

**THE GOVERNMENT SERVICE INSURANCE SYSTEM:
PUBLIC OR PRIVATE?**

**An Undergraduate Thesis
Presented to**

**The Faculty of the Department of Social Sciences
College of Arts and Sciences
University of the Philippines
Manila**

**In Partial Fulfillment
of the Course Requirements for the
Degree of Bachelor of Arts in Social Sciences
Major in Political Science**



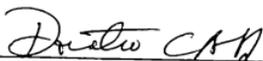
**Edgardo Niño D. Florentino, Jr.
2000-10875**

March 2004

University of the Philippines Manila
College of Arts and Sciences
Padre Faura, Ermita, Manila

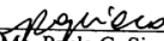
APPROVAL SHEET

This thesis entitled, "The Government Service Insurance System: Public or Private?", prepared and submitted by Edgardo Niño D. Florentino, Jr., is hereby accepted and approved in partial fulfillment of the requirements for the degree of BACHELOR OF ARTS IN SOCIAL SCIENCES, MAJOR IN POLITICAL SCIENCE.



Prof. Doroteo Abaya, Jr.
Thesis Adviser
Department of Social Sciences

This undergraduate thesis is hereby accepted and approved in partial fulfillment of the requirements for the degree of BACHELOR OF ARTS IN SOCIAL SCIENCES, MAJOR IN POLITICAL SCIENCES.



Prof. Ma. Paula G. Sioco, Ph.D.
Chairperson
Department of Social Sciences

ACKNOWLEDGEMENTS

PASASALAMAT

Ang pag-aaral na ito ay resulta ng isang taong pagsasaliksik ukol sa nasabing institusyon ng Pilipinas, ang Government Service Insurance System (GSIS) o ang Pasiguruhan ng mga Naglilingkod sa Pamahalaan. At sa aking pag-aaral at pagpapatuloy ng *thesis* na ito ay marami akong mga taong nakasalamuha na naging gabay sa pagkakabuo ng lahat ng ito.

Maraming salamat sa Diyos, na kahit anung nangyari ay nandiyan upang gabayan ako.

Maraming salamat sa buong institusyon ng GSIS na naging bukas ang pinto sa akin upang makapagsaliksik nang maayos. Gayun din ang pasasalamat ko sa mga opisyaales na pumayag na aking makapanayam upang mabigyang linaw ang ilang bahagi ng pag-aaral na ito.

Maraming salamat sa aking *blockmates* sa Political Science Block Four (4) na apat na taon ko nang nakakasama. Gayun din ang pasasalamat ko sa Political Science Block Five (5) na nakasama ko rin noong unang taon ko sa UP Manila at sa *practicum* ko sa Senate of the Philippines.

Gusto ko rin ipaabot ang aking pasasalamat kina Timmy Alonzo at kay Charlene Valdez. Marami kayong naituro, naitulong at naibahagi sa buhay ko sa UP Manila. Cha, maraming salamat talaga sa lahat, lahat, lahat.

Gusto ko rin magpasalamat sa buong Kapatirang Sigma Kappa Pi – Balangay UP Manila. Kayo ang nagsilbing ilaw at gabay ko sa UP at sa buhay. Ang lahat ng naituro ng kapatiran sa akin ay pinaniniwalaan kong magdadala sa akin sa tagumpay sa hinaharap.

Maraming salamat sa mga residenteng *brods* na naabutan at maiiwan ko. Salamat Danny Jimena, Carlo Logro, Kerry Manalo, Bryan Novero, Raslanie Bangcola at Raymund Ventura. Sa lahat ng saya, problema at inuman ay andiyan kayo para sa akin. Marami kayong naituro sa ilang taon nating pagsasama.

Hinding-hindi ko makakalimutang pasalamatan ang lahat ng alumni brods ko. Mula kay Bert Fabian, Jibong Cristi, Mike Mabutol, at Jericho Asuncion. Brods, salamat talaga nang marami.

Maraming salamat, Freddie Saranggaya sa lahat ng naituro mo sa akin. Salamat sa lahat ng diskarte at mga suporta mo sa akin.

Maraming salamat din sa mga tunay na sisses ng Kapatirang Sigma Delta Pi – Balangay UP Manila na naabutan ko sa UP. Lynn at Vangie, maraming salamat talaga. Kung wala kayo, hindi rin ako EKPI ngayon. Kina Kehlene, Donna, at Gie, maraming salamat sa inyong mga pag-iintindi.

Sa aking mga *batchmates*, Marc, JR, at Tiong...salamat sa apat na taon nating kulitan, asaran at pag-aaral. Ang lahat ng narating ko ngayon ay resulta ng mga tulong ninyo. Sa mga group works at paper na talagang napaghusayan natin, salamat. Marc, hindi ko alam kung pano kita pasasalamatan, pero maraming-maraming salamat.

Maraming salamat sa buong Department of Social Sciences (DSS), partikular na sa lahat ng *professors* na tumulong sa akin: Prof. Castillo, Prof. Jimenez, Prof. Jose, Prof. Tuazon, Prof. Gutierrez at Prof. Rosales. Ang lahat ng naibahagi ninyo sa akin ay nakatulong nag malaki sa akin at sa *thesis* na ito.

Prof. Bing Ragsag, maraming salamats sa pag-iintindi, pagtitiyaga at pasensya ninyo sa akin. Maraming salamats sa patuloy ninyong pagtulong sa akin at panggabay sa *thesis*. Maraming salamats sa mga naibahagi ninyo sa akin sa PS 199 at PS 200.

Prof. Doroteo Abaya, maraming salamats sa lahat ng naitulong ninyo sa akin sa buong pag-aaral ko at lalo na sa *thesis* na ito. Maraming salamats sa lahat ng mga payo ninyo. Sir Doti, maraming salamats.

Gusto kong magpasalamat sa Partido Alyansa ASAP-KATIPUNAN (Alternative Students' Alliance for Progress – Katipunan ng mga Progresibong Mag-aaral ng Bayan). Kayo ang partidong kinamulatan ko sa UP Manila. Salamats sa tama at tunay na linyang naituro ninyo sa akin.

Gusto kong magpasalamat sa aking mga magulang. Daddy...maraming salamats sa'yo. Hindi ako ganito katibay at kalakas kung hindi dahil sa iyo. Daddy, kahit wala na kayo sa pagpasok ko ng college, kayo ni mommy pa rin ang naging inspirasyon ko. I miss you, Daddy.

Mommy, salamats talaga sa pag-aalaga ninyo sa akin. Ang lahat ng paalala mo ay talagang nakatulong sa akin, sa aking pag-aaral at sa aking buhay. Maraming salamats sa lahat ng pag-iintindi at sa lahat ng paalala ninyo. *You're the greatest mom for me*. Maraming salamats, *I love you*.

Mahal ko kayo Daddy and Mommy. Muli, maraming salamats.

Gusto ko ding magpasalamat sa mga kapatid ko: Ate Tintin, Kuya, Ate Chi, at Ate Casa. Salamats sa inyong patuloy na suporta. Mahal ko kayo.

Maraming salamat kay Inang, Tatay Peping, Tatay Resting, Nanay Lani, Tatay Roger, Nanay Lourdes, Tito Gerry, at Tita Flora na laging nagpapagaan ng loob ko kapag nasa bahay ako ng taong hindi na tumigil sa pagtulong sa akin...si Dang.

Gayun din and pagpapaabot ko ng pasasalamat kina Lea, Carmina, Katkat, at Gracielle.

Dang, maraming salamat sa lahat. Salamat sa lahat ng pagtulong at suporta sa akin. Sobrang salamat sa mga pagpupuyat natin para lang makapag-aral at makagawa ng *thesis*. Salamat sa lahat ng payo, kulit at saya. Sobrang *blessed* ako na andiyan ka pa rin para sa akin. Mahal na mahal kita at hindi kita malilimutan. Salamat.

Muli, sa lahat, maraming salamat sa mga payo, suporta at mga paalala na naibigay ninyo. Kayong lahat ang nagbibigay ng lakas ng loob sa akin. Naging maswerte ako na sa pag-aaral ko dito sa Unibersidad ng Pilipinas – Maynila ay nakasama ko kayo. Siguradong wala ako sa kinalalagyan ko ngayon kung hindi dahil sa inyo. Maraming-maraming salamat sa lahat!

ABSTRACT

This study is about the Government Service Insurance System (GSIS). This study tries to determine the objectives of the GSIS, the GOCC mandated by the Philippine constitution to safeguard the interest and benefit of the public workers.

It also aims to see its current status and efficiency of the GSIS, whether it is continuing serving those employees in need or just serving the GSIS employees.

In support to the previous claim, this study also wants to discuss the searing issues attacking the GSIS. It will basically go into detail of several problems of the GSIS that the people and government employees found out in their system.

Through these various cases questioning the efficiency of the GSIS, the research aims to find out if the GSIS is still on the side of the public sector or more of on the side of the private sector.

Through the exploration of the controversies of the GSIS and with the use of Joseph Stiglitz' 10-point framework, the paper aims to analyze whether the GSIS is leaning towards the side of the public sector or the private sector.

Leaning to the public sector may mean that the GSIS serves the workers or, in Marxist terms, the proletariat. On the other hand, leaning to the private sector may mean that the GSIS is serving the ruling class or the bourgeoisie. All of these are in consideration of the Marxist way of understanding – that the state is the tool of the ruling class to further their interests.

TABLE OF CONTENTS

	Page
Title Page	i
Approval Sheet	ii
Acknowledgements	iii
Abstract	iii
Table of Contents	vii
CHAPTER I: INTRODUCTION	
Background of the Study	1
History of the Government Service Insurance System	1
CHAPTER II: THESIS PROBLEM	
Statement of the Problem	6
Rationale	6
Objectives	8
Significance of the Study	8
Scope and Limitations	9
Hypothesis	9
CHAPTER III: REVIEW OF RELATED LITERATURE	
The Government	10
The State	11
The Capitalist and Socialist Views of the State	15
The Philippine Case	19
The Government Service Insurance System	21
The Need for Social Service	26
Summary	30
CHAPTER IV: RESEARCH FRAMEWORK	
Theoretical Framework	32
Diagram of Theoretical Framework	35
Conceptual Framework	35
Diagram of Conceptual Framework	38
Definition of Terms	38
CHAPTER V: METHODOLOGY	
Methodology	39
Sampling	40
Measurement Instruments	40
Data Analysis	41

CHAPTER VI: PRESENTATION OF DATA	
History of the GSIS	43
The Basic Functions of the Agency	44
Services Provided by the GSIS	45
Vision and Mission Statement	47
Priorities and Direction of the GSIS	47
General Problems of the Financial Institutions of the Philippines...	48
Focus Number 1: GSIS' "Unfair" Retirement Scheme	50
Focus Number 2: Retired Executives Turned Millionaires	60
Focus Number 3: Overpaid GSIS Employees	65
Focus Number 4: GSIS Delay in Releasing Benefit Payments	69
Focus Number 5: The Manifestations of an Irresponsible GSIS	70
Focus Number 6: "Parisian Life" Controversy	76
CHAPTER VII: DATA ANALYSIS	
Data Analysis	87
CHAPTER VIII: SUMMARY, CONCLUSION AND RECOMMENDATIONS	
Summary	94
Conclusion and Recommendation	98
CHAPTER IX: REFERENCES	101

LIST OF DIAGRAMS AND TABLES

DIAGRAMS AND TABLES	
Diagram of Theoretical Framework	35
Diagram of Conceptual Framework	38
Table 1.1: RA 8291 Computation Formula	52
Table 1.2: RA 8291 RAMC and Average Monthly Compensation Formula	53
Table 1.3: PD 1146 AMC Formula	54
Table 1.4: PD 1146 RAMC Formula	54
Table 1.5: PD 1146 CP Formula	55
Table 1.6: Magic 87 Formula	56
Table 2.1: GSIS Executives who Retired from Office	60
Table 2.2: ELIP Packages of the 16 GSIS Employees	62
Table 3.1: Salaries of the Highest and Lowest Employees of the GSIS	66

CHAPTER I INTRODUCTION

Background of the Study

Like any organization, a government needs manpower in order for it to execute its day-to-day activities. Without its huge workforce, a government will be paralyzed and will not be able to deliver its mandate.

In the Philippines, where living conditions are weak and development is slow, a civil service post will hardly be a lucrative job. Because of budget austerity imposed by international financial organizations, the government is deeply in financial problems due to its debts. Along with this the civil service sector also encounters problems in its financial distribution of compensation.

In order to create a more lucrative civil service, the government must create a body that will provide civil servants with promising benefits through insurance premiums and loan options. But, because of the low budget, the government must create a body that will be able to sustain itself financially. Hence, the government created the GSIS to provide insurance benefits for government employees.

History of the Government Service Insurance System

The GSIS is a very immense company. It has a workforce of roughly 2,900 employees nationwide. Its Head Office is at Pasay City inside the CCP Complex. It administers a trust fund of approximately 187 billion pesos coming from 1,472,000 members across the Philippine islands.

The System started with the passage of Commonwealth Act 186 on May 31, 1937. Salvador Lagdameo was its first head. With the first appropriation of 200,000

pesos and only 58 members manning its operations, the first General Manager and Chairman of the Board laid down the foundation for the organizational structure of the System and promulgated the plans for its operations.

