | Investment company advisers |
| RA | Other entities as maybe determined by the RA as having the qualifications to be accredited as Investment Manager |

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Investment Manager

- Role of the Investment Manager
 - Make investment decisions in behalf of the Contributor
 - Cannot recommend its own investment products or that of its subsidiaries/affiliates
- Requirements for an Investment Manager
 - Written supervision and control procedures
 - Proof of experience and qualifications
 - Contract draft explaining investment process, philosophy, and fees



Cash Custodian

Must be a bank licensed by the BSP that has:

- Complied with the minimum capital required under the MORB
- A CAMELS composite rating not lower than “3” with management component score of not lower than “3” in its latest examination

Securities Custodian

- Banks and other entities with trust license which have complied with the MORB requirements for a securities custodian

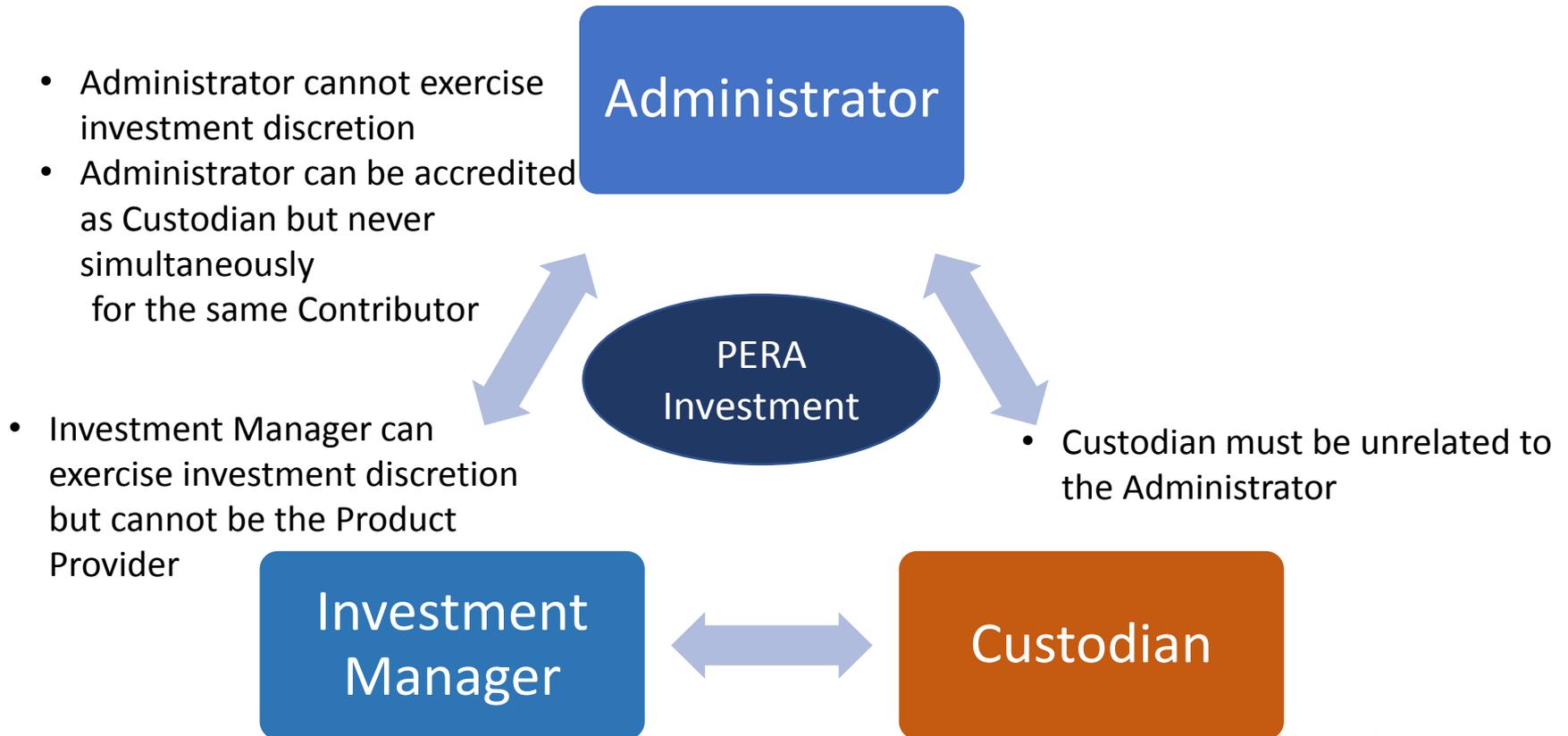


Role of Custodian

- Cash Custodian
 - Receive funds in connection with PERA
 - Act on instructions of the Administrator regarding disposition of funds
 - Submit reports to Contributor, Administrator, and concerned PERA Regulator
- Securities Custodian
 - Maintaining custody of all original securities, evidence of deposits or other evidence of investment
 - Act on instructions of the Administrator regarding disposition of non-cash assets
 - Submit reports to Contributor, Administrator, and concerned PERA Regulator
- Shall operate independently from the Administrator
- Contributor option of self- custody for non-tradable/non-negotiable PERA investments



SEPARATION OF FUNCTIONS



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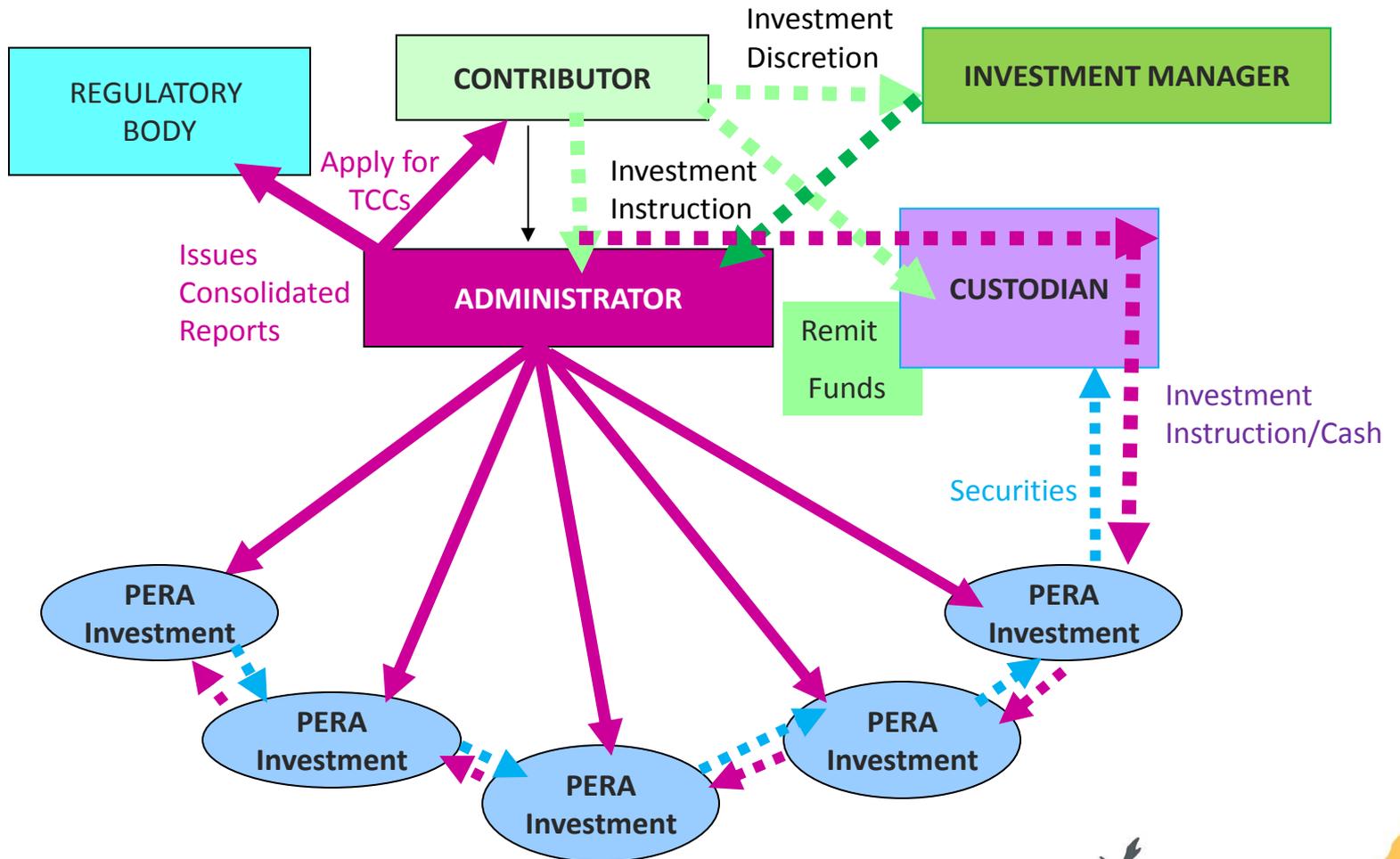
Summary of Roles – *at the client level*

