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SOCIAL SECURITY SYSTEM: QUO VADIS? (WHERE ARE YOU HEADING?)

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This paper aims to look at the financial performance of the Social Security System (SSS), the government's social welfare program for employees in the private sector.

SSS faces the risk of a fund deficit in the near future due to poor operating results. The latest actuarial study done in 1999 indicated the life of the SSS to last until the year 2015 and reserves expected to decline starting 2008 even without benefit enhancement.

This study reviews the financial performance of the Fund for the seven year period from 1998 to 2004 to see signs of this. Performance was examined along the lines of membership, benefits granted, compliance with regulations, and financial performance.

The study showed that SSS faces the risk of fund deficit in the near future due to poor financial performance, especially with benefits consistently exceeding contributions. SSS has been maintaining an actuarial reserve below what is required and this poses a risk on its ability to pay future benefit claims. However, the deficit has been narrowing since 2002. While the financial viability of the SSS is questionable, the situation is not hopeless. With a good management and a resolute resolve to collect members' contributions, pursue sound investment decisions, and institute operational reforms, the Fund can survive.

I. INTRODUCTION

The Social Security System (SSS) is the government's response to its social obligation of providing social welfare to all employees in the private sector. Its mission is to establish, develop, promote, and perfect a sound and viable tax-exempt social security system suitable to the needs of the people throughout the Philippines which shall promote social justice and provide meaningful protection to members and their beneficiaries against the hazards of disability, sickness, maternity, old age, death and other contingencies resulting in loss of income or financial burden." (RA. No. 1161 as amended by SSA of 1997). For this it envisions to "develop and promote a viable, universal, and equitable social protection scheme through world-class service" (2004 SSS Annual Report).

These mission and vision statements of SSS, however, have been put to severe tests in the past few years. It has been the object of criticisms for poor performance, especially financial performance. Some even called for its privatization[1] due to a perception that managers of private companies perform better than government appointed managers.

This paper takes a look at this agency to see how valid the accusations are, based on objective evidence as shown in its annual reports, the audit reports of the Commission on Audit and other available sources of information. The study will look at the areas of membership, benefits given to members,

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compliance with reporting requirements, and financial performance.

Other pre-need companies, to which industry the SSS belongs, have also been scrutinized of late, like the College Assurance Plan (CAP), the biggest provider of educational insurance, and the Pacific Life Insurance, another provider of such plan. These two pre-need companies had difficulty meeting the educational claims of the insured. Various newspaper reports[2] reported that some CAP checks paid to schools were dishonored while others could not get any check at all. The management of Pacific Life Insurance also claimed inability to meet the needs of their insurers, claiming that the high rates of tuition fees were responsible for its difficulties[3]. Therefore, it is timely and relevant to look at the SSS, the second biggest pre-need company in the Philippines. It also covers millions of people who are employed in the private sector.

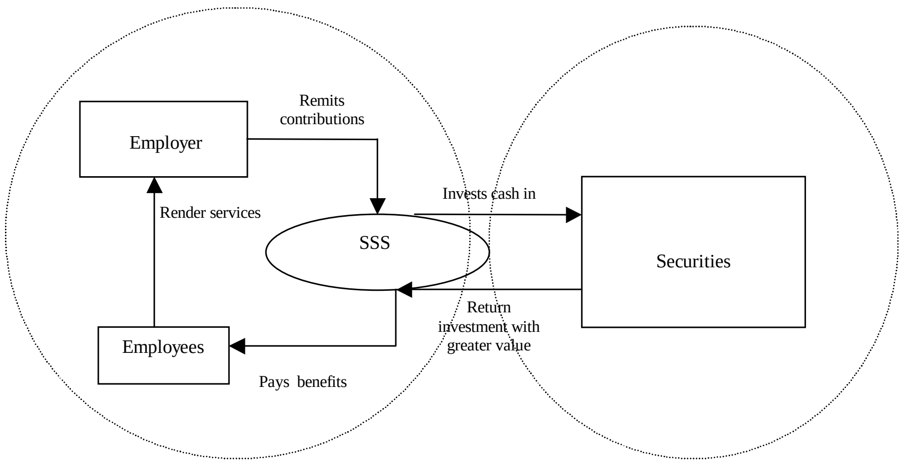
The Social Security System (SSS) was born with the enactment of Republic Act (RA) No. 1161, better known as the Social Security Act of 1954. It is primarily devoted to administering social security protection to workers in the private sector. With its two umbrella programs, the Social Security (SS) Program and the Employees' Compensation (EC) Program, it provides replacement income for employees in times of disability, sickness, maternity, old age and death in the SS program while the EC program provides double compensation to the employed worker when illness, death or accident occurs during work-related activities.

Related laws were enacted in succeeding years. On August 4, 1969, RA 6111 was passed establishing the Philippine Medical Care Plan, the health insurance scheme for all employees, both in the public and private sectors. Since January 1, 1998 this is being administered by the Philippine Health Insurance Corporation (PHIC), consolidating the health benefits for both the government and private sectors.

