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Live today... for the future!

The seeming detachment of young middle-income earners from investing in retirement plans stems from a realistic point of view. It originates from a mindset that is simple to understand: live today. For this reason, it becomes easy to rationalize the disinterest in putting in earnings for future use. At one hand, it entails dealing with the uncertainty of achieving expected returns. It also lessens one's liquidity to conveniently accommodate the necessary, and more often than not unnecessary, daily expenses (like buying the latest car, smartphone, or laptop; traveling; and shopping for trendy apparel). More so, it comes with a serious commitment to contribute and maintain the plan, lest be faced with a costly consequence of incurring penalties. Perhaps it may even be unassuming to presuppose that the fear, yet possibility, of paying penalties is the more influential factor in refusing to make these investment decisions.

TOP OF MIND



**MARIA CARMELA
DE LEON HAUTEA**

This indifference may also be attributed to the existence of government-mandated retirement policies. For instance, the Labor Code of the Philippines mandates that an employee who is at least 65 years old shall be entitled to retirement pay equivalent to at least 1/2 month salary for every year of service. The SSS Law likewise dictates that retirement benefits shall be extended to a member who has reached 60 years and has paid at least 120 monthly contributions prior to the semester of retirement. On the same note, the GSIS Law entitles a member, who has reached 60 years, to a lump sum or cash payment retirement benefits – provided he has rendered at least 15 years of service and is not receiving a monthly pension benefit from permanent total disability. The mandatory nature of the foregoing benefits promises income during the retirement years ahead that, in a way, gives good reason for a young professional's downright disregard for other retirement investment opportunities. Besides, the foregoing statutes do not mention penalties that may be incurred by the employee himself.

With the enactment of Republic Act 9505 or Personal Equity and Retirement Account (PERA) Act of 2008, our lawmakers crafted an appealing and affordable retirement plan sans the customary reservations akin to investment risks. Alongside this development is the vision of the government to carry-out the declared policy of the State to promote capital market development and savings mobilization by establishing a framework of retirement plans comprised of voluntary personal savings and investments, which in this case is offered in the form of PERA.

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At the outset, PERA is a voluntary retirement account established for the exclusive use and benefit of the contributor, who is a natural person who establishes and contributes to a PERA, has a TIN, and has the capacity to contract, for the purpose of being invested solely in PERA investment products in the Philippines. A contributor can open a maximum of five PERA accounts with an accredited PERA administrator, which is an entity accredited by the Bureau of Internal Revenue (BIR) such as a bank, an insurance company, or a securities broker. An accredited custodian shall be responsible for receiving funds and reporting financial transactions to the contributor. The contributor can also authorize an investment manager to make investment decisions for his PERA investments.

Aside from being non-speculative and readily marketable, the security that investment in PERA bring is that the investment products must have a track record of regular income payments to investors. It could be a unit investment trust fund, share of stock of mutual fund, annuity contract, insurance pension product, pre-need pension plan, shares of stock or other securities listed and traded in the local stock exchange, exchange-traded bond, government securities, and other category of investment product or outlet. Remarkably, the annual aggregate maximum contribution is only for a minimal amount of P100,000 or its equivalent in any convertible foreign currency at the prevailing rate at the time of the actual contribution or P200,000 if the contributor is an overseas Filipino.

The appeal of contributing in PERA also comes with a taxpayer-friendly treatment of the PERA investment income. Under Revenue Regulations 17-2011 dated 27 October 2011 otherwise known as Implementing the Tax Provisions of RA 9505, income earned by the PERA assets in the maximum amount allowed by RA 9505 and RR 17-2011 shall be exempt from taxes such as final withholding tax (FWT) on interest from any currency bank deposit, yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements, including a depositary bank under the expanded foreign currency deposit system; capital gains tax (CGT) on the sale, exchange, retirement or maturity of bonds, debentures or other certificates of indebtedness; 10 percent tax on cash and /or property dividends actually or constructively received from a domestic corporation, including a mutual fund company; CGT on the sale, barter, exchange or other disposition of shares of stock in a domestic corporation; and regular income tax. As if these incentives are not enticing enough, a qualified contributor shall also be entitled to a tax credit in the amount of five percent of the aggregate qualified PERA contributions made in the calendar year.

