



# **Assessing the Impact of Lowering the Retirement Age on Youth Unemployment in the Philippines: An OLG Analysis**

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# Research/Policy Questions



- Will lowering the optional retirement age from 60 to 56 lead to an **increase in youth employment** by creating job openings for younger workers?
- What are its effects on the **aggregate output**?
- How will it affect the **savings and consumption behavior** of the different age and income groups?

## Background / Context (1): About the Policy Proposal

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- Proposal to amend the Government Service Insurance Act of 1997 to lower the retirement age of government workers
- House Bill No. 206
  - ❑ Seeks to lower optional retirement age of government workers from 60 to 56 years old
  - ❑ Rationale: Allow government workers to enjoy retirement earlier
  - ❑ Passed on 2nd reading in September 2024
- Other similar bills:
  - ❑ Senate Bill No. 2444, 944, 935, 908 (Teachers); 55 years old
  - ❑ Senate Bill 2628, 2576, 2436: Judges and Judiciary officials

## Background / Context (2)



- Philippines' average lifespan - 72 y. o.
- Current policy regime on retirement age:
  - ❑ Public (Civilian): 60 (optional), 65 (mandatory), plus civilian PNP/AFP, 15 yr MC
  - ❑ (MUP): 56 PNP/57-AFP\* (compulsory), 20/30 years service (optional)
  - ❑ (Judge/Justice) 70, minimum of 15 year cumulative service
  - ❑ Private: 60 (optional), at least 10 years of monthly contribution
- 89.3% of the Filipino workforce works in the private sector, 63.6% under wage and salary workers, 10.7% in the government/GOCCs (Philippine Statistics Authority, as of August 2024)
- May have an aging population by 2030 – PH Population Commission

# More on Demographics

**2020**

Household Population: 108.67 million



**2015**

Household Population: 100.57 million



**103**

**100**

0-14 years old	107:100
15-64 years old	103:100
65 years old and over	73:100

Sources: Philippine Statistics Authority, 2020 Census of Population and Housing and 2015 Census of Population

Source: Philippine Statistics Authority, 2020 Census of Population and Housing

# Philippines' Employment Statistics by Age Range

**TABLE 3 Percent Distribution of Population 15 Years Old and Over by Employment Status by Sex and Age Group: July 2020 and July 2021**

Sex and Age Group	Estimate									
	Total Population 15 Years Old and Over		Total Labor Force		Employed		Unemployed		Not in the Labor Force	
	July 2020	July 2021	July 2020	July 2021	July 2020	July 2021	July 2020	July 2021	July 2020	July 2021
<b>Philippines</b>	<b>74,060</b>	<b>75,574</b>	<b>45,871</b>	<b>44,900</b>	<b>41,302</b>	<b>41,671</b>	<b>4,569</b>	<b>3,229</b>	<b>28,190</b>	<b>30,674</b>
Number (in thousands)										
<b>Both Sexes</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
15 - 24	27.0	26.6	17.0	14.6	14.6	13.2	38.1	32.3	43.3	44.7
25 - 34	22.6	22.7	27.4	28.6	27.1	28.2	30.8	33.6	14.6	14.7
35 - 44	17.9	17.8	22.9	23.4	23.9	24.1	14.0	15.5	9.7	9.6
45 - 54	14.2	14.2	18.0	18.3	18.8	18.9	10.9	10.8	7.9	8.2
55 - 64	10.1	10.3	10.5	10.8	11.1	11.2	5.2	6.4	9.5	9.4
65 and over	8.3	8.5	4.2	4.3	4.5	4.5	1.1	1.4	14.9	14.6
<b>Male</b>	<b>50.2</b>	<b>50.2</b>	<b>61.0</b>	<b>60.8</b>	<b>61.1</b>	<b>61.1</b>	<b>61.1</b>	<b>57.0</b>	<b>32.6</b>	<b>34.7</b>
15 - 24	13.8	13.6	10.5	9.1	9.4	8.4	20.9	18.6	19.2	20.2
25 - 34	11.7	11.7	17.4	17.7	17.1	17.6	19.9	18.9	2.4	2.9
35 - 44	9.1	9.1	14.0	14.3	14.6	14.8	8.9	8.3	1.2	1.5
45 - 54	7.1	7.1	10.7	10.9	11.1	11.3	6.7	6.2	1.3	1.6
55 - 64	4.9	5.0	6.2	6.4	6.4	6.5	4.0	4.1	2.9	3.0
65 and over	3.5	3.6	2.3	2.4	2.5	2.5	0.7	0.9	5.6	5.4
<b>Female</b>	<b>49.8</b>	<b>49.8</b>	<b>39.0</b>	<b>39.2</b>	<b>39.0</b>	<b>38.9</b>	<b>39.0</b>	<b>43.0</b>	<b>67.4</b>	<b>65.3</b>
15 - 24	13.2	13.0	6.5	5.5	5.3	4.8	17.2	13.7	24.1	24.0
25 - 34	10.9	11.0	10.1	10.9	10.0	10.6	10.9	14.7	12.2	11.2
35 - 44	8.7	8.7	8.9	9.1	9.3	9.3	5.0	7.2	8.5	8.7
45 - 54	7.1	7.1	7.4	7.4	7.7	7.6	4.2	4.6	6.6	6.5
55 - 64	5.2	5.3	4.3	4.5	4.7	4.7	1.2	2.3	6.6	6.4
65 and over	4.7	4.8	1.9	1.8	2.0	1.9	0.4	0.5	9.4	9.7

As of July 2021, new entrants to the labor market account for around 5% of the PH labor force, and 44% of them are in the workforce

# About the Philippine Pension System



- Two main social insurance systems or pension providers in the Philippines that are governed by the national government are the **Government Service Insurance System (GSIS)** and the **Social Security System (SSS)**
- Similar to Thailand and Indonesia that have separate pension systems for the private sector and public sector workers
- Common features:
  - ☐ Type of pension plan: defined-benefit scheme
  - ☐ Retirement age: 60 yrs (optional); 65 yrs (mandatory)
  - ☐ Pension calculation: Based on the average monthly compensation and length of service/contributions
  - ☐ Has lump-sum options
  - ☐ Inflation adjustment: Periodic adjustments (depending on economic conditions)
  - ☐ Portability subject to conditions

# Philippine Data on Pension Recipients



## Percent share of Economically Active Population Contributing to a Pension Scheme by Type of Pension

	2014	2015	2016	2017	2018
All	32.3	34.6	35.5	38.6	41.0
SSS	28.7	30.9	31.7	34.6	36.8
GSIS	3.6	3.7	3.7	4.0	4.2

Source: PSA OpenStat



# Philippine Data on Pension Recipients

## SSS/GSIS Contributing Members

	2014	2015	2016	2017	2018
Contributing members ('000)	13,802	14,782	15,896	17,121	18,360
<b>SSS</b>	12,320	13,256	14,275	15,409	16,540
Employees	9,136	9,753	10,466	11,142	12,277
Domestic Workers	61	67	68	72	21
Self-Employed	892	1,008	1,073	1,160	1,199
Voluntary	1,794	1,958	2,152	2,444	2,494
Overseas Filipino Workers	437	470	516	591	549
<b>GSIS</b>	1,482	1,526	1,621	1,712	1,820

Source: PSA OpenStat | Note: Voluntary refers to separated workers and non-working spouses.

# Philippine Data on Pension Recipients

## Percent share of Population Aged 60 and Above Benefiting from Retirement Old Age Pension by Type of Pension

	2014	2015	2016	2017	2018
<b>Percent share of population aged 60 and above benefiting from retirement/old age pension</b>					
<b>Total</b>	19	21	19	20	20
SSS	15	16	15	16	17
GSIS	4	4	4	4	4
<b>Total population aged 60 and above benefiting from retirement/old age pension</b>					
<b>Total</b>	1,283,520	1,402,699	1,539,527	1,666,414	1,794,626
SSS	1,001,446	1,120,174	1,223,682	1,345,287	1,458,847
GSIS	282,074	282,525	315,845	321,127	335,779

Source: PSA OpenStat | Note: Voluntary refers to separated workers and non-working spouses.

# Retirement Benefits under GSIS



- There are five different laws relevant to the computation of retirement benefits of a retiring government employee, depending on their age and length of government service:
  1. **Republic Act (RA) No. 8291 (GSIS Act of 1997)**
  2. RA No. 660 (Magic 87)
  3. RA No. 1616 (“Take All” Benefit)
  4. Presidential Decree (PD) 1146 (Pension or Cash Payment)
  5. RA No. 7699 (Portability Law)

Source: <https://www.pagba.com/wp-content/uploads/2024/04/3-updates-on-budgeting-rules-and-regulations.pdf>

# Republic Act (RA) No. 8291 (GSIS Act of 1997)

## GSIS Formula (under RA 8291):

$$\text{BMP} = (0.025) \times (\text{AMC} + \text{PHP700}) \times (\text{PPP})$$

BMP = Basic Monthly Pension

AMC = Average Monthly Compensation for the last three (3) years with paid premiums

PPP = Periods with Paid Premiums

Note:

- ✓ BMP not to exceed 90% of AMC
- ✓ 36 years of PPP service to enjoy BMP of 90% AMC
- ✓ Cash gift and pension increase after 5 years

- Contribution is mandatory for government workers
- At least 15 years of total length of service
- At least 60 years old upon retirement
- Not a permanent total disability pensioner
- Retired on or after June 24, 1997

### OPTION 1

**5 Years Lump Sum + Old Age Pension**

- ✓ 60 Months BMP upon retirement
- ✓ Monthly pension after 5 years
- ✓ Cash Gift and Pension Increase after 5 years

### OPTION 2

**18 Months Cash Payment + Old Age Pension**

- ✓ 18 Months Cash Payment upon Retirement
- ✓ Pension for Life upon Retirement
- ✓ Eligible to CLASP
- ✓ Cash Gift and Pension Increase after 5 years

CLASP = Choice of Loan Amortization Schedule for Pensioners

## Retirement benefits under SSS (1)



- Compulsory coverage applies to employers, private sector employees (including household helpers with a minimum monthly income of PHP 1,000, and seafarers and employees of a foreign governments and international organizations that are based in the country) regardless of employment status, and self-employed persons regardless of trade, business or occupation
- Meanwhile, voluntary coverage applies to overseas Filipino workers, non-working spouses of currently employed and actively paying SSS members, and members separated from employment.

## Retirement Benefits under SSS (2)

- Monthly pension or lump sum benefit
- At least 120 monthly contributions for pension entitlement
- If a member is qualified, the amount of monthly pension will be the highest result of the following formula:
  1.  $300 + (20\% \times \text{AMSC}^*) + (2\% \times \text{AMSC}) \times (\text{CYS}^{**} - 10)$ ; or
  2.  $2.40\% \times \text{AMSC}$ ; or
  3. Minimum pension (P1,200 if with at least 10 CYS or P2,400 if with at least 20 CYS).

\*AMSC (Average Monthly Salary Credit)

\*\*CYS (Credited Years of Service)

Source: SSS website ([https://www.sss.gov.ph/retirement-benefit/#:~:text=If%20a%20member%20is%20qualified,with%20at%20least%2020%20CYS\).](https://www.sss.gov.ph/retirement-benefit/#:~:text=If%20a%20member%20is%20qualified,with%20at%20least%2020%20CYS).))