SSS operates by collecting contributions from its members and their employers. The employees contribute a certain percentage of their basic salary to the fund with the employer also giving its counterpart contribution. Since March 1, 2003, the members contribute 3.33% of their basic salary while the employer contributes 6.07%, a total of 9.4% of basic salary. These contributions are the source of SSS' investible funds, the income of which is supposed to fund the social security benefits.

The operating cycle of SSS is depicted in Figure 1.

Figure 1
Social Security System



The employees contribute through monthly salary deduction. This amount is remitted to the SSS together with the employer's share. For many years, the member's contribution to SSS was 8.4% of basic salary. On January 15, 2003, however, the amount was increased to 9.4% after SSS made urgent appeals that it could not survive without increase in contribution, owing to the fact that while contributions remained constant for the last 23 years, the benefits given to members have consistently increased from year to year. In addition, the income of the System had not correspondingly increased with the increase in benefits due to the economic downturn and other problems. Big portions of its investments were losing.

II. ANALYSIS OF PERFORMANCE

The performance of SSS will be evaluated in the following areas:

a. Membership
b. Benefits granted to members
c. Compliance with regulations
d. Financial performance
e. Operational efficiency

Membership

SSS demands compulsory membership from the working populace. Private companies are required to enroll their employees with the System. Since SSS is separate and distinct from the employers, the members can continue their membership even if they are no longer employed. Even non-working people may enroll voluntarily with the System. Overseas workers are also allowed and even encouraged to become members.

Table 1 shows the number of SSS members from 1998 to 2004 while Table 2 shows entrants into the System in the same period.

Table 1
Total SSS Membership

Year	Members	Employers
1998	20,154,123	547,420
1999	21,325,966	573,314
2000	22,630,832	600,182
2001	23,532,666	633,306
2002	24,308,033	668,039
2003	25,051,234	702,574
2004	25,666,786	734,810

Source: SSS Annual Report 2001, 2004

Table 2
New Members of SSS

Year	Members	Employers
1998	1,084,528	10,899
1999	1,152,049	25,894
2000	1,304,866	26,868
2001	901,834	33,124
2002	775,367	34,733
2003	743,201	34,555
2004	615,152	32,236

Source SSS Annual Reports, 2001, 2004

We can see that SSS has a big coverage in terms of employees, with over 25 million members in 2004. There was a marked decline in the number of new members since 2001, despite the fact that the number of employers increased considerably. However, the number of new employers also declined slightly in 2003 and 2004. Could this be due to a deterioration of economic conditions, resulting in the decline of new businesses?

It seems surprising that collections are small compared with the number of members. However, the data is misleading. It was ascertained during interviews with officers that not all the above are contributing members. Practically anybody can enroll in the SSS by paying one month's contribution and be considered a member. Many do enroll for convenience, just to get an SSS number, something which is often asked for when applying for a job or when dealing with government agencies. The number of members who are in the work force count only around eight million, around 32%.

Benefits Granted to Members

SSS grants retirement, disability, death, sickness, maternity, medical services, and rehabilitation services benefits, as well as loans to its members. The following tables summarize the benefits granted by SSS.

Table 3
Social Security System
Benefits Paid by SSS and Number of Beneficiaries
(P000)

Year	Death	Disability	Retirement	Sickness & Maternity	Totals	Number of Beneficiaries	Average Benefits
1998	9,079,480	3,225,423	10,088,466	2,485,838	24,879,207	1,467,990	16,948
1999	10,977,025	3,300,979	11,851,700	2,641,091	28,770,795	1,690,294	17,021
2000	13,029,722	3,415,205	14,335,117	3,109,130	33,889,174	1,762,405	19,229
2001	14,500,140	3,411,097	17,686,951	3,416,861	39,015,049	1,866,351	20,904
2002	16,148,102	3,535,640	17,495,788	3,692,045	40,871,575	no data	
2003	17,100,771	3,301,735	18,587,284	3,816,601	42,806,391	no data	
2004	18,021,365	3,141,204	19,769,817	3,950,132	44,882,518	no data	
Totals	**98,856,605**	**23,331,283**	**109,815,123**	**23,111,698**	**255,114,709**		

Source: Annual Reports, 1998-2004

From 1998 to 2001 the total benefits paid had an average annual increase of 16%, while from 2001 to 2004 the average annual increase declined considerably to 5%. The reason can not be ascertained from the annual reports. By far the biggest benefit was for retirement. The average amount of benefits received by members ranged from P17,000 in 1998 to P21,000 in 2001. No data is available for the years 2002 to 2004. Around 7% of the recorded membership received benefits from the SSS. This is due to the fact that many members are not contributing members and are therefore not entitled to benefits, except for the funeral expenses. If they have paid at least one month's contribution, then they are entitled to funeral benefit.

In addition to the benefits which are outright grants to members, the SSS offers different types of loans to its members. In fact, they are one of the benefits mostly availed of.

Table 4 shows the loans granted to SSS members. They exhibited a 40% increase in 1999, followed by a 39% decline in 2000, and again a 40% increase in 2001. There is no pattern as to the behavior of loans granted. The only discernible trend is in the salary loans which keep on increasing every year. No data is found for the years 2002 to 2004.

