Home Development and Mutual Fund (HDMF or Pag-IBIG)

(i) Legislation

The Home Development and Mutual Fund (HDMF) Law or Presidential Decree No. 1530 was enacted on 11 June 1978, creating a voluntary provident fund primarily for savings generation and mobilization, as well as for financing decent and affordable housing to Filipino workers.

The SSS and GSIS initially administered the provident fund scheme for their respective members. In 1979, fund administration was transferred to the National Home Mortgage Finance Corporation (NHMFC) through Executive Order No. 527. In the same year, E.O. 538 was issued to merge the funds administered by the SSS and GSIS into what is now known as the Pag-IBIG[1] Fund.

Membership to the Pag-IBIG Fund became compulsory on 1 July 1981 under P.D. 1752 of 1980, making the HDMF a corporation independent of the NHMFC. Contributions to the scheme were suspended from May to July 1986, but resumed in August 1986 with a more liberal contribution structure. It reverted to a voluntary program in 1987 by virtue of E.O. 90, with the mandate to finance the government's Unified Home Lending Program.

On 17 June 1994, Republic Act No. 7742, or the Pag-IBIG Universal Coverage Law, was signed, thus amending P.D. 1530 and 1752. The new law brought back the mandatory nature of the scheme effective 1 January 1995.

(ii) Coverage

Pag-IBIG membership is mandatory for all SSS and GSIS members with monthly earnings of at least ₱4,000. Voluntary coverage is also open to workers, including self-employed persons, and informal workers who earn less than ₱4,000 a month. It is also extended on a voluntary basis to overseas Filipino workers, resident immigrants and naturalized citizens under the Pag-IBIG Overseas Program. Non-earning spouses of Pag-IBIG members may also register voluntarily.

(iii) Benefits

Benefits under the Pag-IBIG Fund depend on the level of savings accumulated during a member's working lifetime, which is equal to the full value of contributions plus all annual dividends earned thereon, tax-free and government-guaranteed. The extent of dividend payments, in turn, is determined by the investment income for the period, and whether or not the member stays active in the payment of contributions.

[1] Pag-IBIG is an acronym for *Pagtutulungan sa Kinabukasan: Ikaw, Bangko, Industria at Gobyerno*.

Savings refund. A member may qualify for withdrawal of benefits in the form of refund of savings upon occurrence of any of the following:

<u>Membership maturity.</u> Members who registered under P.D. 1752 may apply upon completion of 20 years of active membership, equivalent to 240 monthly contributions. On the other hand, for those subject to R.A. 7742, partial withdrawal of savings is allowed after ten or 15 years of continuous membership, provided there is no outstanding housing loan with the Pag-IBIG Fund. This option is valid only once during the membership term.

<u>Retirement</u>. This is mandatory for members who are 65 years of age. However, early and optional retirement plans are also offered at age 45 and age 60, respectively. Even without the requisite maturity period or retirement age, withdrawal is allowed on account of member's permanent departure from the country, permanent total physical disability, insanity, termination from service by reason of health, or death, in which case, an additional benefit grant of ₱6,000 is given to the legal heirs to defray funeral expenses.

A member will maintain his/her total accumulated savings even if he/she transfers from one employer to another, whether in the private or public sector. There are also provisions for the portability of savings under the voluntary Pag-IBIG Overseas Program, such that members who remit their Pag-IBIG Fund contributions in U.S. dollars get a refund of their savings in the same currency.

Loans. The HDMF also offers short-term loans, such as multi-purpose and calamity loans, to all active members who have made at least 24 monthly contributions at the time of application. The limit in the loanable amount is 60% of a member's total accumulated savings, payable in two years through salary deduction and renewable after the payment of 50% of the loan principal and upon anniversary of the loan.

(iv) Financing and Financial Operations

The Pag-IBIG Fund, as a supplementary provident fund for workers, applies the underlying principle of individual equity. As described above, member benefits are directly linked to the total accumulated value (TAV), equal to counterpart contributions plus dividends, credited to his/her own savings account.

Contributions. Contribution is pegged at 1% of the member's monthly compensation (MC) for those earning less than ₱1,500 a month and at 2% of MC for those with ₱1,500 or more[2]. Employers are mandated to contribute an additional 2% of the MC of each covered employee[3]. The contribution rate is applied up to an MC ceiling of ₱5,000. Thus, the maximum combined contribution is ₱400 per month.

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[2] Employee-members may opt to increase their contributions accordingly, on a voluntary basis.

[3] Voluntary members may opt to pay for the employer counterpart.

Acting as agents of the Pag-IBIG Fund, employers are required to collect employee contributions, including those who joined on a voluntary basis, through payroll deductions. Failure to remit contributions will subject the employer to a 3% penalty per month. Self-employed members are required to pay their contributions directly to the HDMF.

If an employee-member is separated from employment, goes on leave without pay or is suspended from work, or if his/her employer's coverage is waived or suspended, he/she may stop paying contributions to the Pag-IBIG Fund, or opt to shoulder both the employee and employer contributions.

Under the Pag-IBIG Overseas Program, qualified members pay contributions in the amount of US$20 or its peso equivalent, if the MC is US$1,000 or less, and US$40 or its peso equivalent, if the MC is over US$1,000. Payment is made through accredited marketing representatives and collecting agents stationed in selected foreign posts.

Investments. Funds that are not needed to meet current operational and administrative requirements are invested by the HDMF. Not less than 70% of its investible funds must be allocated to shelter development programs, including mortgage loans to qualified members for personal housing and institutional loans to accredited private developers for the construction of low-cost and socialized housing packages.

(v) Administration

The powers and functions of the Pag-IBIG Fund are exercised by a Board of Trustees, headed by the Chairman of the Housing and Urban Development Coordinating Council and composed of the following ex-officio members: (1) the Secretary of Finance as Vice Chairman; (2) the Secretary of Budget and Management; (3) the Secretary of Labor and Employment; (4) the Secretary of Trade and Industry; and (5) the HDMF President and CEO. Two representatives each from the group of private employees and private employers, and one from government employees also form part of the Board as appointive members.

The Pag-IBIG Fund's nationwide branch network consists of 12 regional offices, ten sub-regional offices and 13 extension offices. The HDMF has also established its presence in the international scene with overseas desks housed mostly in Philippine embassies and consulates in 20 countries. This is sustained through information officers and marketing representatives in selected foreign posts.