In 1939 until the end of World War II, the system was abolished and replaced by the Public Employee Life Insurance Bureau. Before the restoration of the Commonwealth Government in 1945, Dr. Luis Salvosa conducted its affairs and safeguarded its interests.

In the period of March 1945 to July 1946, Mariano G. del Rosario took care of reorganizing and rehabilitating the System.

On July 1946, Salvosa came back to lead the GSIS and started with the task of the recovery from losses suffered during the war years. It was at that time that the System started granting salary loans.

The year 1949 became a significant year for the GSIS because it had regained its financial stability and started to declare bonuses from the Life Insurance Fund.

On June 16, 1951, the Republic Act or RA 660 was passed and GSIS started the process for the provisions of retirement benefits to government employees and expanded the insurance coverage and protection of government property.

In 1954, under the leadership of Gregario Licaros, the GSIS increased its service loans and started to actively participate in government projects such as in housing, public hospitals, public works and other government projects.

On June of 1955, GSIS had another change of leadership. Captain Rodolfo P. Andal took over the GSIS and initiated measures to extend more benefits and privileges such as granting individual loans to GSIS members. Later, the System started giving out Mortgage and Loan Redemption Insurance Plans.

The Business Writer's Association of the Philippines gave it an award due to Andal's effort to renew the functions of GSIS for it to become a strengthened factor in nation building. GSIS was named "Government Firm of the Year" in 1955.

In 1957, the University of the Philippines' Institute of Public Administration awarded the GSIS the "Best in Service Training Program" trophy.

To fulfill the requirement of serving its members in the regions, GSIS opened its first regional office in Cebu on February 1, 1957 to take care of its members in the Eastern Visayas Region.

During the Period of 1962-1970, GSIS had new legislation and amendments made on CA 186 to further liberalize benefits to members. New choices of retirement schemes were introduced. Benefits and load packages were expanded. Greater insurance coverage was marketed.

In the 1970's, two new insurance funds were added: the Health Insurance Fund and the State Insurance Fund.

Additional revisions were made on the charted to increase and expand coverage to government workers. Funds were channeled from industrial and commercial loans to massive low cost housing.

On April of 1986, reviving from the EDSA Revolution, President Corazon Aquino appointed Feliciano Belmonte, Jr. as the new head of GSIS. Under his leadership, GSIS operated under a no-frills management policy and immediately took steps to restore, preserve and improve the solvency and liquidity of all fund entrusted to it.

On July of 1992, Cesar N. Sarino succeeded Belmonte through the appointment of President Fidel V. Ramos. As the new President and General Manager, Sarino developed

the institution's finances and bureaucracy. One of his major achievements was the passage of RA 8291, the New GSIS Charter.

Presently, the GSIS is headed by Winston Garcia under the Arroyo administration.

The Government Insurance Service System (GSIS) is one of the country's Government-Owned and Controlled Corporations (GOCCs). Its assets reach billions of pesos and boasts of programs geared towards the welfare of government employees.

Unfortunately, the GSIS has been recently under fire due to a lot of controversies it experienced under its System. It has been seen as a grand spender despite its inability to provide certain services for its clients. Because of this, many have come to question its relevance as it has failed to deliver up-to-par service.

In a Marxist analysis, there is an existence of class antagonisms and recognition of oppression. According to Marx, "society as a whole is more splitting up into two great hostile camps, into two great classes directly facing each other: the Bourgeoisie and the Proletariat."¹ In this framework, the state is seen as a tool to further the interests of the ruling class. According to Frederick Engels, "the modern state, again, is only the organization that bourgeois society takes on in order to support the external conditions of the capitalist mode of production against the encroachments as well of the workers as of individual capitalists. The modern state, no matter what its form, is essentially a capitalist machine, the state of the capitalists, the ideal personification of the total national capital."²

¹ Marx, K. "*Manifesto of the Communist Party*." 1848.

² Engels, F. "*Socialism: Utopian and Scientific*." 1880.

This thesis aims to view the GSIS if the system is serving the interests of the ruling class or the oppressed class, which is its real mandate. The GSIS can be seen as a tool used by the Government to further the members of the bourgeois ruling class rather than the working class that it is supposed to serve. In view of this, this thesis aims to see if the GSIS is leaning towards the public sector or the private sector in order to define what section of society it is indeed servicing.

CHAPTER II THESIS PROBLEM

Statement of the Problem

Does the GSIS serve the interests of a broad base of people or does it stand to serve only a few people? Are its actions leaning towards the public sector or the private sector?

Rationale

Any organization requires manpower in order to perform its functions. Without manpower or labor, organizations would cease to function. And in order to motivate workers to continue in their work, an attractive compensation and benefits package must be put forth. In the same way, governments, as state organizations, need workers to run its daily business. In order for governments to continue their work, the government concerned must be able to put forth an attractive compensation and benefits package.

Workers in organizations work for the purpose of accruing wealth for their day-to-day living. Sometimes, compensation is not enough and organizations provide insurance and loan benefits to augment the compensation of the workforce. Because of the compensation and the added benefits, workers continue to stay in organizations and produce quality work. In the event that the worker feels that the compensation is not proportional to the amount of work he is doing or if the benefits are not inviting, the quality of work may degrade or may completely stop at all.

To compensate employees who work for the government, the Philippine government provides salaries and wages to its workers. To further supplement this, the government provides benefits and loans through the Government Service Insurance

System (GSIS). In effect, the GSIS ensures that Philippine government workers' welfare is taken care of, and also gives an incentive for government workers to work well.

Unfortunately, the GSIS has been under fire recently because, for a time, it was unable to speedily release loans for government workers who at the time were necessitating it. Aside from this, there were numerous controversies hounding their system – it seemed as if the GSIS had funds but were not releasing them or the GSIS has no funds at all which causes such delays. The reason of this lost funds are said to be caused by the GSIS employees themselves.

Because of this, several questions have arisen: Is the GSIS still carrying out its mandate? Does the GSIS have the financial backbone to insure its operations? If so, why is the service of the GSIS being criticized? Are its funds going elsewhere? Is the GSIS serving the Philippine employees or the GSIS employees? These and other questions are what this paper wishes to answer.

An effective government depends on the output of effective workers; and to keep workers effective, there must be an attractive compensation and compensation package to ensure the welfare and satisfaction of the specific government worker. The GSIS is one of the organizations that contribute to this end. If the GSIS works ineffectively, there may be adverse effects to the governmental workforce and consequently, to the government's operations.

Objective of the Study

The objective of this thesis is to analyze the effectiveness of the GSIS. It aims to see the GSIS in the proper light and to determine if it indeed exists to serve government workers.

The specific objectives are:

1. To determine the GSIS objectives;
2. To describe its current status and efficiency;
3. To identify the issues attacking the GSIS;
4. To explore the controversies regarding GSIS' actions;
5. To analyze the situation in the GSIS if it is leaning to the public sector or the private sector.

Significance of the Study

The study is significant for the mere fact that it analyzes the effectiveness of a Government Owned and Controlled Corporation (GOCC). A GOCC is a special type of Government Organization that is owned by the government (or the public sector) but is controlled and run like a private corporation.

The GSIS is the GOCC that is tasked to provide insurance and loan benefits to government employees in the quest for creating a better compensation package for civil servants. The GSIS is valuable as it serves all government employees all throughout the Philippines.

Moreover, it is important to study the effectiveness of the GSIS as it is funded principally through contributions from the members and is also financed through returns

on investments. In effect, the GSIS has to answer to a lot of people because it is funded by a broad subset of society. Any controversy in it deserves public interest.

Finally, an analysis of the GSIS will provide an insight into the quality of governance the country has. As parts make up a whole, a good part will contribute towards a good whole and inversely, a decayed part will eventually create a decayed whole. The GSIS is part of the Philippine Government and its weaknesses will reflect on the Philippine government and Philippine society in general.

Scope and Limitations

The study will focus on the GSIS, and the issues already surrounding it. It will not focus on the people involved, rather, on the controversies hounding it.

The limitations that the paper may encounter are through the lack of data that the GSIS or other sources may provide and the possible non-cooperation of GSIS officials due to the sensitivity of the study concerned. Furthermore, any information given “off the record” will remain that way – in respect to the resource persons involved in this study.

Hypothesis

The GSIS has failed to serve a broad base of people because its actions have swung too far to the private sector spectrum despite its being under the control of the Philippine government. Because of this, it has lost its ability to function effectively as the prime insurance benefit provider of government employees.

CHAPTER III REVIEW OF RELATED LITERATURE

A study on the GSIS will entail a discussion on several topics like the government, the state, ideological views on the state, the need for social services and other topics.

The Government

The government, is lexically defined as the political system by which a nation or community is administered and regulated.³

Words such as monarchy, oligarchy, and democracy are the key words commonly used to describe governments that are of Greek or Roman origin. These words have been used for more than 2000 years and have not exhausted their usefulness.⁴

The continued usage of these words suggest that mankind and governance have not changed very much since these were invented; but such verbal and psychological uniformity in vocabulary must not be allowed to hide the enormous changes in society and politics that have occurred since their beginning.⁵

For example, the earliest analytical use of the term "monarchy" occurred in ancient Athens, chiefly in Plato's dialogues, but even in Plato's time the word was not self-explanatory. There was a Macedonian king and also a Persian king, but these two societies, and their institutions, were radically different. To give real meaning to the word monarchy in these two instances, it would be necessary to investigate their actual political and historical contexts.⁶

³ "Government." Encyclopaedia Britannica Deluxe Edition 2004 CD-ROM.

⁴ Ibid.

⁵ Ibid.

⁶ Ibid.

Any general account of monarchy required then an inquiry as to what circumstances have predisposed classical societies to adapt monarchy, and what has led them to reject it. Until today, a general account of monarchy, and other governmental and political terms carries a requisite inquiry.⁷

A contemporary of the definition of government can be found in Thomas Bellows' book, *People and Politics*:

“Government is the center of any political system. Government is the institution that successfully unholds a claim to the exclusive regulation of the legal use of physical force in making and enforcing its rules within a given territorial area. It is the most inclusive institution in society.”⁸

The State

The state, on the other hand, is the political organization of society, or the body politic, or, more narrowly, the institutions of government. The state is a form of human association distinguished from other social groups by its purpose, the establishment of order and security; its methods, the laws and their enforcement; its territory, the area of jurisdiction or geographic boundaries; and finally by its sovereignty. The state consists, most broadly, of the agreement of the individuals on the means whereby disputes are settled in the form of laws. In such countries as the United States, Australia, Nigeria, Mexico, and Brazil, the term state (or a cognate) also refers to political units, not sovereign themselves, but subject to the authority of the larger state, or federal union.⁹

⁷ Ibid.

⁸ Bellow, T. *“People and Politics.”* McMillan Publishing Co., New York: 1986. p. 32.

⁹ “State.” *Encyclopaedia Britannica Deluxe Edition 2004 CD-ROM.*

The history of the Western state begins in ancient Greece. Plato and Aristotle wrote of the polis, or city-state, as an ideal form of association, in which the whole community's religious, cultural, political, and economic needs could be satisfied. This city-state, characterized primarily by its self-sufficiency, was seen by Aristotle as the means of developing morality in the human character. The Greek idea corresponds more accurately to the modern concept of the nation – i.e., a population of a fixed area that shares a common language, culture, and history – whereas the Roman *res publica*, or commonwealth, is more similar to the modern concept of the state.¹⁰

The *res publica* was a legal system whose jurisdiction extended to all Roman citizens, securing their rights and determining their responsibilities. With the fragmentation of the Roman system, the question of authority and the need for order and security led to a long period of struggle between the warring feudal lords of Europe.¹¹

It was not until the 16th century that the modern concept of the state emerged, in the writings of Niccolò Machiavelli (Italy) and Jean Bodin (France), as the centralizing force whereby stability might be regained. In *The Prince*, Machiavelli gave prime importance to the durability of government, sweeping aside all moral considerations and focusing instead on the strength – the vitality, courage, and independence – of the ruler. For Bodin, his contemporary, power was not sufficient in itself to create a sovereign; rule must comply with morality to be durable, and must have continuity – i.e., a means of establishing succession. Bodin's theory was the forerunner of the 17th-century doctrine of the “divine right of kings,” whereby monarchy became the predominate form of government in Europe. It created a climate for the ideas of the 17th-century reformers

¹⁰ Ibid.

¹¹ Ibid.

like John Locke in England and Jean-Jacques Rousseau in France, who began to re-examine the origins and purposes of the state.¹²

Rather than the right of a monarch to rule, Rousseau proposed that the state owed its authority to the general will of the governed. For him, the nation itself is sovereign, and the law is none other than the will of the people as a whole. Influenced by Plato, Rousseau recognized the state as the environment for the moral development of humanity. Man, though corrupted by his civilization, remained basically good and therefore capable of assuming the moral position of aiming at the general welfare. Because the result of aiming at individual purposes is disagreement, a healthy state can exist only when the common good is recognized as the goal.¹³

Rousseau's ideas reflect an attitude far more positive in respect of human nature than either Locke's or Thomas Hobbes'. The "natural condition" of man, said Hobbes, is self-seeking and competitive. Man subjects himself to the rule of the state as the only means of self-preservation whereby he can escape the violent cycle of mutual destruction that is otherwise the result of his contact with others.¹⁴

For Locke, the human condition is not so gloomy, but the state again springs from the need for protection—in this case, of inherent rights. Locke said that the state is the social contract by which individuals agree not to infringe on each other's "natural rights" to life, liberty, and property, in exchange for which each man secures his own "sphere of liberty."¹⁵

¹² Ibid.

