Pension Funds Put Under General Commission

Crippled constabulary fund thrown in with stronger teachers' fund with no losses and a million net yearly, capital ₱20,000,000

At the approach of the commonwealth this magazine had a paper on the plight of the middle-class in the Philippines, whose savings whether personal or mutual would be adversely affected by trade, if it declined or remained static, indirectly affecting other values, notably realty values. Attention was then invited to the 27,000 public-school teachers in the islands interested in the teachers' pension fund. A table appearing with the present paper shows this fund to be nearly ₱20,000,000. It shows all the funds now under the new National Loan and Investment Board.

At the close of 1935 there were 1,789 teachers enjoying pensions, the main source of which is the 3% of his pay that each teacher is required to contribute to the fund. Nearly ₱4,000,000 had then been paid out in pensions. An actuary was employed in ascertaining the weaknesses, if any, in the teachers' pension law. Pensions paid in the first year of the law, 1922, summed ₱1,515. In 1933 they rose to ₱551,845; in 1934 they were ₱721,584, or in 1 year the increase of outlay was about 50%. This fund affects the largest single group, most widely dispersed in the islands, the group to which the state owes most as instructors of the young. It will be noted by the table that of total fiduciary funds summing about ₱43,000,000 placed under the loan and investment board, nearly half is the teachers' fund.

Title of the Fund	Surplus Invested	Surplus Uninvested
Loan Fund, Acts 3335, 3532, and 3838	₱ 3,495,213.87	₱ 969,204.73
Municipal Loan Fund, Act 3932.	317,048.59	1,694,458.16
Rice and Corn Fund, Acts 2818, 3039 and 3594	792,673.12	127,381.83
Friar Lands Loan Fund, Act 1736	221,863.36	45,867.97
San Lazaro Loan Fund, Acts 2478 and 4086	1,337,754.24	604,932.93
Private Surveyor's Loan Fund, Acts 3327, 3452 and 4016	418,019.12	201,003.47
Postal Savings Bank Fund, Acts 1493, 2711 and 4093	11,504,763.60	784,121.51
Teachers' Pension and Disability Fund, Acts 3050, 3100, and 3454 and 3768	16,641,846.26	2,989,088.34
Land Title Assurance Fund, Act 496 (Sections 99, 100 and 105)	278,565.98	153,331.01
Property Insurance Fund, Adm. Code (Sec. 340)	571,000.00	427,351.05
Total	₱35,578,748.14	₱7,996,741.00

There are 10 several funds, but none approaches the teachers' fund in amount or importance—from any viewpoint. It is therefore hoped that adequate board representation will be given the teachers, who have such vital and comparatively large interests at stake. Their fund nets about a million pesos yearly. Their investment board says in a recent circular:

"It is impossible to estimate accurately the precise year when the annual requirements for pensions will become greater than the annual income although a number of years will elapse before this condition will be reached. Under the present laws governing the fund, the accrued liability of the fund is already greatly in excess of its resources. (Taken to mean, the possible and actual net earnings of its resources without impairment of capital).

Here is 1934's operating revenue—

Teachers' Pension Fund Revenue Account 1934:

Earnings from investments and securities—	
Real estate loans	₱657,950.88
Bonds	410,752.73
Bank deposits	23,332.10
Advanced gratuities	15,515.63
Discount on bonds	270.00
Teachers' loans	23,337.48
Pensioners' loans	4,120.66
Foreclosed real estate mortgages	9,867.12
	1,145,146.60
Other income—	
Application fees	550.00
Mortgage and cancellation fees	3,021.90
Notarial fees	309.50
Miscellaneous	115.94
	3,997.34
Repayments to prior years' expenses	1,349.19
Total operating revenue	1,150,493.13
Expenses (note how extremely low)	60,450.45
Net	1,090,042.68

In future the loan and investment board will manage investments of the teachers' pension fund; otherwise administration will remain much as it is and has been, with collecting its main responsibility. The change may not enhance teachers' confidence in the integrity of their pension fund, though in the end it may: outstandingly this has been the best-managed and best-founded of the various pension funds, and there is a feeling that the change is a reaching out for its very tempting capital. No one knows how near the commonwealth is to the forced-loan status. The spirit behind loans from this fund has been, to accept no security that a board member would not loan his personal funds against.

This is sound fiducial responsibility, and it is possible that motives will be sought for the changing of it.

It has been observed that the commonwealth enters into the redemption of Manila Railroad bonds at London with motives somewhat mixed: not a good state of mind for a conscientious fiduciary, but would it not be a natural state of mind for a member of a national investment board? First, the government owns the railroad's stock and would not like to see its bonds defaulted, yet the road is not netting a profit—losing in the south more than it makes in the north. Second, the government would demonstrate its adequacy to take care of this situation, and will of course gain by this in the opinion of the credit world. Third, the government would have the

(Please turn to page 15)

Pension Funds . . .

(Continued from page 7)

railroad succeed as a business venture and would not mind really owning it instead of merely owning its shares—that are not at all a popular investment bargain, nor are the bonds. Fourth, to stop interest in gold is a factor.

So the government offers for these bonds; but not as a good canny fiduciary, because the bonds are at great discount. The government forces funds into this purchase. This is not to complain of its action, approved of, but to state what it is from the investment viewpoint for other than strictly government funds. Here is approached the neighborhood of forced loans. Pension funds ought to be clear of such encroachments; they should be invested in nothing but the most liquid securities, sale of which could be effected upon short notice. Attention to such responsibilities by the new board will invite confidence. It may be added that the teachers' pension fund owns Manila Railroad bonds, also bonds of the Metropolitan Water District, that ended 1935 without a profit. It might even further be added that purchase of the bonds in London and escape of interest payments in gold obviously strengthens the road's position and that of its bonds not payable in gold, interest and principal. But when all is said, this is not clean fiduciary business; it may be doubted that any court in equity would so pronounce it.