Table 4
Social Security System
Loans Granted by SSS
(P000)

	2001	2000	1999	1998
Salary	9,936.94	7,166.31	7,906.45	4,954.10
Calamity		122.68	2,083.28	244.06
EC Emergency	30.77	7.17	356.91	188.71
Housing	321.04	94.91	1,579.40	3,191.16
Y2K Educational Loan	–	–	–	1.07
Total	10,288.75	7,391.07	11,926.04	8,579.10

Source: SSS Annual Reports, 1999-2004. No data given for the years 2002 to 2004.

Among the five loan windows, salary loan is the most popular and accounted for 96% of the total loan portfolio in 2001. The average salary loan granted continued to increase from P8,694 in 1998 to P12,370 in 2001. This could have been the result of SSS' move in 2000 to increase the maximum amount of salary loan from P15,000 to P24,000. While the housing loans declined over the years, except in 2003, the average loan increased over the years.

The above benefits show that while the major benefit given by the SSS is for retirement, it also delivers other services to the working populace as the magnitude of loans shows. It seems that in many pre-need companies, loans to members are widely availed of. This is also good for the SSS because their interest is a major source of income. Payment is normally assured through salary deduction, hence there is less risk as compared with other investments.

Compliance With Regulations

Compliance with regulatory requirements can be classified into three*:* *reportorial,* *investments/financial and maintenance of trust fund balances*. SSS, being a government-regulated agency, has to submit financial statements at the end of its calendar year audited by the Commission on Audit (COA).

The financial statements of SSS appearing in its annual reports for the years 1998, 1999, and 2000 were not audited by COA. These years coincided with the stewardship of Mr. Carlos A. Arellano. No statements of cash flows were reported either during these years. It was only starting 2001 that the financial statements were audited. Since all financial reports are supposed to be audited by external auditors, non-compliance with this regulation casts some doubts on the reliability of these reports. The question can then be asked why SSS management did not submit its financial reports to COA auditors.

Furthermore, it was difficult to compare financial reports from year to year. Different account titles were used in 1998-2000 from those used in 2001-2004. Also, figures were restated from year to year for the same accounts. A notable example of this was the investments in marketable securities amounting to P24 billion recorded as current assets in 1998 but reclassified as long-term investments in the 1999 annual report. On the other hand, the annual reports of 2002 and the following years were audited but gave less details as compared with the preceding years. They were less informative. The change in the treatments of some accounts without explanation, in violation with generally accepted accounting principles, further puts the credibility of the reports in question.

SSS is governed by the Social Security Act of 1997 (RA 8282) which requires the submission of an actuarial valuation report on the SS Fund every four years. An actuarial valuation is an assessment of the long-term solvency of a social security scheme. It evaluates the sufficiency of revenues vis-à-vis expenditures several years into the future of the social security program. The actuarial valuation is a fundamental test of the financial viability of a social insurance scheme. It is based on a set of assumptions that include demographic, economic, and program design-related parameters.

Some reasons cited by SSS President Corazon De la Paz for the deterioration in the actuarial life of the Fund was the rapid rate of increase in benefits relative to contributions over the past two decades. For the period 1980-2001, across-the-board pension increased from 10% to 20% nineteen times whereas contributions remained at 8.4% since 1979 to 2002. It was only in January 2003 that employers' contribution increased by 1% and another 1% increase in January 2007.

Demographic changes and external factors also accounted for the deterioration of the actuarial life of the Fund. With global slowdown in economic growth, income declined. The increase in the life expectancy of people resulted in larger benefit payments. Escalated pension cost is expected to continuously occur with an increase in the number of retirement claims and increased pension life due to longer life expectancy (*Message of the President*, 2001 Annual Report).

The SSS charter also established a financial limitation on its administrative and operating expenses as follows: "*administrative and operational expenses must not exceed 12% of total contributions and 3% of other revenues.*" For the period under review, the SSS complied with this statutory limitation only in 1998, 2003, and 2004 as shown in Table 5.

Table 5
Social Security System
Operating Expenses: Actual versus Allowed
(P000)

Year	Operating Expenses	Contributions	Other Revenues	12% of Contributions	3% of Other Income	Total Allowed (12% + 3%)	Total Allowed Minus Operating Expenses
1998	3,245,276	24,983,877	18,118,530	2,998,065	543,556	3,541,621	296,345
1999	3,992,650	27,124,854	19,036,287	3,254,982	571,089	3,826,071	(166,579)
2000	4,200,558	30,320,528	12,339,587	3,638,463	370,188	4,008,651	(191,907)
2001	4,447,362	31,371,785	14,240,624	3,764,614	427,219	4,191,833	(255,529)
2002	4,591,522	34,187,651	11,840,820	4,102,518	355,225	4,457,743	(133,779)
2003	4,776,600	39,420,418	12,763,053	4,730,450	382,892	5,113,342	336,742
2004	5,327,330	43,935,824	8,889,055	5,272,299	266,672	5,538,971	211,641
Totals	30,581,298	231,344,937	97,227,956	27,761,392	2,916,839	30,678,231	96,933

Source: Annual Reports 1998-2004

The above table shows that SSS exceeded its statutory allowable operating expenses in the years 1999 to 2002. Fortunately, the situation was reversed in 2003 and 2004. Hopefully, this trend would continue in future years.