¹³ Ibid.

¹⁴ Ibid.

¹⁵ Ibid.

The 19th-century German philosopher G.W.F. Hegel saw the sphere of liberty as the whole state, with freedom not so much an individual's right, but rather, a result of human reason. Freedom was not the capacity to do as one liked but was the alignment with a universal will toward well-being. When men acted as moral agents, conflict ceased, and their aims coincided. Subordinating himself to the state, the individual was able to realize a synthesis between the values of family and the needs of economic life. To Hegel, the state was the culmination of moral action, where freedom of choice had led to the unity of the rational will, and all parts of society were nourished within the health of the whole. However, Hegel remained enchanted with the power of national aspiration. He did not share the vision of Immanuel Kant, his predecessor, who proposed the establishment of a league of nations to end conflict altogether and to establish a "perpetual peace."¹⁶

For the English utilitarians of the 19th century, the state was an artificial means of producing a unity of interest and a device for maintaining stability. This compassionate but mechanistic view, proposed by Jeremy Bentham and others, set a precedent for the early communist thinkers like Karl Marx for whom the state had become an "apparatus of oppression" determined by a ruling class whose object was always to maintain itself in economic supremacy. He and his collaborator, Friedrich Engels, wrote in *The Communist Manifesto* that, in order to realize complete freedom and contentment, the people must replace the government first by a "dictatorship of the proletariat," which would be followed by the "withering away of the state," and then by a classless society based not

¹⁶ Ibid.

on the enforcement of laws but on the organization of the means of production and the fair distribution of goods and property.¹⁷

In the 20th century, concepts of state ranged from anarchism, in which the state was deemed unnecessary and even harmful in that it operated by some form of coercion, to the welfare state, in which the government was held to be responsible for the survival of its members, guaranteeing subsistence to those lacking it.¹⁸

In the wake of the destruction produced by the nationalistically inspired world wars, theories of internationalism like those of Hans Kelsen and Oscar Ichazo appeared. Kelsen put forward the idea of the state as simply a centralized legal order, no more sovereign than the individual, in that it could not be defined only by its own existence and experience. It must be seen in the context of its interaction with the rest of the world. Ichazo proposed a new kind of state in which the universal qualities of all individuals provided a basis for unification, with the whole society functioning as a single organism.¹⁹

The Capitalist and Socialist Views of the State

With the definition of the state, it is also relevant to give the different perspectives on how it functions and operates.

In the conservative viewpoint, it is very ideal to think that the government intends to operate with the best interests of the state's citizens. For example, if welfare payments to the poor are reduced, conservatives claim that it is necessary for the state to reduce

¹⁷ Ibid.

¹⁸ Ibid.

¹⁹ Ibid.

inflation. Given this, conservatives believe that inflation hurts the poor people the most, so cutting welfare benefits to the poor is in the best interest of the poor.²⁰

The usual understood assumption is that the government, under capitalist structure, is a perfect democracy in which each person's view carries equal weight. In the Milton Friedman's *Capitalism and Freedom*, the author makes an explicit assumption that the economic system of capitalism produces a perfect democracy because anyone can start a business, and because consumers vote with their dollars on what shall be produced. He also states that this economic democracy of capitalism is the perfect foundation for a political democracy because it does away with all interfering bureaucrats. Every citizen has an equal right to vote and every citizen has the right to claim his right to freedom of speech.²¹

This position of Friedman was criticized due to the mistaken assumption that anyone can start a business. Majority of the population in a third world country cannot put up a business due to lack of capital to start one. Moreover, in his assumptions, consumers vote with their money in order to signify their demands. But, in this framework, consumers with more money, such as millionaires, outvote consumers with smaller purchasing powers. In other words, groups who have smaller purchasing powers have a smaller say in determining the demand of a market.²² Inequality and disparity in society is the clear image projected by this scenario.

Another writer who gives a similar contention is Francis Fukuyama who has written a book called *The End of History and the Last Man*. In this work, he stated that an

²⁰ Sherman, H. and Evans, G. "Macroeconomics: Keynesian, Monetarist and Marxist Views." Harper & Row Publishers, New York: 1984. p. 401.

²¹ Ibid. p. 402.

²² Ibid. p. 402.

ideal social and political system is now in place since communism has been defeated. He also stressed the view that the free market has clearly emerged as the most effective and efficient system in the production and distribution of goods.²³

Another author who gives a support for capitalist society is Robert B. Reich who wrote a book titled: *The Work of Nations: Preparing Ourselves for 21st Century Capitalism*. In his book, he pointed out that communism is a thing of the past and in the 21st century, capitalism will exist. United States, as the current world power, has led the way toward the attainment of global capitalism. In his historical perspective, America has strengthened itself to be the global leader in capitalism. To make this point, he stated the fact that after the Second World War, the United States channeled its funds to the aid of Western Europe. The U.S. also established international financial institutions such as the International Monetary Fund, and the World Bank. The scale and technological supremacy of the US-based corporations expanded the range of American capitalism throughout the world.²⁴

The primary role of the state, as the main political institution, is to manage social tension and resolve conflict. In other words, the state has the responsibility for law and order. In order to fulfill this role, the state uses force in its capacity as a social organization that has a monopoly on the legitimate use of physical force within a given territory.²⁵

²³ Schnitzer, M. "*Comparative Economic System*." Southwest Publishing Co., Ohio: 1994. p. 4.

²⁴ Ibid. p.4.

²⁵ Horvat, B. "*The Political Economy of Socialism: A Marxist Social Theory System*." M. E. Sharpe Inc., New York: 1983 p. 285.

The exercise of this legal force that the state possesses is guided by the process of law. Law is a normative order of human behavior that is backed up by the power of the state.²⁶

As the modern state is based on law and is often controlled by the dominant class, the law reflects the will and interests of the ruling class and the state acts accordingly. In effect, in a society with class structures, state power is naturally used to secure and protect the privileges of the dominant class through the process of law.²⁷

If the legal system and the state are structured so as to benefit the dominant class, then, in capitalism, the state functions as a de facto dictatorship of the bourgeoisie regardless of the forms of political ritual. Several authors such as Marx, Engels and other radical authors recognize this phenomenon.²⁸

In the radical or Marxist perspective, as written in *The Communist Manifesto*, "The executive power of the modern state is simply a committee for managing the common affairs of the entire bourgeoisie class." As an interpretation, it can be said that the freedom of speech does no good; elections can change nothing; workers can have no influence and can achieve no major reforms in capitalism.²⁹

For Marx, there are two sources of state power. The first source is the need for control over some common functions in the interest of the whole community. An example of the manifestation of this need was in the scenario of ancient Egypt wherein it was necessary to control the Nile and organize irrigation for the whole Egyptian society. The second source of state power is the need of the ruling class to continue their

²⁶ Ibid. p. 286.

²⁷ Ibid. p. 286.

²⁸ Horvat, B. op. cit p. 286.

²⁹ Sherman, H. and Evans, G. op.cit. p. 404.

dominance. In the ancient Egypt, this was manifested in the powers used to hold down and repress the slave class in order to exhaust the slave's labor. In the present, these origins of power still remain active. In the United States for example, the building of highways serves the whole community, but the question of which highway and how many highways are constructed is largely determined by the profit goals of the automobile, construction and other industries that will benefit from the said highways.³⁰

Marxist views aims to have a communist society wherein there will be no classes, no ruling elite, voluntary cooperation by all, and no repressive state machinery. Socialism means a society of democracy in substance and in form for the democratically elected government will control and own the economy.³¹

For radicals, the state merely echoes the demands of the ruling class to suppress the oppressed class. For the same group of people, the proletarian revolution acts in order to reverse this kind of scenario; to make the state function as the dictatorship of the proletariat. In Marxist terms, it is called "the government of the working class" and in Engels terms, it is called "the dictatorship of the proletariat". The capitalist state is seen to be an instrument of legitimized violence by the ruling class and this kind of system is not necessary in a classless socialism.³²

The Philippine Case

Given the different views of the goals of the capitalist and socialist state, it will be prudent to examine the Philippine state.

³⁰ Sherman, H. and Evans, G. op. cit. p. 405.

³¹ Sherman, H. and Evans, G. op.cit. pp. 404-406.

³² Horvat, B. op. cit. p. 286.

The Philippines, known to be a third world country, is considered underdeveloped or still in the slow process of developing. However, despite the fact that the Philippines is down caused by its debts to the IMF and World Bank, it is still mandated by its constitution to do the following:

“ARTICLE II

Declaration of Principles and State Policies

Principles

SEC. 4.

The prime duty of the Government is to **serve and protect the people**. The Government may call upon the people to defend the State and, in the fulfillment thereof, all citizens may be required, under conditions provided by law, to render personal military or civil service.

State Policies

SEC. 9.

The State shall promote a just and dynamic social order that will ensure the prosperity and independence of the nation and **free the people from poverty through policies that provide adequate social services, promote full employment, a rising standard of living, and an improved quality of life for all.**

SEC. 27.

The State shall **maintain honesty and integrity in the public service and take positive and effective measures against graft and corruption.**³³ (emphasis added)

Given the text of the Constitution, it is clear that the government has the responsibility to “provide adequate social services, promote full employment, a rising standard of living, and an improved quality of life for all.” Furthermore, the government should “maintain honesty and integrity in the public service and take positive and effective measures against graft and corruption.” In effect, the promotion of social services and the rising standard of living and quality of life also applies to government employees, as they are part of the “people” that the government has to “serve and protect”.

³³ “About the Philippines.” *www.gov.ph*. Available Online: <http://www.gov.ph/aboutphil/consart2.asp>.

Unfortunately, the government obviously cannot promote these articles to the full extent and has to resort to other means. Because of the economic and political problems of the Philippines, including the decreasing value of the Philippine peso, the government resorted to the establishment of an institution that would administer social service for the government's employees. Thus, the GSIS is, then, born.

The Government Service Insurance System

The GSIS, created by Commonwealth Act No. 176 (CA 176), also known as the GSIS Charter that was passed on November 14, 1936, is mandated to provide and administer the following social security benefits for government employees: compulsory life insurance, optional life insurance, retirement benefits, disability benefits for work-related contingencies, and death benefits. Its goal is to promote the efficiency and welfare of the employees of the Government of the Philippines. CA 186, which is considered the first significant legislation in Philippine social security, initially provided for life insurance protection to all government workers.³⁴

In addition, the GSIS is entrusted with the administration of the General Insurance Fund by the virtue of RA 656 of the Property Insurance Law. It provides insurance coverage to assets and properties which have government insurable interests.³⁵

³⁴ "GSIS Charter." *Government Service Insurance System*. Available Online: http://www.gsis.gov.ph/corporate_profile/gsis_charter.html.

³⁵ *Ibid.*

The GSIS covers all government workers irrespective of their employment status, except employees who have separate retirement schemes under special laws like the following:

- Members of the Judiciary and Constitutional Commissions
- Contractual employees who have no employee-employer relationship with their agencies
- Uniformed members of the Armed Forces of the Philippines and the Philippine National Police, including the Bureau of Jail Management and Penology, and the Bureau of Fire Protection³⁶

The principal benefit package of the GSIS consists of compulsory and optional life insurance, retirement, separation, and employee's compensation benefits.³⁷

Active GSIS members are entitled to the following loan privileges: salary, policy, emergency, and housing loans.³⁸

The GSIS has a total of 1,424,845 active members. These members are categorized as follows:³⁹

• Department of Education, Culture and Sports	534,773
• National Agencies	400,018
• Local Government Units	390,463
• GOCCs	99,591

³⁶ "Corporate Profile." *Government Services Insurance System*. Available Online: http://www.gsis.gov.ph/corporate_profile/corporate_profile_main.html.

³⁷ Ibid.

³⁸ Ibid.

³⁹ "Membership and Clientelle." *Government Service Insurance System*. Available Online: http://www.gsis.gov.ph/corporate_profile/membership_clientelle.html.

The governing and policy-making body of the GSIS is the Board of Trustees, the members of which are appointed by the President of the Philippines.⁴⁰

The GSIS workforce consists of 3,104 employees, 52% of whom are in the Head Office while the remaining 48% are in the Branches. To date, there are 40 branches and 78 satellite offices nationwide. It is envisioned that the System's service network will continue to increase as the institution is committed to provide branch offices in every province where there exists a minimum of 15,000 active members.⁴¹

Before the establishment of the GSIS in 1936, there were several retirement plans in operation for specific groups, like the Philippine Constabulary under Act No. 1638, Public School Teachers under Act No. 3050, and health Service Employees under Act No. 3173.⁴²

The social insurance legislations that were subsequently passed show that the social security program for government workers has been constantly undergoing changes in basic structure, benefits schemes, financing, coverage, administration, and organization.⁴³

On June 16, 1951, Republic Act No. 660 was passed, amending CA 186 to provide retirement insurance to all government employees, in addition to life insurance coverage, with annuity or monthly pension benefits. This Republic Act established a master retirement scheme covering all employees of the government. This also extended

⁴⁰ Ibid.

⁴¹ Ibid.

⁴² "GSIS Charter." op. cit.

