

# Social Protection in Case of Unemployment in the Philippines

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*Feasibility Study*

*International Labour Organization*

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## **List of Acronyms**

AMSC	Average Monthly Salary Credit
APL	Alliance of Progressive Labor
BLE	Bureau of Local Employment
BLES	Bureau of Labor and Employment Statistics
BRW	Bureau of Rural Workers
DBM	Department of Budget and Management
DOF	Department of Finance
DOLE	Department of Labor and Employment
DSWD	Department of Social Welfare and Development
ECC	Employer's Compensation Commission
ECOP	Employer's Confederation of the Philippines
FFW	Federation of Free Workers
GSIS	Government Social Insurance System
NAPC	National Anti Poverty Commission – Informal Sector
NEDA	National Economic Development Authority
NSO	National Statistics Office
NWPC	National Wages and Productivity Commission
OFW	Overseas Filipino Worker
OWWA	Overseas Workers Welfare Administration
PASEI	Philippine Association of Service Exporters
PESO	Public Employment Service Office
PhilHealth	Philippine Health Insurance Corporation
POEA	Public Overseas Employment Agency
SSS	Social Security System
TESDA	Technical Education and Skills Development Authority
TUCP	Trade Union Congress of the Philippines

## I. Executive Summary

The report analyzes the current situation of unemployed workers in the Philippines and comes to the conclusion that there is a gap in social protection. The Philippine Social Security System provides protection in case of illness, old age, accident and even provides social assistance in case of hard core poverty. But there is hardly any protection for the unemployed.

On the other hand, the labor laws in the Philippines are quite rigid compared to international standards. This might be one reason, why the labor market to a large extent is informal and why many employers try to avoid regular employments and prefer 6-months contracts. This leads not only to low standard of protection for employees but also to high costs of turnover for employers.

As a solution the report suggests a double strategy:

1. To introduce an unemployment insurance (UI) financed by contributions from employers and employees in equal shares, providing a basic protection in case of unemployment.
2. To flexibilize the labor law in line with high penalties in case employers do not fulfill their obligations in terms of social security and thus create an incentive for employers to formalize employment contracts.

The report comes to the conclusion that Unemployment Insurance in the Philippines is feasible and that in combination with slight changes in the labor law it will help to make the labor market more protected for the workers and more flexible to cope with changes in production and productivity as well as with global developments in demand and trade.

## II. Background

Social security is generally recognized as a basic human right and a means to foster social cohesion, human dignity and social justice. The ILO Social Security (Minimum Standards) Convention established nine classes of benefits including: medical care, sickness benefit, unemployment benefit, old-age benefit, employment injury benefit, family benefit, maternity benefit, invalidity benefit and survivors' benefit. At present, not all of these benefits are part of the social security programs in the Philippines.

The Philippines does have a social protection framework, consisting of both formal and informal arrangements, implemented by various government agencies and private institutions. There are at least eleven (11) government institutions, both contributory and non-contributory, that have social protection mandates and which cover the majority of formal sector workers as well as provide assistance to marginalized and poor families.

Three out of 32 ILO Conventions ratified by the Philippines are also directly related to social security such as the C165 Social Security (Seafarers) Convention (Revised), 1987; C157 Maintenance of Social Security Rights Convention, 1982; and C118 Equality of Treatment (Social Security) Convention, 1962. The Philippines, however, has yet to ratify two Conventions that deal with the issue of loss of employment benefit: C102 Social Security (Minimum Standards) Convention, 1952 and C168 Employment Promotion and Protection against Unemployment Convention, 1988.

At the moment, hardly any relief fund or protection scheme for loss of employment exists in the Philippines. But as workers were being displaced and worries of the social impact of the recent global financial crisis intensified, the Philippine government in early 2009 began broaching the idea of making unemployment insurance available.

During this period, the country's labor market showed signs of volatility. While there was employment growth of 1.7 percent<sup>1</sup> resulting in 565,000 jobs that were generated compared to 148,000 jobs the previous year, unemployment also climbed to 7.7 percent from 7.4 percent a year ago. This was higher than the jobless rate of 6.8 percent recorded in October and 7.4 percent in July last year. Data also showed that the number of jobless Filipinos increased by 180,000 to 2.855 million and more males (64.1% of total unemployed) were unemployed than females (35.9%).

The government's suggestion to establish an unemployment insurance scheme was lauded by many quarters. It was unclear though how this scheme is going to be implemented and based on what administrative framework. There were a number of rough ideas proposed, ranging from the provision of financial assistance to assistance for basic needs, but no serious discussions ever took off. Eventually, no specific government agency has also come forward to take the lead in the deliberations.

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<sup>1</sup> Labor Force Survey (LFS), January 2009

In June 2009, the ILO constituents met to have an initial sharing of ideas on unemployment insurance. ILO Manila put up a proposal to conduct a study on the feasibility of introducing this scheme in the Philippines. The response from the constituents was generally positive and that a commitment to support this undertaking was expressed.

The ILO has therefore decided to extend support to the conduct of an assessment on the feasibility of introducing an unemployment insurance system in the country.

The present report reflects the findings of a study undertaken in November 2009. A large number of stakeholders were consulted (see list of persons met in the attachment). The report is seen as a first step in a series of consultations and negotiations that have to follow, if the Philippines want to continue on the path towards a comprehensive UI.

The author wants to extent his gratitude to DOLE and ILS for the support given as well as to all stakeholders for their help in discussing the pending issues.

### III. The Philippine Labor Market

The population in working age in the Philippines is 59 million. The labor force, based on a participation rate of 64% is 37.8 million. Out of these, 35 million are employed and 2.83 million unemployed (7.5%, April 2009). Another 6.6 million (18.9%) are underemployed. Table 1 gives an overview over the Philippine Labor Market.

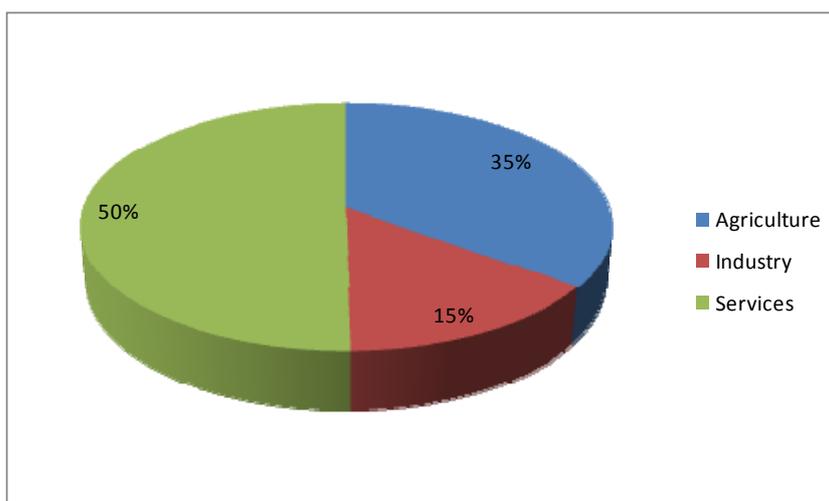
**Table 1: Philippine Labor Market 2009**

	<b>2007</b>	<b>2008</b>	<b>2009</b>
Population 15 and over	56.565	57.700	59.074
Labour Force	36.213	36.450	37.824
Employed	33.560	36.450	37.824
Unemployed	2.653	2.914	2.830
Participation Rate	64,0%	63,2%	64,0%
Unemployment Rate	7,33%	7,99%	7,48%
Underemployment Rate	20,1%	19,8%	18,9%

Source: Bureau of Labor and Employment Statistics, 2009

The largest employer is the service sector (see Figure 1), mainly wholesale and retail, Transport, public sector, education and private households. Industry is decreasing, whereas agriculture and services are increasing.

**Figure 1: Employed Persons by Industry Group**



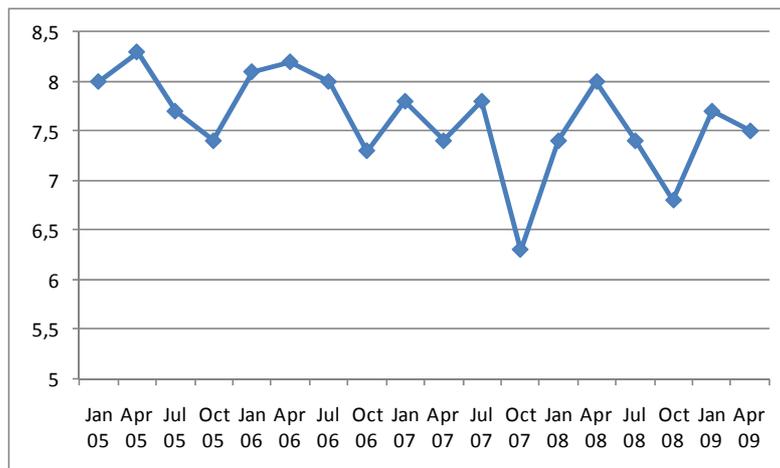
The following Table 2 shows the unemployment and underemployment rates in the different regions in the Philippines. It can be seen that they vary considerably. The highest unemployment rate is in the National Capital Region (13,5 %), the lowest in Region II (Cagayan Valley, 2.8%) and ARM Mindanao (1.5%).

**Table 2: Unemployment and Underemployment Rates 2009**

	Unemployment Rate	Underemployment Rate
NCR	13,5	12,4
Cordillera Administrative Region	4,2	17,9
Region I - Ilocos Norte	8,3	15,6
Region II Cagayan Valley	2,8	16,7
Region III - Central Luzon	8,5	5,4
Region IVA - Calabarzon	9,9	15,4
Region IVB - Mimaropa	4,5	25,4
Region V - Bicol Region	6,5	36,8
Region VI - Western Vizayas	7,9	26,8
Region VII - Central Vizayas	7,3	12,6
Region VIII - Eastern Vizayas	5,0	28,7
Region IX - Zamboanga Peninsula	3,8	27,4
Region X - Northern Mindanao	5,2	24,5
Region XI - Davao Region	6,2	23,4
Region XII - Soccsksargen	4,4	19,9
Caraga	5,1	26,8
ARMM	1,5	13,0

Source: Bureau of Labor and Employment Statistics, 2009

**Figure 2: Unemployment Rate in the Philippines 2005-2009**



The largest group of the unemployed is young people between 15 and 24 (50% of all unemployed). Interestingly, nearly 85% of the unemployed have a high school or college diploma. Only very few have no education at all or elementary school only.