| PERA Market Participant | PERA Administrator | Cash Custodian | Securities Custodian | Investment Manager | Product Provider |
|-------------------------|--------------------|----------------|----------------------|--------------------|------------------|
| PERA Administrator | | X | X | ✓ *TE | ✓ * |
| Cash Custodian | X | | ✓ | ✓ | ✓ |
| Securities Custodian | X | ✓ | | ✓ | ✓ |
| Investment Manager | ✓ *TE | ✓ | ✓ | | X* |
| Product Provider | ✓ * | ✓ | ✓ | X* | |

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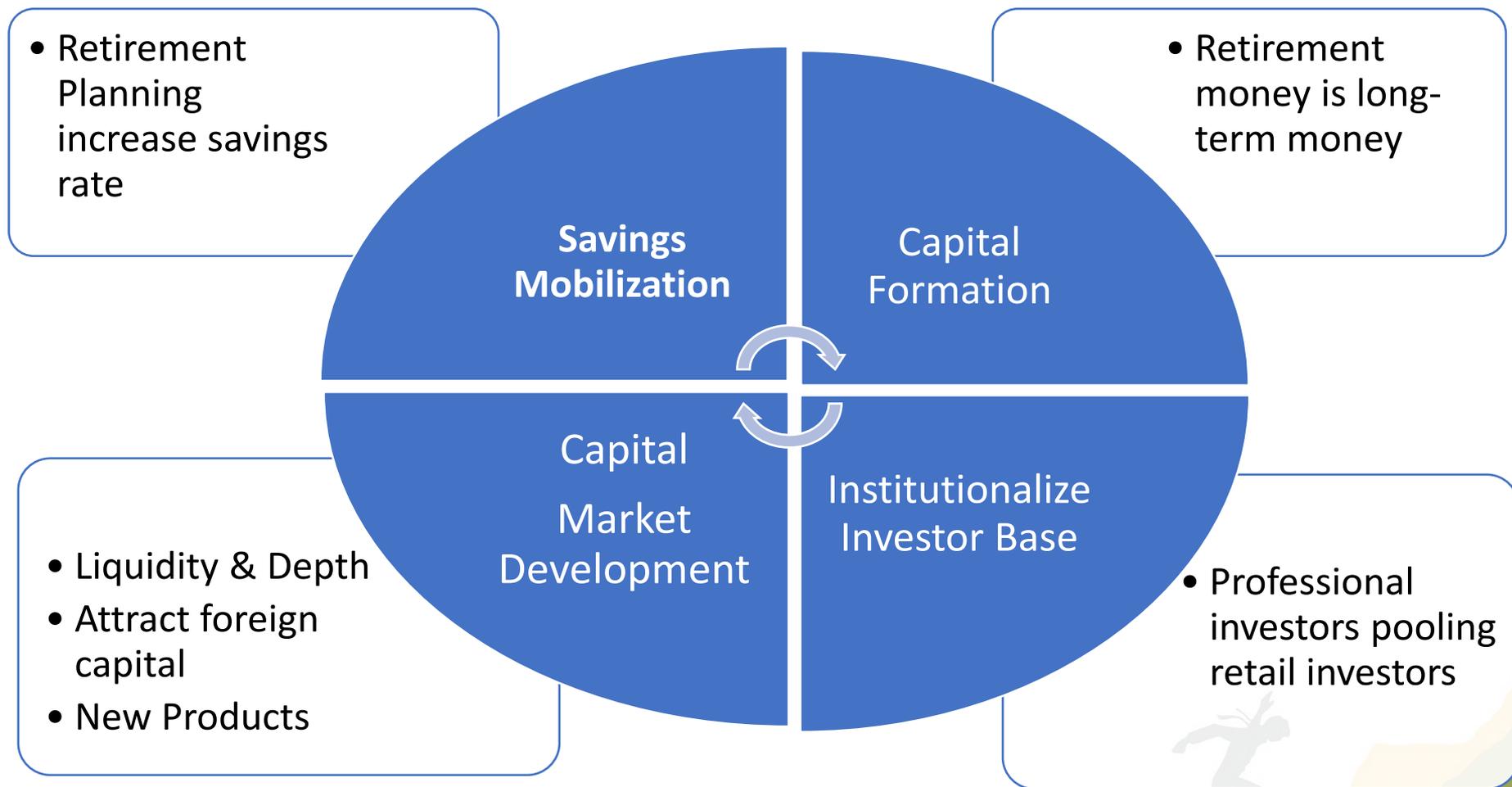