Financial Performance

This section looks at the financial performance of SSS. It is the lengthiest section since financial activities are the lifeblood of the company. Evaluation of financial performance shall be made along the following general lines: liquidity, profitability, and efficiency in the use of resources.

The bases of these analyses are the financial statements of the SSS as shown in their annual reports from 1998 to 2004. The information related to the relevant balance sheets and income statements are incorporated in the body of the report, where applicable.

Liquidity

The current ratio shows the ability of the company to meet current obligations. The current ratio exhibited wide ranges of fluctuations, from 2.09 in 1999 to 23.00 in 2004. The worst year was in 1999 when the current liabilities exceeded current assets. One reason for this was the reclassification of P24 billion worth of marketable securities which were recorded as current assets in 1998 but reclassified as non-current assets in 1999. The following table shows the current assets and current liabilities of SSS as well as current ratios computed on average values.

Table 6
Social Security System
Current Assets, Current Liabilities and Current Ratios
Years 1998-2004
(P000)

Year	Current Assets	Current Liabilities	Average Current Assets (ACA)	Average Current Liabilities (ACL)	Current Ratio (ACA/ACL)
1998	19,773,202	3,343,765			
1999	8,778,263	10,319,299	14,275,733	6,831,532	2.09
2000	11,739,359	9,536,281	10,258,811	9,927,790	1.03
2001	6,143,842	1,759,652	8,941,601	5,647,967	1.58
2002	14,894,363	1,426,091	10,519,103	1,592,872	6.60
2003	23,843,786	1,066,170	19,369,075	1,246,131	15.54
2004	28,443,346	1,207,197	26,143,566	1,136,684	23.00
Total	**113,616,161**	**28,658,455**			

It appears that SSS has no problem paying its obligations, if we look at its current ratios especially in 2003 and 2004, although in 1999 its current liabilities exceeded its current assets. This seems to be due, in part, when marketable securities amounting to P24 billion, shown as current assets in the 1998 financial report, was reclassified to non-current assets in the 1999 financial report. No explanation for this was given in the notes to financial statements.

Profitability

In assessing profitability, the researcher looked at the financial reports of SSS as shown in its annual reports. Where different figures appeared in the financial statements and supplemental data given by the company, the author relied on the financial reports.

The following tables show selected data and ratios for SSS.

Table 7
Social Security System
Selected Data
Years 1998-2004
(P000)

Year	Contributions	Other Revenues (Invest. Income)	Total Revenues	Benefits Paid	Operating Expenses	Personnel Services Exp.	Net Income (Loss)
1998	24,983,877	18,118,530	43,102,407	24,879,208	3,245,276	2,263,014	14,976,714
1999	27,124,854	19,036,287	46,161,141	28,770,794	3,992,650	2,593,331	13,396,568
2000	30,320,528	12,339,587	42,660,115	33,889,174	4,200,558	2,829,862	4,568,901
2001	31,371,785	14,240,624	45,612,409	39,015,049	4,447,362	2,733,799	2,148,256
2002	34,187,651	11,840,820	46,028,471	40,871,576	4,591,522	3,008,968	429,587
2003	39,420,418	12,763,053	52,183,471	42,806,389	4,776,600	3,088,959	-2,919,456
2004	43,935,824	8,889,055	52,824,879	44,882,518	5,327,330	3,390,705	2,616,031
Total	**231,344,937**	**97,227,956**	**328,572,893**	**255,114,708**	**30,581,298**	**19,908,638**	**35,216,601**

Table 8
Social Security System
Selected Ratios
For the Years 1998-2004

Year	Contributions/ Benefits	Other Revenues/ Benefits	Other Revenues/ Total Revenues	Operating Exp./ Other Revenues	Person.Serv. Exp./ Other Revenues	Per.Serv.Exp/ Operating Exp.	Net Revenues/ Total Revenues
1998	1.0042	0.7283	0.4204	0.1791	0.1249	0.6973	0.3475
1999	0.9428	0.6617	0.4124	0.2097	0.1362	0.6495	0.2902
2000	0.8947	0.3641	0.2893	0.3404	0.2293	0.6737	0.1071
2001	0.8041	0.3650	0.3122	0.3123	0.1920	0.6147	0.0471
2002	0.8365	0.2897	0.2572	0.3878	0.2541	0.6553	0.0093
2004	0.9789	0.1981	0.1683	0.5993	0.3814	0.6365	0.0495

An important observation regarding SSS's income statements is the manner in which it recognizes revenues and expenses. This practice is true of other pension funds as well, like GSIS. Gross revenues consist of members' contributions and other income coming from investments as shown in the income statement.