Overall unemployment in the Philippines has been so far stable in 2009 compared to the previous years. Underemployment has even slightly decreased (see table 1 and Figure 2) and it lies within the longer lasting trend.

With view to the financial crisis, the most vulnerable workers are those in the export-oriented industries such as electronics, call centers and textile manufacturing. Indeed, several companies reported either to lay off workers or cutting working hours as the crisis reduced demand for Philippine exports. The Philippine Labor Department reported that 40,000 workers were retrenched, 33,000 workers are experiencing shorter working hours while over 5,400 overseas Filipino workers were displaced because of the financial crisis. Both numbers compared to the total employment are small. The National Economic and Development Authority (NEDA) forecast that in a pessimistic scenario as much as 200,000 workers may be laid off as the crisis continues to hurt the local economy. But this did not materialize yet and for 2010 there are strong signs of an economic recovery. Even pessimistic forecasts expect the unemployment level not to hit double-digit levels which were recorded several years ago.

Nevertheless, an unemployment rate between 7% and 8% of the Philippine workforce is one of the highest rates in Asia (the Asian average lies around 5%). Also, the labor force due to specific demographic reasons in the Philippines is growing fast so that net employment has to increase substantially every year in order to avoid growing unemployment.

Little is known about the nature of unemployment but it is very likely that most of it is short term unemployment and not long term. The reason is that 1. There is a high fluctuation on the labor market

in the Philippines due to relatively rigid labor laws (after 6 month of employment, which leads to the fact that many employers retrench workers before the completion of 6 months of contract). 2. There are hardly any people in the Philippines who can afford long term unemployment, given the fact that there is practically no unemployment benefit.

The Philippine labor market is to a large extent not formalized. Only 9.5 million people or 25% (7.5 million employees) out of 38 million workers are covered by social insurance (public and private sector). Employers, mainly those with less than 10 employees (the average establishment has 7 employees, see also Table 3 and Table 4), try to avoid the costs and the legal obligations of regular employment. About 30% of the labor force in the formal sector in the Philippines works in establishments with less than 10 employees. Including the informal sector, it is nearly 70%.

**Table 3: Size of Establishments Formal Sector 2007**

	Size of Establishments (employees)			Number of Establishments		Employment		Average Size
		to						
Micro	1	to	4	639.825	81,62%	1.154.630	22,26%	2
	5	to	9	80.259	10,24%	507.254	9,78%	6
Small	10	to	19	37.600	4,80%	483.651	9,32%	13
	20	to	49	15.240	1,94%	452.223	8,72%	30
	50	to	99	5.358	0,68%	361.918	6,98%	68
Medium	100	to	199	2.919	0,37%	396.066	7,63%	136
Large	200	to	499	1.760	0,22%	537.072	10,35%	305
	500	to	999	543	0,07%	368.665	7,11%	679
	1.000	to	1.999	223	0,03%	310.801	5,99%	1.394
	2.000	and	over	142	0,02%	615.513	11,86%	4.335
Total				783.869	100,00%	5.187.793	100,00%	7

Source: National Statistics Office 2007

**Table 4: Number of Establishments by Employment Size and Sector, 2007**

	Total	Micro	Small	Medium	Large
Agriculture	5.765	4.190	2.303	160	152
Industry	121.832	107.288	12.116	1.241	1.187
Services	656.272	609.181	44.244	1.518	1.329
Total	783.869	720.659	58.663	2.919	2.668
%	100,0%	91,9%	7,5%	0,4%	0,3%

Source: National Statistics Office 2007

#### **IV. Employment policies and support measures**

The constitution of the Philippines explicitly mentions the right of tenure (see box 1). Together with the restrictive provisions of the labor code (see attachment A, especially Article 279 and 282) this

leads to the fact that it is very difficult to retrench workers once they are regularly employed. Article 281, however allows a probationary period of 6 months, during which it is easier to end work contracts by the employer. The consequence is that many employers hire staff for a maximum of 6 months only, which leads to a high turnover in some sectors, especially in the low qualified jobs.

The courts in general tend to support the position of the employees and the trade unions that there is security of tenure and that there are very limited reasons only when an employer may retrench a worker.

On the other hand, support for employment (active labor market policy) is limited only. The Government extends support to people seeking employment through the PESO<sup>2</sup> offices and through TESDA. Otherwise there are no support measures that could help to increase employment.

<p style="text-align: center;"><b>Box 1: Article XIII Constitution of the Philippines</b> <b>Social Justice and Human Rights</b></p> <p style="text-align: center;"><b>Labor</b></p> <p><b>Section 3.</b> The State shall afford full protection to labor, local and overseas, organized and unorganized, and promote full employment and equality of employment opportunities for all.</p> <p>It shall guarantee the rights of all workers to self-organization, collective bargaining and negotiations, and peaceful concerted activities, including the right to strike in accordance with law. <b>They shall be entitled to security of tenure</b>, humane conditions of work, and a living wage. They shall also participate in policy and decision-making processes affecting their rights and benefits as may be provided by law.</p>
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## V. Existing social protection measures in relation to risk of unemployment

The current situation in the Philippines is that workers, who lose their jobs, mostly (except GSIS members) have no unemployment insurance. However, there is a variety of laws and benefits that give workers some kind of protection:

- Public employees can avail of a regular unemployment benefit from GSIS (50% of the average monthly compensation, maximum 6 months, see also GSIS Act in the attachment). This, however, is little known and hardly practiced. The condition is, however, that he or she at the time of separation is a permanent employee. To date, many public employees are on fix term contract. These are not protected by the prescription.

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<sup>2</sup> See Public Employment Office Act of 1999.

- Employers are obliged to pay for each year of contract one month of severance pay. This, however, is mostly practiced in the formal sector. Especially in the informal sector and in small enterprises (less than 10 employees), employers tend to neglect this obligation.
- Formal sector employees can avail of a loan (80% of the savings) from Pag-Ibig Fund to bridge the period of unemployment. This, however, is only a substantial amount if workers have fulfilled a number of years of contract.
- Formal sector employees can avail of a loan from SSS (maximum 24,000P). This facility is quite in demand though it can be debated, whether to draw loans on old age security is appropriate from a social protection point of view. For unemployed it might be difficult to avail of these loans because only during employment workers can apply for it.
- All workers can avail of 3 months contribution-free PhilHealth coverage in case they have paid their premium.
- Unemployed workers can get help from PESO offices and from TESDA (Job brokerage, training).

For the rest, most unemployed recur to family support in case they have no savings and own means. To lose the job in most cases also means to lose the permanent source of income.

## **VI. Prospects of introducing unemployment insurance taking into account the standpoints of government and social partners**

### **A. Why unemployment insurance?**

People argue that unemployment insurance is not needed in the Philippines. International experience however, shows that unemployment insurance has a variety of benefits that cannot be overlooked:

- It gives all workers a basic protection so that they do not need to use their savings and do not fall into the vicious circle of poverty.
- It helps to make a labor market more flexible.
- It helps especially small enterprises to pool costs of retrenchment and fluctuations (for example severance pay).
- It helps to formalize employments
- It improves information about unemployment

The Danish and Dutch example have proven that unemployment insurance in tandem with a more flexible labor market leads to better social protection and lower unemployment. In the Philippine context it is expected that this combination would contribute to a better formalization of the labor market because employers can use labor force more flexibly.

There are also experiences with unemployment insurance in developing and middle income countries, for example Vietnam (see attachment) and Brazil.

## B. Existing proposals

There were already quite a number of bills filed in both Houses of Congress providing for varying versions of unemployment benefit schemes<sup>3</sup>, for example:

House Bill No. 5928 introduced by Congressman Eduardo Nonato N. Joson is entitled: "AN ACT EXPANDING THE BENEFITS OF THE SOCIAL SECURITY SYSTEM SO AS TO PROVIDE FOR UNEMPLOYMENT OR UNVOLUNTARY SEPARATION BENEFITS THEREBY AMENDING FOR THIS PURPOSE; REPUBLIC ACT NO. 8282, AS AMENDED, OTHERWISE KNOWN AS THE SOCIAL SECURITY LAW". This proposal suggests a benefit level of 50% of the monthly compensation upon involuntary separation provided that during the last year at least 6 months contribution has been paid. The benefit duration depends on the amount of years contributions have been paid. The maximum is 6 months after 10 or more years of contributions paid. The benefits will be deducted from the separation benefits paid by the employer. The scheme will be administered by SSS.

House Bill No. 2028 introduced by Congressmen Martin B. Isidro, is entitled "AN ACT PROVIDING FOR TEMPORARY UNEMPLOYMENT BENEFITS TO WORKERS-MEMBERS OF THE SOCIAL SECURITY SYSTEM, AMENDING FOR THE PURPOSE REPUBLIC ACT NUMBERED ONE THOUSAND ONE HUNDRED AND SIXTY-ONE, OTHERWISE KNOWN AS THE SOCIAL SECURITY LAW, AS AMENDED, AND FOR OTHER PURPOSES". House Bill No. 2028 seeks to provide a covered employee who has been separated from work with a monthly unemployment benefit equivalent to 75% of his/her former salary for three months from the SSS subject to certain qualifications, which include certification from the Department of Labor and Employment that he/she has registered with a public employment office, is seeking employment, or retraining for new employment. The bill disqualifies a claimant from the receipt of the benefit on two sets of grounds:

if he/she refuses an offer of suitable employment, and what constitutes unsuitable employment is enumerated; or

if he/she lost his/her employment as a result of a labor dispute, his/her own will, misconduct or fraudulent attempt to obtain benefits, failure to apply or avail of reasonable opportunity of suitable employment, he/she is a resident abroad or engaged in overseas work.