Certain modifications of the law affecting the teachers' pension fund might be effected to the fund's material advantage. For instance, it might be provided that defaults on quasi-public bonds bought by pension funds, railroad or water bonds being examples, will be made good by the general government, the commonwealth; and against this contingency salary savings, year-end surpluses enjoyed by the fund until 1928, might be put aside.

Teachers pay but 3% of their pay into the fund, yet teachers coming into the service now and in future and sharing the benefits of a fund of ₱20,000,000 already amassed, might at option of the board be assessed 5%. Then there are teachers leaving the service without taking their pensions, payments that took ₱1,203,660 to the close of 1934. They consist of what the teachers have paid into the fund, with compound interest at 4%; the fact that throughout his service the teacher has been protected by the fund, the law extending to disability, death and superannuation, seems not to be taken into account. The teachers withdrawing from the service could well be content to get back what they actually paid in, counting their protection meantime as reasonable earnings on these pittances. Finally there are pensioners who retired very early under the act, some drawing considerable pensions though they paid in but little.

Confidence should be general that President Quezon will give most careful attention to this whole question. He will reach, it is hoped, final conclusions making the clearest distinctions between fiduciary and administrative capacity, and between the single-purposed responsibilities of fiduciaries and those of central-government administrators such as members of the investment and loan board will be. The teachers, rightly, have had confidence in their pension board.

Roy H. Howard . . .

(Continued from page 5)

their minds without shame or fear of popular indictment. If the change has been limited to the intelligent and educated class, it is because they have been the first to realize the implications of independence beyond their own hearts' desire. They could see what the masses cannot see even now: that independence is a much more serious business than singing the national anthem and exulting upon the sight of the Filipino flag waving in the breeze. They realize that independence now or in the near future will only be a prelude to a more abominable subjection, that freedom today may mean slavery tomorrow beside which our present liberties will be things to remember longingly. The masses of our people cannot see this. Sunk in drowsy tropical indolence or in miserable poverty, they are either indifferent to the real significance of independence, or they look upon it as the pious Christian looks upon the life after death: as a ledger in which they will be reimbursed for their present want and suffering. Independence for them is the economic interpretation of Christ's Second Coming. It will bring them comfort and plenty, prosperity and happiness. They do not see that it will surely mean a condition of perpetual subjection from which no power on earth could redeem them.

This change is due to circumstances beyond their control, principally the menace of a rising and aggressive Japan who has flouted in the instant case of China her commitments to peace and non-aggression. When the cry for immediate, complete and absolute independence was first raised twenty years ago, world conditions were not what they are now. The World War was yet to be fought, the League of Nations formed and repudiated, the Kellogg peace pact drafted and discarded, the Nine-Power Treaty concluded and violated, Manchuria lopped off and appropriated, Ethiopia invaded and raped, and North China conquered through a ruse and a pretext of autonomy. Conditions that would have made independence twenty years ago auspicious especially in view of the high idealism aroused by the World War are precisely the same conditions that make independence at this time or in the near future a dangerous proposition. If the desire for independence was, therefore, even only partly based on the assurance of security in its enjoyment, then it follows that the removal of that assurance should reduce in corresponding degree the ardour of that desire.

The logical thing for the Filipinos to do is ask Congress that the Commonwealth be made permanent. Full statehood is out of the question. The commonwealth should be made to stay not permanently but as long as it continues to confer mutual benefits on both America and the Philippines. The status should cease as soon as it becomes burdensome and unprofitable to both parties, and should continue as long as it is more desirable than independence. We cannot commit the future to any contract providing for a permanent and irrevocable commonwealth status. We do believe, however, that for the present the Filipinos should keep this status. And the tenure of the Commonwealth, we cannot stress too much, should be indefinite rather than permanent.

The plan for a permanent status failing, it is possible that the business interests in the Philippines will turn to Great Britain and ask that the Islands be given a territorial status under the British flag. This statement came as a surprise to most Filipinos, and rightly. The ways of international diplomacy are mysterious, but is incredible that America will be a party to a bartering of territories, with the Philippines, the most priceless of her possessions, on her side of the counter. Nor will the Filipinos voluntarily seek the protection of Britain or of any other nation even if her security were to be in serious jeopardy. If they should part ways with America henceforth, it is absolutely certain that they will try to stand on their own feet for as long and as bravely as they may. But seek the protection of another power, asking to be taken in—never.

The statement, however, that "The Philippines would be invaluable to Britain in strengthening her strategic line of defense in the Far East," and that "in unfriendly hands, they could jeopardize the entire British position in China," is beyond question true. The Philippines in the hands of Japan, for example, would make the latter complete master of the Far East and a menace to British territories and spheres of influence in the region. The British position in the Yangtze Valley, in Hongkong, Singapore, Borneo, and even farther south in Australia and New Zealand would be reduced to a cipher. With America out of the Philippines, Britain may fight it out with Japan for so choice a morsel as this Archipelago. But with this possibility we shall have little or nothing to do.

If asked by the Filipinos, America is almost sure to reconsider the independence question and to deal with it justly. If any change in the Philippine program is desired, it is for the Filipino people to initiate it, to go to Congress and say: "Gentlemen, we want you to play this game as squarely as we are going to play it ourselves. You have fulfilled your promise, we have indulged in our idealism. Having made good your word, you have given proof of

(Please turn to page 45)