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Creating a Virtuous Cycle Through PERA



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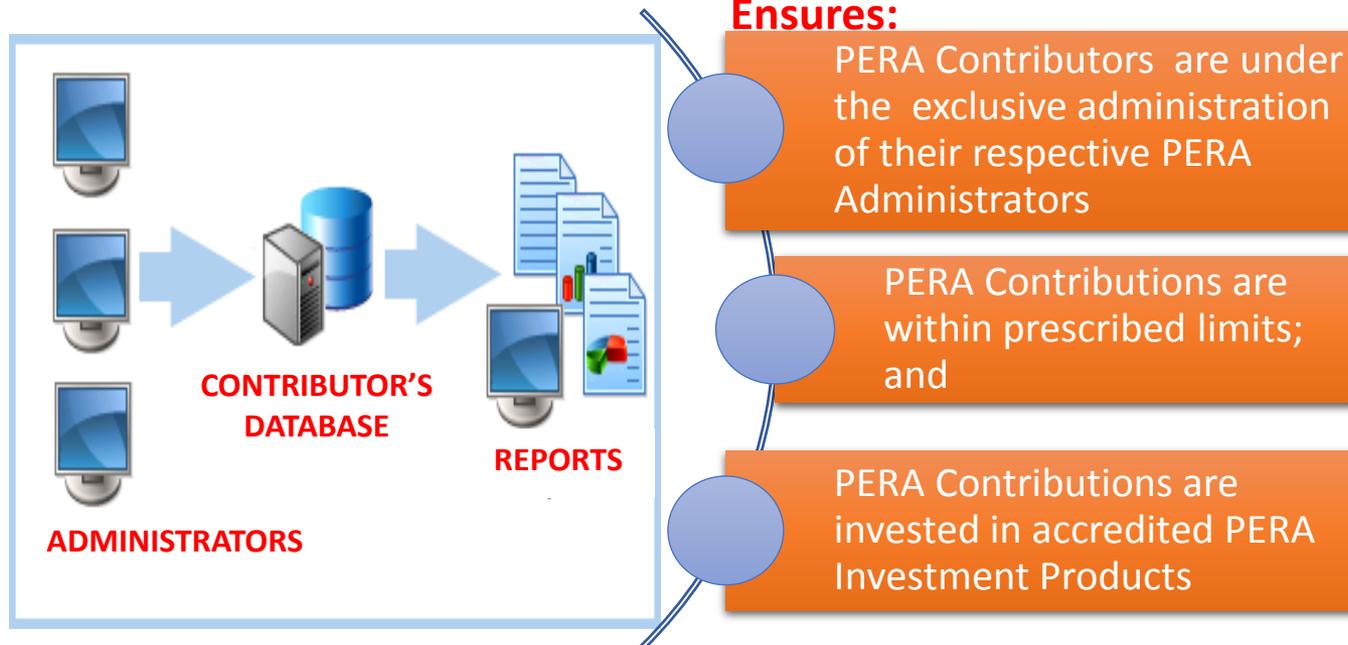
Status of Initiatives on PERA Implementation

- ✓ PERA Database
- ✓ MoA (Regulatory Authorities, Industry Players)
- ✓ Policy Development
- ✓ Investment Product Accreditation
- ✓ Players Accreditation
- ✓ BIR Issuances
 - Revenue Memorandum Order No. 042-026 (21 July 2016) – Ops Guidelines
 - Revenue Memorandum Circular No. 131-2016 - List of Accredited Products
 - Revenue Regulation 10-2016 – Penalty Rate for Early Withdrawal



PERA Database

System development project (August 2014-July 2015)