House Bill No. 4081, introduced by Congressman Alberto S. Veloso, is entitled: "AN ACT PROVIDING FOR THE EQUIVALENT OF UNEMPLOYMENT INSURANCE TO EMPLOYEES AND WORKERS SEPARATED FROM THE SERVICE THROUGH NO FAULT OF THEIR OWN, ESTABLISHING THE UNEMPLOYMENT ASSISTANCE FUND, AND FOR OTHER PURPOSES". This bill provides for the payment of unemployment assistance to qualified employees

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<sup>3</sup> See also position paper of the Employer's Confederation of the Philippines (ECOP) on House Bills Nos. 2080, 4041, 4695 and 5634. March 20, 1997

in the amount of 1,000 PhP per month for a period of up to three months. Entitlement stops upon gainful employment. Fifty per cent of the total amount availed of shall be repaid with 8% interest per annum by the concerned employee within two years upon his gainful employment. The bill also provides for the procedures for availing of assistance, which are initiated by a certification by DOLE, through the appropriate PESO, that the employee has been separated from the service through no fault of his/her own. The bill likewise establishes the Unemployment Assistance Fund to be administered by the SSS for private sector employees and the GSIS for government employees with initial funding from the SSS and the State Insurance Fund for private sector employees and the GSIS for the government employees.

House Bill No. 4965, introduced by Congressman Ramon J. Jabar is entitled: "AN ACT INSTITUTING INCOME SECURITY FOR WORKERS BY PROVIDING THEM UNEMPLOYMENT BENEFITS IN CASE OF INVOLUNTARY UNEMPLOYMENT CONTINGENCIES, AND FOR OTHER PURPOSES." The bill provides that any worker who has been a member of the SSS (or GSIS) for at least five years or who has contributed 60 monthly contributions prior to his/her involuntary unemployment shall be entitled to a monthly unemployment insurance benefit equivalent to his/her current basic monthly for a maximum period of 6 months or up to the month of his/her reemployment whichever comes first.

House Bill No. 5634, introduced by Congressman Temistocles S. Dejon, Sr. is entitled: "AN ACT PROVIDING FOR UNEMPLOYMENT ASSISTANCE TO CERTAIN EMPLOYEES SEPARATED FROM EMPLOYMENT OR SERVICE, ESTABLISHING THE UNEMPLOYMENT ASSISTANCE FUND, AND FOR OTHER PURPOSES". This bill provides for the payment of unemployment assistance to qualified employees in the amount of 1,000 PhP per month for a period of up to four months. Entitlement stops upon gainful employment. Fifty per cent of the total amount availed of shall be repaid with 5% interest per annum by the concerned employee within two years upon his gainful employment. The bill also provides for the procedures for availing of assistance, which are initiated by certification by DOLE, through the appropriate PESO, that the employee has been separated from the service through no fault of his/her own. The bill likewise establishes the Unemployment Assistance Fund to be administered by the SSS for private sector employees and the GSIS for government employees with initial funding from loans of 500m PhP each from the SSS and the State Insurance Fund for private sector employees and the GSIS for the government employees.

Both the TUCP and ECOP on various occasions objected to the imposition of additional premium contributions both on the part of the employers and workers to fund any unemployment assistance scheme. The two organizations instead suggested that studies and efforts be made to tap other available sources for the purpose, especially of Government funds.

### **C. Employers Position**

As reaction to the existing bill proposals, an Ad Hoc Committee of the ECOP on Unemployment Insurance was constituted to consider the pending bills and to accommodate the concerns of the various sectors. In the end, an Ad Hoc Committee Report was submitted which provided for a non-contributory and limited unemployment assistance scheme. The same bill proposed by the Ad Hoc Committee contains a provision that the initial funding of P500M each will come from both the SSS and the GSIS.

At this point, according to ECOP, the employers are still unconvinced of the timeliness of the unemployment insurance system in the Philippines especially since the Condonation Law has just been recently passed in congress. This law, in effect, removes the penalties to be imposed to employers who were delinquent in the payment of their employees' SSS premium contributions, and gives them the chance to pay their unpaid contribution on installment basis.

If the proposed scheme would be non-contributory, then there would be fewer problems with the employers.

On the other hand, employers would be willing to agree even to a contribution to an unemployment insurance under two conditions:

- It would substitute the current obligation to pay a severance pay upon separation
- The current strict labor law would be flexibilized so that for employers it is easier to dismiss staff (similar to the Danish model).

The employers see the advantages of unemployment insurance, also for employers, but they shy away from the additional labor costs that would be imposed in the form of an additional contribution.

### **D. Trade Union Position**

The Trade Unions (TUCP, FFW, APL) clearly see the need for an unemployment insurance to protect the workers and see other Asian countries like Korea as an example. They see it as a need that is not linked to other measures like flexibilization of the labor market as it has been done in Denmark or the Netherlands.

Like the employers, the trade unions are skeptical about an additional contribution. They prefer an unemployment insurance that is funded by the State though they are aware of the problem that this would de-link the benefits from the wages.

For the trade unions an additional contribution would be feasible if:

- The trade unions participate in the management of the fund
- If the UI also covers a provision for trainings
- If the benefit is wage related and the duration of the benefit is adequate

- Age or physical conditions may be also determining the level and duration of benefit, say for instance the older you get the higher the benefits because it is more difficult to find jobs
- There should be incentives, if one does not exhaust the whole duration of benefits since he/she was able to find a job before the UI benefits expires
- There should be also a provision for a relocation allowance in case a worker has to move.
- Separation pay should not be treated as part of unemployment insurance. The law ensures that whatever policy in the future, it should not result in a diminution of benefits.
- Benefits should be granted whatever the reason of dismissal is.

With regard to providing flexibility in exchange of UI, the Trade Unions see that one cannot just copy for example experiences from Denmark because these countries are different from the Philippines. If such models are considered, these proposals have to be studied carefully.

The start-up costs of the unemployment insurance should be borne by the Government. The administration should be given to SSS, GSIS or Pag Ibig in combination with TESDA and PESO offices. In this case, the PESO offices need to be upgraded.

In any case, the Trade Unions see the proposal as a part of a process of negotiation, at the end of which a viable scheme for the unemployed should emerge.

## **E. Government Position**

Different Government agencies have different positions concerning UI.

DOLE is supporting the approach. DOLE sees a need to start with SSS members but also to envisage coverage for the informal sector and to make steps to formalize the informal sector.

NEDA is not sure about the need for UI. The position is that people are sufficiently protected and that the need for such insurance has to be proven. In any case, there should not be just passive labor market policy but also active labor market policy. Also, it would be good to implement first existing laws before we create new schemes. Finally, it has to be decided, who would administer such a scheme.

Various Government agencies see no need to include public workers into the scheme as they have security of tenure and are already protected by GSIS. This, however, is only the case for permanent employees. It will be very difficult to add a contribution to unemployment insurance to the financial obligations of the public sector. This also counts for a general benefit funded by the public sector for non-public workers instead of contributory unemployment insurance.

The existing welfare schemes like the 4P-scheme do not address unemployed but the hard core poor, which is not the same.

POEA and OWWA see the advantage of unemployment insurance for OFWs. But they also see problems of feasibility, especially concerning compulsory contributions. In any case, benefits would only make sense upon return from abroad.

In general, Government position is skeptical; especially if public funds are involved and if public sector workers are included.

## F. Others

The position of SSS is that they would not be willing to administer unemployment insurance because they are afraid that with increasing unemployment their pension funds will be depleted.

GSIS sees the existing provisions for public workers as sufficient though they admit that contractual and fix term workers are not covered.

NAPSI position is that informal sector workers should be included into any attempt to introduce unemployment benefits.

PASEI position is that it will be very difficult to include OFWs into a regulation on unemployment insurance. But the intention is supported.

## VII. Design Framework

### A. Unemployment Insurance

The following design features try to capture the positions and the realities in the Philippines. They are of course subject of discussions.

It is proposed to introduce unemployment insurance in the Philippines with the following characteristics:

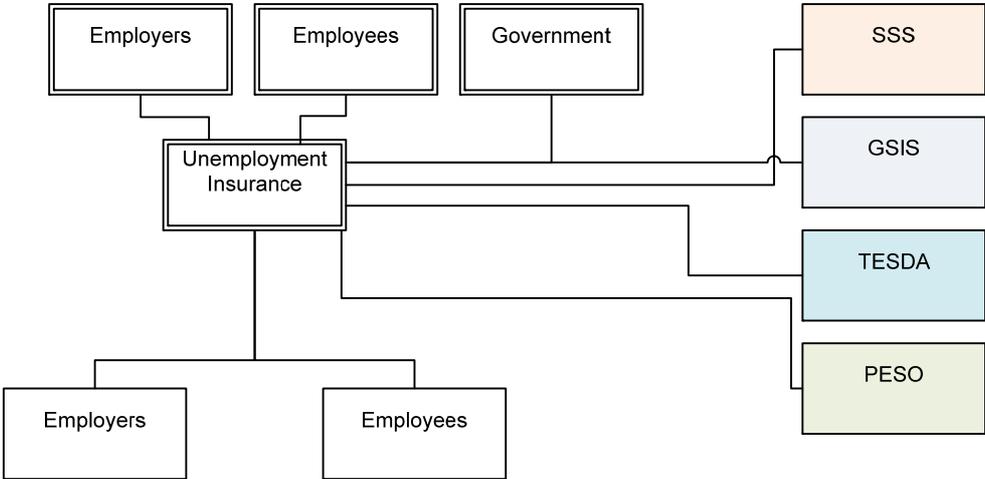
**Membership:** UI would start with all formal sector employees (paying SSS and GSIS members, a total of 8 million employees). GSIS should include the group of permanent and fix term employees. It is a subject of discussion if permanent public employees should be excluded from the Unemployment insurance. In a first step, membership could be compulsory for all employees in establishments with 10 and more staff (like in Vietnam for example). The reason is technical feasibility and costs of contribution collection.