⁴³ Ibid.

life insurance coverage to non-permanent employees of the government by way of term policy insurance renewable every year.⁴⁴

On May 31, 1957, RA 1616 was enacted allowing the retirement of a member of a member regardless of age and prescribing two other modes of retirement: (a) after 30 years of service or more with annuity benefit, or (b) after rendering at least 20 years with gratuity benefit, plus a refund of the personal contributions, with interest.⁴⁵

The enactment of RA 611, establishing the Philippine Medical Care Plan on August 4, 1969, marked the beginning of a health insurance scheme for all employees, both in the public and the private sector, with the GSIS administering the fund of the government sector. The administration of the medical care benefits, however, was transferred on January 1, 1998, to the Philippine Health Insurance Commission (PHIC), which now handles the Medicare benefits of both the government and the private sector.⁴⁶

The promulgation of Presidential Decree No. 626 on January 1, 1975, introduced the Employee's Compensation Benefits Program, both for the government and the private sector, which expanded further the protection of government workers by providing them and their dependents adequate financial and medical benefits in the event of a work-related injury, sickness or death.⁴⁷

Various amendments have been passed, liberalizing the life, retirement, health, and disability benefits schemes for government workers. Among the important amendatory laws were: RA 3593, which affected the automatic life insurance coverage of compulsory members and provided for additional optional life insurance coverage; RA

⁴⁴ Ibid.

⁴⁵ Ibid.

⁴⁶ Ibid.

⁴⁷ Ibid.

4968, increasing the monthly pension and insurance coverage; PD 1368 and 1641 increasing the employee's compensation benefits, and POD 1519, increasing the medical care or "Medicare" benefits.⁴⁸

The most significant major amendment, however, is the major revision of the GSIS Charter which resulted under PD 146 and passed on May 31, 1977, which aimed to enhance the quality of life of the government workers by increasing, expanding and integrating their social security insurance benefits and facilitating the payment thereof.⁴⁹

Another major development was the enactment of RA 8291, amending PD 1146, which took effect on June 24, 1997. This Republic Act expanded and increased the coverage and benefits of the GSIS, and provided for pre-need insurance, unemployment and separation benefits. Aside from increasing and expanding the social security protection of the government workers, it also enhanced the powers and functions of the GSIS to better respond to the needs of its membership.⁵⁰

While the above-cited laws have been passed to cover all government workers of the Philippines, other laws were designed for special groups only.

The GSIS was also entrusted with the enforcement of the provisions of RA 910, passed on June 20, 1953, as amended, providing for a separate retirement plan for the judiciary.⁵¹

GSIS was also entrusted with the administration of the Barrio Officials Insurance Fund, passed on June 17, 1967, extending life, disability, and accident insurance benefits to barrio (now barangay) officials and other such officials of the local government units.⁵²

⁴⁸ Ibid.

⁴⁹ Ibid.

⁵⁰ Ibid.

⁵¹ Ibid.

In addition to its social security mandate, GSIS was also entrusted with the administration of the General Insurance Fund and the provision of insurance protection to assets and properties which have government insurable interests by virtue of RA 656 or the Property Insurance Fund, enacted on June 16, 1951.⁵³

The Need for Social Service

Given the GSIS Charter, we can see that it is tasked to provide social service to government employees. But a question remains: why is there a need to provide social service to the government employees?

The Philippine government definitely needs its people to work in the public office to continuously serve the general population. In other words, the government acts like a business firm, with its employees as its tentacles, in giving service. Teachers, administrators, and plain government employees are all under a big company – the Philippine government.

It is not enough to hire government employees. The government has the role of safeguarding them in order to maximize the potential of the individual and increase the government output, in whatever way, in order to be efficient.

In this sense, we can view the Philippine government as an employer in a firm. And as an employer, according to studies in Human Resources Development (HRD), it has the responsibility to shape the workplace environment to create a motivating workforce.

⁵² *Ibid.*

⁵³ *Ibid.*

In HRD, there are two kinds of motivation and these are the following:

- **Intrinsic Motivation:** also called internal motivation. This is the kind of motivation that an individual has that comes from the passion or interest in doing a job well done.
- **Extrinsic Motivation:** This force is called the external force. This relies on recognition and rewards.⁵⁴

In igniting the intrinsic motivation, three factors must be observed. First is the purpose (which pertains to the relevance of work to other people). Second is the belief that refers to the trust that an employee needs in order to believe in the employer's products or services. Passion is the last way. Here, hiring right, meaning matching job description to candidate's passion, is the ultimate explanation of this third way.⁵⁵

In the extrinsic employee motivation, three ways were also discovered. First is the reward system. Employers must listen to the needs of the employees. Money is not the only thing that matters but it is definitely a large factor. Recognition is the second way. An award after a quarter is good but an immediate award right after a good job is a good extra. The third is the growth wherein a workplace must be conducive for employees to grow and expand their knowledge.⁵⁶

There is a saying that you can bring a horse to the water but you cannot force it to drink. In the employee-employer relationship, it can be seen that there is a need for the

⁵⁴ Darrell Zahorsky. "Ignite the Two Fires of Employee Motivation." Available Online: <http://sbinformation.about.com/cs/benefits/a/033003.html>.

⁵⁵ Ibid.

⁵⁶ Ibid.

employee to appreciate his/her job in order to be efficient. Employees will do what they want to do or motivated to do.⁵⁷

In addition to the two methods in motivating employees, seven points also need to be considered. These are:⁵⁸

- 1) positive reinforcement;
- 2) effective discipline and punishment;
- 3) treating people fairly;
- 4) setting work related goals;
- 5) restructuring jobs;
- 6) base rewards on job performance, and the most relevant of all;
- 7) satisfying employees needs.

In one of the most elaborate studies on employee motivation, involving 31,000 men and 13,000 women, the Minneapolis Gas Company sought to determine what their potential employees' desire most from a job. This study was carried out during a 20-year period from 1945 to 1965 and was quite revealing. The ratings for the various factors differed only slightly between men and women, but both groups considered security as the highest rated factor. The next three factors were:⁵⁹

- advancement;
- type of work and;
- company

⁵⁷ "Employee Motivation in the Workplace," *Accel-Team.com*. Available Online: <http://www.accel-team.com/motivation/index.html>.

⁵⁸ *Ibid.*

⁵⁹ *Ibid.*

Surprisingly, factors such as pay, benefits, and working conditions were given a low rating by both groups. So after all, and contrary to common belief, money is not the prime motivator. However, this should not be regarded as a signal to reward employees poorly or unfairly.⁶⁰

Money or just compensation, rather, is important. May be not the sole, but is a factor in motivating people.⁶¹

According to Peter Drucker, "there is not one shred of evidence for the alleged turning away from material rewards...antimaterialism is a myth, no matter how much it is extolled." In fact, they are taken so much for granted that their denial may act as a demotivator: "Economic incentives are becoming rights rather than rewards."⁶²

There is no doubt that we live in a money-motivated world. Any amount of human relations cannot compensate for a lack of monetary reward. If the reward is right, good human relations will give that extra enthusiasm to a group, motivating them to give their all and their best efforts. Insufficient financial reward cannot be compensated by good human relations.⁶³

In the industrial world, strikes for better salary and rewards do still occur. Monetary motivations exist despite the claim of psychologists that security is the prime need of a person, as indicated earlier.⁶⁴

⁶⁰ "Employee Motivation in the Workplace." *op. cit.*

⁶¹ "Financial Motivation – Introduction." *Accel-Team.com*. Available Online: http://www.accel-team.com/motivation/financial_motivation_01.html.

⁶² *Ibid.*

⁶³ *Ibid.*

⁶⁴ *Ibid.*

Self-motivation can only go so far so it needs to be constantly reinforced by rewards. In particular, merit must be measured and rewarded regularly if it is to be encouraged and sustained.⁶⁵

Through this literature, the importance of the role of the GSIS as the government's mechanism of providing benefits to the public employees is clear. The GSIS through its benefits can help the employers to be motivated and, hence, be productive and efficient.

However, if the GSIS, as the extension of the state, functions in a capitalist manner, meaning they may be inclined in serving the elite, the institution's goals and aims may not be applied realistically.

Summary

Through reviewing various literatures on the government, the state, the Philippines, the GSIS and the need for social service, we can begin to understand the importance of this paper.

In the socialist society, the state exists to protect the interest of the proletariat or working class. On the other hand, in a capitalist society, the state exists to protect the interest of the bourgeoisie class.

The Philippine constitution gives the government the responsibility to serve and protect the people and, due to poverty, the majority of these people are from the oppressed class. Also, as stated in the constitution, the government must take steps to ensure the welfare of its own employees.

⁶⁵ Ibid.

In order to ensure civil servants' welfare, the GSIS was created as a GOCC – a public institution but unbridled by public limitation. It was created to help in motivating the employees of the government through monetary incentive packages and other benefits. The efficient working of the GSIS will help in increasing the efficiency of the public bureaucracy.

In this sense, as part of the Philippine government, it is important to view whether the GSIS actually “serves the people” or serves only a select few. To do this, it will be relevant to analyze whether the GSIS thinks like a public sector economist or a private sector economist.

CHAPTER IV RESEARCH FRAMEWORK

Theoretical Framework

An analysis of the GSIS will entail a discussion on politico-economic concepts.

In contemporary economics, there are two ways of distinguishing two fundamentally different ways of organizing an economy. In a spectrum, in one extreme, government makes most economic decisions and at the other extreme, decisions are made in the market.

In the side where the government makes most of the economic decisions, those who are on top of the economy, the leaders of the government, give commands down the hierarchy. This kind of economy is called a *command economy* where “the government owns most of the means of production, it also owns and directs the operation of enterprises in most industries, it is the employer of most workers and tells them how to do their jobs, and it decides how the output of the society is to be divided among different goods and services”.⁶⁶

On the other side of the spectrum, the market makes the economic decisions in a system. This is called a *market economy* in which individuals and private firms make the major decisions about production and consumption. In this kind of system, “firms produce the commodities that yield the highest profits by the techniques of production that are least costly. Consumption is determined by the individuals’ decisions about how to spend the wages and property incomes generated by their labor and property ownership.”⁶⁷

⁶⁶ Samuelson, P. & Nordhaus, W. *Economics*. 2001. p.8.

⁶⁷ *Ibid.* p.8.

At the beginning of the industrial revolution, the capitalist mode of production had become dominant and the market economy way espoused by most economists such as Adam Smith who believed that:

“(The individual) *intends only his own gain*, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need by employed in dissuading them from it.”⁶⁸

But as time passed by, the capitalist mode of production and also the market economy tended to show its downside. The capitalist mode of production created economic disparity between groups and this was identified by thinkers such as Karl Marx who believed that society was fragmented into two groups: the bourgeoisie and the proletariat. The bourgeoisie are:

“..those who "own the means of production" and employ the proletariat. The bourgeoisie may be further subdivided into the very wealthy bourgeoisie and the petty bourgeoisie: those who employ labor, but also work themselves. These may be small proprietors, land-holding peasants, or trade workers.”⁶⁹

While the proletariat are:

“..those individuals who sell their labor and do not own the means of production" whom he believed were responsible for creating the wealth of a society (buildings, bridges and furniture, for example, are physically built by members of this class). The proletariat may be further subdivided

⁶⁸ Smith, A. *The Wealth of Nations*.

⁶⁹ Marxism. Wikipedia Definition.

into the ordinary proletariat and the lumpenproletariat, those who are extremely poor and cannot find legal work on a regular basis. These may be prostitutes, beggars, or homeless people.”⁷⁰

What Friedrich Engels proposed as an answer to this problem was the adoption of a command economy based on the socialist ideals:

“The solution can only consist in the practical recognition of the social nature of the modern forces of production, and therefore in the harmonizing of the modes of production, appropriation, and exchange with the socialized character of the means of production. And this can only come about by society openly and directly taking possession of the productive forces which have outgrown all control except that of society as a whole.”⁷¹

With the appearance of the market economy and the control economy, there emerged a third form of economy- *the mixed economy* wherein there exist both elements of market and command. This is the economy which is most adopted by societies around the world including the Philippines.

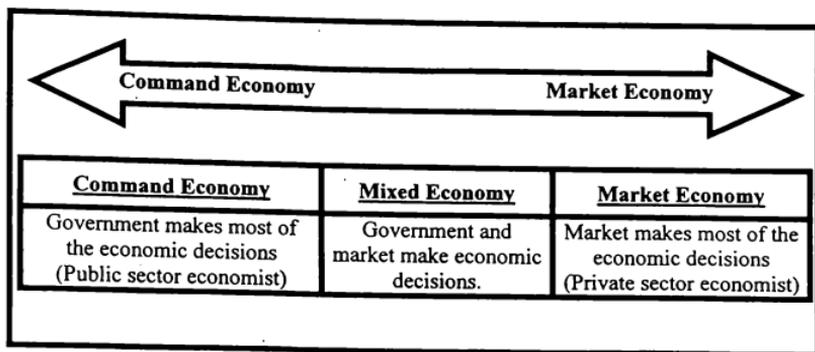
In the mixed economy, both the private sector (individuals and firms) and the public sector (government/state institutions) make economic decisions. In this case, a society may lean more toward the public sector or towards the private sector. In the public sector, the goals of the economic actors are towards provision of service while in the private sector, the goals of the economic actors are towards profit maximization.

