



## **MEMORANDUM ORDER NO. 2013 - 26**

### **CLASSIFYING ARMED FORCES OF THE PHILIPPINES RETIREMENT AND SEPARATION BENEFITS SYSTEM (AFP-RSBS) AS DISSOLVED/LIQUIDATED/INACTIVE UNDER GCG ANNEX A**

**WHEREAS, ARMED FORCES OF THE PHILIPPINES RETIREMENT AND SEPARATION BENEFITS SYSTEM (AFP-RSBS)** was created on 08 October 1976 following the passage of Presidential Decree (P.D.) No. 361 on 30 December 1973;

**WHEREAS**, on 15 December 2006, Executive Order (E.O.) No. 590 "*Deactivating the Armed Forces of the Philippines Retirement and Separation Benefits System by 31 December 2006 and Directing the Transfer of its Assets in Trust to a Government Financial Institution (GFI), and For Other Purposes*" was passed;

**WHEREAS**, on dated 01 January 2007, E.O. No. 590-A was passed which further amended E.O. 590 and reiterates the transfer of its assets in trust to a GFI.

**WHEREAS**, among the reasons stated for the deactivation of the AFP-RSBS was that the System was "fundamentally flawed" and that it had not discharged its mandate. E.O. No. 590 likewise stated that a study on the financial status and condition of the AFP-RSBS by the *KPMG Laya Mananghaya & Co. Philippines* show the following:

- (A) Inappropriateness of AFP-RSBS investment portfolio which consisted mainly of non-liquid assets (*i.e. real estate, equity investments in and advances to non-traded companies*) that take a long time to dispose, are risky and with very long yields;
- (B) Slow fund build-up and inability to achieve its goal of self-sufficiency caused primarily by the low rate of profitability of a majority of its assets, classified as non-productive and non-yielding;
- (C) Illiquid position as a large portion of its assets is non-earning or low-yielding investments; and
- (D) Inability of AFP-RSBS to follow a Board Resolution following a Senate Blue Ribbon Investigation in 1998 to divest and liquefy all real estate assets and to focus on fixed-income investments.

**WHEREAS**, since 2006, no formal deactivation of the AFP-RSBS has taken place;

**WHEREAS**, Section 5 (a) of R.A. No. 10149 empowers the Commission to "[E]valuate the performance and determine the relevance of the GOCC, to ascertain whether such GOCC should be reorganized, merged, streamlined, abolished or privatized, in consultation with the department or agency to which

a GOCC is attached. For this purpose, the GCG shall be guided by any of the following standards:

X X X

(3) The GOCC is not producing the desired outcomes, or no longer achieving the objectives and purposes for which it was originally designed and implemented, and/or not cost efficient and does not generate the level of social, physical and economic returns vis-à-vis the resource inputs;

X X X

**WHEREAS**, the GCG has determined that the current benefit structure of AFP-RSBS where pensioners receive a guaranteed 6% annually compounded return on their contributions along with 85% of the next higher grade level monthly salary proves to be unsustainable. AFP-RSBS' return on assets from 2002-2004 is only 1%-2% compared to the guaranteed return of 6%;

**WHEREAS**, the GCG has further determined that the AFP-RSBS is no longer producing the desired outcome for which it was created and is no longer cost efficient, nor does it still generate the economic returns it should be producing vis-à-vis the resource inputs;

**WHEREAS**, Section 5 (b) of R.A. No. 10149 authorizes the Commission to "Classify GOCCs into: (1) Developmental/Social Corporation; (2) Proprietary Commercial Corporations; (3) Government Financial, Investment and Trust Institutions; (4) Corporations with Regulatory Functions; and (5) Others as may be classified by the GCG, without prejudice to further sub-classifications in each category and/or any other classification based on parameters as it may find relevant or material such as, but not limited to, industry type. The classification shall guide the GCG in exercising its powers and functions as provided herein";

**WHEREAS**, in order to properly account for all the GOCCs, GFIs, and GICPs/GCEs, including their subsidiaries, turned-over to the Commission by Congress, as well as those which have been accounted for since the constitution of the Commission, the GCG has included as classification in **ANNEX A – CLASSIFICATION OF GOCCS BY SECTORS**, of those which have been abolished, dissolved or have become inactive under "**DISSOLVED/LIQUIDATED/INACTIVE**", which is undertaken through the issuance of a M.O. pursuant to a formal memorandum submitted to the Commission;

**NOW, BE IT –**

**RESOLVED, ARMED FORCES OF THE PHILIPPINES RETIREMENT AND SEPARATION BENEFITS SYSTEM (AFP-RSBS)** shall be classified as "**DISSOLVED/LIQUIDATED/INACTIVE**" under the Commission's **ANNEX A – CLASSIFICATION OF GOCCS BY SECTORS**.

**DONE**, in the City of Manila, this \_\_\_ day of May, Two Thousand Thirteen.

BY AUTHORITY OF THE COMMISSION:



**CESAR L. VILLANUEVA**  
*Chairman*



**MA. ANGELA E. IGNACIO**  
*Commissioner*



**RAINIER B. BUTALID**  
*Commissioner*