**Financing:** It would be paid through contributions (initially 2%, to be adapted according to the development of the costs and income) shared by employer and employee. There will be no Government funds needed except for a start-up loan, which will be paid back in the first years. However, the State can subsidize certain training measures.

**Benefits:** Registered unemployed, who have fulfilled the qualifying criteria, receive a benefit of 50% (maybe 60%) of their personal average salary credit of the last 12 months. There would be a waiting period of 2 week counting from the moment of registration prior to the start of the benefit payment. Duration of the payment of the benefit is one month per year of contribution payment, maximum 10

months. Qualifying criteria are: 1. being registered with a PESO office as unemployed and seeking employment, 2. having paid the contributions. If the employer has failed to pay the contributions, the unemployed nevertheless receives the benefit and the Unemployment Insurance recovers the costs including a fine from the employer. The benefit is always paid if a worker is retrenched, for whatever reasons. It will, however, not be paid if the worker ends the contract from his/her side. Workers are also entitled to training in order to improve their chances to find employment. The training measures are financed from the contribution income. Only those unemployed that receive unemployment benefit are entitled to free training.

**Figure 3: Organigram of the Unemployment Insurance**



**Administration:** The unemployment insurance will be administered by the PESO offices (registration, training and job referral), TEDA (training) and SSS/GSIS (contribution collection and benefit payment). The unemployment insurance will be a completely separate fund, governed by employers and employees. It will accumulate a reserve in the first years of its existence (due to the fact that there will be full contribution payments but no or very little benefits). This reserve will be used to finance the costs of setting it up and will also cushion fluctuations in unemployment benefit payments.

The UI would be located in a separate office under SSS. The contributions would be collected and the benefits paid through the SSS offices. There would, however, be special staff in the SSS offices handling the Unemployment benefits. No special staff would be needed for the contribution collection. This could be part of the SSS routine. Physically, the headquarters of the UI would be located in the SSS buildings. However, the UI would have separate accounts and would pay a share of the administrative budget of SSS.

## **Box 2: Institutional Background**

SSS is the largest Social Insurance body in the country with a total of 28 m registered members and 21 m contribution payers. It manages mainly pensions. It has offices all over the country and avails of an infrastructure of contribution collection and benefit administration.

GSIS is a large body covering the public sector workers (in total over 1.3 m). It manages mainly pensions.

There are 1,664 PESO offices in the country, all under LGU responsibility. They provide assistance to employers and workers to find work(ers). They work according to a standard manual of operations.

The work of the PESO offices consists of registering job seekers and job offers and matching both. For this purpose, they also organize job fairs. They refer job seekers for training to TESDA

Most of the applicants have college level and are 18-30 years old. Beyond 30 it is difficult to find work for applicants.

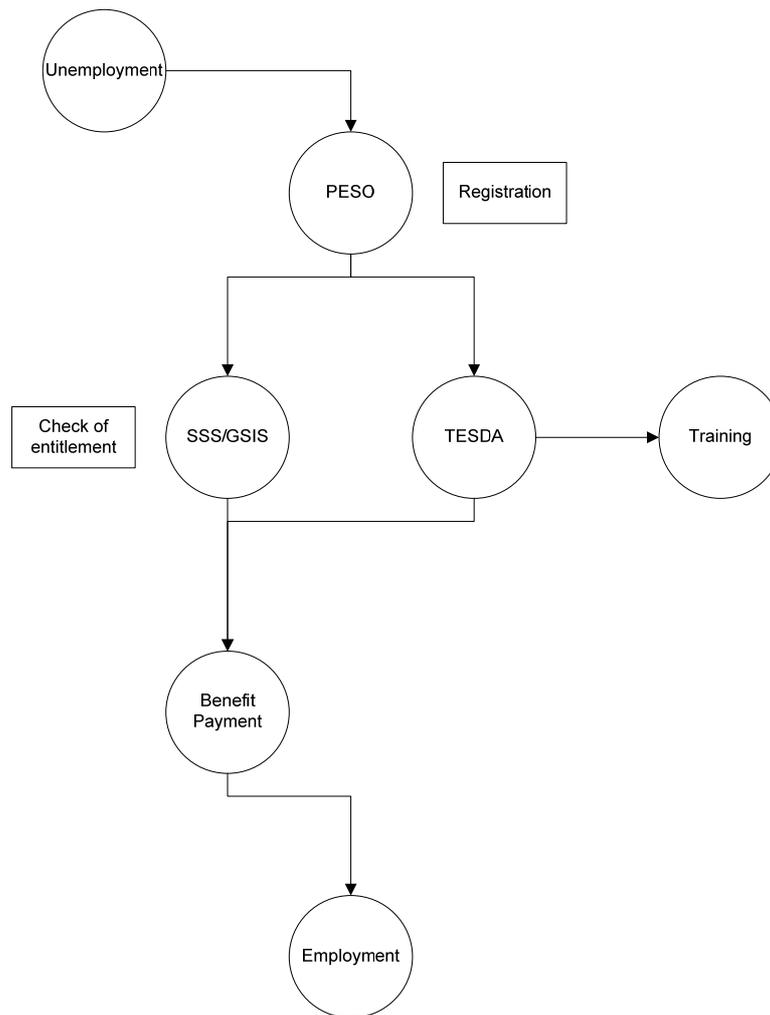
The administrative capacity of the PESO offices varies. Some are well equipped and capable to deliver an acceptable standard of service. Other are still under development and thus less functional. Those who are computerized use standard software.

About 70% of the PESO offices, especially in the larger communities, are computerized. Currently, there are 64,000 jobless workers registered with the PESO offices, which is less than 3% of the actual unemployed, which shows that the services of the PESO are either not regarded as a solution, are not known enough or not accepted.

TESDA is one of 3 educational institutions specialized on technical and vocational training. There are 6 TESDA offices in Metro manila and 79 in the Provinces. TESDA partly provides training in own facilities (55 schools in 45 provinces), partly through contractors. The training in own facilities is free of cost. Training in private facilities has to be paid by the trainees, but TESDA offers scholarships. It is not necessary to be unemployed to avail of the services. There are 215 training programs, 80% offered by private providers and 20% by the Government. The Budget of TESDA is 5.6 bn PhP per year. 100,000 trainings a provided annually, which means that the average costs of a training is 5,600 PhP. The costs range between 4,000 and 22,000 PhP. Statistically 48% of the attendees of the training courses get an employment after they finish.

The administrative steps are shown in Figure 4. The first contact of the unemployed with the UI is the PESO office, where he/she is registered and then referred to TESDA for possible training (active labor market policy component) and to SSS (GSIS) for benefit application. In SSS (GSIS) the entitlement is checked and the benefit assessed and paid. Payment can be done through an ATM cash card or through bank slip. Benefit payment has to be confirmed monthly and it has to be checked with SSS and GSIS records concerning re-employment in order to avoid fraud. As long as informal sector employment is so frequent in the Philippines, it will be difficult to control parallel benefit and informal sector wage. This is why it is in the interest of all contribution payers to make progress in the formalization of the labor market.

**Figure 4: Administrative Flowchart**



The Social Security Act and the Public Employment Service Act would have to be amended in line with the new responsibilities of SSS and PESO. The GSIS ACT would not have to be amended substantially except for an additional contribution and additional coverage. The administration may have to be amended if there are more cases of fix term employees that are availing of UI.

**OFW:** An open question is how the OFWs can be included into an unemployment scheme. Theoretically, this would be possible for the about 1m workers officially registered with POEA. For those, an additional compulsory flat rate contribution could be charges from the employers, which then could lead to a flat rate monthly benefit of 3-6 months. This option, however, is facing major problems concerning the contribution collection. And a voluntary solution payable by then employees is hardly feasible due to the large risk of fraud.

## **B. Labor Law**

The unemployment insurance would go hand in hand with a flexibilization of the labor law. This would mean that Employers can more easily retrench workers under some specific conditions.

There would no more be a need to justify retrenchment in such a rigid manner as today, which would lead to the effect that the possibility to go to court would be reduced.

On the other hand, every employee benefits from all social security and legal protection from the first day of employment on. No more distinction between contracts of 6 months duration and above.

Employers can retrench workers with prior notice only:

- one week notice during the first 6 months,
- one month notice after 6 month,
- 2 months notice after one year,
- and then one additional month for every additional year.

The employer and the employee can agree to convert the notice period into a severance pay. But there is no obligation of the employer to agree to this.

Employers who do not register their employees for social security are heavily fined. Unpaid contributions are impounded. If employers do not pay the contributions, employees nevertheless are entitled to benefits and the costs are recovered from the employer plus administration costs and interests.

This in the end might lead to a larger formalization of the labor market because:

1. Employers have less costs and obligations to fear if they formalize employments
2. Employers have more penalties to fear if they do not legalize employments.
3. It will abolish distortions in the competition among employers, because there will be no cost advantage of employers that do not legalize employees. Thus, even on the employer's side there will be a pressure to legalize employees in order to avoid unjustified cost advantages.

If this scenario materializes, this will also lead to more income of social security institutions including SSS and PhilHealth.

In concrete, it is suggested to amend Articles 279, 280, 281 and 282 of the labor code, allowing employers to dismiss employees in case the development of the business or a change in business plan makes a resizing of the labor force necessary. A wording should be found through negotiations and with the help of labor law specialists. One argument against such a measure is the constitutional right to security of tenure. But this might be a subject of interpretation. Security of tenure can also mean social security of income. In a market economy it cannot mean that people have a right to keep their employment at all costs, especially from the background that most Filipinos are working in the informal sector as small self employed without any security at all or in unstable employment situations. Any steps to improve this situation should be welcome.