The quality of governance of a certain mixed economy determines to which side of the spectrum it leans more. It may choose to be more private sector oriented – viewing profit as its ultimate goal; or it may choose to be more public sector oriented – choosing social service as its ultimate goal. This “tug-of-war” between the two sectors is the essence of the theoretical framework that this paper uses.

⁷⁰ Ibid.

⁷¹ Engels, F. op.cit.

Theoretical Framework



Conceptual Framework

The GSIS, in its capacity as a Government Owned and Controlled Corporation (GOCC), is a unique case in the terms of its delivery of service. It is unique in the fact that it is in effect a government agency but is run like a private firm. In other terms, it is caught between private and public sector economics.

In private sector economics, the goal of the firm is profit maximization. In public sector economics, the goal of the agency is to provide goods and services to those who need them.

As part of the public sector, the government can take forms of intervention in the economy. According to Joseph Stiglitz⁷², an economist, there are five methods of government intervention, namely:

1. Production of goods and services
2. Influencing the production of the private sector

⁷² Stiglitz, J. "Economic of the Public Sector." W. W. Norton & Company, New York: 2000.

3. Purchasing goods and services from the private sector that are then supplied by the government to firms and household
4. Redistribution of income
5. Providing a legal system

In method number four (4), redistribution of income, there are two specific methods of redistribution. The first is through public assistance programs that aim to provide benefits to the poor and the second is through social insurance programs designed to provide benefits to insurance members. This is where the GSIS fits into the picture as a public sector actor.

But, as a GOCC, the GSIS also has features that allow it to run like a private business. As part of its Charter (Section 41), the GSIS has the power to determine its own rules and regulations, the power to invest its funds; the power to acquire and utilize real and personal property; the power to enter into contracts, to determine its own salaries, and others. These powers vested in them by the GSIS Charter give it qualities similar to those of private firms. Thus, this is where the GSIS fits into the picture of a private sector actor

In Marxist and Engels analysis, the state is viewed as the protector of the capitalist interest. In the situation of a mixed economy, therefore, state institutions will have the tendency towards promoting profit-maximization rather than towards provision of social services.

In the context of the paper, though the GSIS is an actor in a mixed economy where it has both public and private sector characteristics, the GSIS will inevitably swing to either side in the absence of the balance of being more profit or service oriented.

Therefore, there will be a need to understand whether the GSIS is more of a public sector economist rather than a private sector economist. In order to facilitate this task of analyzing the GSIS, the framework of Stiglitz will be used.

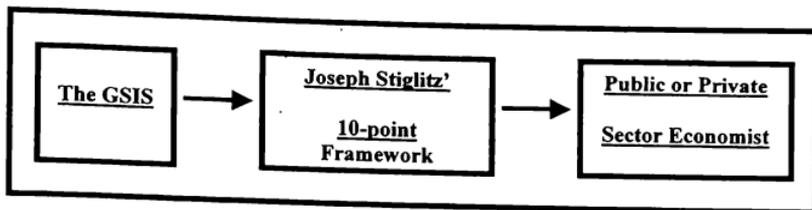
Joseph Stiglitz, in his book *Economics of the Public Sector*, provides a framework for analyzing public expenditure. The framework consists of ten points namely:

1. Identifying a need for a government program
2. Identifying a market failure and ascertaining whether what is at issue is a concern for the distribution of income or the provision of a good
3. Identifying alternative forms of government intervention programs
4. Identifying a particular design features
5. Identifying the private sector's responses to the government program
6. Identifying the efficiency consequences of the alternative programs
7. Identifying the distributional consequences of the alternative programs
8. Identifying the trade-offs between equity and efficiency considerations
9. Identifying the extent to which alternative programs achieve public policy objectives
10. Identifying how the political process affects the design and implementation of the public programs

These ten points can be used in order to ascertain whether the GSIS is more of a public sector economist or a private sector economist.

In order to utilize this framework, the GSIS will be analyzed and the analysis will determine whether the GSIS is fulfilling its goals as an effective provider of social service – an essentially public sector role.

Conceptual Framework



Definition of Terms

- **Public Sector:** The sector of the economy that is concerned with the provision of goods and services to the people for social service. Supposedly, the public sector is more concerned with equity than efficiency. The main body of the public sector is the government.
- **Private Sector:** The sector of the economy that is concern with profit maximization. The private sector is more concerned with efficiency rather than equity. Private individuals and firms make up this sector.
- **Mixed economy:** An economy that has both the public and private sector in making economic decisions.
- **GOCC:** Government Owned and Controlled Corporation. It is a firm that is owned by the government and pursues public sector goals but has qualities present in the private sector firms.

CHAPTER V METHODOLOGY

The research will be conducted in order to see if the Government Service Insurance System or the GSIS is serving the people or just services its elite employees. This aims to analyze and see if the GSIS is more on the side of public sector or on the other side, the private sector.

Due to the fact that the Philippines uses a mixed economy structure, there is this tendency of it being profit-conscious rather than being service-oriented.

The GSIS can be seen as a tool used by the Government to further the interest of the private sector or the public sector – the sector that it is actually mandated to serve. This will be done to let the people see how the GSIS works in the present.

In order to facilitate the study, first, the mandated responsibilities of the GSIS as the guard of the welfare of the workers will be identified.

After the identification GSIS' mandate, several issues with relevance to the GSIS' performance will be discussed. The issues will be identified and discussed thoroughly based on the primary sources where it came from such as news articles.

These issues will serve as the gauge of seeing if the GSIS serves the people or its employees only – an indication of whether it is a public or private sector economist. At the same time, the issues that will be taken will be used to see the transparency and movement of the GSIS as the GOCC mandated to safeguard the interest of the Philippine public employees.

Sampling

Due to the fact that there are several issues that are attacking the GSIS in the present, only loud issues that concern the GSIS' service to the people will be included in this study. Several news clippings regarding a single issue will be gathered in order to assure the credibility of the issues.

The interviews conducted will be coming from the officials of the GSIS itself. The reason for such is that, the issues are all coming from the people and the media as a critique so, it would be appropriate to hear the voice of the GSIS to answer or to defend their office.

Measurement Instruments

In this study, no questionnaires will be used. Instead, an interview schedule will be made in order to guide the researcher with the planned interview with a GSIS representative.

Several news clippings, internet articles, and journals will be used in this research. The issues that will be identified from these articles will be collated and organized in a way that it will reveal the facts of the issue.

The main measurement instrument will be the 10-point framework of Joseph Stiglitz, where the GSIS and its issues will be used to provide the answers to this 10-point framework. This will ultimately analyze whether the GSIS is more of a public or private sector economist. Its utility and more of this will be discussed in the next section.

Data Analysis

The study will gather information regarding the performance of the GSIS in the current situation. This study aims to see if the GSIS is in the line of serving the public or serving the private. The GSIS can be seen as a tool used by the Government to further the members of the bourgeois ruling class rather than the working class that it is supposed to serve.

Joseph Stiglitz' 10-point analysis framework will be the method used for the analysis.

1. Identifying a need for a government program
2. Identifying a market failure and ascertaining whether what is at issue is a concern for the distribution of income or the provision of a good
3. Identifying an alternative forms of government intervention programs
4. Identifying a particular design features
5. Identifying the private sector's responses to the government program
6. Identifying the efficiency consequences of the alternative programs
7. Identifying the distributional consequences of the alternative programs
8. Identifying the trade-offs between equity and efficiency considerations
9. Identifying the extent to which alternative programs achieve public policy objectives
10. Identifying how the political process affects the design and implementation of the public programs

This guide points will be the window of seeing if the GSIS are for the people or for the GSIS employees only. In other words, the research will aim to see the orientation of the GSIS. It will gauge if the GSIS is, in the real sense, for the service of the people or the service of the few officials.

CHAPTER VI PRESENTATION OF DATA

History of the GSIS

The Government Service Insurance System or the GSIS was established on November 14, 1936 under the Commonwealth Act No. 176, which is also known as the GSIS charter. The primary goal of the agency is to promote the efficiency and welfare of the employees of the Philippine Government.⁷³ In other terms, "it is the agency or body entrusted to look after the welfare of government employees."⁷⁴

Before the establishment of the GSIS on 1936, there were several retirement plans in effect that are for special groups. These special groups are namely: the Philippine Constabulary under Act No. 1638, Public School Teachers under Act No. 3050, and the Health Service Employee under the Act No. 3173.⁷⁵

The social security program for government workers has been undertaking changes in several areas. Changes occur in the social insurance legislation's basic structure, benefit schemes, financing, coverage, administration, and organization.⁷⁶

In 1951, Republic Act 660 was passed. This RA amended the CA 186 to provide retirement insurance to all government employees, in addition to life insurance coverage, with annuity or monthly pension benefits.⁷⁷

In 1957, Republic Act 1616 was enacted. This allows the retirement of a member regardless of age.⁷⁸

⁷³ "Corporate Profile." op. cit.

⁷⁴ Iqbal A. "U.P. Wants GSIS Law Amended." U.P. Newsletter. pp. 1-2.

⁷⁵ "Corporate Profile." op. cit.

⁷⁶ Ibid.

⁷⁷ Ibid.

⁷⁸ Ibid.

In 1969, August 4, the Philippine Medicare Plan was established. This marked the beginning of a health insurance system for all employees.⁷⁹

Presidential Decree 626, that was promulgated on January 1, 1975, introduced the Employee's Compensation Benefits Program. This expanded further the protection of government workers by giving them and their dependents adequate financial and medical benefits in the event of a work-related injury, sickness or death.⁸⁰

Several events occurred after all of these that aimed to improve the care of the Filipino workers. One of the major development occurred on June 24, 1997 when the Republic Act 8291, that amended PD 1146, was enacted. It aimed to amplify and improve the power of the GSIS.⁸¹

The Basic Functions of the Agency

The GSIS covers all Philippine Government workers regardless of their employment status. However, employees who have separate retirement schemes under special laws such as the members of the Judiciary and Constitutional Commissions are not covered by the GSIS.⁸²

Other exceptions are contractual employees who have no employee-employer relationship with their agencies, uniformed members of the Armed Forces of the Philippines and the Philippine National Police, including the Bureau of Jail Management and Penology, and the Bureau of Fire Protection.⁸³

⁷⁹ Ibid.

⁸⁰ Ibid.

⁸¹ Ibid.

⁸² Ibid.

⁸³ Ibid.

As mandated, the GSIS must provide and administer the following social security benefits for government employees:

- compulsory life insurance
- optional life insurance
- retirement benefits
- disability benefits for work-related contingencies
- death benefits

Moreover, the GSIS is delegated with the administration of the General Insurance Fund by virtue of Republic Act 656 of the Property Insurance Law.⁸⁴

Services Provided by the GSIS

GSIS provides compulsory life insurance for its members that can be claimed in many ways.

- **Maturity:** the total face value written on the certificate of membership/policy contract
- **Cash Surrender Value:** the reserve earned by the policy at the end of the anniversary year, which is payable to the insured upon surrender of the policy.
- **Death:** the total amount of insurance as indicated in the policy contract payable upon death of the insured to the designated beneficiaries of legal heirs.
- **Accidental Death:** doubles the face value, payable upon the accidental death of the insured to the designated beneficiaries/legal heirs.

⁸⁴ Ibid.

- **Permanent Total Disability:** waiver of monthly premiums on the policy at the time the insured member was found/proven to be totally disabled and while the disability lasts, payment of the total face value of the policy to the disabled member on the maturity date or earlier contingency. Also entitled to a basic monthly pension provided that the member has made 36 monthly contributions.
- **Funeral:** 15,000 pesos upon the death of a member, pensioner or gratuitant to the person who spent for the funeral.
- **Sickness income:** daily income benefits in case of sickness or injury.

Sickness-related benefits are also provided by the GSIS. Medicare covers hospitalization expenses, surgical expenses, and medical expense. Employee compensation is given as cash income for disability or death, medical and/or related service for injury and sickness, rehabilitation services for permanent disability, and funeral benefits.

Additional benefits are given as annual dividends for compulsory and optional policies, free accidental death insurance on the amount of 10,000 pesos, Christmas cash gift, and career's allowance to disabled pensioners.

There are also two existing loan windows. The salary loan is equivalent to one/two/three months basic salary at the rate of 8% interest per annum depending on the length of continuous service. One-month loan requires 20 month of continuous service, two-month loan at 40 months and three-month loan at 60 months.

Policy loan is equivalent to 50% Cash Surrender Value for Compulsory Policy and 90% of Cash Surrender Value for Optional Policy. Interest rate is 8% per annum and members can avail of this loan after one year of continuous service.

Vision and Mission Statement

The corporate vision of GSIS is as follows: “We envision a progressive Philippine whose public servants are secure and proud with our adequate benefits and response service”.

The mission statement is: “We are committed to provide adequate benefits and responsive service to all members and dependents, comprehensive protection to government insurable interests and maximum contribution to nation building. We undertake all these in an environment where inspired leadership and dedicated employees promote highest quality services to our members and clients.”

The GSIS slogan is: “*Galing ng Serbisyo, Karapatan ng Miyembro*”.

Priorities and Direction of the GSIS

The GSIS has a four-point plan to attain its vision and mission goals. The four components are fast service delivery, responsive benefits, solid finances, and dynamic and well-coordinated organization.

Fast-service delivery has several components including computerization and decentralization. This means that it shall be the priority of GSIS to deliver benefits and service in a prompt, courteous and error-free manner.