# Retirement Benefit under RA 7699 (Portability Law)



- An Act instituting limited portability scheme in the Social Security Insurance Systems by totalizing the workers' creditable services or contributions in each of the Systems.
- What are its benefits?
  - **Totalization of contributions:** Remittances to both GSIS and SSS are added together, meeting the qualification threshold for pension
  - **Proportional payment:** The pension amount is calculated proportionally based on how much was contributed to each system
- Who are eligible?
  - Not qualifying for a pension from either GSIS or SSS due to insufficient service time or contributions
  - Must have contributed less than 120 months of SSS contribution and less than 180 months GSIS contribution

## Comparative Table on the Key Features of the Social Security Systems of the US and the Philippines (1)

Feature	United States (Social Security)	Philippines (SSS)	Philippines (GSIS)
<b>Type of System</b>	Defined Benefit (U.S.-style Social Security)	Defined Benefit (for private sector workers)	Defined Benefit (for government employees)
<b>Contributors Covered</b>	Private & public sector employees, self-employed	Private sector employees, self-employed, OFWs	Government employees
<b>Contribution Rates</b>	Employer: 6.2%, Employee: 6.2% (total 12.4%)	Employer: 9.5%, Employee: 4.5% (total 14% for 2024)	Employer: 12%, Employee: 9%
<b>Salary Ceiling for Contributions</b>	\$160,200 (as of 2023)	PHP 30,000	PHP 100,000
<b>Basis for Benefits Calculation</b>	AIME (Average Indexed Monthly Earnings)	AMSC (Average Monthly Salary Credit)	AMC (Average Monthly Compensation)



## Comparative Table on the Key Features of the Social Security Systems of the US and the Philippines (2)

Feature	United States (Social Security)	Philippines (SSS)	Philippines (GSIS)
<b>Indexation of Earnings</b>  Note: No inflation indexing in OLG	Indexed for inflation over a lifetime (35 years of earnings)	No indexing, based on highest 60 months of earnings	No indexing, based on highest 3 years of earnings
<b>Retirement Age</b>	66-67 (gradually rising to 67)	60 (optional) / 65 (mandatory)	60 (optional) / 65 (mandatory)
<b>Pension Formula</b>	Based on AIME and Primary Insurance Amount (PIA)	Based on AMSC and length of contribution period	Based on AMC and length of service
<b>Minimum Years of Contribution</b>	10 years (40 quarters)	10 years (120 months)	15 years (180 months)
<b>Survivor Benefits</b>	Yes	Yes	Yes

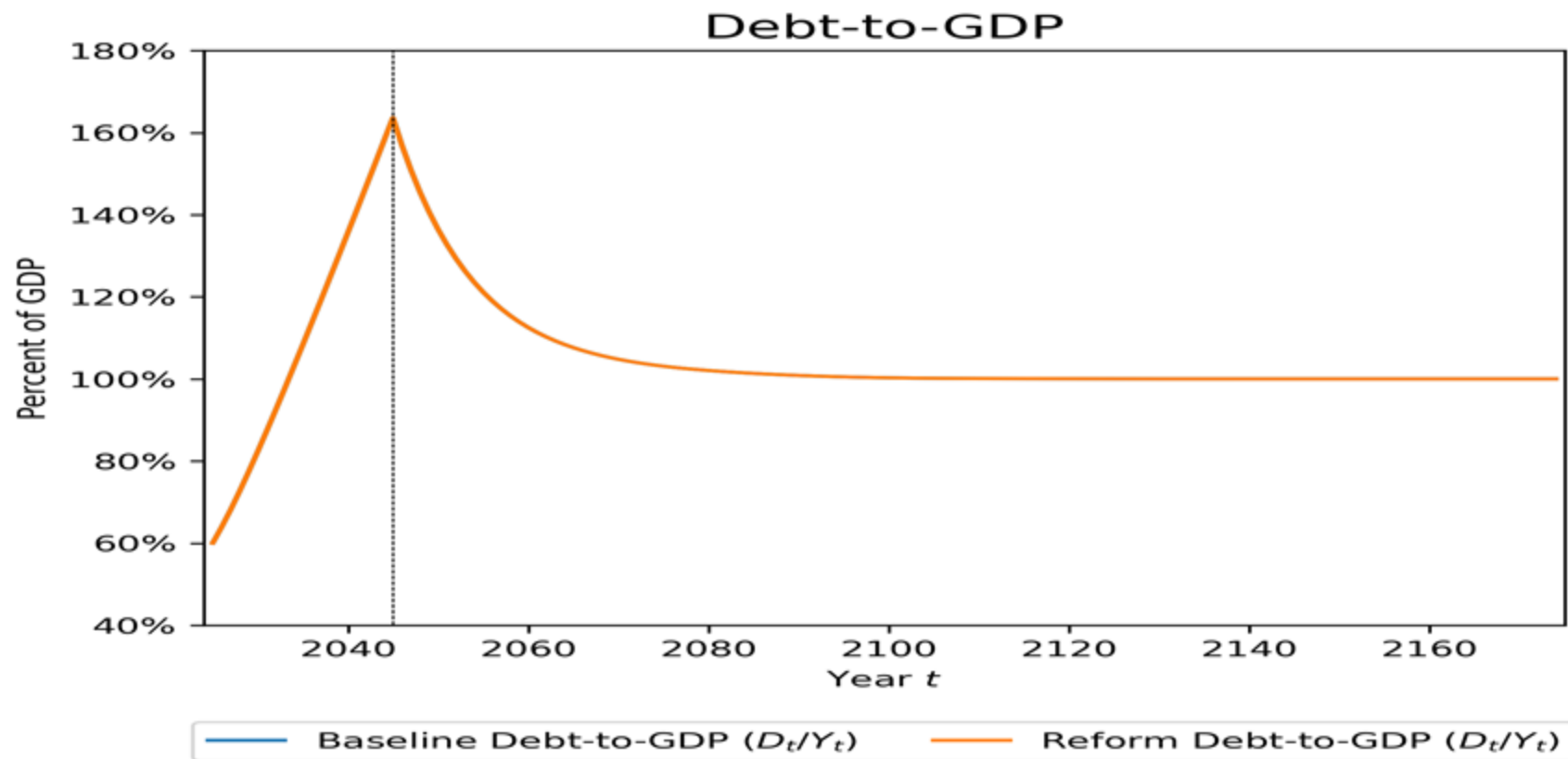
## Comparative Table on the Key Features of the Social Security Systems of the US and the Philippines (3)

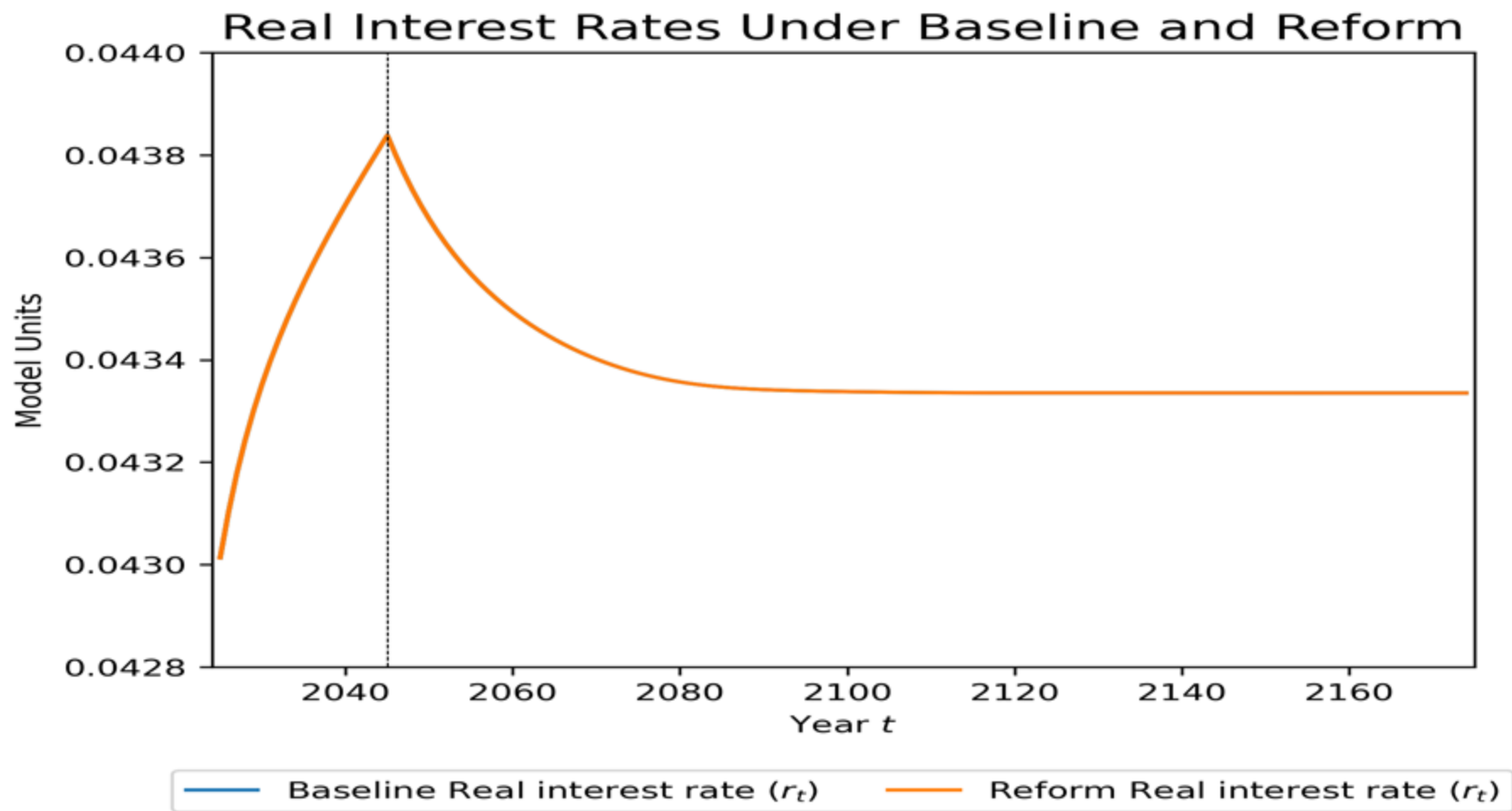
Feature	United States (Social Security)	Philippines (SSS)	Philippines (GSIS)
<b>Disability Benefits</b>	Yes	Yes	Yes
<b>Lump Sum Option</b>	No (monthly pension only)	Yes (for those who don't qualify for a pension)	Yes (for those who don't qualify for a pension)
<b>Inflation Adjustment for Pensions</b>	Annual Cost-of-Living Adjustment (COLA)	No automatic COLA, occasional adjustments	No automatic COLA, occasional adjustments
<b>Employer-Employee Contribution Sharing</b>	Equal (6.2% each)	Unequal (9.5% employer, 4.5% employee for 2024)	Unequal (12% employer, 9% employee)
<b>Additional Benefits</b>	Medicare coverage	Sickness, maternity, funeral, loan benefits	Sickness, funeral, housing loan, life insurance
<b>Disability Benefits</b>	Yes	Yes	Yes

