

Social Security System*

By Rodolfo P. Andal

I CONSIDER it a distinct privilege and honor to be invited to speak before this group of civic and business leaders of our community on a subject matter which may bring about a sharp change in our present social order and may play a decisive role in untying the "Gordian knot" of the economic enigma which confronts our nation today. I am referring, ladies and gentlemen, to the implementation of the Social Security Act of the Philippines.

To me, this is one of the most important social legislations ever enacted in this country. Its significance and meaning to the working masses of our people equals that only of our Independence Law of 1934 and of our Constitution. While those two organic laws have given our people the realization of our dreams to have political freedom and independence, this Social Security Act intends to give our labor force security and protection against economic misery and want. It is a concrete evidence and clear manifestation of the determination of our government to give substance and realism to the social justice provision of our Constitution.

Social security is a movement of the masses which has penetrated all progressive countries in the world and is coming to the Philippines accelerated by the vigorous awakening of the masses for better livelihood and economic security after centuries of stagnancy. The decision of our government to develop social security is therefore the proper step to meet this movement by an orderly, lawful, and systematic development without bringing about radical and disastrous disturbance to our present social order of things. All progressive countries in the world have developed social security much ahead of the Philippines, and records will show that none of said countries ever backed out of it.

The Social Security Act envisions a gradual development of a system which shall be suitable to the needs of the people throughout the Philippines, and shall provide protection against the hazards of disability, sickness, old age and death, and unemployment in the future. This development is a collective effort and responsibility of society—that is, all elements and forces that bring about the political and economic stability of the community should share a hand in this effort. The individual cannot by himself alone face the hazards of life brought about by the growing complexities of livelihood in the modern world. That is why, under the law, the employer is required to contribute 3-1/2% of the earnings of his employees and the employee contributes 2-1/2% of his earnings. The government in turn contributes an initial capitalization of 1,400,000.00 plus a guarantee of any deficiency in the operation of the system and guarantees that all the commitments of the State under the law for the employees and the employer will be backed up with its financial resources.

* Speech delivered by Mr. R. P. Andal, acting chairman and administrator, Social Security System, before the Rotary Club of Manila, at the Winter Garden, Manila Hotel, on September 5, 1957, at 12:15 p.m.

The initial target of coverage is 350,000 employees working in firms employing at least 50 persons. On the second year of operation, the coverage will include about 3 million employees working in firms and establishments employing at least 6 persons. According to statistics of the Central Bank, there are around 8 million workers in the Philippines today of which 3 to 4 million are farm workers and 4 to 5 million are workers in industrial, commercial and governmental establishments. Out of these 4 million workers, there are barely 400,000 having social security protection. The ultimate target, therefore, of our social security will be to cover the balance of 3,600,000 which is the main bulk of the labor force of the nation, excluding farm workers which will eventually be absorbed by amendatory legislation.

Since we started the implementation of the law, much has been said against it than in its favor. There are 3 main objections raised by employees who have private plans with substantial semblance of social security. The objections are primarily based on the following:

Firstly, that the law will deprive employees of bigger benefits now enjoyed under their present private plans and that their integration into the Social Security System may be tantamount to deprivation of property rights without due process;

Secondly, that the benefits which the members may derive under the law are not compatible with the contributions they are giving to the System;

Thirdly, there is fear among employees that they will not derive any benefit out of their contribution to the System in case they are separated from the service before retirement; and

Fourthly, that it may adversely affect the growth of private insurance business.

There is no basis for the objection that the implementation of the Social Security Act may reduce or deprive employees of firms having existing private plans of existing benefits. Firstly, the Social Security Act provides that benefits in existing private plans will not be reduced, diminished, or eliminated. In other words, the law prohibits any decrease, diminution, or abolition of benefits now being enjoyed under private plans. So the objection that the contrary will happen has no basis of law. On the contrary, the implementation of the Social Security Act, in my way of thinking, strengthens the validity of the existing private plans, which prior to the enactment of the Social Security Act did not have official cognizance by social legislation but are purely based on bilateral or unilateral agreements between employer and employee. So, instead of deprivation, there is recognition of rights. Secondly, the Social Security Act is a social legislation which gives protection to the working masses. It being a social legislation, it takes precedence over individual rights, similar

to legislations which provide for the exercise of police power of the State. This legal philosophy has been repeatedly sustained by the Courts in the United States, England, and other democratic countries in the world.