Responsive benefits include the increase in the available benefits and expansion of the existing benefits packages.

Solid finances means that the GSIS shall insure the availability and growth of funds through asset growth, optimum investment yields cost control, etc.

Dynamic and well-coordinated organization means that the GSIS shall prioritize the cultivation of productive and highly motivated employees in a comfortable working environment.

General Problems of the Financial Institutions of the Philippines – GSIS and SSS

The GSIS and the SSS are among the most powerful financial institutions in the Philippines and are, therefore, widely looked up to as an ideal catalyst to develop the local capital market and champions of good corporate governance.⁸⁵

In the wrong hands, however, the Government Service Insurance System (GSIS) and Social Security System (SSS) can be used to make a puppet out of a free market, influence mergers and acquisitions, and even create wealth for an unscrupulous few at the expense of the many.⁸⁶

During the short-lived regime of disgraced President Joseph Estrada, these pension funds unfortunately ended up in the wrong hands. Taking advantage of very thin volumes, Estrada and his cronies used the GSIS and SSS to prop up the stock prices of companies where they held sizable shares. They earned huge profits by selling when their stocks hit their peak prices, but they left behind a battered and very disillusioned market. The sentiment against Estrada among stock investors was so negative that on the first trading day right after the former leader was ousted through a military-backed civilian revolt, the key stock index rose 17.56 percent amid a value turnover of P7.1 billion.

⁸⁵ Dumlao, D. "SSS, GSIS: Puppet Masters." *INQ7.net*. Available Online: http://archive.inq7.net/archive/2001-p/bus/2001/jun/11/bus_6-1-p.html.

⁸⁶ *Ibid.*

People were very eager to trade solely on the fact that Estrada was no longer in power because they knew that there was now a chance of getting a fair deal.⁸⁷

The Estrada administration's misdeeds also greatly eroded the credibility and integrity of the GSIS and SSS.⁸⁸

In a country where very few people trade in stocks due to a poor savings rate and scarce foreign investments, it is impossible not to feel the impact of major players like the SSS and GSIS. It was the thin daily value turnover--averaging P500 million or less--that gave them undue strength. With the absence of institutional investors who were willing to buy stocks from the worst-performing stock market in Asia and the second-worst performing in the world last year, the GSIS and SSS could easily sway the market by releasing its cash hoard to some favored companies. Over the last two years, stock investors eagerly took their cue from these institutions. Predicting their stock plays correctly meant huge bonanzas.⁸⁹

A local stockbroker said the impact of the SSS' and GSIS' "investment adventurism" would have been negligible or easily neutralized had it been done at a time when the stock market was abundant with cash.⁹⁰

Historically, these pension funds had always been vulnerable to political pressures, but they had never been used as blatantly to influence the stock market for some political or financial gains as they were by the Estrada administration. In many instances, the GSIS and SSS bought shares just to give the impression of a vibrant stock

⁸⁷ Ibid.

⁸⁸ Ibid.

⁸⁹ Ibid.

⁹⁰ Ibid.

market. Whenever the market went up without fundamental or technical bases, it was a foregone conclusion that the GSIS and SSS were there to boost the market.⁹¹

Garcia, a former Cebu politician said: "The investment of pension funds should not be a political decision. We should tell the politicians to stay away and not poke their fingers into the pension funds. Investments should be a sound investment decision,"⁹²

He added that: "If only (the previous GSIS leadership) followed the basic policies of the GSIS in investments, I don't think they'd have lost a lot. They should have followed our criteria before investing in the stock market,"⁹³

The GSIS has a total investment portfolio of about P160 billion, slightly lower than the SSS' P180 billion.⁹⁴

The GSIS and SSS also raised the percentage of its funds that it could invest in stocks to 30 percent. However, the GSIS is not bound by a law that sets a cap on its stock investments. In an extreme case, it can put all its money in stocks and run itself to the ground.⁹⁵

It is estimated that the GSIS' stock investments swelled by 35 percent under the Estrada administration.⁹⁶

FOCUS NUMBER 1: GSIS' "Unfair" Retirement Scheme

As stated above, one of the responsibilities of the GSIS is to give its members retirement benefits in order for them to be able to continue with their living after leaving the office. The following data are the existing retirement schemes of the GSIS.

⁹¹ Ibid.

⁹² Ibid.

⁹³ Ibid.

⁹⁴ Ibid.

⁹⁵ Ibid.

⁹⁶ Ibid.

The Retirement Scheme under the Republic Act 8291

The Government Services Insurance System Act of 1997, also labeled as the Republic Act 8291, took effect last June 24, 1997.⁹⁷ According to Chan Robles' document posted on the Internet, this Republic Act is an act amending Presidential Decree No. 1146. "The Republic Act basically aims to expand and increase the coverage and benefits of the GSIS.⁹⁸ As well, the act aims to introduce institutional reforms for the GSIS to have more flexibility and thus perform its mission of providing social security protection more effectively."⁹⁹

There are two requirements that are needed in order to be entitled for the scheme. The requirements are:

1. The retiree must have rendered at least 15 years of service and must be at least 60 years of age upon retirement.
2. He or she must not be a permanent total disability pensioner.

The Republic Act alone gives two options for individuals who choose the RA as his or her retirement scheme. The first option is a lump sum equivalent to 60 months of the Basic Monthly Pension (BMP) payable at the time of retirement and an old age pension benefit payable monthly for life, if the retiree is still living after the five year guaranteed period. In a short term, this first option is called 1) *Lump sum and Old Age Pension option*.

⁹⁷ "A Primer on the Various Types of Social Insurance, Social Security Benefits and Employee Compensation Claims, and Basic Requirements for Entitlement Under the Different Laws as Administered by the GSIS." GSIS.

⁹⁸ Robles, C. "The Government Service Insurance System Act of 1997." Available Online: www.chanrobles.com/legal4gsis.html.

⁹⁹ "A Primer on the Various Types of Social Insurance, Social Security Benefits and Employee Compensation Claims, and Basic Requirements for Entitlement Under the Different Laws as Administered by the GSIS." op. cit.

The other option is called 2) *Cash Payment and Basic Monthly Pension*. In this second option, the retiree is given cash payment that is equivalent to 18 times the Basic Monthly Pension (BMP) payable upon retirement. Additionally, the retiree will receive a monthly pension for life payable from the date of retirement.

Based on the document entitled GSIS: Services and Benefits: Retirement: Under RA 8291, the Basic Monthly Pension or the BMP is computed in this method:

RA 8291 BMP Computation Formula: Table 1.1

- | |
|---|
| <p>a) If the length of service is less than 15 years: $BMP = .375 \times RAMC$</p> <p>b) If length of service is 15 years and more: $BMP = .025 \times RAMC \times \text{Length of service}$</p> <p>* RAMC: Revalued Average Monthly Compensation</p> <p>* Length of Service measured in years</p> <p>* In either case the BMP shall not exceed 90% of the Average Monthly Compensation (AMC)</p> |
|---|

According to the same document, the Revalued Average Monthly Compensation (RAMC) and the Average Monthly Compensation are computed as follows:

RA 8291 RAMC and Average Monthly Compensation Formula: Table 1.2

$$\text{RAMC} = \text{AMC} + 700$$

AMC:

- a) If length of service is less than 36 months:

Total compensation received preceding unemployment, disability or death

$$\text{AMC} = \frac{\text{Total compensation received preceding unemployment, disability or death}}{\text{Actual number of months that the member received such compensation}}$$

OR

- b) If length of service is 36 months or more:

Total compensation received during the last months of service preceding separation, retirement, disability, death

$$\text{AMC} = \frac{\text{Total compensation received during the last months of service preceding separation, retirement, disability, death}}{36}$$

Moreover, it is stated in the same document that effective January 1, 2001, the Maximum AMC is P14,000 and effective January 1, 2002, Maximum AMC will be increased to P16,000.¹⁰⁰

The Retirement Scheme under the Presidential Decree 1146

The retiree must have rendered at least 15 years of service, regardless of age. If retiree is below 60 years old upon retirement, he/she may avail of retirement benefits only upon attaining his 60th birthday.

The benefit is any of the following:

1. Basic Monthly Pension (BMP)

¹⁰⁰ "GSIS: Services and Benefits: Retirement: Under R.A. 8291." *Government Service Insurance System*. Available Online: www.gsis.gov.ph/services_benefits/retirement/retirement_ra8291.html.

This is for those who are at least 60 years of age and has rendered 15 years of service. The basic monthly pension is guaranteed for 5 years. After the 5-year guaranteed period, he/she will receive a basic monthly pension for life. A retiree may request for the payment in lump-sum of the Basic Monthly Pension for the guaranteed period of 5 years at a discounted rate of not less than 6%.

The BMP is computed as follows:

- a) If length of service is less than 15 years: $BMP = .375 \times RAMC$
- b) If length of service is 15 years or more: $BMP = .025 \times RAMC \times \text{Length of service}$

In either case, the BMP shall not exceed 90% of the Average Monthly Compensation (AMC).

The AMC is computed as follows:

PD 1146 AMC Formula Table 1.3

$AMC = \frac{\text{Total compensation received during the last 3 years}}{\text{Total number of months during which compensation was received}}$

The Revalued Average Monthly Compensation (RAMC) is computed as follows:

PD 1146 RAMC Formula Table 1.4

$RAMC = AMC + P140.00$

The maximum RAMC is P3, 140.00

2. Cash Payment

This is for those who are at least 60 years of age and has rendered at least 3 years but less than 15 years of service. The cash payment shall be equal to 100% of the Average Monthly Compensation (AMC) for every year of service.

The Cash Payment (CP) is computed as follows:¹⁰¹

PD 1146 CP Formula Table 1.5

$$\text{CP} = \text{Total monthly contributions paid} \times \text{AMC}$$

The Retirement Schemes under the Republic Act 1616

This Gratuity Retirement Benefit retirement scheme that took effect on May 31, 1957 is only applicable if an employee was in the service on or before May 31, 1977. There are two requirements that must be complied to be legible for the scheme. Aside from the date of service, the other requirements are:

1. The retiree must have rendered at least 20 years of service regardless of age and employment status.
2. The retiree's last 3 years of service prior to the retirement must be continuous, except in cases of death, disability, abolition or phase out of position due to reorganization.

There are two benefits offered in this scheme. The first is in terms of gratuity wherein "1) gratuity is to be paid by the last employer based on the total creditable service converted into gratuity months multiplied by the highest compensation received.

The computations of the gratuity months are as follows:

- 1.0 months salary for the first 20 years of service
- 1.5 months salary for the next 10 years up to 30 years
- 2.0 months salary in excess of 30 years of service

* There is no limit to the amount of gratuity benefit

¹⁰¹ "GSIS: Services and Benefits: Retirement: Under P.D. 1146." *Government Service Insurance System*. Available Online: www.gsis.gov.ph/services_benefits/retirement/retirement_pd1146.html.

The second benefit offered in the scheme is 2) the refund of retirement premiums consisting of personal contribution of the employee plus interest and government share without interest, payable by the GSIS.”¹⁰²

The Retirement Schemes under the Republic Act 660

Republic Act 660 was passed on June 16, 1951. Only individuals who are in the service on or before May 31, 1977 are entitled for the Republic Act 660, also called the Annuity (Pension) Benefit Plan.

According to the document entitled GSIS: Service and Benefits: Retirement: Under RA 660, the requirements are:

1. The retiree’s last three years of service prior to the retirement must be continuous, except in cases of death, disability, abolition, and phase-out of position due to reorganization
2. The individual’s appointment status must be permanent in nature
3. He or she must meet the age and service requirements under the “Magic 87” formula

Magic 87 Formula: Table 1.6

Age	:	52	53	54	55	56	57	58	59	60	61	62	63	64	65
Service	:	35	34	33	32	31	30	28	26	24	22	20	18	16	15

¹⁰² “GSIS: Services and Benefits: Retirement: Under R.A. 1616.” *Government Service Insurance System*. Available Online: www.gsis.gov.ph/services_benefits/retirement/retirement_ra1616.html.

Imposed by the scheme as well, is that “the maximum monthly pension for those above 57 years old shall be 80% of the Average Monthly Salary (AMS) received during the last three years immediately preceding the retirement. The maximum pension for those aged 57 and below shall be 75% of the AMS.”

After complying with the requirements, three benefit options are then opened to the retirees. These are the 1) Automatic Pension; 2) Initial Three-year Lump Sum, and the 3) Five-year Lump Sum.

In the Automatic Pension option, “all retirees below 60 years old shall be qualified to a monthly annuity guaranteed for 5 years with the option to request for a one-year lump sum every six months. If the retiree is still living after the five-year guaranteed period, he or she shall be entitled to a monthly pension for life.”

On the other hand, in the Initial Three-year Lump Sum option, for “retirees who are at least 60 years old but less than 63 years on date of retirement, the benefit is a three-year lump sum. The subsequent two-year lump sum shall be paid to the retiree on his 63rd birthday. If the retiree is still living after the five-year guaranteed period, he shall be entitled to a monthly pension for life.”

The last option, the Five-year Lump Sum, “is available to those who are at least 63 years old or over on the date of retirement. If still living after the five-year guaranteed period, the retiree shall be entitled to a monthly pension for life.”¹⁰³

¹⁰³ “GSIS: Services and Benefits: Retirement: Under R.A. 660.” *Government Service Insurance System*. Available Online: www.gsis.gov.ph/services_benefits/retirement/retirement_ra660.html.