# List of Parameters

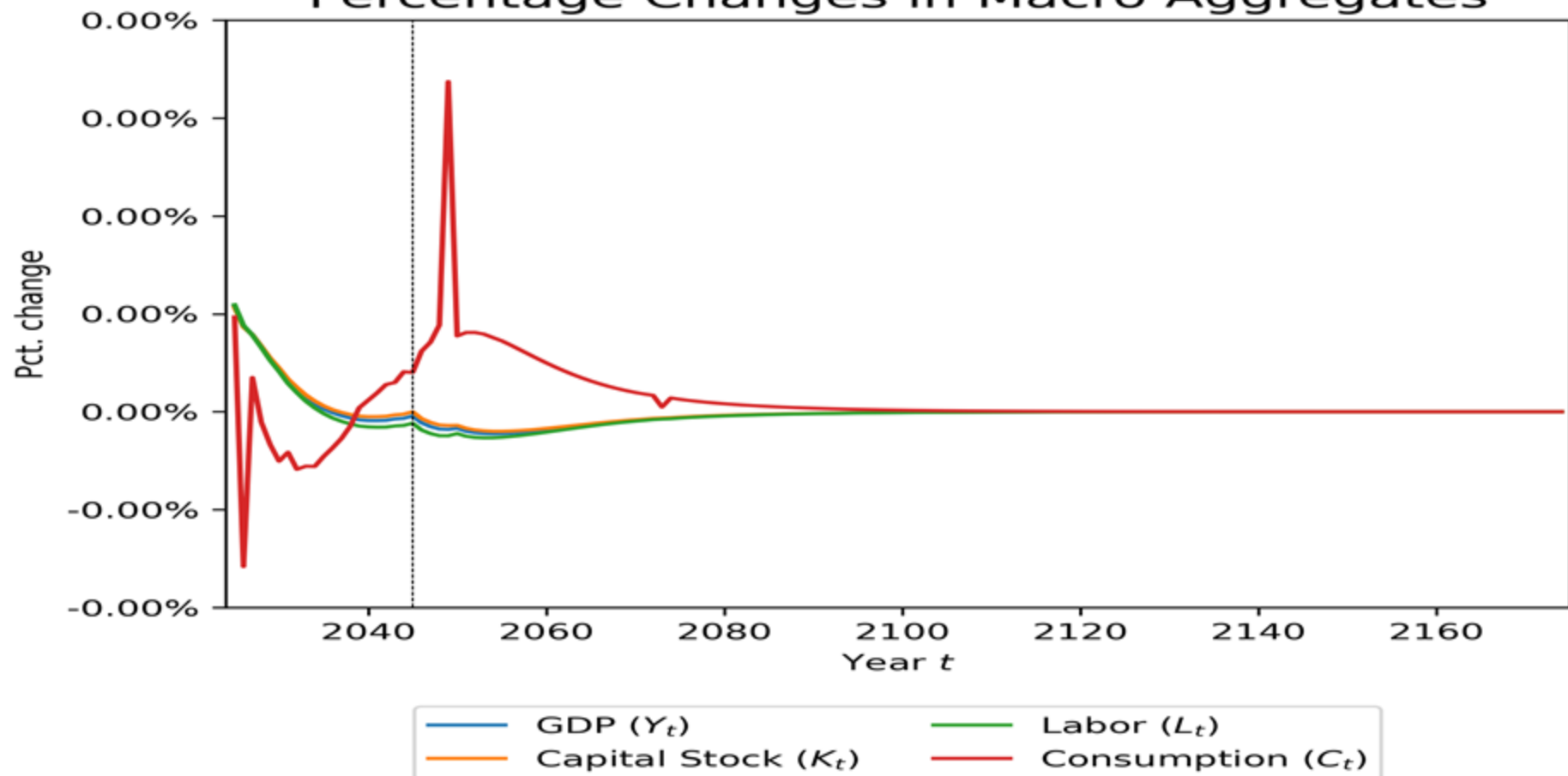
Variable	Description	Default (US)	Public (PHL)	Private (PHL)
avg_earn_num_yrs	No. of yrs used to compute avg earnings for pension benefit	35	<b>36</b>	<b>36</b>
retirement_age	Age at w/c agents can collect benefits	60	60 (optional); 65 (mandatory) <b>56 (policy proposal)</b>	60 (optional); 65 (mandatory) <b>56 (assume priv are covered)</b>
tau_payroll	Linear payroll tax rate	0.0	<b>0.10</b> (9.5% employer share)	<b>0.10</b> (12% employer share)
RC_TPI	Tolerance for the resource constraint in the time path sol'n	$1 \times 10^{-4}$	<b>0.01</b>	<b>0.01</b>