This practice hides the fact that benefits paid to members are mostly financed by members' contributions. Ideally, benefits paid to members should come from operating profits. Not so for SSS (and GSIS for that matter). During the years under study, it was only in 1998 that contributions exceeded benefits paid, and the margin was small, as can be seen in Table 7. Other revenues (investment income) hardly covered operating expenses. Thus, SSS was simply collecting members' contributions to pay for benefits to members. Instead of using the contributions as capital base to earn income, its main use was to pay for members' benefits since income from investments could not cover benefit payments.

A more detailed look at the preceding tables show that contributions from 1998 to 2001 had deteriorated to as low as 80% of benefits paid. Fortunately, there was a recovery the year after, and in 2004, the contributions jumped to 98% of benefits. This is partly due to the increase in contributions from 8.4% to 9.4% since March 2003 and more intensive efforts at collection. Income from investments which should have been the source of benefit payments accounted minimally for this. In 1998, other income accounted for 73% of benefits paid in 1998 but this declined over the years to 20% of benefits paid in 2004. While benefits paid continuously increased from 1998 to 2004, other income, on the other hand, showed a continuous decline from 1999 to 2004. The contribution of other income to total revenues ranged from 42% in 1998 to 17% in 2004. Unless this situation reverses, SSS' long-term viability is in grave danger.

Looking at the expense side, a big portion of operating expenses was spent on personnel services. Salaries and other personnel related expenses ranged from 70% of total operating expenses in 1998 to 64% in 2004. While we can not pass judgment on the reasonableness of the amount of operating expenses, we note the favorable decline in the proportion of personnel services expenses to total operating expenses. However, the amounts increased continuously, both in totals and in average salary received by each employee. The number of employees increased as well, probably in response to the increased number of SSS members. If the additional employees were used to monitor the contributions of members then the increase may be justifiable.

The net revenues of SSS were also disappointing. From a 34% net income in 1998, it dived to 5% in 2004 and even incurred a net loss of 6% in 2003. The net loss resulted from the writing down to current value of Equitable PCI shares of stocks, in view of a projected sale. The book loss resulted in a negative profitability for SSS. Otherwise, its operation for that year was profitable.

Table 9
Social Security System
Personnel Services Expenses & Number of Employees
For the Years 1998-2004

Year	Personnel Services Exp. (P000)	No. of SSS Employees*	Average Personnel Services Exp. (P000)
1998	2,263,014	3,278	690
1999	2,593,331	4,041	642
2000	2,829,862	3,996	708
2001	2,733,799	3,942	694
2002	3,008,968	3,896	772
2003	3,088,959	4,058	761
2004	3,390,705	4,043	839

** Supplemental data found in the annual reports*

The cost of personnel services averaged 64-69% of total operating expenses during the period under study. It is not possible to determine the reasonableness of the above expenses for lack of relevant data. For instance, it is not determinable what portion went to management salaries. Suffice it to say that the increase in the average personnel services expenses is a cause of concern.

Overall, the above scenario shows the fragility of SSS. Unless something drastic is done, the members of SSS are facing a bleak future.

The decline in profitability can be attributed to various reasons. First there was the Asian financial crisis in 1997 which had a negative impact on our economy. Real estate business declined. The values of SSS investments in equity securities and real estate declined. The company wrote off losses due to bad debts and decline in the value of equity securities. In addition, interest rates had been declining since the 1990s.

There were also allegations of investments prompted by political considerations instead of economic reasons which resulted in losses for the Fund. Very prominent among this was the overpriced investment in Equitable-PCIB shares of stocks for which SSS lost P8 billion. Three officials were found guilty of administrative liability by the Sandiganbayan.

These unwise investments took its toll on the assets of SSS and dragged down its profitability. The allegations about bad investment decisions seems credible considering the amount of losses written-off by SSS in its financial reports as a result of bad equity investments and losses from nonpayment of loans.

SSS transferred the bulk of its investments from government securities which were risk-free to equity investments in private companies in the years 1999-2000. In 1998, total investment in the private sector comprised 24.5% while that in the government sector totaled 33.4% of total investment. The following year the situation was reversed, with 35.4% investment in the private sector and 22.9% in the government sector. This is shown in Table 11.

A local newspaper[4] reported that in 1999, SSS management staked P3.87 billion in the stock market and lost P2 billion that year. Moreover, SSS placed P44.18 billion in long-term investments in the same year on alleged blue chips. SSS continued this strategy in 2000 by investing another P2.8 billion in short-term stock investments which resulted in a loss of P1 billion. It further increased its long-term portfolio on stocks and incurred P6.14 billion loss.

Other unprofitable investments of SSS included direct loans to government agencies such as National Home Mortgage Finance Corporation, the Philippine General Hospital, the National Orthopedic Hospital and Home Development Mutual Fund which provided for losses of P135 million in 2000 and P258.5 million in 1999. Commercial and industrial loans likewise resulted in P44.3 billion loss allowance.

Another SSS investment which was criticized was its decision to go into real estate business when the industry experienced a slump in that period. In the year 2000, SSS invested P5.48 billion in real estate, the biggest item of which was for the re-development of the Smokey Mountain garbage dumpsite.