The "Unfairness" of the Scheme – RA 8291

There are four retirement modes available to all government employees. Those who were in the service on or before May 31, 1977 may avail of retirement benefits under RA 660, RA 1616, PD 1146 or RA 8291. On the other hand, those who entered government service after May 31, 1977 may only avail of retirement benefits under PD 1146 or RA 8291.¹⁰⁴

With the issue regarding to the unfair retirement scheme, it is said that the Government Service Insurance System Act of 1997 or the Republic Act 8291 constricts the benefits of retirees instead of expanding these on account of the increasing cost of living. The new Republic Act 8291 strictly stressed that those government employees who entered the office on or after June 1, 1997 may only be entitled to one scheme of retirement. These people can only be retired using the scheme provided by the RA 8291.

Moreover, this scheme pegs the retiree's benefits at 90 percent of the Average Monthly Compensation and also sets a maximum of P16,000 for the AMC. Thus, in order to attain a maximum pension of P14,400 under RA 8291, one must have a monthly compensation of P16,000 and there must be a minimum of 34.49 years of service¹⁰⁵.

An explanation to these allegations was given during the interview with the GSIS Vice-President of the Social Insurance Accounts Management Services II, Mrs. Gloria D. Caedo. For Mrs. Caedo, the RA 8291 is not unfair and, in fact, it is true that it expands the benefits of the retirees. *"Yeah, definitely it increased. Kasi under PD 1146, the Average Monthly Compensation is pegged at P3,000 only and the pension cannot exceed 90% of P3,000 which is P2,700. Very, very much lower. So although she came after May*

¹⁰⁴ "GSIS: Services and Benefits: Retirement." *Government Service Insurance System*. Available Online: www.gsis.gov.ph/services_benefits/retirement/retirement.html.

¹⁰⁵ Iqbal, A. op. cit.

31,1977, kung hindi na-ammend ang PD 1146, ganun lang ang pension na kanilang matatanggap, P2,700. Now under 8291, na-expand 'yan. It started with 10 then 12, 14, 16, ganun. At yun nga inalis na yung limit na yun." These are the exact words of Mrs. Caedo affirming the expansion made by the GSIS Act of 1997.

She also said that, the 90 percent ceiling is in fact bigger as compared to that of the RA 660, wherein the ceiling is just 80 percent.

Moreover, Mrs. Caedo clarified that the "all government employees who entered service on or after June 1, 1997 may only be entitled to the retirement scheme of RA 8291" rule is only carried over from the PD 1146. Thus, it is not through the amendment that this provision was set. It is indeed not a problem for retirees to just fall in RA 8291. The reason according to Mrs. Caedo, is that RA 8291 imposes bigger benefits. In going further she said, "*Kasi 'eto ang difference. Under PD 1146, you can only receive the benefit when you reach the age of 60. Even if you have 20 years of service, hindi mo makukuha ang pension mo kung hindi ka age 60. However, under RA 8291, if you have rendered 15 years of service and you are below 60 years old, the GSIS will pay you 18 months basic monthly pension which we call separation benefit and when you reach the age of 60, you get the monthly pension.*"

The GSIS Vice-President justified the RA 8291's pegging of AMC to P16,000. In exact words, Mrs. Caedo said, "*It's pegged at 90%. So ngayon nga, the AMC is pegged at P16,000 and the pension should not exceed 90% of P16,000. So by the year 2003, wala ng limit ang AMC.* In other words, this limit is only set temporarily in a short duration and after the said date, the limit will be lifted. Thus, in the year 2003, there are no

ceilings for the AMC. For example, if you have an AMC of P60,000, the only ceiling is that you cannot exceed 90% of the P60,000.

FOCUS NUMBER 2: Retired Executives Turned Millionaires

In year 2001, 16 GSIS executive were retired from office.¹⁰⁶ This is a normal picture to be imagined especially when employees reach the age of 60 or more. However, what is astounding and mind-boggling is that it is not normal for a retiree to become instant millionaires. But for the Government Service Insurance System, this situation is not impossible.¹⁰⁷

Here are some data based on the memorandum of Ma. Cristina Dimagiba, GSIS-COA Corporate Auditor. This will show that there is a possibility to be instant millionaires in the world of the GSIS:¹⁰⁸

GSIS Executives who Retired from Office: Table 2.1

NAME	POSITION	ACCUMULATED RETIREMENT BENEFIT
Federico Pascual	Former GSIS President	16.7 million pesos
Loudes Patag	Senior Vice-President	17.5 million pesos
Daniel Mijares	Senior Vice-President	16.683 million pesos
Elvira Geronimo	Senior Vice-President	15.61 million pesos
Marina Santamana	Vice-President	13.16 million pesos
Vicente Villegas	Vice-President	13.5 million pesos
Lourdes de los Angeles	Vice-President	10.3 million pesos
Nita Javier	Corporate Secretary	16.6 million pesos

The names stated are only half of the said executives who received millions of pesos on their retirement. The reason behind all of this big money is the ELIP.

¹⁰⁶ Cueto, D. "Audit Commission Voids GSIS Retirement Financial Plan." *INQ7.net*. Available Online: www.inq7.net/nat/2001/sep/11/text/nat_1-1-p.html.

¹⁰⁷ Cruz, N. "Who Wants to be a Millionaire." *INQ7.net*. Available Online: www.inq7.net/opi/2001/sep/13/opi_nhacruz-1.html.

¹⁰⁸ Cueto, D. op. cit.

The ELIP is no other than the GSIS Employees Loyalty Incentive Plan. This is a supplementary retirement scheme approved by the GSIS Board of Trustees under GSIS Board Resolution No. 360.¹⁰⁹

This plan is exclusively made for GSIS employees as payment for their years of service in the GSIS alone. This plan permitted its employees to acquire as much as 13.5 million pesos in gratuity pay and 94,000 pesos in monthly pension. The ELIP adopted the greatest features of the retirement scheme of RA 1616 and RA 660. The features are, particularly, the five-year lump sum payment of the RA 1616 and the monthly pension of the RA 660.¹¹⁰

Curiously, the ELIP was approved by the GSIS Board on January 16, 2001. That was the time when mass protest actions against President Joseph Estrada were reaching its peak. There is this idea that Pascual and other members of the Board rushed the manufacture of the golden parachute knowing that the Estrada presidency was breaking down. Using this idea, it can create the assumption that ELIP is a very self-serving and immoral scheme to secure the future of such GSIS officials.¹¹¹

Additionally, ELIP is also declared illegal, according to the Commission on Audit. Ma. Cristina D. Dimagiba said that the ELIP violates a Supreme Court ruling, the Teves Law, prohibiting the creation of any insurance or retirement plan other than what is prescribed by law. She said the ELIP couldn't be an early retirement plan because those who availed themselves of the program were already of retirement age. And while it was referred to as financial assistance, she said ELIP actually "constituted additional

¹⁰⁹ *Ibid.*

¹¹⁰ Cruz, N. op. cit. and Cueto, D. op. cit.

¹¹¹ "Easy Money." *INQ7.net*. Available Online: http://archive.inq7.net/archive/2001-p/opi/2001/sep/12/opi_editorial-1-p.html.

retirement benefits beyond what is allowed under existing retirement laws promulgated by the GSIS for all government employees.”¹¹²

Under the law, all government employees are paid upon their retirement one month’s salary for every year of service if they work for 20 years or less; one and half month’s pay for every year beyond 20 up to 30; and two months for every year served thereafter. However, the GSIS has limited the gratuity to P10,000 for every year of service and imposed a P180,000 ceiling regardless of how many years an employee has worked.

Over and above this, GSIS officials and employees get one and a half months’ pay for each of the first 20 years of service, two months’ pay for each of the succeeding 10 years, and two and a half months’ pay for every year thereafter under the ELIP.¹¹³

Using the above facts, the ELIP has made GSIS officials and employees more equal than others in the government service.

This is the data that would show the ELIP contribution to the accumulated retirement benefit received by the eight of the 16 employees:¹¹⁴

ELIP Package of the 16 GSIS Employees: Table 2.2

NAME	ACCUMULATED RETIREMENT BENEFIT	ELIP PACKAGE
Federico Pascual	16.7 million pesos	11.445 million pesos
Loudes Patag	17.5 million pesos	7.89 million pesos
Daniel Mijares	16.683 million pesos	7.14 million pesos
Elvira Geronimo	15.61 million pesos	7.9 million pesos
Marina Santamana	13.16 million pesos	6.9 million pesos
Vicente Villegas	13.5 million pesos	5.7 million pesos
Lourdes de los Angeles	10.3 million pesos	4.32 million pesos
Nita Javier	16.6 million pesos	6.08 million pesos

¹¹² Ibid.

¹¹³ Ibid.

¹¹⁴ Cueto, D. op. cit.

Since the GSIS is said to have violated the Teves Law, the COA, aside from mandating the GSIS to stop the practice, requested the Office of the Ombudsman to Investigate GSIS officials for supposed graft and corruption.¹¹⁵

As a reply by the GSIS to these allegations Mr. Winston Garcia, the GSIS president and general manager, issued a memorandum to Mrs. Dimagiba. According to him, the Board resolution concerning the ELIP could not just be nullified by a legal opinion of the COA legal counsel. Additionally, Garcia stated that "the COA must only refer to a particular or specific disbursement of public funds and not against a general activity or transaction."¹¹⁶

Answer of GSIS through Mrs. Gloria Caedo

It is known that there were 16 GSIS executives that retired and received millions of pesos. The Commission on Audit checked out this problem and the millionaires were recommended for further investigation.¹¹⁷ As immediate answer to the allegation, that huge sums of money were received by the executives, Mrs. Caedo stated that "*Because these people have rendered service more than 40 years and their salaries are high. Remember, if during the RA 660 with more than 40 years of service at ang salary mo ay mga P100,000, malaki ang iyong monthly pension kasi 80 percent. For example, you have been receiving that P100,000 for three years, o how much is 80 percent of that... P80,000. So that's going to be your pension, P80,000. Top corporations are also receiving seven million, eight million lump sum. So it's not... kami lang yung nasilip kasi*

¹¹⁵ Cruz, N. op. cit. and Cueto, D. "COA Wants Ex-GSIS Chief, 15 Others to Return P72M." op. cit.

¹¹⁶ Cueto, D. "Audit Commission Voids GSIS Retirement Financial Plan." op. cit.

¹¹⁷ Ibid.

medyo nag-init ang auditor namin sa'min. Pero that goes for all the executives of corporations especially yung more than 40 years of service niyan."

Another perspective on the same issue is that the ELIP was said to be computing benefits in a special way. Under this scheme, as opposed to other regular retirement package, GSIS employees' benefits are computed at 1.5 months of salary for every year of service for the first 20 years, instead of the usual one-month per year of service. Moreover, for GSIS employees with 21 years to 30 years of service their benefits are computed at two months of salary every year of service, instead of the regular 1.5 per year of service under ordinary retirement packages. Another special computation is designed for the employees with 31 years of service in the GSIS. Here, those employees are entitled to 2.5 months salary for every year of service.¹¹⁸

When this statement was referred to Mrs. Caedo, she said that all of this is legal and was approved by the Board of Trustees. She explained that the power of the Board is indeed powerful enough and is much independent. Adding to it, the GSIS Board of Trustees is, in actual fact, empowered by the Philippine Law. She also said that due to the Salary Standardization exemption of the GSIS, the Board has the power to make such salary adjustments.

The COA according to her is the body that serves as the check and balance mechanism of the Board. However, the COA has the right to question them only if the policies approved by the Board are executed improperly. Hence, the Commission on Audit has no power to question any general activity or transactions approved by the Board.¹¹⁹

¹¹⁸ Cueto, D. "COA Wants Ex-GSIS Chief, 15 Others to Return P72M." op. cit.

¹¹⁹ Cueto, D. "Audit Commission Voids GSIS Retirement Financial Plan." op. cit.

According to Mrs. Caedo, the GSIS is not the only agency with a powerful Board of Trustees. There are other agencies around that have powerful Board of Trustees such as the SSS.

Overall, for Mrs. Caedo, there were no illegal transactions made by GSIS in any of the issues. According to her, there were no unfair provisions on the Republic Act 8291 and there were no graft and corruption occurred. She stated that in the present, their President General Manager is the most innovative. "To tell you briefly, itong PGM naming ito ang pinakamadaming innovations for a short period of time..." she said.

Mrs. Gloria Caedo answered each and every allegation that was thrown to the GSIS as if the GSIS has nothing to be guilty of.

FOCUS NUMBER 3: Overpaid GSIS Employees

Aside from the big benefits created under the ELIP, GSIS employees enjoy higher compensation compared to the employees of other government agencies. The reason behind this is that the SSL or the Salary Standardization Law does not encompass the GSIS.

The executives of this agency receive a monthly salary ranging from P100,000 to P357,000.