Secondly, social security basically should have universal application in order that it can achieve stability. The existence of private plans goes with the fortune of the business or enterprises having such plans, which is exposed to the hazards of business, such as losses, termination of corporate existence, dissolution by other reasons or causes. The continuity of payment of pension to retirees under such private plans will depend on the continuity of the existence of such companies. When such companies are dissolved due to loss, bankruptcy or termination of its corporate life and other causes, then there is termination of payment of the pensions to the retirees of such private plans. But if these private plans are attached to the Social Security System, the continuity of the payment of pensions to retirees is guaranteed by the State. Example — In the government, we have the Government Service Insurance System. We are paying around P1 million retirement pay every month. A great majority of our retirees come from corporations and offices which are no longer in existence, but these beneficiaries continue to receive their pension benefits despite the dissolution of the offices from which they were retired. If the purpose and intention of social security, as universally recognized, is to give guaranteed protection for the individual worker, hence the justification of universality of social security.

The third objection against the social security act is that the benefits which the members may derive under the law are not compatible with the contribution that they give to the System. The present Social Security Act has been the product of more than three years study by leading actuaries of the government and of private insurance companies, and they are convinced that the proportion of contributions to benefits is reasonably balanced and that the system is probably the cheapest of its kind available in the Philippines.

As to the objection that an employee will not derive any benefit out of his contribution to the System in case he is separated from the service before retirement. I wish to reiterate that under such a situation, the Commission under the law may give the employee three courses of action to take:

Firstly, he can ask to continue his membership by paying the contribution of the employer and the employee;

Secondly, his contribution may be refunded with at least 2% interest compounded annually;

Thirdly, he may ask for the conversion of his credit into a paid-up insurance plan. It is therefore clear that there is no deprivation of savings or contribution of any member who may be separated from employment prior to retirement.

The fourth objection is competition by the State with private insurance business. In the United States, when social security was in process of development, there was vigorous opposition against it from private insurance companies and other financial institutions handling credit. These opponents believed that it will eliminate the expansion of such financial institutions. However, after the development of social security had started, the production of private insurance companies in the United States was not reduced but on the contrary it has increased by more than four times beyond the expectation of the proponents and opponents of social security. This paradox has been attributed to the chain reaction generated by social security along psychological lines, that is, it made the people insurance conscious and it created multiplication of reinsurance business thereon. I feel that this result or effect of social security on private insurance companies and other financial institutions that handle credit will hold true in the Philippines. This is borne by the experience of the government when it started the organization of the Government Service Insurance System in 1937. The same objections were raised by the same elements, but as we already know, my friends, production of insurance companies has grown bigger and bigger starting from the time the GSIS has been organized.

While social security has for its main purpose the protection of the workers against the hazards in life and the improvement of their social and living conditions, it has a tremendous impact in our economic development. It is a dynamic institution of people that mobilizes their savings and makes such savings available to finance the expansion of existing industries and development of new ones. This is the undeniable outcome of social security in the United States and in other countries. Our country being an undeveloped one, is in dire need of capital or funds to finance its economic development. For many years, we have relied on existing financial institutions, such as banks and insurance companies to tap local sources of funds and at the same time consistently resorted to borrowing of capital from foreign countries. Despite the availability of these sources, we are still confronted with the perennial problem of raising funds for our development. If social security as experienced by other countries in the world is a potential and dynamic institution that mobilizes the savings of the people and in turn puts these into a reservoir of funds available for productive investments, then, my friends, social security may be a missing link in solving the financing problems of our industrialization and development of our natural resources. I feel that the utilization of these savings of the people to finance our development is conducive to the existence of a strong and dependable citizenry where the people become individual participants or investors in the economic growth of our country.

I thank you.