These anecdotal incidents are mentioned here to support allegations of unwise investment decisions in 1999 and 2000 from which SSS is still hurting.

Efficient Use of Resources

After examining the income statements, we will try to relate the income with the assets of the company to see the efficiency in the use of its resources. The following table shows the investments of SSS and income derived from there.

Table 10
Social Security System
Investments and Returns on Investments
For the Years 1998-2004
(P000 except for Ratios)

Year	Investments (P000)	Average Investments	Total Reserves	Average Total Reserves	Other Revenues (Invest. Income)	Other Income/ Ave. Invest.	Other Income/ Ave. Reserves
1997	107,946,390		142,261,151				
1998	135,976,013	121,961,202	156,430,492	149,345,822	18,118,530	0.1486	0.1213
1999	162,951,716	149,463,865	166,254,078	161,342,285	19,036,287	0.1274	0.1180
2000	162,667,885	162,809,801	171,947,899	169,100,989	12,339,587	0.0758	0.0730
2001	158,229,817	160,448,851	162,609,929	167,278,914	14,240,624	0.0888	0.0851
2002	147,712,074	152,970,946	161,175,413	161,892,671	11,840,820	0.0774	0.0731
2003	147,005,003	147,358,539	168,110,822	164,643,118	12,763,053	0.0866	0.0775
2004	147,287,841	147,146,422	173,033,118	170,571,970	8,889,055	0.0604	0.0521

The above table shows a deterioration in the amount of investments as well as total reserves. Investments increased from 1997 to 1999, then started to slide until it got a slight rebound in 2004 but the total investments in 2004 was even lower than that of 1999.

As mentioned earlier, SSS shifted its investment priorities in 1999 by moving to the private sector. Since it is not easy to divest of long term investments, it had to bear its long-term consequences. By 2001, investment in government securities declined to 15% while investment in the private sector remained at 36%. This is unfortunate since government securities are more secure as compared with investment in the private sector, especially after the Asian financial crisis. The current management is trying to dispose of some unwanted investments like the Equitable-PCI stocks but is met with legal impediments.

It is worth noting that the other income (investment income) did not move in tandem with the investments. Income increased or decreased independently of the amount of investments. Table 11 shows the breakdown of the SSS investment portfolio from 1998 to 2001. The information could not be derived from the available data in 2002 to 2004.

Table 11
Social Security System
Percentage Distribution of Investments
1998-2001[5]
(in Percentages)

Year	Private Sector	Government Sector	Member Loans	Housing Loans	Real Estate Property	Total
1998	24.50	33.40	9.60	28.70	3.80	100
1999	35.40	22.90	11.70	26.30	3.70	100
2000	36.60	19.40	14.50	25.70	3.80	100
2001	35.50	14.60	17.30	27.40	5.20	100

Source: 1998-2001 Annual Reports.

What is true for investments was also true for total reserves. Total reserves represent the equity of the Fund and hence, the equity of members. It increased from 1998 to 2000 but dropped drastically in 2001, recovered in 2003 but the level of total reserves of P173 billion in 2004 is only slightly higher than the P171 billion of 2000. The rates of return on investments and reserves were rather low and deteriorating. A 15% return on investments in 1998 went down to 6% in 2004. A 12% return on average total reserve in 1998 dropped to 5% in 2004. Thus, we can say that the resources of the company were not used efficiently. A 5% return on equity is insufficient to sustain the growing needs of members' benefits.

This poor return may be due to the financial crisis in 1997, or due to poor economic management, or most probably, due to both. It was mentioned earlier that there were allegations of poor investment decisions in 1999 and 2000, the effects of which would still be felt in later years. The reduction in the amount of total reserves in 2001 signaled an erosion of SSS' capital base even before the 2008 prescription of the actuarial study. Whatever the reason for the deterioration in the value of stakeholders' equity, it is bad news for those concerned.

Table 12
Social Security System
Total Assets, Other Revenues
(P000)

Year	Total Assets	Average Total Assets	Other Revenues (Invest. Income)	Return on Total Assets
1997	143,875,250			
1998	160,110,413	151,992,832	18,118,530	0.1192
1999	176,875,059	168,492,736	19,036,287	0.113
2000	181,740,977	179,308,018	12,339,587	0.0688
2001	164,373,659	173,057,318	14,240,624	0.0823
2002	162,606,437	163,490,048	11,840,820	0.0724
2003	170,848,789	166,727,613	12,763,053	0.0766
2004	175,731,187	173,289,988	8,889,055	0.0513

The decline in the value of investments and reserves was mirrored in the decline in the value of the assets of SSS, as shown in Table 12. The return on total assets of the company also dipped to 5% in 2004. It is encouraging to see that total assets increased in 2003 and 2004, although the amount at the end of 2004 was even lower than that at the end of 1999.

The assets of SSS increased by P21 billion, from P160 billion in 1998 to P181 billion in 2000 but was wiped out in the following years to 162 billion in 2002. It improved in 2003 and 2004 but the amount is still lower than that of 1999. This does not augur well for the members of SSS.