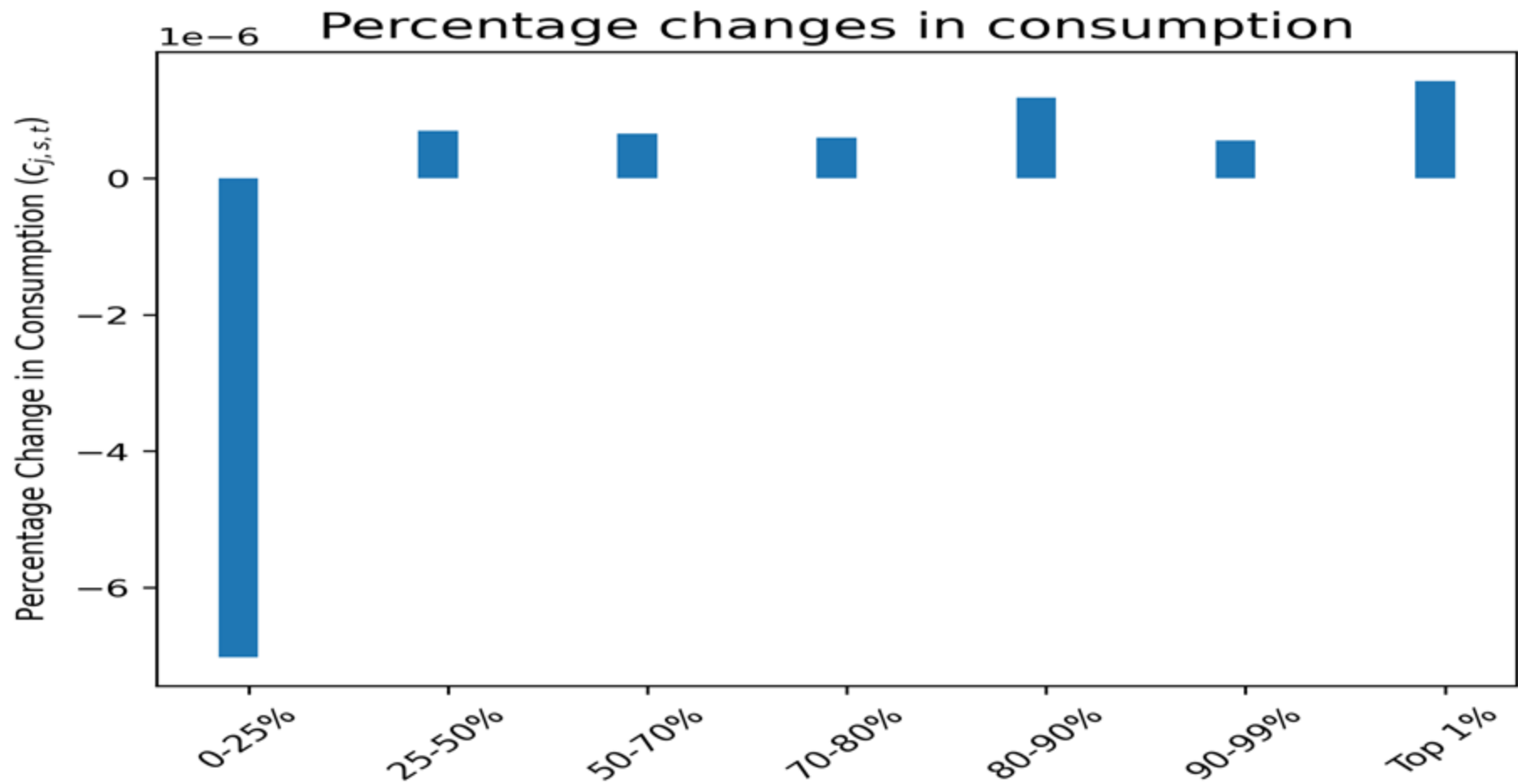
# Results



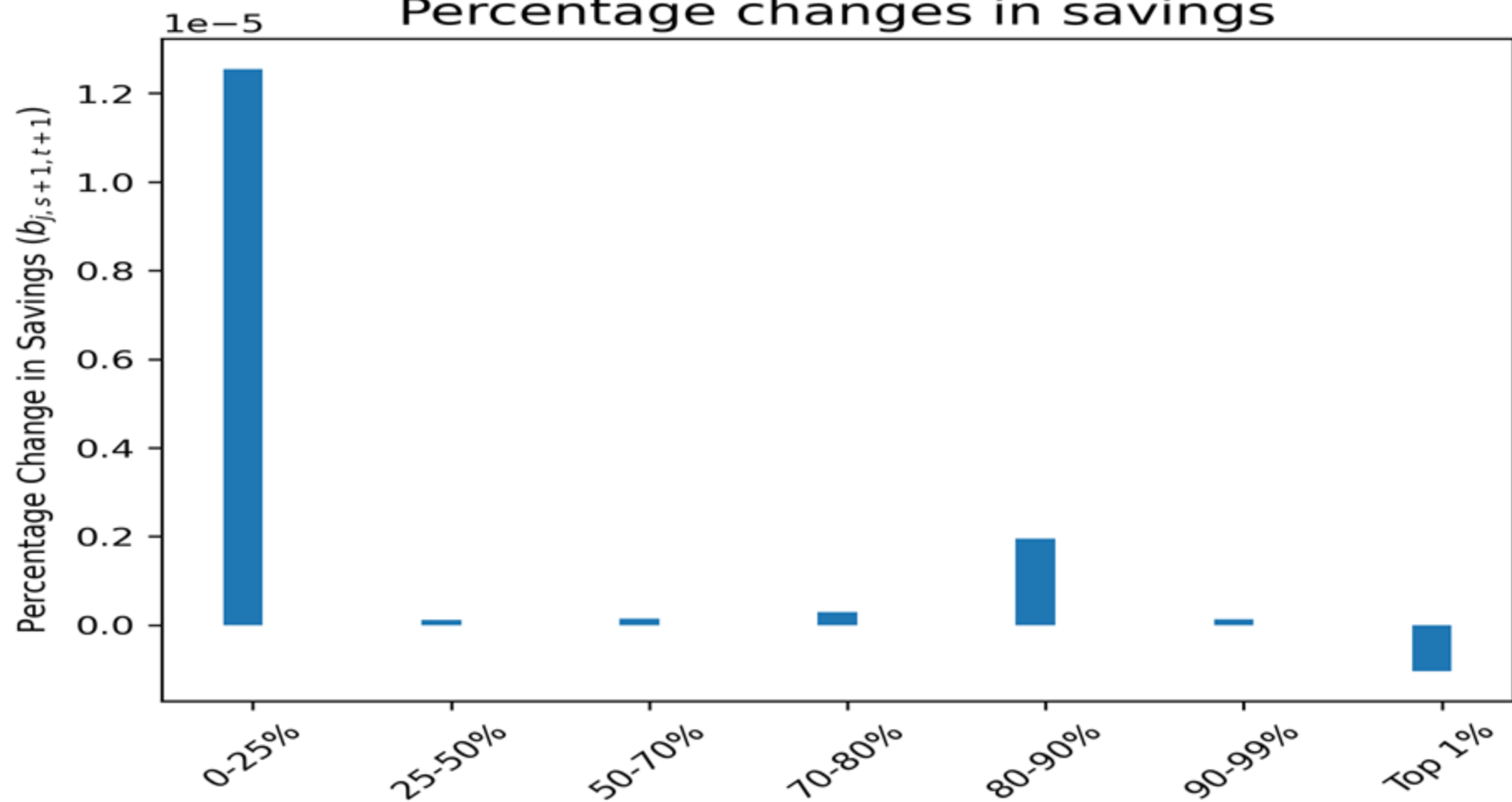


## Percentage Changes in Macro Aggregates



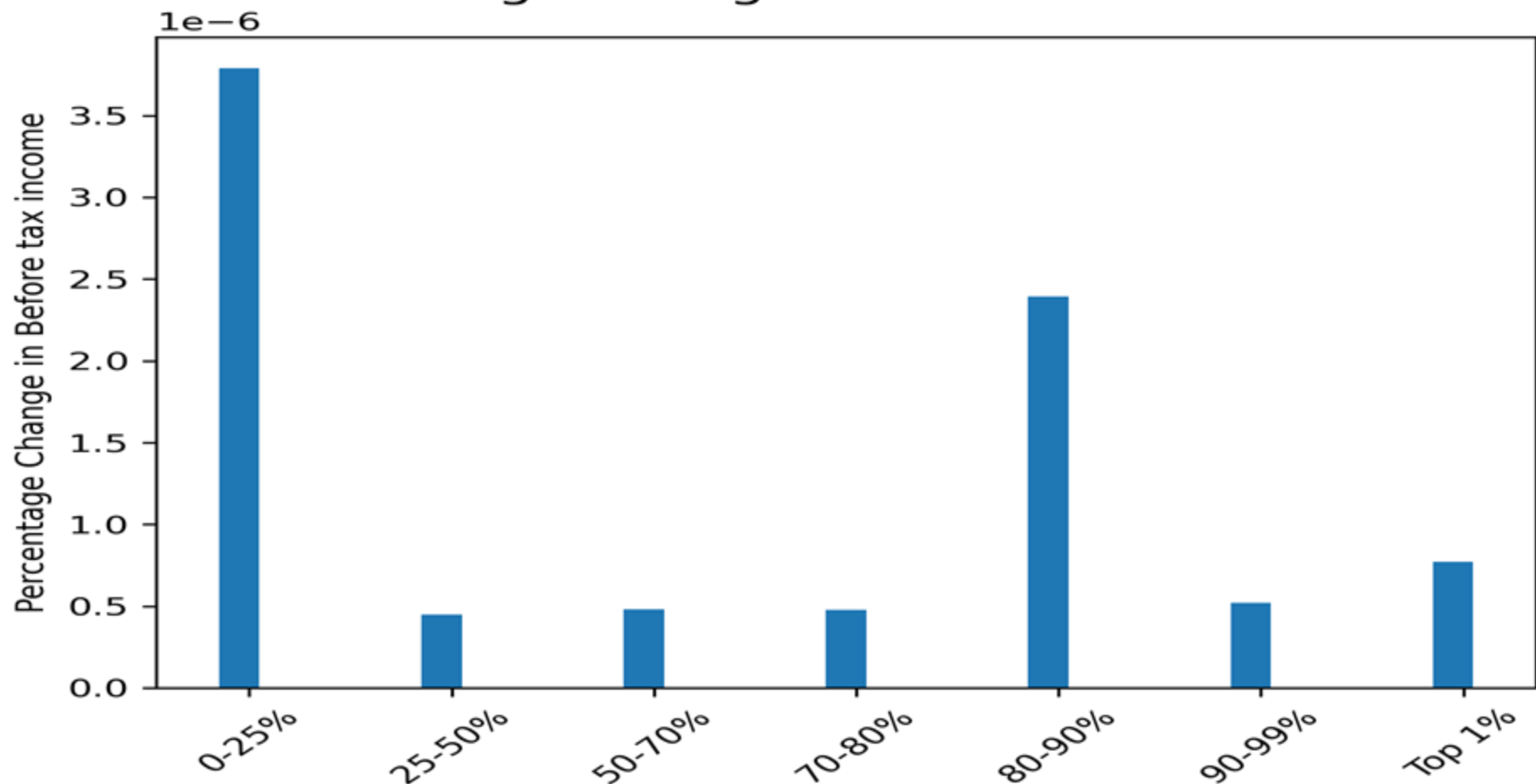


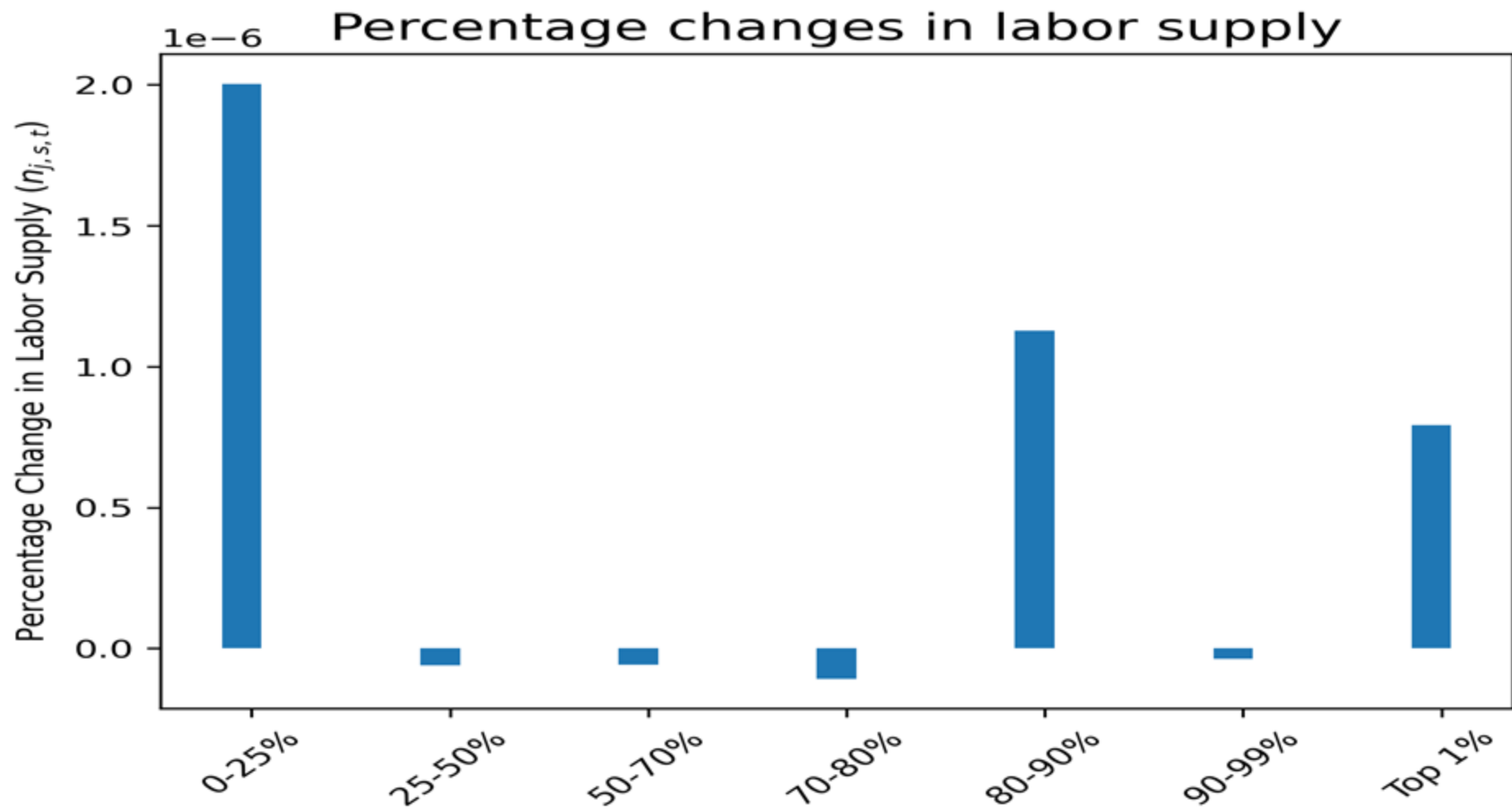
## Percentage changes in savings



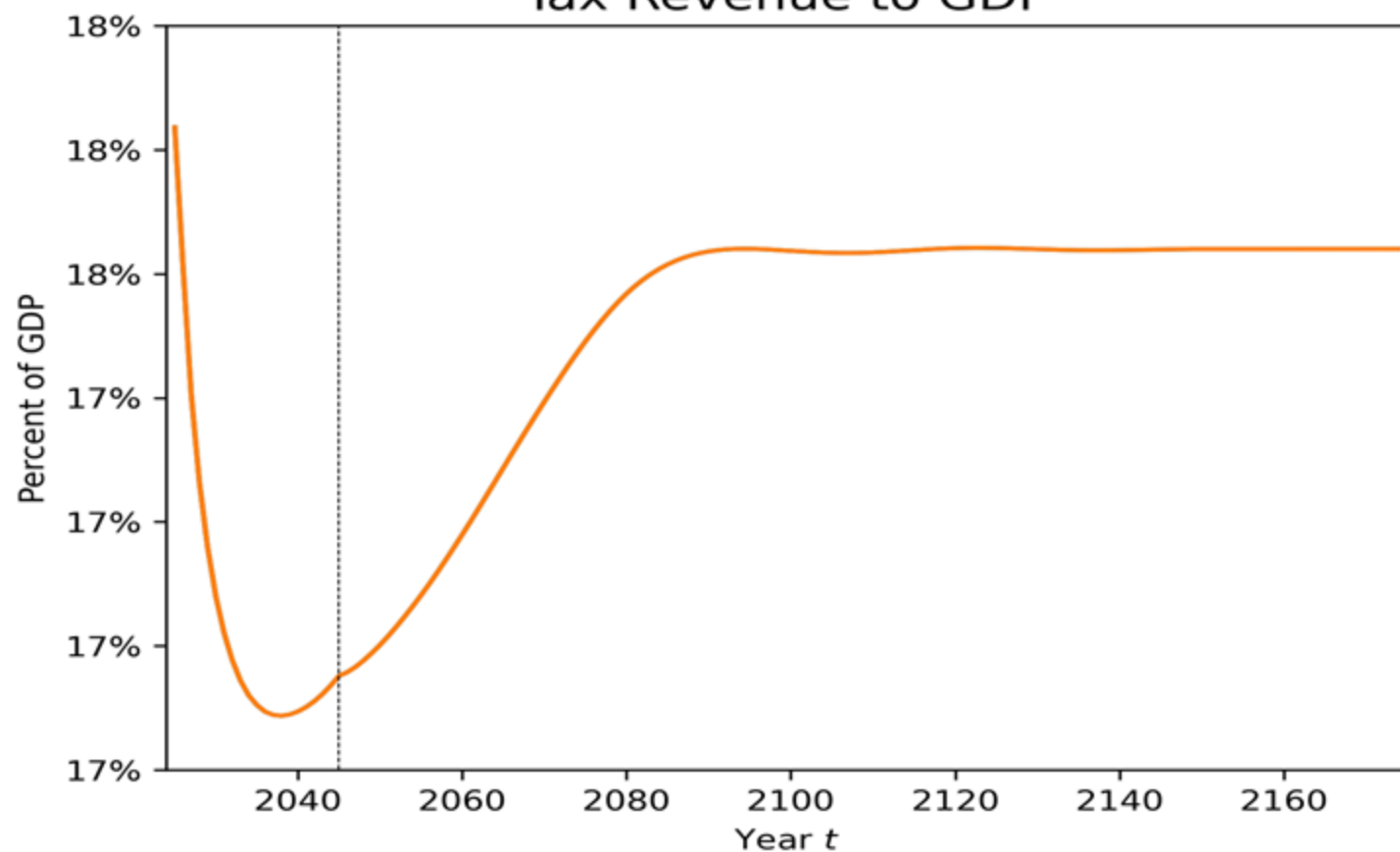


## Percentage changes in before tax income



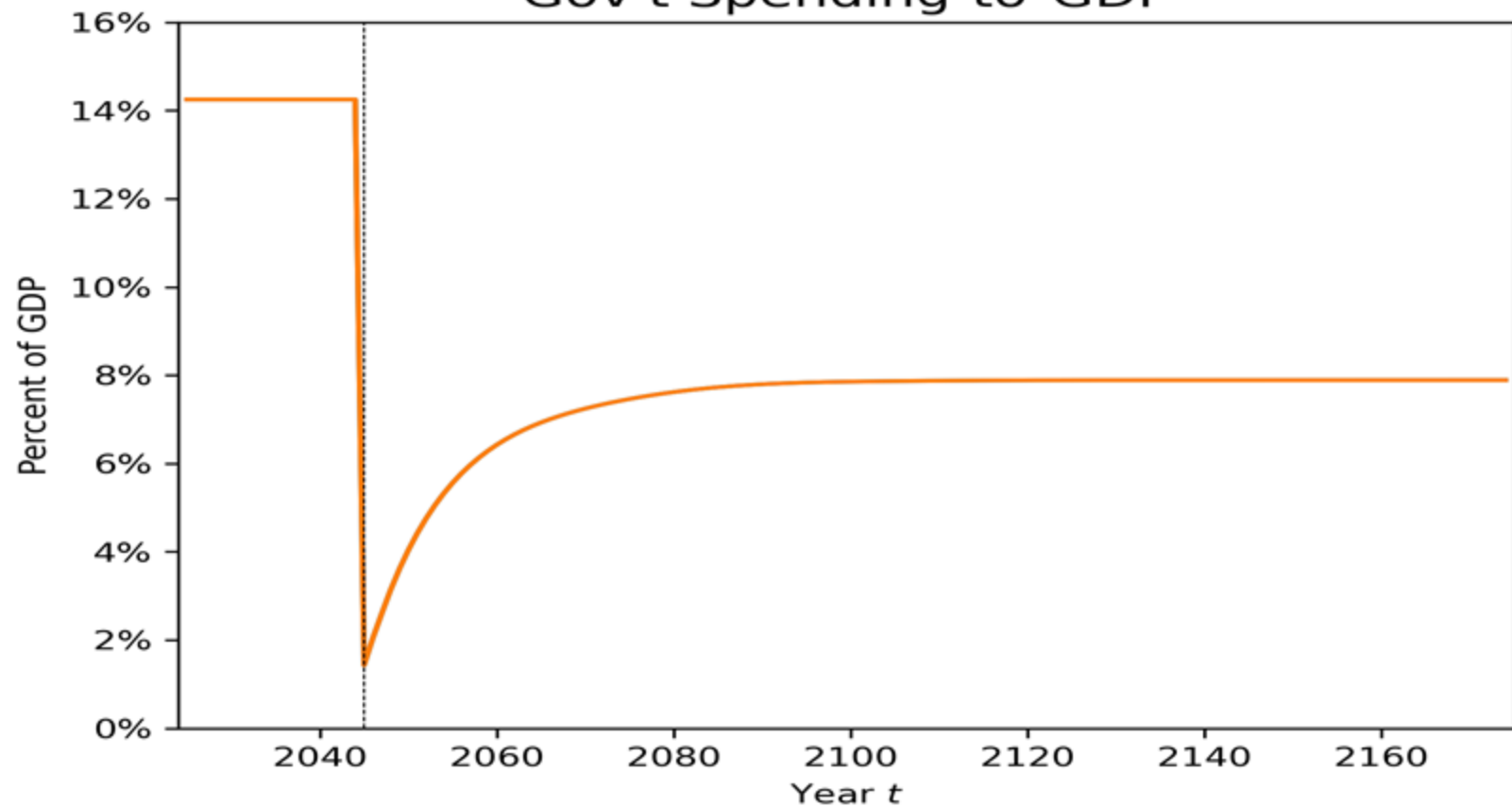