Reaping the expected fruits of one's investment is the essence of every risk-taker's appetite for venturing into this playing field. Tagged as contributions to a retirement account, PERA assets are distributed after the contributor has reached the age of 55 years, provided he has contributed for at least five years. It may also be distributed to his beneficiaries upon his death without taking into account his age and number of yearly contributions. Fortunately, this is not absolute. Early withdrawals are allowed in the event of an immediate transfer of proceeds to another qualified / eligible PERA investment product within two working days from withdrawal; for payment of accident

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or illness-related hospitalization in excess of 30 days; or for payment to a contributor who has been subsequently rendered permanently totally disabled.

Understandably, early withdrawals in violation of the foregoing exceptions shall be subject to the imposition of taxes in the form of penalties. However, RR 17-2011 seemed to demand exorbitant penalties for failure to comply with the distribution requirements of the law. Aside from being liable to pay five percent tax credit, the contributor shall also pay withholding tax on compensation/FWT on fringe benefits due on the qualified employer's contribution; income tax due on all income from investment and/or reinvestment; FWT on interest from any currency bank deposit, yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements including a depository bank under the expanded foreign currency deposit system; 10 percent final tax on cash and/or property dividends actually or constructively received from a domestic corporation, including mutual fund company; CGT on the sale, barter, exchange or other disposition of shares of stock in a domestic corporation; stock transaction tax on the sale, barter, exchange of shares of stock listed and traded through the local stock exchange or through initial public offering; CGT on the sale, barter, exchange, retirement or maturity of bonds, debentures or other certificates of indebtedness; or regular income tax, depending on the chosen PERA investment product.

Perceived as a stumbling block to the success of PERA, the BIR promulgated RR 10-2016 dated Dec. 26, 2016 where BIR altered the penalties attached to improper early withdrawals. While the new law retained the five percent tax credit penalty payment, it replaced the rest of the penalties with a flat rate of 20 percent based on the total income earned by the said account from the time of its opening/creation up to the time of withdrawal. This modification translates to a lesser penalty in view of the application of a singular rate of penalty on the income earned by the retirement account.

Clearly, some early withdrawals are coupled with a strong determination of necessity on the part of the contributor to withdraw funds from his retirement account. His dilemma arises upon the need to withdraw and deal with penalty exposure. With the tempering of penalty under RR 10-2016, the BIR has come to appreciate this circumstance. However, penalties must still be appreciated in view of the government's objective to encourage the contributors to maintain their personal retirement account and serve its purpose. Notwithstanding this, PERA has become more appealing to the investing public with the lower penalty brought by RR 10-2016. More importantly, this may elevate PERA to one of the more practical choices for an additional and affordable retirement plan.

In hindsight, the Monetary Board only approved the guidelines for the accreditation of PERA market participants (administrators, investment managers and custodians) and PERA-eligible investment outlets during the last quarter of 2014. This suspended the implementation and immediate marketability of PERA despite its promulgation in 2008.

To reintroduce PERA to the public, the Bangko Sentral ng Pilipinas finally launched the PERA system last December 2016. This jumpstarted the retirement account vis-à-vis the government's objective to prepare Filipinos for their retirement while recognizing PERA's contribution to fiscal sustainability.

For majority of young middle-income earners, parting with hard-earned money to invest in a retirement account is not as appetizing as allotting a portion of one's income to fund a new gadget or expensive designer merchandise. With the attached

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risks involved, and the assurance brought by the retirement plans under the Labor Code, SSS law, and GSIS law, there is reason to forego investing in another retirement account.

The advent of PERA and its implementing regulations paved way for the government to offer an attractive personal retirement plan that is affordable, reliable, and feasible. More so, the amendment of penalties under RR 10-2016 mitigated the inescapable payment of taxes attached to pulling out of funds before the distribution date. The availability of accredited PERA administrators and the take-off of the PERA system late last year also culminated the government's determination and effort to finally put the PERA system into operation. Coupled with a strong information campaign on PERA, the appeal of PERA shall reach interested and voluntary contributors and market participants alike and be the leading voluntary retirement plan for Filipinos.

With all these in place, a young middle-income earner's mindset should transform: live today...for the future!

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