## VIII. Quantitative Framework

The following tables show the result of quantitative simulations that have been made with different parameters. The basis for the simulations is shown in Table 5. As the insurance in a first step will only cover the formal sector, the total number equals the number of members of SSS and GSIS. The Average Monthly Salary Credit is the basis for the assessment of the contributions and the benefits as well. It laid around 9,000 PhP in 2008. The administration costs were calculated with 30% given the fact that this type of scheme it quite work intensive and also because the administration costs will incorporate costs for training. The evasion of 10% to 35% reflects the fact that not all contributions will be collected. It can be seen from Table 6 that evasion may have a significant effect on the contributions taking into account that beneficiaries will get a benefit even if employers do not comply with their obligation to pay contributions.

**Table 5: Parameters of Simulation**

Members covered:	Total	7.965.000,00			
	SSS	6.600.000,00			
	GSIS	1.365.000,00			
AMSC		9.000,00			
Benefit levels:	From	50%	to	60%	
Benefit Duration:	from	3 months	to	6 months	
Unemployment Rate	from	6,50%	to	9%	
Share of Recipients	from	50%	to	100%	
Administration costs		30%	of total costs		
Evasion		10%	to	35%	

**Table 6: The Effect of Different Levels of Evasion on the Contribution Rate**

		Average Duration of Benefit (Months)			
		3,00	4,00	5,00	6,00
% Evasion	10%	1,22%	1,63%	2,03%	2,44%
	15%	1,29%	1,72%	2,15%	2,58%
	20%	1,37%	1,83%	2,29%	2,74%
	25%	1,46%	1,95%	2,44%	2,93%
	30%	1,57%	2,09%	2,61%	3,13%
	35%	1,69%	2,25%	2,81%	3,38%

Table 7 shows the contribution rates based on an unemployment rate of 7,5% and a benefit level of 50% of AMSC, for different average duration of benefit. This means that if on the average all beneficiaries received unemployment benefits for example for 3 months and if 70% of the unemployed received benefits, the contribution rate lies at 0,95%. The other parameters of this model calculation are: administration costs 30%, evasion 10%.

**Table 7: Contribution Rates Benefit level 50% of AMSC**

		Average Duration of Benefit (Months)			
		3,00	4,00	5,00	6,00
% of Recipients	50%	0,68%	0,90%	1,13%	1,35%
	60%	0,81%	1,08%	1,35%	1,63%
	70%	0,95%	1,26%	1,58%	1,90%
	80%	1,08%	1,44%	1,81%	2,17%
	90%	1,22%	1,63%	2,03%	2,44%
	100%	1,35%	1,81%	2,26%	2,71%

Table 8 shows the simulation with the same parameters but with a benefit level of 60% of the AMSC. It can be seen that the contribution rates are relatively higher.

**Table 8: Contribution Rates Benefit Level 60% of AMSC**

		Average Duration of Benefit (Months)			
		3,00	4,00	5,00	6,00
% of Recipients	50%	0,81%	1,08%	1,35%	1,63%
	60%	0,98%	1,30%	1,63%	1,95%
	70%	1,14%	1,52%	1,90%	2,28%
	80%	1,30%	1,73%	2,17%	2,60%
	90%	1,46%	1,95%	2,44%	2,93%
	100%	1,63%	2,17%	2,71%	3,25%

Table 9 shows the simulation for different rates of unemployment. The parameters are: 90% of unemployed receive benefits, benefit level is 50%. The other parameters are like in the simulations above.

**Table 9: Contribution Rates Different Levels of Unemployment (Benefit Level 50%)**

		Average Duration of Benefit (Months)			
		3,00	4,00	5,00	6,00
Unemployment Rate	6,5%	1,06%	1,41%	1,76%	2,11%
	7,0%	1,14%	1,52%	1,90%	2,28%
	7,5%	1,22%	1,63%	2,03%	2,44%
	8,0%	1,30%	1,73%	2,17%	2,60%
	8,5%	1,38%	1,84%	2,30%	2,76%
	9,0%	1,46%	1,95%	2,44%	2,93%

In general it can be said that the contribution rate for the proposed scheme with a reasonable level of benefits and an unemployment rate between 7% and 8% will lie around 2%. The level varies with the average duration of unemployment, the level of unemployment and of course the benefit parameters.

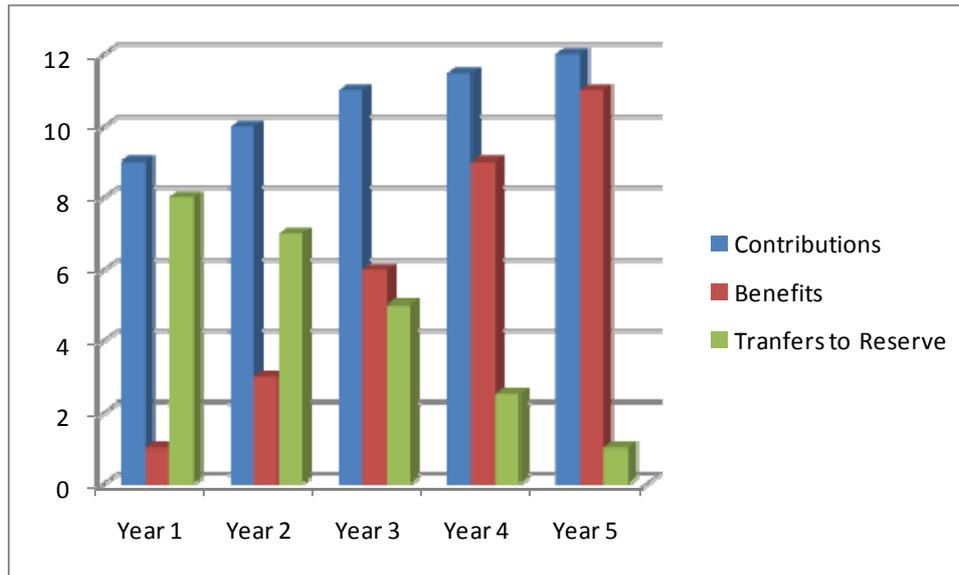
All the simulations can be seen in detail in the attachment.

Two questions were raised often in the course of the consultation:

1. What will happen if the unemployment rate is fluctuating?

2. How will we be able to finance the costs of setting up the scheme?

**Figure 5: Development of the Actuarial Reserve**



The answer for both questions can be seen in Figure 5. Given the fact that some time will pass until the first members will be able to avail of benefits (it needs some years to build up a reasonable entitlement), in the beginning the scheme will collect much more contributions that needed to cover the costs of the benefits. If the contribution rate is calculated on the basis of full benefit payments, the scheme will be able to accumulate a substantial reserve. In our simulation, the reserve accumulated in 5 years time would lie around 20 bn PhP. This would be by far enough to cover the costs of setting the scheme up and to cushion fluctuations of the unemployment rate. Maybe in the beginning the scheme will need a loan to bridge the period until the first contributions can be collected. In Figure 5 the first column shows the contribution collection, the second column the benefit payments and the third column the residual transfers to the reserve.

## **IX. Conclusion**

The proposal aims at improving social protection and employment on one side and end fraudulent practices and informal labor relations on the other hand. By making labor relations more flexible and at the same time introducing more social protection in the case of unemployment, it is expected that employers will end the practice to hire many people for 6 months only. Fluctuation on the labor market will be reduced and employers will hire staff more easily as they do not fear the commitment in the same way as today.

The general situation in the Philippines today is not satisfactory: Relatively high unemployment, low compliance with social security law, unstable employment relations for many and a volatile labor market. There is room for improvement and the present proposal tries to make a suggestion in this

direction. Further steps will include discussions about the parameters, which are all subject of debate like:

- Benefit levels
- Membership rules
- Enforcement possibilities
- Amendments to the Labor Law

There are certain facts that are not debatable, especially the foreseeable costs of proposed benefits. But simulations like the ones made in this report can support discussions and help to find an agreement.

In the end, there will be a progress only if the partners, namely employers, trade unions and Government agree on a common strategy.

## **X. Attachments**

### **A. Vietnamese Unemployment Insurance**

In addition to the current compulsory Social Insurance and Health Insurance, a new Unemployment Insurance (UI) Scheme was introduced under the Law No. 71 and is applicable from 1 January 2009.

Both employer and employee contribute the same rate of 1% based on whichever is lower – the contractual salary/allowances or the statutory cap which is set at 20 times the minimum salary.

The UI scheme intends to assist employees in the market economy. Aside from supplying financial assistance to unemployed laborers, the major role of unemployment insurance is to help them quickly find new, stable and suitable jobs through accompanied activities, including vocational training, consultation and job introduction. In addition, individuals who are on the unemployment allowance are still entitled to the Health Insurance Regime.

Employers' responsibility to pay a severance allowance in accordance with the current Labor Code of Vietnam for employees' working period under UI contribution was waived. Accordingly, for those employees, who terminate their employment contract with employers, they shall be entitled to benefits from the UI scheme for their UI contribution period and employers are required to pay a severance allowance for their working period without UI contribution. Furthermore, the salary/allowances used to calculate a severance payment paid by employers is the averaged salary/allowances of the six consecutive months prior to the employment termination<sup>4</sup>.

Under these guidelines, enterprises with 10 employees or more are required to provide unemployment insurance for Vietnamese employees who have signed indefinite-term labor contracts or definite-term contracts of from 12 to 36 months.

Within 30 working days of signing a labor contract, an employer must submit documents for contribution of unemployment insurance. Monthly, the employer shall contribute 1 per cent of the total salary fund. Employees shall contribute 1 per cent of their salary which shall be withheld by the employer and paid on the employee's behalf to the social insurance fund.

An employee who is terminated shall be entitled to enjoy unemployment insurance when they fully satisfy three conditions: having paid unemployment insurance for at least 12 months during the 24 months prior to becoming unemployed; having registered their unemployment status with the labor authority; and unable to obtain employment for at least 15 days from the unemployment registration date.

The unemployment allowance will be equal to 60 per cent of the average monthly salary or remuneration during six consecutive months prior to unemployment. The period of enjoying

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<sup>4</sup> See KPMG Tax and Corporate Services, December 2008.

unemployment allowance shall be: 3, 6, 9, or 12 months, if unemployment insurance premiums have been paid for between 12 – 36, 36 – 72, 72 – 144, or 144 months or more, respectively.