## Tax Revenue to GDP



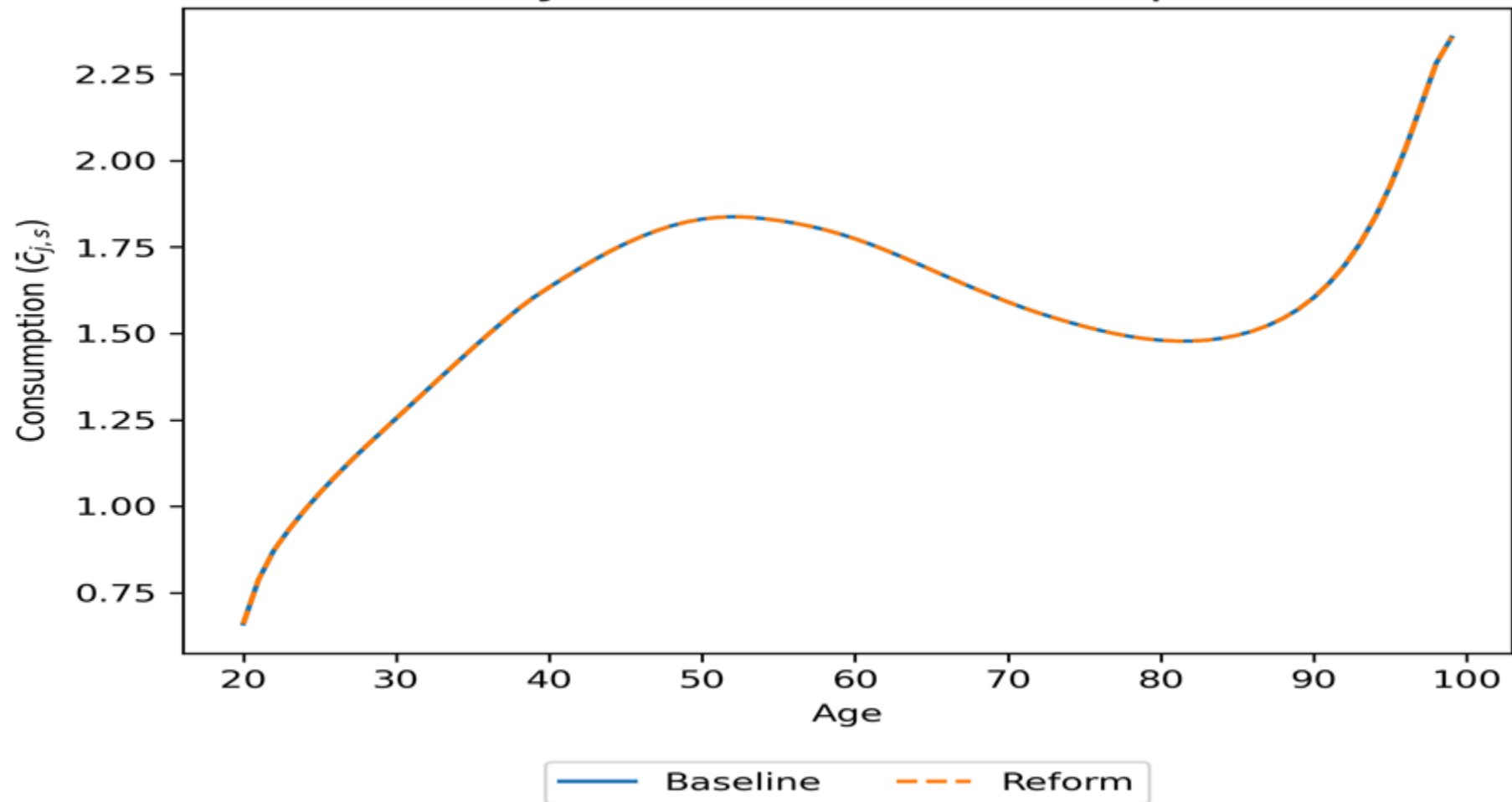
— Baseline Tax Revenue-to-GDP ( $Revenue_t/Y_t$ ) — Reform Tax Revenue-to-GDP ( $Revenue_t/Y_t$ )

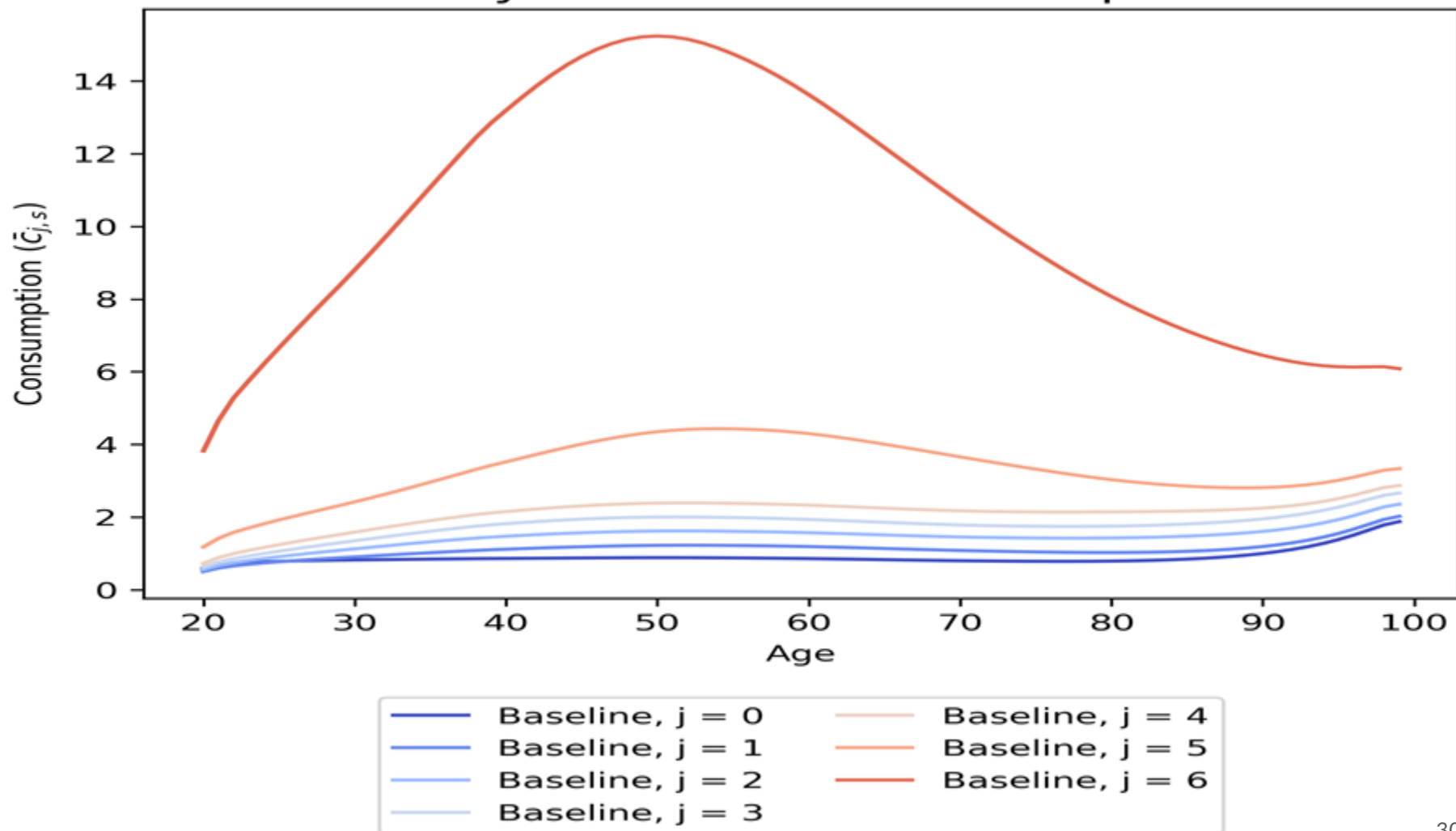
## Gov't Spending-to-GDP



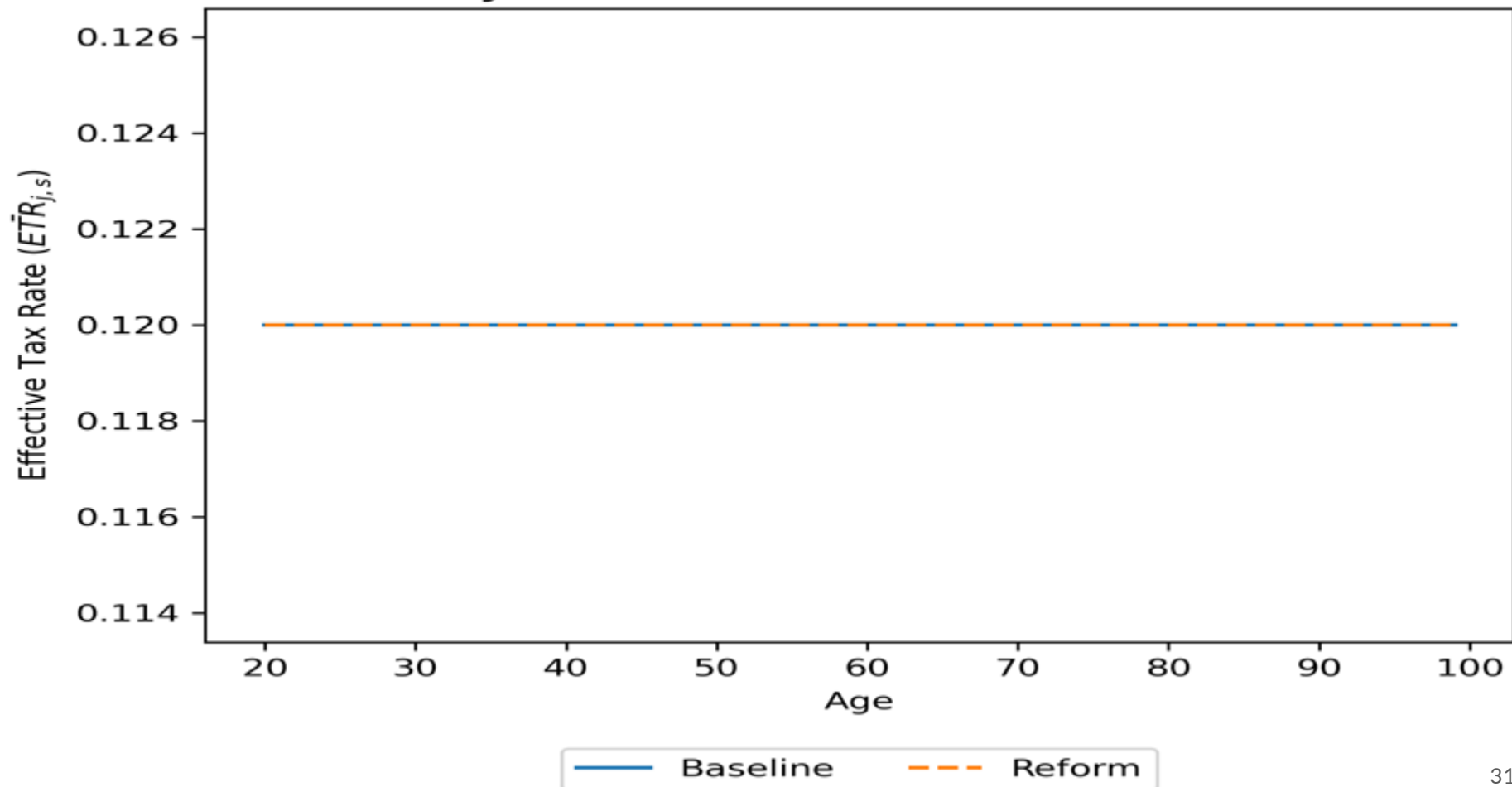
— Baseline Govt Spending-to-GDP ( $G_t/Y_t$ )      — Reform Govt Spending-to-GDP ( $G_t/Y_t$ )