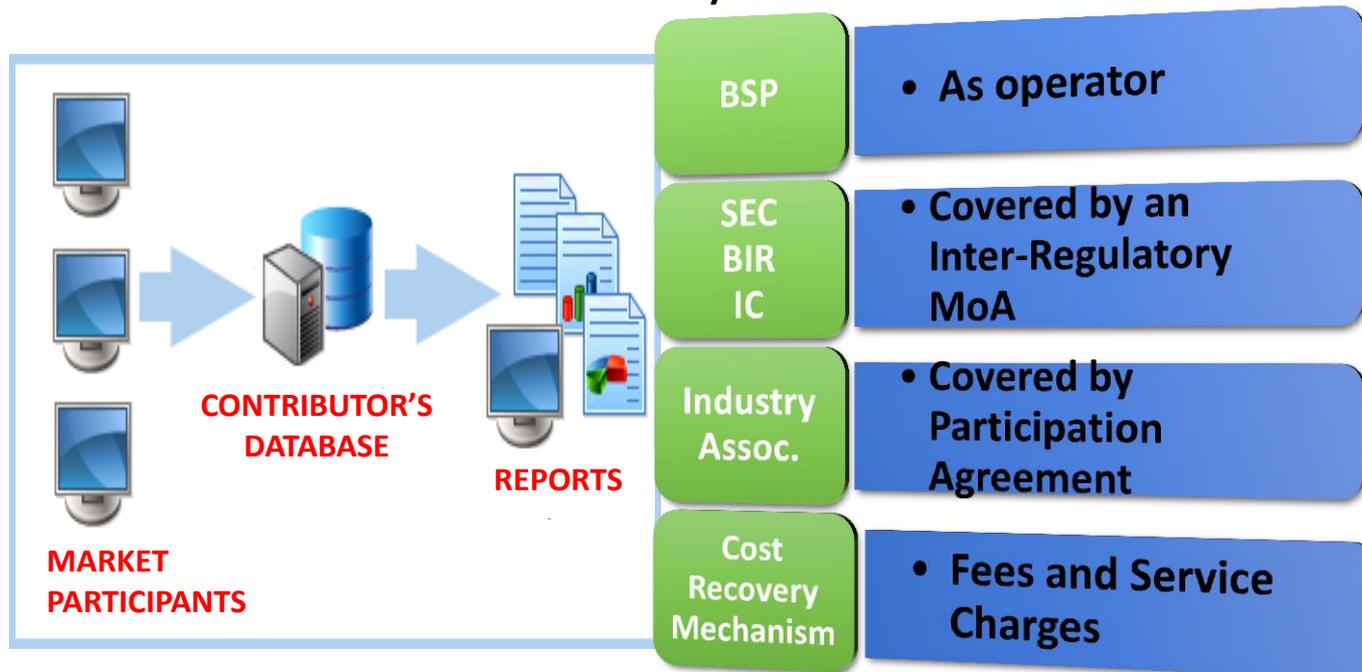
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PERA Database

Access allowed to the PERA System



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Policy Development

- ❑ Circular No. 860 – *Guidelines on the Qualification/Accreditation Requirements of PERA Market Participants and PERA Investment Products*
- ❑ Circular No. 878 – *Amendments to the MORB/MORNBFI to Implement PERA Rules*
- ❑ Circular No. 879 - *Guidelines on the Use of Scriptless Securities as Security for the Faithful Performance of PERA Administrator*
- ❑ Circular No. 880 - *Reportorial Requirements on PERA*
- ❑ Memo to all BSP Supervised Entities 2014-045 - *Operational Guidelines on the Administration of PERA*



Memorandum of Agreement

☐ BSP, SEC, IC, and BIR – Signed

- Responsibilities of the RAs
- Creation of PERA Executive Board

☐ BSP and Bureau of Treasury – on Security for Faithful Performance of PERA duties; Signed

☐ BSP and Industry on PERA Database System Access – Signed



Investment Product Accreditation

BSP-Accredited Instruments –

- Unit Investment Trust Fund
- Debt instruments such as but not limited to Long-Term Negotiable Time Certificate of Deposit (LTCTCD) and Unsecured Subordinate Debt (UnSD)
- Deposits
- Government-issued securities