When an employee becomes unemployed, he/she must go to the district Department of Labor, Invalids and Social Affairs within seven days from the date of unemployment to register. An application dossier for enjoyment of insurance must be sent to this authority within 15 days from the date of registration. Within 20 days of the receipt of a proper dossier, the Chamber will examine and determine the level and the duration of enjoyment of insurance. The documents, if accepted, shall be dispatched to other relevant authorities for implementation.

Payment of the unemployment allowance will be terminated if the period of enjoying unemployment allowance has expired, or the employee has found a new job. After the termination, the previous duration of paid unemployment insurance shall not be counted for subsequent unemployment, if any.

Unemployed persons will also receive support in vocational training for a period of no more than six months under the level of supports stipulated by the law on vocational training. Furthermore, they shall be entitled to free consultancy services and medical insurance as employed persons. All related expenses shall be paid by the social insurance authority<sup>5</sup>.

## **A. GSIS Act of 1997**

### **Rule VII: Unemployment Benefit**

#### *Section 7.1 Unemployment*

Unemployment benefit is in the form of monthly cash payments equivalent to fifty percent (50%) of the average monthly compensation.

#### *Section 7.2 Conditions for Entitlement to Unemployment Benefit.*

A member shall be entitled to the unemployment benefits in the form of monthly cash payments if all the conditions below are met:

- (a) he/she was a permanent employee at time of separation;
- (b) his/her separation was involuntary due to the abolition of his/her office or position resulting from reorganization; and
- (c) He/she has been paying the contributions specified under Rule 3-:1(a) for at least One (1) Year prior to separation.

A member who has rendered at least Fifteen (15) years service will be entitled to the Separation Benefits described in Rule VI, instead of the Unemployment benefit.

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<sup>5</sup> See <http://vietnamnews.vnagency.com.vn/showarticle.php?num=01TAW110309>

*Section 7.3 Amount, Duration and Payment of Unemployment Benefit.*

Unemployment benefits shall be paid in accordance with the following schedule:

Contributions Made	Benefit Duration
1 year but less than 3 years	2 months
3 or more years but less than 6 years	3 months
6 or more years but less than 9 years	4 months
9 or more years but less than 11 years	5 months
11 or more years but less than 15 years	6 months

Those entitled to more than two (2) months of Unemployment Benefits shall initially receive Two (2) monthly payments. A seven-day (7-day) waiting period shall be imposed on succeeding monthly payments to determine whether the separated member has found gainful employment either in the public or private sector.

All accumulated unemployment benefits paid to the employee during his/her entire membership with the GSIS shall be deducted from the separation benefits to which the member may be entitled to upon his voluntary resignation or separation.

## B. Bill Proposal by Congressman E.N.Joson

Republic of the Philippines  
HOUSE OF REPRESENTATIVES  
Quezon City, Manila

Fourteenth Congress  
Second Regular Session

HOUSE BILL NO. 5928



Introduced by Honorable Eduardo Nonato N. Joson

### EXPLANATORY NOTE

The Philippines is heavily affected by the prevailing global financial crisis with the closure of business enterprises due to reduced capital flows and shrinking exports caused by depressed consumption in the world economy. Mass lay-offs are happening left and right, here and abroad. 2,000 factory workers in Intel Philippines stand to lose their jobs this year. Also, not less than 10,000 workers are laid off since October last year and threatened to be laid off first quarter of this year in Samsung, Yazaki, F-Tech, Fujitsu, NEC, TDK, Matsushita, and more. Hardest hit are mostly non-unionised workers in the electronics and car manufacturing in export processing zones in CALABARZON where a conservative estimate of 40,000 workers are expected to lose their jobs by the first half of this year.

The State needs to address the plight of displaced workers in this time of economic crisis which shows no sign of easing up in the near future.

Social Security is a government program whereby economic assistance is provided to persons faced with disability or illness, work injury, maternity, old age, and even death. Various income maintenance programs are designed to improve the recipient's welfare through public services. In other countries, like the United States, Australia, United Kingdom and Germany, economic assistance is also extended to people who are confronted with income losses due to unemployment.

This bill seeks to amend RA 8282, other wise known as the Social Security Law, to expand the benefits under the social security system so as to provide for unemployment or involuntary separation benefits to its member contributors. The unemployment insurance provision is proposed to give temporary economic support to those who were separated from work due to reorganization or otherwise laid-off due to retrenchment or other similar business decision.

Hence, approval of this bill is earnestly sought.

  
EDUARDO NONATO, JOSON  
Kinatawan  
1<sup>st</sup> District, Nueva Ecija

Republic of the Philippines  
HOUSE OF REPRESENTATIVES  
Quezon City, Manila

Fourteenth Congress  
Second Regular Session

HOUSE BILL NO. 5928

Introduced by Honorable Eduardo Nonato N. Josen

AN ACT EXPANDING THE BENEFITS OF THE SOCIAL SECURITY SYSTEM SO AS TO PROVIDE FOR UNEMPLOYMENT OR INVOLUNTARY SEPARATION BENEFITS THEREBY AMENDING FOR THIS PURPOSE, REPUBLIC ACT NO. 8282, AS AMENDED, OTHERWISE KNOWN AS THE SOCIAL SECURITY LAW

*As amended by the Senate and House of Representatives in the Philippines in Congress assembled:*

SECTION 1. There shall be added a new section after Section 12-B of Republic Act No. 8282, to be known as Section 12-C, to read as follows:

Section 12-C. Unemployment or Involuntary Separation Benefits. - Unemployment benefits in the form of monthly cash payments equivalent to fifty percent (50%) of the average monthly compensation shall be paid to a permanent or regular employee who is involuntarily separated from the service due to the abolition of his office or position usually resulting from reorganization or otherwise laid off from work due to retrenchment or other similar business decision: *Provided, That he has been paying integrated contributions for at least six (6) months year prior to separation. Unemployment benefits shall be paid in accordance with the following schedules:*

<u>Contributions Made</u>	<u>Benefit Duration</u>
<u>6 months but less than 2 years</u>	<u>2 months</u>
<u>2 or more years but less than 5 years</u>	<u>3 months</u>
<u>5 or more years but less than 8 years</u>	<u>4 months</u>
<u>8 or more years but less than 10 years</u>	<u>5 months</u>
<u>10 or more years but less than 14 years</u>	<u>6 months</u>

a) The first payment shall be equivalent to two (2) monthly benefits. *Provided, That a seven-day (7) waiting period shall be imposed on succeeding monthly payments.*

b) All accumulated unemployment benefits paid to the employee during his entire membership with the SSS shall be deducted from voluntary separation benefits.

SECTION 2. *Implementing Rules and Regulations* – The Social Security System (SSS) shall promulgate the rules and regulations for the effective implementation of this Act within sixty (60) days from approval hereof.

SECTION 3. *Repealing Clause*. All laws, decrees, ordinances, administrative orders, rules and regulations, or any part thereof, which are inconsistent with this Act are hereby repealed or amended accordingly.

SECTION 4. *Separability Clause*. Should any provision of this Act be subsequently declared unconstitutional, the other provisions not so declared shall remain in full force and effect.

SECTION 5. *Effectivity*. This Act shall take effect fifteen (15) days after its publication in at least two (2) newspapers of general circulation in Filipino and English.

Approved,



## C. List of People met

VP Nora Saldares	OIC, Corporate Planning Group, GSIS
Usec. Lualhati F. Pablo	DSWD
Labor Attache Alicia Santos	NRCO, Program Manager
Director Elmira C. Sto. Domingo	POEA
Welfare Officer Lynol Fulgencio	OWWA
Mr. Celso Millar	TESDA
Mr. Cielo Cabalatungan	BRW
Mr. Ian Ticar	BLE
Ms. Ronna Dimayuga	BLES
Mr. Jimi Arranchado	BLES
Ms. Aurora Daag	NWPC
Ms. Aurora Quilandrino	ECC
Mr. Horacio T. Templo	SSS, Chief Actuary and EVP
Mr. Mario R. Sibucan	SSS, VP
Mr. Rizaldy T. Capulong	SSS, Deputy Chief Actuary and AVP
Ms. Judy A. See	SSS
Ms. Ester Abrazado	Chief Insurance Specialist, Insurance Commission
Director Luz Cantor	DBM
Ms. Belinda Pinoy	DBM
Atty. Vicente Leogardo, Jr.	ECOP
Mr. Danilo Edralin	Alliance for Progressive Labor
Mr. Antonio Asper	Federation of Free Workers
Mr. Julius Cainglet	Federation of Free Workers
Mr. Jesus Vimamor	Trade Union Congress of the Philippines
Ms. Susanita Tesiorna,	National President, Informal Sector Coalition in the Philippines
Ms. Josephine Parilla	Representative, National Anti-Poverty Commission (NAPC)
Mr. Roserel Virtudazo	NAPC
Mr. Carlo Abella	OIC, PESO Quezo City
Jerry Galvez	PESO Staff
Cong. Eduardo Joson	Representative, 1 <sup>st</sup> District, Nueva Ecija
Atty. Bighani Sipin-Adarlo	Chief-of-Staff
Atty. Digna P. Magpantay	Department Manager III, Pag-IBIG
Mr. Victor Fernandez	President, PASEI
Ms. Cleofe Pastrana	Assistant Director, NEDA
Ms. Maritess Lagarto	NEDA
Ms. Jeanette Taja	NEDA
Ms. Ivy Libunao	NEDA
Ms. Girlie Casimiro	NEDA

## **D. Labor Code of the Philippines**

### **Title I: TERMINATION OF EMPLOYMENT**

**ARTICLE 278. Coverage.** -The provisions of this Title shall apply to all establishments or undertakings, whether for profit or not.