## Lifecycle Profile of consumption

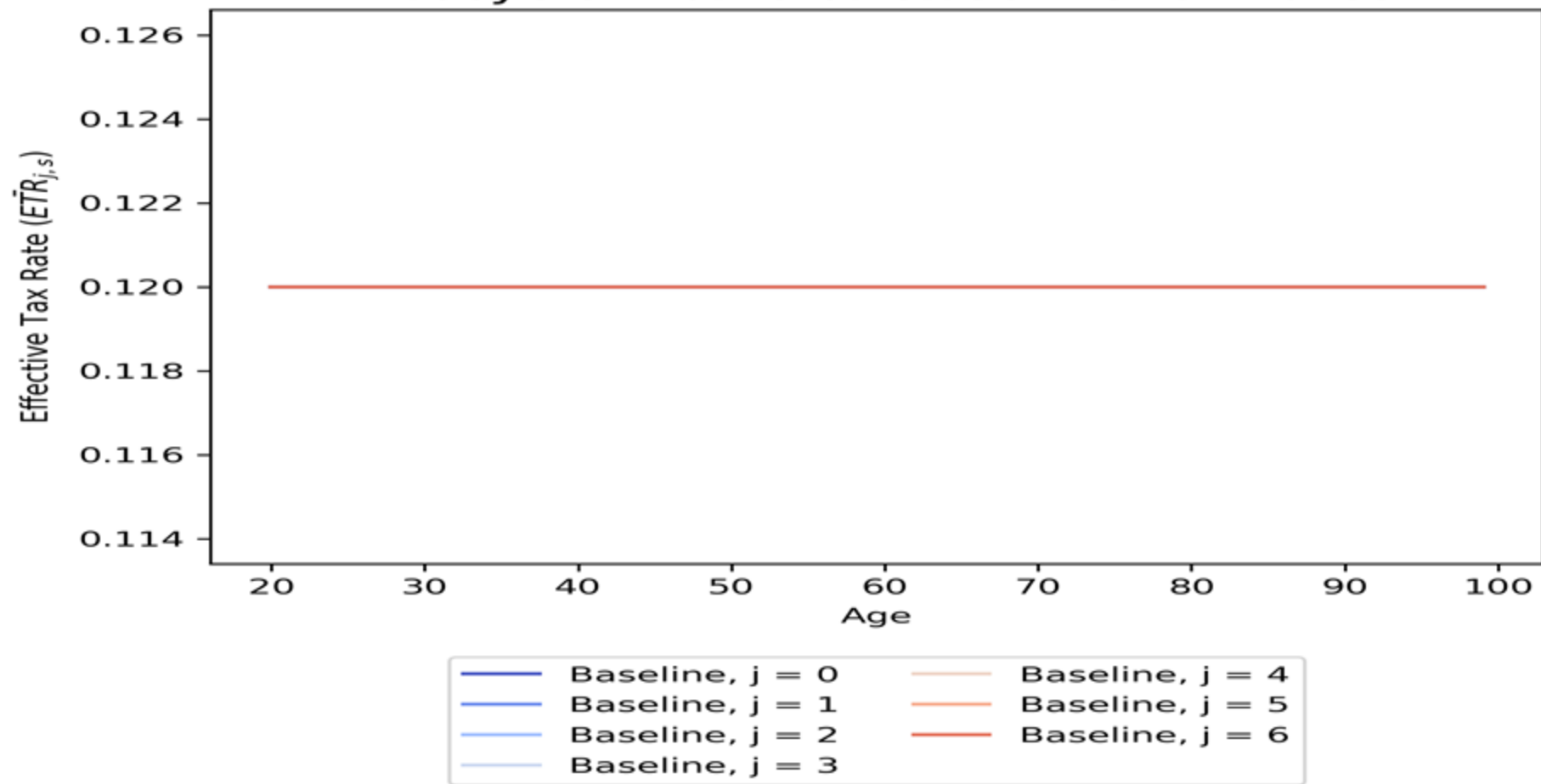




## Lifecycle Profile of effective tax rates

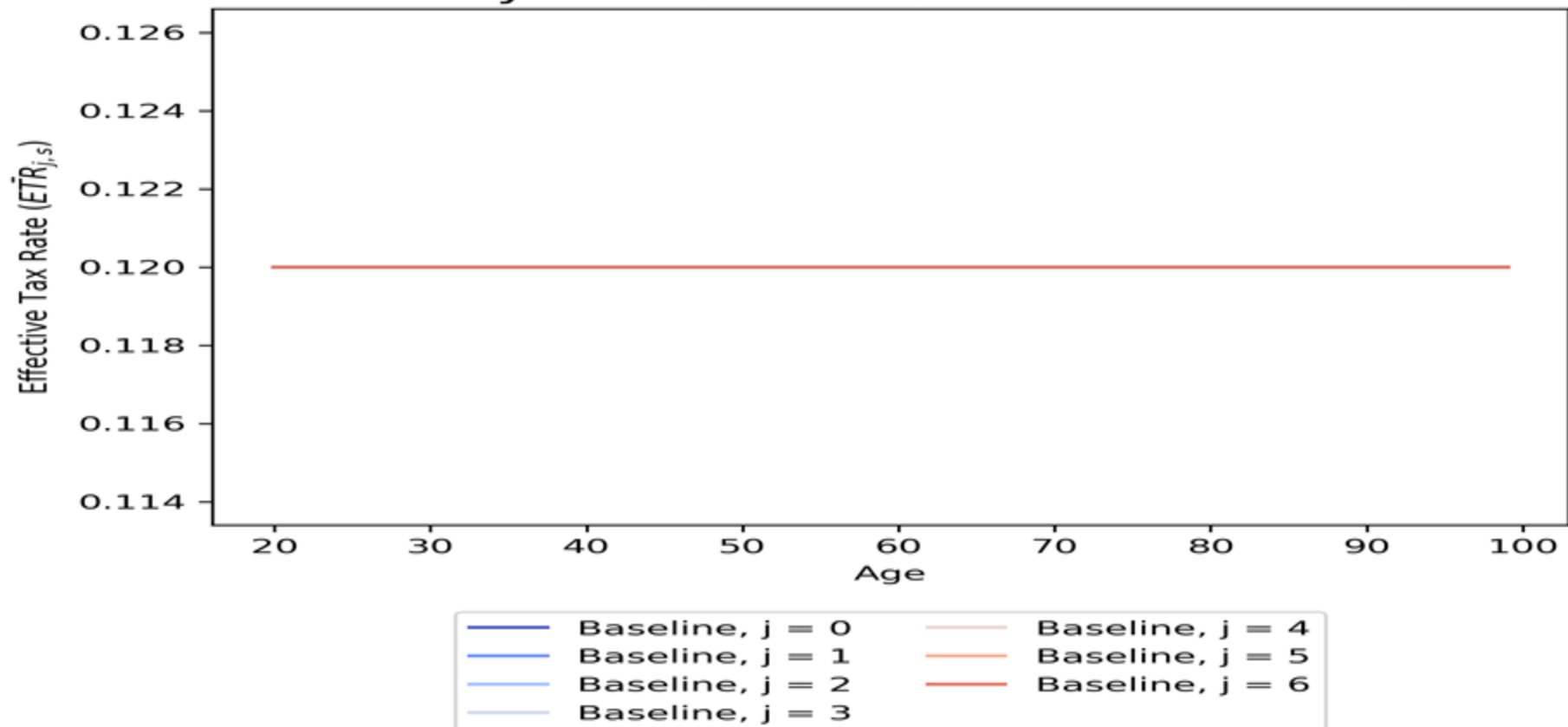


## Lifecycle Profile of effective tax rates



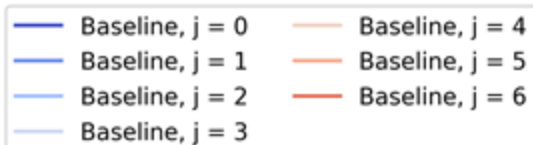
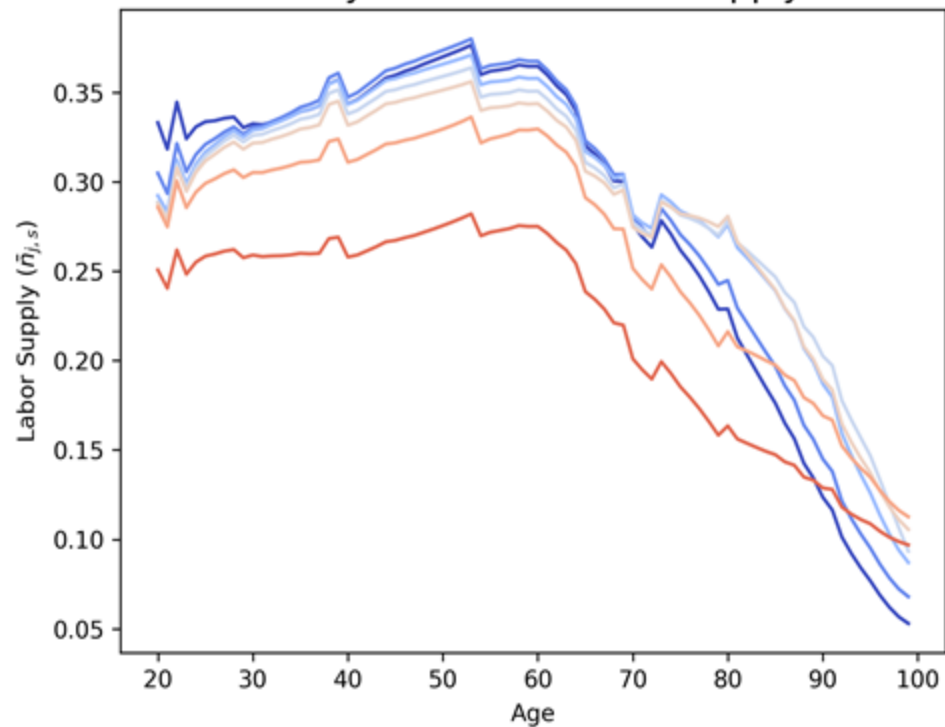


## Lifecycle Profile of effective tax rates



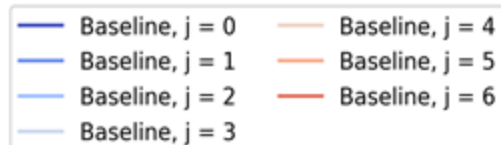
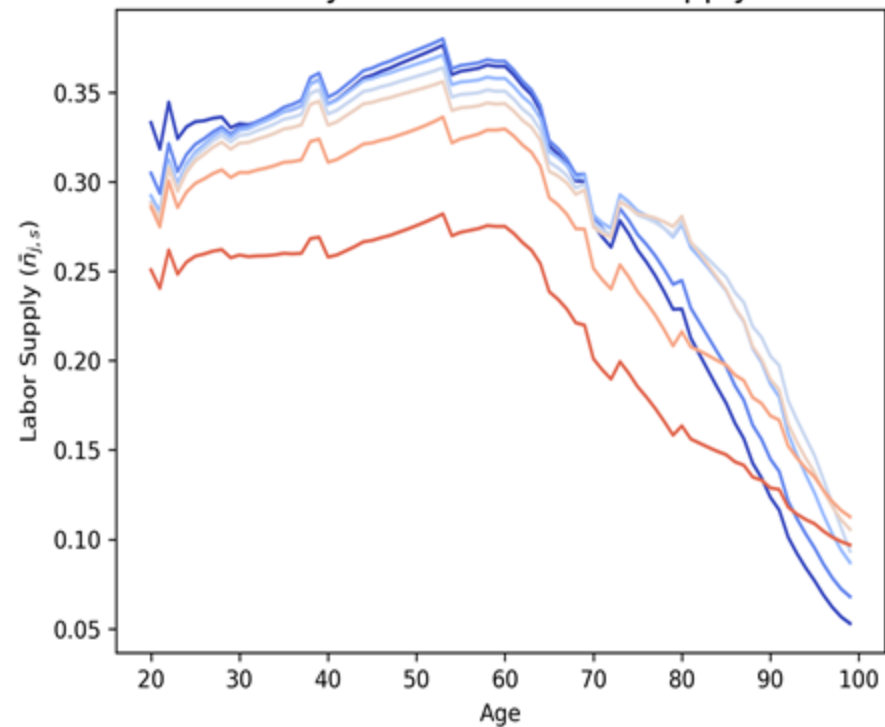
## BASELINE