Overall, we have a gloomy picture of SSS. But there is a ray of hope because both assets, investments and reserves have improved in 2004, fueled by the increase in contributions. If this trend continues, then there is hope for SSS.

Operational Efficiency

The lifeblood of the company is members' contributions since benefits are paid out of these contributions. Hence, efficiency in the collection of members' contribution is indispensable to the existence of SSS. This is something which is within the control of management and should be addressed with greater resolve.

One of the major causes of poor collection and hence, inadequate revenues, is the underpayment of members' contribution and/or non-reporting of members employed. An examination of the operation of SSS showed that many employers under report or do not report the right number of employees. The typical problems encountered are:

- Non-reporting of number of employees, whether the employees are contributing or not to the employers;
- Under-reporting of number of employees, whether the employers withhold payment from the employees or not; and
- Underpayment of workers and employer contributions.

What is most prejudicial to the employees is for the company to withhold SSS contributions from the employee without remitting this to the SSS, in which case, the employee can not expect any benefit from SSS. In case of under-reporting, the employee does not get the full benefit he/she expects from SSS.

To minimize these misconduct, the SSS employs a lot of account officers whose main function is to monitor contributions of companies. A number of companies are placed under the supervision of each account officer and they are responsible for determining the correctness of employers' contributions based on the company payroll. The number of employees per company could vary from under ten to thousands of employees. These account officers are literally overloaded with work because they have to examine the payrolls monthly for the current and previous years. Coupled with this is the lack of computers to help them. In some branches of SSS, the staff members have to wait until a computer becomes available for their use. They have to resort to manual calculations which is tedious and time consuming, as well as more prone to error. Thus, they lose a lot of precious time. The branch offices complain of understaffing and of lack of mechanical devices to help them in their work. When asked, the officers interviewed countered that they do not have the budget for these equipment, nor the money to buy the software.

In addition to understaffing and lack of computers in SSS branch offices is the lack of technical knowledge of some account officers. When confronted with this issue, the SSS officials interviewed replied that they can not afford to pay high paying account officers for lack of budget. Hence the people they hire may not even have accounting knowledge. One of the functions of these officers is to assess the capability of companies to pay back premiums. To do this, they have to analyze the financial statements submitted by companies to determine their profitability and liquidity but they admitted that they are not very good at financial statement analysis.

There is also a problem in the payment of benefits. Some benefits are paid to the wrong people. Naturally, it is very difficult to collect from people once the money is paid out. This points out to an unsatisfactory information system when benefits are paid to the wrong person or when members complain about their members' contribution not being properly recorded by the SSS.

Another problem of SSS is the non-collection of institutional loans as well as loans to members. There are many delinquent accounts for which members learn about only upon retirement. Proof of these are major auctions done from time to time to get rid of acquired real estate not paid by borrowers.

The above are only some of the problems faced by the SSS. Unless the above problems are minimized, then the System may not really help the people for which it was created.

The above analyses show a rather poor scenario for SSS but not a hopeless case. The main problems of the company are:

1. Deficiency in collection of members' contributions. The employers do not properly report and pay their dues – either non-reporting of members or non-remittance of members' contribution withheld by the company.
2. Collections lag behind benefits. While benefits are increasing in amount, members' contribution has changed only once since 1979. It was only in March 2003 that employee and employer contributions increased from 8.4% to 9.4% due to the additional 1% employer contribution.
3. Unwise investments. The return on investments is very low and losses had been written-off due to decline in the market values of some securities, or real estate, as well as uncollectibility of loans, both institutional and personal.
4. Insufficient monitoring of benefits paid. There were benefits paid to ghost beneficiaries.
5. Expenses are going beyond statutory limitations and may be an indication of uncontrolled spending.

III. RECOMMENDATIONS

1. The main and biggest problem of SSS is insufficient collection of members' contribution, considering that this is the source of benefit payments. There is a need to enforce payment of members' contributions by monitoring employers' compliance with SSS rules. Firstly, SSS has to identify the contributing members and segregate them from the over 25 million members shown in its annual report. SSS should not report as members those who are not contributing to the System. Any analysis made based on the over 25 million reported members would be based on wrong premises and result in wrong conclusions and recommendations.

In connection with this, there is an urgent need to give assistance to the branch offices which serve as collecting branches. The branch offices complain that they are understaffed. They lack account officers to monitor the numerous companies they are servicing. There may be understaffing in the area of collections, even if there is overstaffing in other administrative departments who do not deliver direct services.

Together with this is the support given to them in terms of computers which they can use to perform their tasks. If they spend time waiting for a computer to be used, this causes undue delay in the performance of their function. In addition, since some account officers admitted that they lacked training in accounting, SSS should give them the needed training to make them more effective.

A review of staffing patterns is needed to make sure that only the required number of personnel is hired. With an organization as big as SSS, overstaffing could easily be overlooked. It had 4,043 employees at the end of 2004. A more streamlined organization structure which is efficient, is necessary. Computerization of members' data could help reduce manpower need. Employees can be redeployed to more productive activities like monitoring companies who do not pay the correct amount of contribution.