**ARTICLE 279. Security of Tenure.**-In cases of regular employment, the employer shall not terminate the services of an employee except for a just cause or when authorized by this Title. An employee who is unjustly dismissed from work shall be entitled to reinstatement without loss of seniority rights and other privileges and to his full back wages, inclusive of allowances, and to his other benefits or their monetary equivalent computed from the time his compensation was withheld from him up to the time of his actual reinstatement.

**ARTICLE 280. Regular and Casual Employment.** -The provisions of written agreement to the contrary notwithstanding and regardless of the oral agreement of the parties, an employment shall be deemed to be regular where the employee has been engaged to perform activities which are usually necessary or desirable in the usual business or trade of the employer, except where the employment has been fixed for a specific project or undertaking the completion or termination of which has been determined at the time of the engagement of the employee or where the work or services to be performed is seasonal in nature and the employment is for the duration of the season.

An employment shall be deemed to be casual if it is not covered by the preceding paragraph: Provided, That, any employee who has rendered at least one year of service, whether such service is continuous or broken, shall be considered a regular employee with respect to the activity in which he is employed and his employment shall continue while such activity exists.

**ARTICLE 281. Probationary Employment.** Probationary employment shall not exceed six (6) months from the date the employee started working, unless it is covered by an apprenticeship agreement stipulating a longer period. The services of an employee who has been engaged on a probationary basis may be terminated for a just cause or when he fails to qualify as a regular employee in accordance with reasonable standards made known by the employer to the employee at the time of his engagement. An employee who is allowed to work after a probationary period shall be considered a regular employee.

**ARTICLE 282. Termination by Employer.** -An employer may terminate an employment for any of the following causes:

- (a) Serious misconduct or willful disobedience by the employee of the lawful orders of his employer or representative in connection with his work;
- (b) Gross and habitual neglect by the employee of his duties;

(c) Fraud or willful breach by the employee of the trust reposed in him by his employer or duly authorized representative;

(d) Commission of a crime or offense by the employee against the person of his employer or any immediate member of his family or his duly authorized representative; and

(e) Other causes analogous to the foregoing.

**ARTICLE 283. Closure of Establishment and Reduction of Personnel.** -The employer may also terminate the employment of any employee due to the installation of labor-saving devices, redundancy, retrenchment to prevent losses or the closing or cessation of operation of the establishment or undertaking unless the closing is for the purpose of circumventing the provisions of this Title, by serving a written notice on the workers and the Department of Labor and Employment at least one (1) month before the intended date thereof. In case of termination due to the installation of labor-saving devices or redundancy, the worker affected thereby shall be entitled to a separation pay equivalent to at least his one (1) month pay or to at least one (1) month pay for every year of service, whichever is higher. In case of retrenchment to prevent losses and in cases of closures or cessation of operations of establishment or undertaking not due to serious business losses or financial reverses, the separation pay shall be equivalent to one (1) month pay or at least one-half (1/2) month pay for every year of service, whichever is higher. A fraction of at least six (6) months shall be considered as one (1) whole year.

**ARTICLE 284. Disease as Ground for Termination.** An employer may terminate the services of an employee who has been found to be suffering from any disease and whose continued employment is prohibited by law or is prejudicial to his health as well as to the health of his co employees: Provided, that he is paid separation pay equivalent to at least one

(1) Month salary or to one-half (1/2) month salary for every year of service, whichever is greater, a fraction of at least six (6) months being considered as one (1) whole year.

**ARTICLE 285. Termination by Employee.** -(a) An employee may terminate without just cause the employee-employer relationship by serving a written notice on the employer at least one (1) month in advance. The employer upon whom no such notice was served may hold the employee liable for damages.

(b) An employee may put an end to the relationship without serving any notice on the employer for any of the following just causes:

1. Serious insult by the employer or his representative on the honor and person of the employee;
2. Inhuman and unbearable treatment accorded the employee by the employer or his representative;
3. Commission of a crime or offense by the employer or his representative against the person of the employee or any of the immediate members of his family; and

4. Other causes analogous to any of the foregoing.

**ARTICLE 286. When Employment not deemed Terminated.** The bona fide suspension of the operation of a business or undertaking for a period not exceeding six (6) months, or the fulfillment by the employee of a military or civic duty shall not terminate employment. In all such cases, the employer shall reinstate the employee to his former position without loss of seniority rights if he indicates his desire to resume his work not later than one (1) Month from the resumption of operations of his employer or from his relief from the military or civic duty.

## B. Simulations with Benefit Level 50%

2008 Data	Scenario1	Scenario 2	scenario 3	scenario 4	scenario 5	scenario 6
Unemployment rate	7,50%	7,50%	7,50%	7,50%	7,50%	7,50%
Employed Paying Social Security Members	7.965.000,00	7.965.000,00	7.965.000,00	7.965.000,00	7.965.000,00	7.965.000,00
SSS	6.600.000,00	6.600.000,00	6.600.000,00	6.600.000,00	6.600.000,00	6.600.000,00
GSIS	1.365.000,00	1.365.000,00	1.365.000,00	1.365.000,00	1.365.000,00	1.365.000,00
Total Unemployed	597.375,00	597.375,00	597.375,00	597.375,00	597.375,00	597.375,00
<b>% benefit recipients</b>	<b>50%</b>	<b>60%</b>	<b>70%</b>	<b>80%</b>	<b>90%</b>	<b>100%</b>
Total recipients	298.687,50	358.425,00	418.162,50	477.900,00	537.637,50	597.375,00
AMSC	9.000,00	9.000,00	9.000,00	9.000,00	9.000,00	9.000,00
Total Assessment base (AB)	860.220.000.000,00	860.220.000.000,00	860.220.000.000,00	860.220.000.000,00	860.220.000.000,00	860.220.000.000,00
Evasion %	10%	10%	10%	10%	10%	10%
Effective Assessment Base	774.198.000.000,00	774.198.000.000,00	774.198.000.000,00	774.198.000.000,00	774.198.000.000,00	774.198.000.000,00
Benefit level (% of AB)	50%	50%	50%	50%	50%	50%
% Administration costs	30%	30%	30%	30%	30%	30%
average per capita benefit	4.500,00	4.500,00	4.500,00	4.500,00	4.500,00	4.500,00
duration of benefit (av)	3,00	3,00	3,00	3,00	3,00	3,00
Total per capita benefit	13.500,00	13.500,00	13.500,00	13.500,00	13.500,00	13.500,00
Total costs	4.032.281.250,00	4.838.737.500,00	5.645.193.750,00	6.451.650.000,00	7.258.106.250,00	8.064.562.500,00
Administration costs	1.209.684.375,00	1.451.621.250,00	1.693.558.125,00	1.935.495.000,00	2.177.431.875,00	2.419.368.750,00
Total costs	5.241.965.625,00	6.290.358.750,00	7.338.751.875,00	8.387.145.000,00	9.435.538.125,00	10.483.931.250,00
Contribution rate	0,68%	0,81%	0,95%	1,08%	1,22%	1,35%
duration of benefit (av)	4,00	4,00	4,00	4,00	4,00	4,00
Total per capita benefit	18.000,00	18.000,00	18.000,00	18.000,00	18.000,00	18.000,00
Total costs	6.989.287.500,00	8.387.145.000,00	9.785.002.500,00	11.182.860.000,00	12.580.717.500,00	13.978.575.000,00
Contribution rate	0,90%	1,08%	1,26%	1,44%	1,63%	1,81%
duration of benefit (av)	5,00	5,00	5,00	5,00	5,00	5,00
Total per capita benefit	22.500,00	22.500,00	22.500,00	22.500,00	22.500,00	22.500,00
Total costs	8.736.609.375,00	10.483.931.250,00	12.231.253.125,00	13.978.575.000,00	15.725.896.875,00	17.473.218.750,00
Contribution rate	1,13%	1,35%	1,58%	1,81%	2,03%	2,26%
duration of benefit (av)	6,00	6,00	6,00	6,00	6,00	6,00
Total per capita benefit	27.000,00	27.000,00	27.000,00	27.000,00	27.000,00	27.000,00
Total costs	10.483.931.250,00	12.580.717.500,00	14.677.503.750,00	16.774.290.000,00	18.871.076.250,00	20.967.862.500,00
Contribution rate	1,35%	1,63%	1,90%	2,17%	2,44%	2,71%