Lifecycle Profile of labor supply

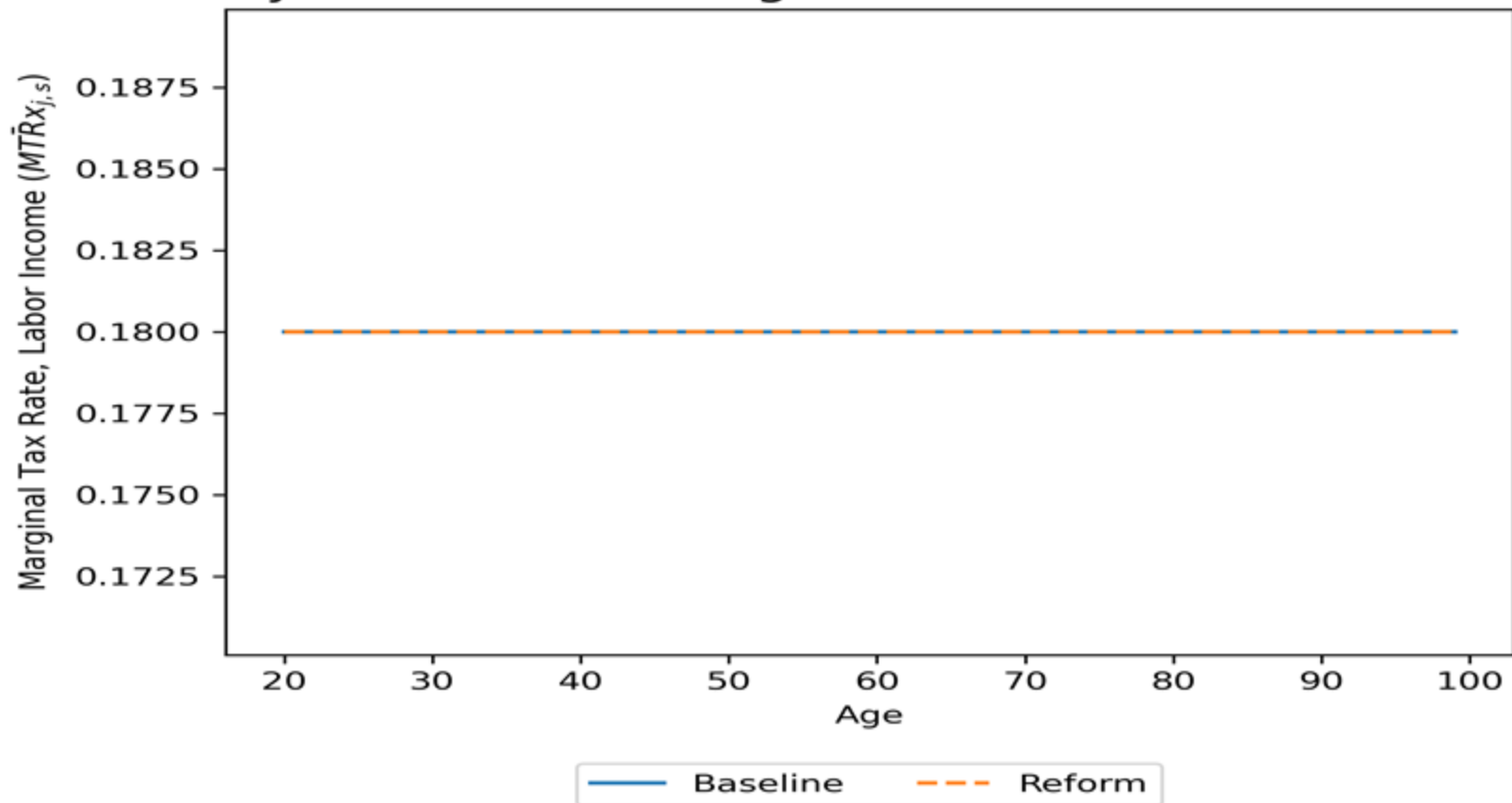


## REFORM

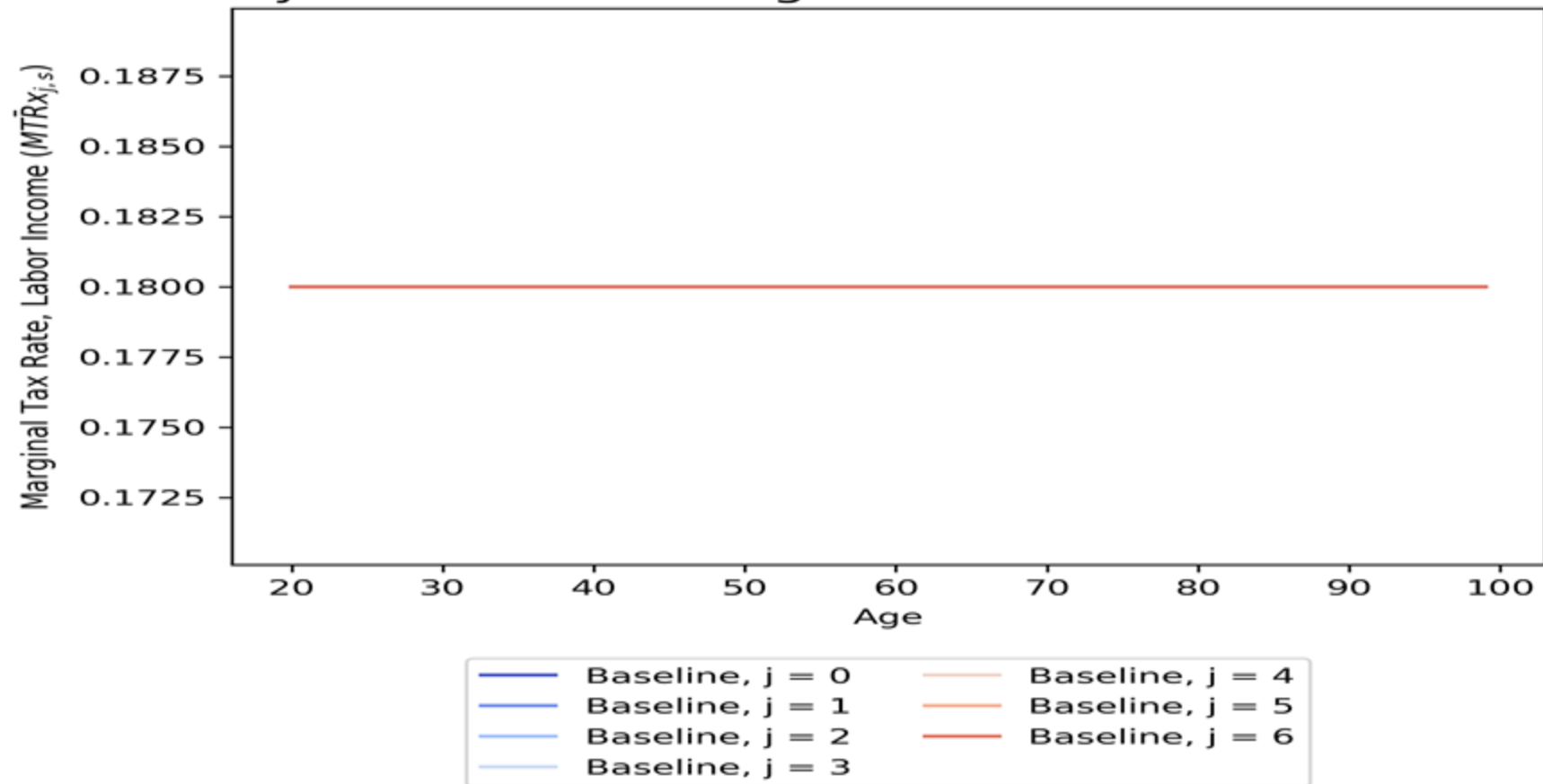
Lifecycle Profile of labor supply



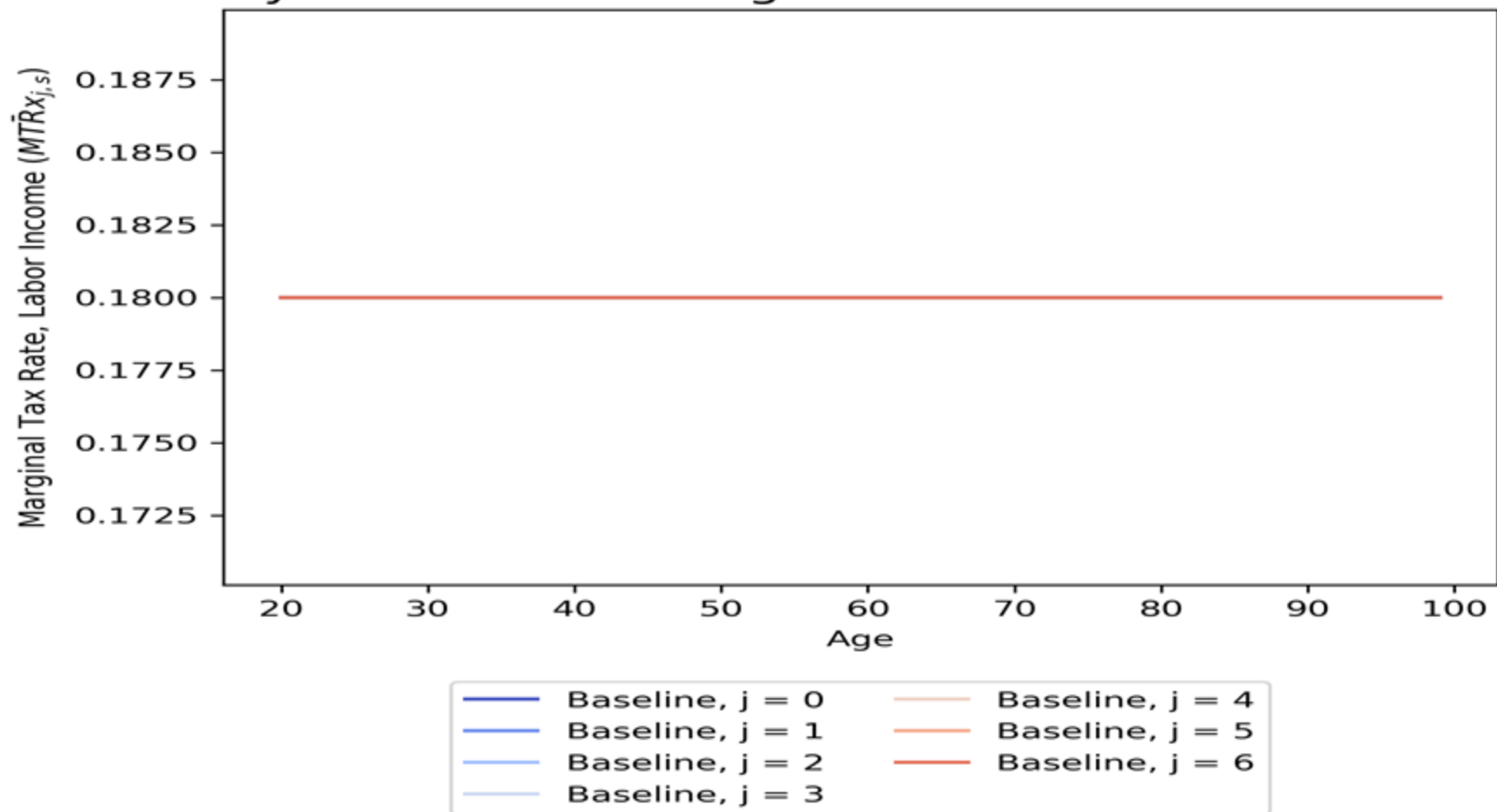
## Lifecycle Profile of marginal tax rates on labor income