Provided that for UITF and Debt Instruments (LTNTCD and UnSD), these should be issued by BSP-supervised entities with composite CAMELS of at least “3” in the latest Report of Examination

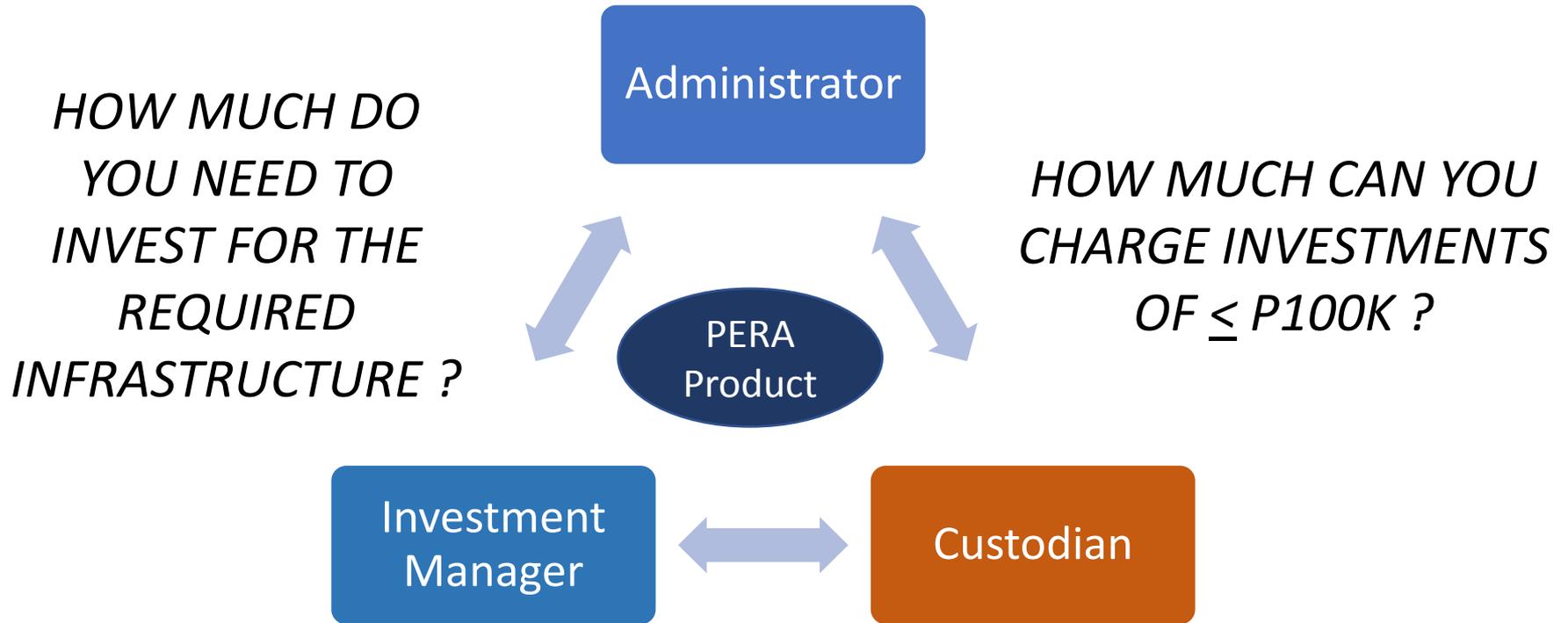


Players Accreditation

- Administrator – BDO and BPI
- Product Provides – BDO, BPI, RCBC, LBP, LBP
- Cash Custodian – LBP
- Securities Custodian – BDO, LBP and BPI



PROBLEMS OF SCALE



HOW MANY CLIENTS DO YOU NEED TO BE VIABLE ?

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Updates....

- ❑ The first PERA Inter-Agency Board (PERA-IAB) was convened last 21 April 2017
 - ✓ Low Take Up on PERA
 - ✓ Cash Custodian vs. Self-Custody Arrangement
 - ✓ Tax Issues

- ❑ Senate Bill 1382 (introduced by Senator Angara) seeks to amend PERA law on the following areas:
 - ✓ To increase the allowable contribution to P200,000 (from P100,000) and 400,000 (from P200, 000 for OFWs);
 - ✓ Treatment of the PERA contribution as deduction from gross income, vis-à-vis 5% tax credit



Thank
You!



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