### C. Simulation with Benefit Level 60%

2008 Data	Scenario1	Scenario 2	scenario 3	scenario 4	scenario 5	scenario 6
Unemployment rate	7,50%	7,50%	7,50%	7,50%	7,50%	7,50%
Employed Paying Social Security Members	7.965.000,00	7.965.000,00	7.965.000,00	7.965.000,00	7.965.000,00	7.965.000,00
SSS	6.600.000,00	6.600.000,00	6.600.000,00	6.600.000,00	6.600.000,00	6.600.000,00
GS/S	1.365.000,00	1.365.000,00	1.365.000,00	1.365.000,00	1.365.000,00	1.365.000,00
Total Unemployed	597.375,00	597.375,00	597.375,00	597.375,00	597.375,00	597.375,00
<b>% benefit recipients</b>	<b>50%</b>	<b>60%</b>	<b>70%</b>	<b>80%</b>	<b>90%</b>	<b>100%</b>
Total recipients	298.687,50	358.425,00	418.162,50	477.900,00	537.637,50	597.375,00
AMSC	9.000,00	9.000,00	9.000,00	9.000,00	9.000,00	9.000,00
Total Assessment base (AB)	860.220.000.000,00	860.220.000.000,00	860.220.000.000,00	860.220.000.000,00	860.220.000.000,00	860.220.000.000,00
Evasion %	10%	10%	10%	10%	10%	10%
Effective Assessment Base	774.198.000.000,00	774.198.000.000,00	774.198.000.000,00	774.198.000.000,00	774.198.000.000,00	774.198.000.000,00
Benefit level (% of AB)	60%	60%	60%	60%	60%	60%
% Administration costs	30%	30%	30%	30%	30%	30%
average per capita benefit	5.400,00	5.400,00	5.400,00	5.400,00	5.400,00	5.400,00
duration of benefit (av)	3,00	3,00	3,00	3,00	3,00	3,00
Total per capita benefit	16.200,00	16.200,00	16.200,00	16.200,00	16.200,00	16.200,00
Total costs	4.838.737.500,00	5.806.485.000,00	6.774.232.500,00	7.741.980.000,00	8.709.727.500,00	9.677.475.000,00
Administration costs	1.451.621.250,00	1.741.945.500,00	2.032.269.750,00	2.322.594.000,00	2.612.918.250,00	2.903.242.500,00
Total costs	6.290.358.750,00	7.548.430.500,00	8.806.502.250,00	10.064.574.000,00	11.322.645.750,00	12.580.717.500,00
Contribution rate	0,81%	0,98%	1,14%	1,30%	1,46%	1,63%
duration of benefit (av)	4,00	4,00	4,00	4,00	4,00	4,00
Total per capita benefit	21.600,00	21.600,00	21.600,00	21.600,00	21.600,00	21.600,00
Total costs	8.387.145.000,00	10.064.574.000,00	11.742.003.000,00	13.419.432.000,00	15.096.861.000,00	16.774.290.000,00
Contribution rate	1,08%	1,30%	1,52%	1,73%	1,95%	2,17%
duration of benefit (av)	5,00	5,00	5,00	5,00	5,00	5,00
Total per capita benefit	27.000,00	27.000,00	27.000,00	27.000,00	27.000,00	27.000,00
Total costs	10.483.931.250,00	12.580.717.500,00	14.677.503.750,00	16.774.290.000,00	18.871.076.250,00	20.967.862.500,00
Contribution rate	1,35%	1,63%	1,90%	2,17%	2,44%	2,71%
duration of benefit (av)	6,00	6,00	6,00	6,00	6,00	6,00
Total per capita benefit	32.400,00	32.400,00	32.400,00	32.400,00	32.400,00	32.400,00
Total costs	12.580.717.500,00	15.096.861.000,00	17.613.004.500,00	20.129.148.000,00	22.645.291.500,00	25.161.435.000,00
Contribution rate	1,63%	1,95%	2,28%	2,60%	2,93%	3,25%

## D. Simulations with Different Unemployment Rates, Benefit Level 50%

2008 Data	Scenario1	Scenario 2	scenario 3	scenario 4	scenario 5	scenario 6
Unemployment rate	6,50%	7,00%	7,50%	8,00%	8,50%	9,00%
Employed Paying Social Security Members	7.965.000,00	7.965.000,00	7.965.000,00	7.965.000,00	7.965.000,00	7.965.000,00
SSS	6.600.000,00	6.600.000,00	6.600.000,00	6.600.000,00	6.600.000,00	6.600.000,00
GSIS	1.365.000,00	1.365.000,00	1.365.000,00	1.365.000,00	1.365.000,00	1.365.000,00
Total Unemployed	517.725,00	557.550,00	597.375,00	637.200,00	677.025,00	716.850,00
<b>% benefit recipients</b>	<b>90%</b>	<b>90%</b>	<b>90%</b>	<b>90%</b>	<b>90%</b>	<b>90%</b>
Total recipients	465.952,50	501.795,00	537.637,50	573.480,00	609.322,50	645.165,00
AMSC	9.000,00	9.000,00	9.000,00	9.000,00	9.000,00	9.000,00
Total Assessment base (AB)	860.220.000.000,00	860.220.000.000,00	860.220.000.000,00	860.220.000.000,00	860.220.000.000,00	860.220.000.000,00
Evasion %	10%	10%	10%	10%	10%	10%
Effective Assessment Base	774.198.000.000,00	774.198.000.000,00	774.198.000.000,00	774.198.000.000,00	774.198.000.000,00	774.198.000.000,00
Benefit level (% of AB)	50%	50%	50%	50%	50%	50%
% Administration costs	30%	30%	30%	30%	30%	30%
average per capita benefit	4.500,00	4.500,00	4.500,00	4.500,00	4.500,00	4.500,00
duration of benefit (av)	3,00	3,00	3,00	3,00	3,00	3,00
Total per capita benefit	13.500,00	13.500,00	13.500,00	13.500,00	13.500,00	13.500,00
Total costs	6.290.358.750,00	6.774.232.500,00	7.258.106.250,00	7.741.980.000,00	8.225.853.750,00	8.709.727.500,00
Administration costs	1.887.107.625,00	2.032.269.750,00	2.177.431.875,00	2.322.594.000,00	2.467.756.125,00	2.612.918.250,00
Total costs	8.177.466.375,00	8.806.502.250,00	9.435.538.125,00	10.064.574.000,00	10.693.609.875,00	11.322.645.750,00
Contribution rate	1,06%	1,14%	1,22%	1,30%	1,38%	1,46%
duration of benefit (av)	4,00	4,00	4,00	4,00	4,00	4,00
Total per capita benefit	18.000,00	18.000,00	18.000,00	18.000,00	18.000,00	18.000,00
Total costs	10.903.288.500,00	11.742.003.000,00	12.580.717.500,00	13.419.432.000,00	14.258.146.500,00	15.096.861.000,00
Contribution rate	1,41%	1,52%	1,63%	1,73%	1,84%	1,95%
duration of benefit (av)	5,00	5,00	5,00	5,00	5,00	5,00
Total per capita benefit	22.500,00	22.500,00	22.500,00	22.500,00	22.500,00	22.500,00
Total costs	13.629.110.625,00	14.677.503.750,00	15.725.896.875,00	16.774.290.000,00	17.822.683.125,00	18.871.076.250,00
Contribution rate	1,76%	1,90%	2,03%	2,17%	2,30%	2,44%
duration of benefit (av)	6,00	6,00	6,00	6,00	6,00	6,00
Total per capita benefit	27.000,00	27.000,00	27.000,00	27.000,00	27.000,00	27.000,00
Total costs	16.354.932.750,00	17.613.004.500,00	18.871.076.250,00	20.129.148.000,00	21.387.219.750,00	22.645.291.500,00
Contribution rate	2,11%	2,28%	2,44%	2,60%	2,76%	2,93%



## **E. Simulation with Different Levels of Evasion**

2008 Data	Scenario1	Scenario 2	scenario 3	scenario 4	scenario 5	scenario 6
Unemployment rate	7,50%	7,50%	7,50%	7,50%	7,50%	7,50%
Employed Paying Social Security Members	7.965.000,00	7.965.000,00	7.965.000,00	7.965.000,00	7.965.000,00	7.965.000,00
SSS	6.600.000,00	6.600.000,00	6.600.000,00	6.600.000,00	6.600.000,00	6.600.000,00
GSIS	1.365.000,00	1.365.000,00	1.365.000,00	1.365.000,00	1.365.000,00	1.365.000,00
Total Unemployed	597.375,00	597.375,00	597.375,00	597.375,00	597.375,00	597.375,00
<b>% benefit recipients</b>	<b>90%</b>	<b>90%</b>	<b>90%</b>	<b>90%</b>	<b>90%</b>	<b>90%</b>
Total recipients	537.637,50	537.637,50	537.637,50	537.637,50	537.637,50	537.637,50
AMSC	9.000,00	9.000,00	9.000,00	9.000,00	9.000,00	9.000,00
Total Assessment base (AB)	860.220.000.000,00	860.220.000.000,00	860.220.000.000,00	860.220.000.000,00	860.220.000.000,00	860.220.000.000,00
Evasion %	10%	15%	20%	25%	30%	35%
Effective Assessment Base	774.198.000.000,00	731.187.000.000,00	688.176.000.000,00	645.165.000.000,00	602.154.000.000,00	559.143.000.000,00
Benefit level (% of AB)	50%	50%	50%	50%	50%	50%
% Administration costs	30%	30%	30%	30%	30%	30%
average per capita benefit	4.500,00	4.500,00	4.500,00	4.500,00	4.500,00	4.500,00
duration of benefit (av)	3,00	3,00	3,00	3,00	3,00	3,00
Total per capita benefit	13.500,00	13.500,00	13.500,00	13.500,00	13.500,00	13.500,00
Total costs	7.258.106.250,00	7.258.106.250,00	7.258.106.250,00	7.258.106.250,00	7.258.106.250,00	7.258.106.250,00
Administration costs	2.177.431.875,00	2.177.431.875,00	2.177.431.875,00	2.177.431.875,00	2.177.431.875,00	2.177.431.875,00
Total costs	9.435.538.125,00	9.435.538.125,00	9.435.538.125,00	9.435.538.125,00	9.435.538.125,00	9.435.538.125,00
Contribution rate	1,22%	1,29%	1,37%	1,46%	1,57%	1,69%
duration of benefit (av)	4,00	4,00	4,00	4,00	4,00	4,00
Total per capita benefit	18.000,00	18.000,00	18.000,00	18.000,00	18.000,00	18.000,00
Total costs	12.580.717.500,00	12.580.717.500,00	12.580.717.500,00	12.580.717.500,00	12.580.717.500,00	12.580.717.500,00
Contribution rate	1,63%	1,72%	1,83%	1,95%	2,09%	2,25%
duration of benefit (av)	5,00	5,00	5,00	5,00	5,00	5,00
Total per capita benefit	22.500,00	22.500,00	22.500,00	22.500,00	22.500,00	22.500,00
Total costs	15.725.896.875,00	15.725.896.875,00	15.725.896.875,00	15.725.896.875,00	15.725.896.875,00	15.725.896.875,00
Contribution rate	2,03%	2,15%	2,29%	2,44%	2,61%	2,81%
duration of benefit (av)	6,00	6,00	6,00	6,00	6,00	6,00
Total per capita benefit	27.000,00	27.000,00	27.000,00	27.000,00	27.000,00	27.000,00
Total costs	18.871.076.250,00	18.871.076.250,00	18.871.076.250,00	18.871.076.250,00	18.871.076.250,00	18.871.076.250,00
Contribution rate	2,44%	2,58%	2,74%	2,93%	3,13%	3,38%