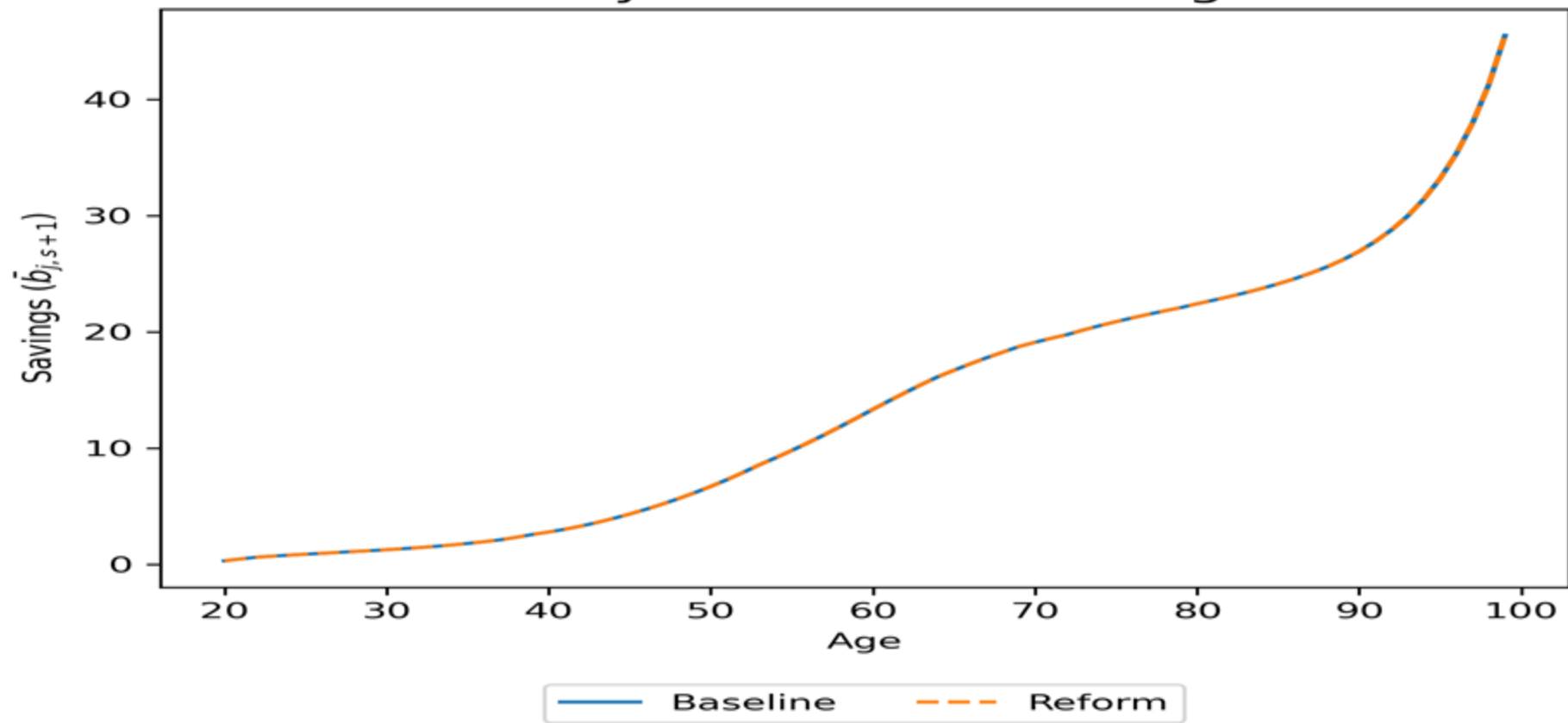
# Lifecycle Profile of marginal tax rates on labor income



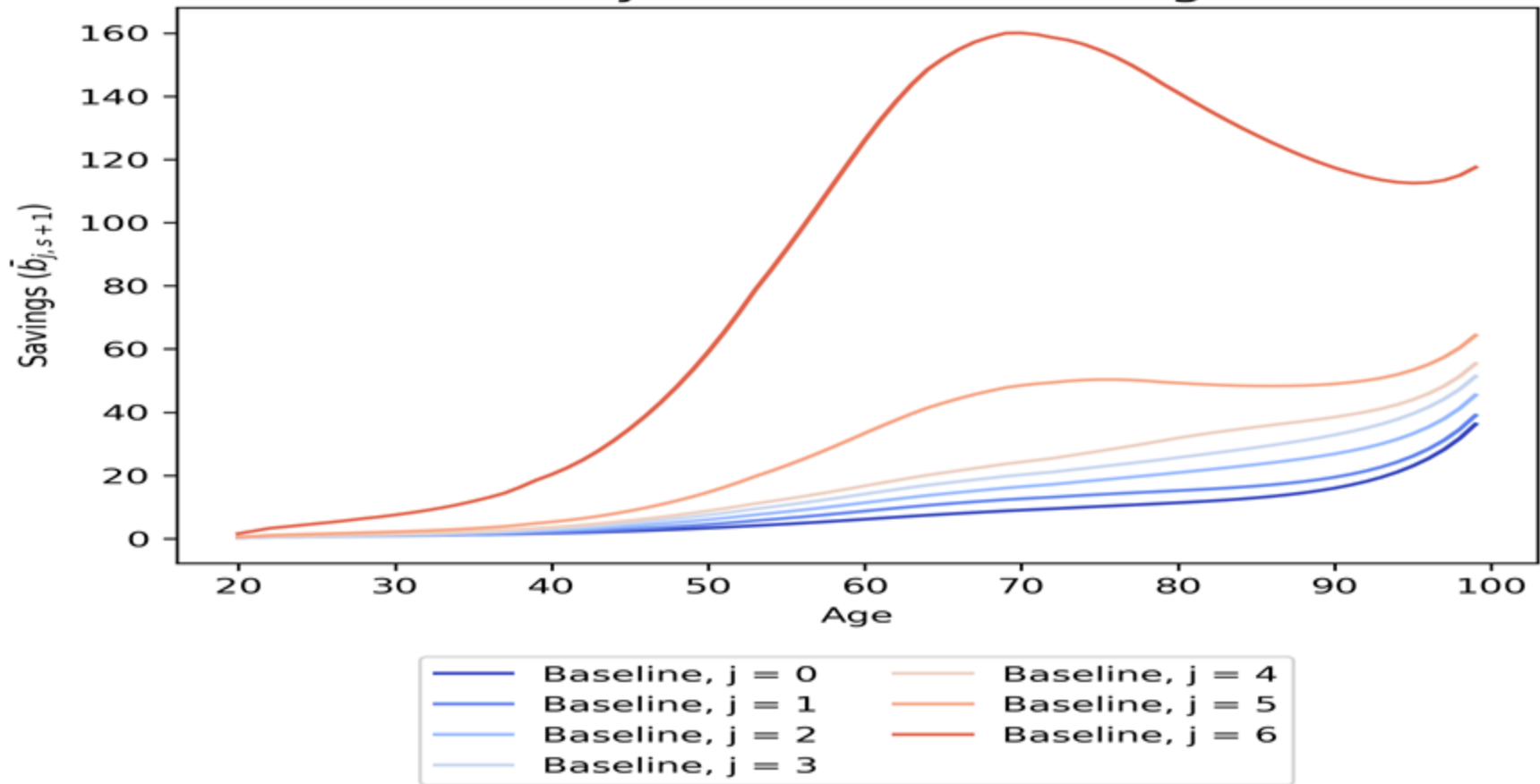
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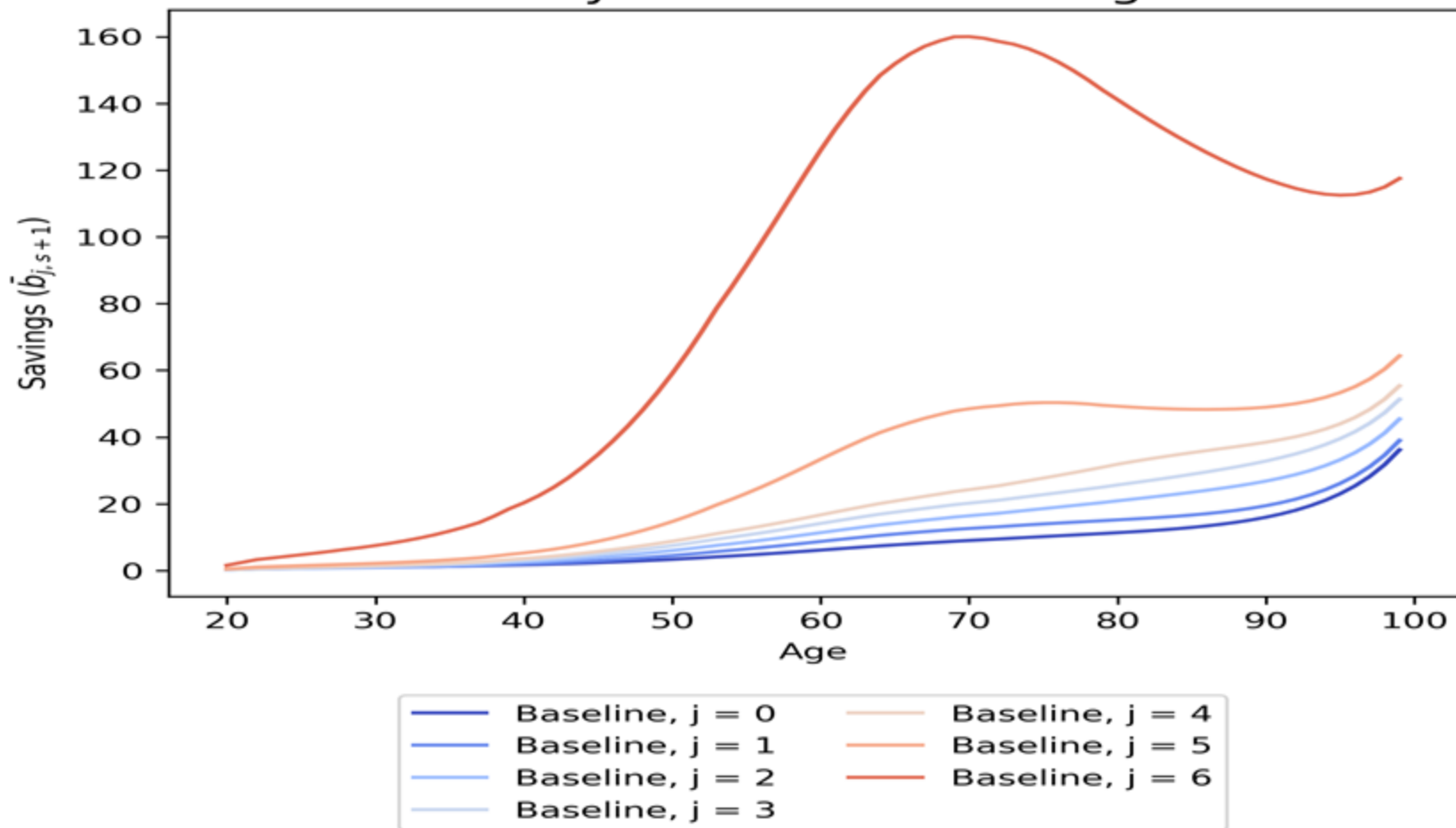
## Lifecycle Profile of savings



## Lifecycle Profile of savings



## Lifecycle Profile of savings





# Observations

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- No evidence of significant changes on youth unemployment (baseline versus reform)
- Apparent **increase in the labor supply** within the **lowest income group** (bottom 25%) and **upper middle-income** (80-90%), **top 1% (richest**
- There was a noticeable **increase in the savings rate** within the same income groups (0-25%, 80-90%), but a **slight decrease for the top 1%**, suggesting changes in their consumption pattern (i.e., higher spending for leisure / luxury spendings)
- The **lowest income group** showed the highest decline in consumption rate, supporting stronger savings behavior after the policy change. Perhaps, a precautionary move since there will be shorter longevity of retirement savings.

## Way Forward

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- Incorporate the age range or the demographic composition of the Philippine population
- Philippines has a multi-tier model pension system, compared to the US which is single-tier
- Look in the appropriate replacement rate for the PH
- Add to the model the ability to foresee the longevity of the pension system, the amount of monthly pay index, labor productivity by sector and by age