Employee training is just as important to make them more productive. Values formation is another area which could result in improved employee performance. In connection with this, it might also be necessary also to look at management perquisites to see that they are not going overboard.

2. Additional help can come in the form of systematic work programming. We noticed that SSS employees in charge of collection spend a lot of time manually reviewing the payrolls of thousands of employees on a monthly basis. This takes a lot of time. To avoid this, it may be wise for SSS to require companies with many employees to submit soft copies (using a prescribed program like Excel) of their payroll together with hard copies (for documentary evidence). It would be easier for the account officers to review the computations in the soft copies.

3. It is also suggested that companies be furnished with templates with the proper computation of SSS contributions. It was observed that some companies overpaid their SSS premiums due to erroneous computation. They did not know exactly what compensation to include as basis for the SSS contribution. On the other hand, some companies failed to include other items, like additional compensation, from the basis of SSS contributions. It would help the payroll departments of companies if they were provided with templates where they only have to input the compensation used as a basis for the employee's contribution with the corresponding premium appearing on the template. This minor improvement would reap considerable benefits for SSS.

4. Systematic filing of records to retrieve data easily would save a lot of time for those in charge of payroll accounts. Information technology could help in the management of data.

5. In addition to this, primers should be distributed to employers to help them determine the basis for the SSS contributions, with examples on how to compute SSS contributions, which they can follow.

6. Reward systems may be implemented to encourage account officers who are performing well.

The preceding suggestions are just some of the things SSS can do to improve operational efficiency. Many others along this line may be done to streamline the system and improve performance. Account officers may be able to offer more suggestions on how to improve the system.

It is felt that at this point in time, SSS should not hesitate to invest in computers which are so necessary for the work done by account officers. In fact, if there is a choice between the two, it might be better to invest more in computers before hiring additional people who are underutilized. And to optimize the benefit from account officers, they should be given technical training directly on how to perform their job. Improvement in this area would greatly enhance the collection of members' contribution. A lot of savings can be generated from this, which savings can be used to further improve the system, either by hiring more account officers and getting the necessary equipment to implement further improvement. Towards this end, SSS management may work for an additional budget to implement the reforms needed. The additional manpower may be used to run after erring employers, starting from those in Metro Manila where the bulk of business is. However, management should be selective in hiring qualified people who can do the job. A major area where competent employees are needed is in the collection of members' contributions. Management may also find creative ways of collecting, like giving incentives to account officers or using collecting agencies. In the event that this is done, careful monitoring is needed to make sure all collections go to the coffers of SSS. This implies that its information system is in place to identify erring employers and collect from them.

This money collected could also provide a substantial capital base for investment, the income of which could be used to pay for benefits. It is even possible that a time would come when the benefits could be paid out of income from investments instead of coming from members' contributions

Another area of concern is the benefit structure of SSS programs. Benefits should be rationalized. SSS can not indefinitely increase benefits (both the type of benefit as well as the amounts) without collecting members' contributions. There should be a moratorium on benefit increases in the meantime while SSS is shoring up its reserves. For instance, the policy of granting funeral benefits to all members who have paid at least one month's contribution is inimical to the interests of the Fund.

7. Monitor collection of loans. It appears that there are substantial losses arising from non-collection of members' loans as well as loans to institutional borrowers. While it helps in promoting the social welfare function of the government by lending to other government agencies extending social services to the poor, it should not be at the expense of SSS and its members. Projects should be subjected to capital budgeting analysis. Again, a good information system must be in place for this to happen. Investment decisions must be carefully evaluated before going into them. Management should resist politically motivated decisions. Instead they should be evaluated on an economic basis. Non-performing assets or securities arising from previous investments should be sold so that the money can be put to more productive investments.

Payment of benefits should be closely monitored. Payments to ghost beneficiaries should be avoided by scrutinizing benefit claims. Likewise, payments should be for valid company expenses only. A good internal control for cash disbursements should be instituted both at the head office as well as in the branches.

8. Finally, privatizing the institution might be a solution. This was a solution suggested by the World Bank. Political appointees can be minimized and a board which is answerable to stakeholders/ members can be better disciplined than management beholden to politicians.

Perhaps the conversion of SSS from a government-owned corporation into a member-owned corporation, managed by a board and run by professional managers appointed by its members would be a good start to improve its operations. The members can appoint a board and managers are accountable to them instead of having directors who are accountable to the president of the Philippines.

The combination of the above solutions – monitoring of employees' and employers' contributions, increasing revenues and decreasing expenses, can lead the Social Security System back to its long term existence which would benefit its members, especially the poorer members of our society.

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NOTES

[1] World Bank, among others, as cited by Templo, p. 144.
[2] Various issues of the Philippine Daily Inquirer referred to this.
[3] Various issues of the Philippine Daily Inquirer.
[4] Pinoy Enquirer.
[5] Data for the years 2002-2004 cannot be ascertained from available data.