In addition to this fact, is that in the year 1999 and 2000, the GSIS still managed to have a 26 percent salary increase. Stated in the memorandum of COA: "While the fund of GSIS comes from the contributions of lowly employees like teachers, utility workers

and clerks, they who were entrusted with these contributions had arrogated themselves fantastic salaries taken from such contributions of these lowly employees.”¹²⁰

Entering the world of GSIS today often means being a millionaire in the near future. This is the common notion of the Filipinos regarding the GSIS. Being in the upper part of the hierarchy of positions in the office means big money and benefits. Likewise, being in the bottom is so bad either.¹²¹

To begin with, the GSIS president and members of the Board of trustees each get a Christmas bonus of 723,968 pesos, according to figures from the Commission on Audit (COA).¹²²

The GSIS president, with a salary grade of 31, receives a monthly take-home pay of 564,869.55 pesos, including the basic salary of 356,979 pesos, plus allowances.¹²³

The lowest paid GSIS employee, a laborer, with a salary grade of 3, has a monthly take-home pay of 27,021.50 pesos, including his basic salary of 14,670 pesos.¹²⁴

Salaries of the Highest and Lowest Employees of the GSIS: Table 3.1

POSITION	SALARY GRADE	BASIC SALARY	TAKE-HOME PAY
GSIS President	31	P356, 979.00	P564, 869.55
GSIS Vice President	30	P297, 482.00	P453, 548.90
Courier	4	P15, 697.00	P28, 510.00
Laborer	3	P14, 670.00	P27, 021.50

Comparing the salaries and allowances received by the state-run pension fund's ranking officials and employees against that of ordinary government employees covered by the Salary Standardization Law, showed the GSIS' top officials receiving salaries and

¹²⁰ Cueto, D. "COA Wants Ex-GSIS Chief, 15 Others to Return P72M." *INQ7.net*. Available Online: www.inq7.net/nat/2001/sep/12/nat_10-2.html.

¹²¹ Cueto, D. "GSIS Bosses to Get P724,000 Each". *INQ7.net*. Available Online: http://archive.inq7.net/archive/2001-p/nat/2001/sep/29/nat_6-1-p.html.

¹²² Ibid.

¹²³ Ibid.

¹²⁴ Ibid.

allowances that were eight to 10 times more than those of their counterparts in other agencies of the government.¹²⁵

The GSIS president, with a basic pay of 356,979 pesos, actually earns much more than the President of the Philippines, whose basic salary is roughly 50,000 pesos, said COA director Amorsonia Escarda.¹²⁶

According to a study made by the GSIS' resident COA auditor, Cristina Dimagiba, GSIS president Winston Garcia receives 564,869.55 pesos a month in basic pay and allowances.¹²⁷

He gets to take home 501,107.55 pesos more than a chairman or a department secretary with a similar grade level of 31.¹²⁸

A department secretary or chair of a government agency, outside of the GSIS, gets to take home 63,762 pesos monthly. This includes his 48,062 pesos basic salary and allowances worth 15,700 pesos.¹²⁹

Thus, the GSIS president's take-home pay is roughly nine times bigger than that of his counterpart in other government agencies.¹³⁰

A GSIS executive vice president, with a salary grade of 30, has a total monthly take-home pay of 453,548.90 pesos, including his basic salary of 297,482 pesos.¹³¹

Compare this to how much a commissioner or department undersecretary outside GSIS, with a similar salary grade, gets – 46,723 pesos monthly, including his basic salary of 34,323 pesos. It has a difference of 406,825.90 pesos.¹³²

¹²⁵ Ibid.

¹²⁶ Ibid.

¹²⁷ Ibid.

¹²⁸ Ibid.

¹²⁹ Ibid.

¹³⁰ Ibid.

¹³¹ Ibid.

The GSIS executive vice president, thus, gets almost 10 times more than his counterpart outside GSIS. On the other hand, a GSIS senior vice president, with a salary grade of 28, receives a total monthly take-home pay of 300,872.45 pesos, including his basic monthly salary of 194,481 pesos.¹³³

The counterpart outside the GSIS, who is covered by the Salary Standardization Law and holds the position of Director IV, gets a monthly take-home pay of 38,255 pesos. This amount includes the basic salary of 28,955 pesos.¹³⁴

The GSIS senior vice-president gets to take home salaries and allowances amounting to 262,617.45 pesos, more than what government officials with the same salary grade and position receive.¹³⁵

Even lowly GSIS employees, such as couriers with a salary grade of 4, receive 28,510 pesos in total monthly take-home pay, including a basic pay of 15,697 pesos and allowances.

A government employee outside GSIS covered by the Salary Standardization Law, with a similar salary grade of 4, such as a Driver II, only receives a total monthly take-home pay of 8,751 pesos, including a basic pay of 7,751 pesos and allowances worth 1,000 pesos.¹³⁶

The lowest-paid GSIS employee, a laborer, with a salary grade of 3, gets a total monthly take-home pay of 27,021.50 pesos. Compare this with what a utility worker II

¹³² *Ibid.*

¹³³ *Ibid.*

¹³⁴ *Ibid.*

¹³⁵ *Ibid.*

¹³⁶ *Ibid.*

with a similar salary grade, but working outside GSIS, gets – a monthly take-home pay of 8,177 pesos, including a basic pay of 7,177 pesos.¹³⁷

According to Mr. Escarda, the GSIS is exempted from the Salary Standardization Law, based on the GSIS Act of 1997, or Republic Act 8291, which took effect in 1989.¹³⁸

The GSIS exempted itself from the SSL and the Attrition Law – which banned the filling up of vacant government positions – in 1997 through RA 8291 approved by Congress. The reason behind the exemption was that it would make the GSIS' management and operation more effective.¹³⁹

FOCUS NUMBER 4: GSIS Delay in Releasing Benefit Payments

Thousands of government employees have been prevented from availing of salary loans and other benefits from GSIS since May 2003. GSIS officials attributed the delay to the GSIS' computer upgrading to pave the way for networking. According to the GSIS, the premium database of the GSIS is in the process of computerization and is being updated.

However, GSIS members believe that the real reason behind GSIS inaction on awaiting loan applications – number about 10,000 as of the latest count – is that the agency funds collected from government employees' money were diverted for failed investment ventures.

The GSIS, together with the Social Security System (SSS), reportedly pumped 15 billion pesos (P15 billion) into the Equitable Bank buy-out of Philippine Commercial

¹³⁷ Ibid.

¹³⁸ Ibid.

¹³⁹ Ibid.

International Bank (PCIBank). According to the Commission on Audit (COA), the GSIS lost in that investment.

The GSIS announced that all loan applications and retirement benefits pending since May would be processed starting August 15, 2003. However, it was learned that out of 10,000 applications for salary loan, GSIS can only release at most 30 treasury warrant checks a day. Worse than this, loans are covered with cross-checks which entail that employees should open bank accounts to deposit their checks – causing time delays to the access of the actual cash.

Additionally, people have also discovered that interests on loans taken were higher from 8% to 12% annually.

The GSIS members also noted that GSIS officials are not telling the truth when they say that applications for loans by government employees cannot be processed because records are still being updated. All GSIS records had been updated by 1998.

FOCUS NUMBER 5: The Manifestations of an Irresponsible GSIS

This section aims to let the readers know the truth on how the GSIS deals with claims for disability, sickness, injuries and death arising out of and in the course of employment in government.

This government has promised to protect workers and to assure them of humane conditions of work.

The Labor Code (Article 166) declares that the state shall promote a tax-exempt compensation program whereby employees and their dependents may promptly secure

adequate benefits in the event of work-connected disability or death. This promise has not been fulfilled.¹⁴⁰

CASE 1: March 23, 1992

Mr. Yosores retired in 1988 from the GSIS where he worked since 1963. The GSIS approved his retirement for total and permanent disability due to Parkinson Disease.¹⁴¹

His claim for benefit however was denied and he was merely given a consolation grant of nine months for PTB. The Employees' Compensation Commission (ECC) affirmed the GSIS. The Supreme Court reversed both the GSIS and the ECC.¹⁴²

The high court said: "The court is unable to accept the sweeping statement in the ECC decision xxx. Mr. Yosores who spent the prime years of his life as a GSIS employee is entitled to the same beneficial consideration from the government." The GSIS' denial was, thus, nullified.¹⁴³

CASE 2: January 23, 1992

In Diopenes versus GSIS, a Development Bank of the Philippines (DBP) branch attorney had a stroke in 1978 after he worked there since 1958. The GSIS required him to undergo three medical exams. Despite the medical reports, the GSIS denied the claim. The ECC, as usual, affirmed.

The Supreme Court reversed the ruling saying: "A humanitarian impulse, dictated by no less than the Constitution itself under the social justice policy, call for a liberal and

¹⁴⁰ "GSIS, The Denial Queen." *INQ7.net*. Available Online: http://archive.inq7.net/archive/2001-p/bus/2001/sep/21/bus_10-1-p.html.

¹⁴¹ *Ibid.*

¹⁴² *Ibid.*

¹⁴³ *Ibid.*

sympathetic approach to the legitimate appeals of disabled public servant xxx compassion for them is not a dole out but a right.”¹⁴⁴

CASE 3: November 14, 1991 .

In Librea versus ECC, the GSIS again denied a single cent of benefits to a widow of a teacher who died due to cirrhosis of the liver.¹⁴⁵

The high court bluntly told the GSIS: “xxx findings of doctors and chief medical officer of the GSIS and ECC, who are not experts, are not binding on the Supreme Court. The court bewailed why the GSIS and the ECC did not appreciate the teacher who served public schools for more than 30 years.”¹⁴⁶

CASE 4: June 18, 1990

In Lazo versus ECC, the high court reversed the GSIS for denying the claims for disability benefits of a central bank security guard who was injured while on his way home from work.¹⁴⁷

CASE 5: May 11, 1990

In Belarmino versus the ECC, the GSIS faulted the husband of a teacher who died of unintentional abortion for falling on the floor in the barrio school where she was teaching.¹⁴⁸

The Supreme Court reprimanded the GSIS for its denial of the claim and the ECC for just swallowing whatever the GSIS says.¹⁴⁹

¹⁴⁴ Ibid.

¹⁴⁵ Ibid.

¹⁴⁶ Ibid.

¹⁴⁷ Ibid.

¹⁴⁸ Ibid.

¹⁴⁹ Ibid.

CASE 6: April 17, 1989

In *Hinoguin versus ECC*, the Supreme Court reversed the GSIS and the ECC which denied the claims for the death benefits of a soldier who died while on a night pass to visit his family.¹⁵⁰

CASE 7: August 9, 1988

In *Cabajal versus GSIS*, a clerk in Eastern Samar died after an abortion that caused hemorrhage. The GSIS denied any benefit. The ECC affirmed. The Supreme Court reversed the twin denial queens.¹⁵¹

The court reminded the GSIS and the ECC to give "meaning and substance to the liberal and compassionate spirit of the law xxx which is in consonance with the avowed policy of the state to give maximum aid and protection to labor."¹⁵²

CASE 8: December 11, 1987

In *Iscala versus Republic*, the Supreme Court reversed the GSIS for denying benefits to the heirs of a teacher in Aklan who died of ulcer.¹⁵³

In *GSIS versus Court of Appeals (CA)*, a Philippine Constabulary (PC) supply sergeant was infected with glaucoma after working from 1967 to 1989. The GSIS denied his claim. As usual, the ECC affirmed the GSIS.¹⁵⁴

The ruling was reversed by the Court of Appeals. The GSIS questioned the Court of Appeals but the Supreme Court dismissed its appeal. Why is the appellate court more

¹⁵⁰ Ibid.

¹⁵¹ Ibid.

¹⁵² Ibid.

¹⁵³ Ibid.

¹⁵⁴ Ibid.

sympathetic to the employees rather than the offices mandated to afford labor to this protection?¹⁵⁵

CASE 9: October 28, 1987

In *Nemaria versus ECC*, the GSIS denied the payment of the death benefit claims for a teacher from Ronda, Cebu who died due to cancer of the liver after teaching for 30 years. The court lectured the GSIS: "Where cause (of cancer) is unknown xxx no duty to prove xxx exists. For certainly, the law cannot demand an impossibility."¹⁵⁶

CASE 10: July 31, 1987

In *Clemente versus GSIS*, the GSIS denied the claim for death benefits of the widow of a janitor of the Department of Health who died of a kidney disease.

The ECC affirmed. The Supreme Court reversed the two and dismissed their theory that the janitor was already sick when he was hired by the Department of Health (DOH).¹⁵⁷

In addition to this several cases, the paper includes this full text of a UP employee regarding his frustrating experience with the GSIS.

"I was a full-time assistant professor at the College of Business Administration of the University of the Philippines (UP), Diliman, Quezon City under a 12-month contract from June 1, 2000 to May 31, 2001.

During my 12 months at UP, the GSIS had collected a total of 13,816.22 pesos from my salaries (I have with me a summary of my GSIS contributions certified by the accounting office of UP).

It was my understanding that UP also paid the same amount in my behalf to GSIS representing its counterpart contributions.

After the expiration of my 12-month contract with UP, I immediately went to the GSIS Branch in Philcoa, Quezon City to claim back my personal contributions and, if possible, the UP counterpart contributions as well.

¹⁵⁵ Ibid.

¹⁵⁶ Ibid.

¹⁵⁷ Ibid.

I was instructed by the GSIS Philcoa Branch to obtain the following requirements to support my claim for my GSIS contributions:

1. UP Clearance
2. Service Record
3. Original Copy of my GSIS Policy

I then went to UP to request for my clearance and service record. After many follow-ups, I finally got the said two documents on Aug. 1, 2001 (two months after my request).

On the same date (August 1, 2001), I submitted the three requirements (including the original copy of my GSIS policy) for my claim to the GSIS Philcoa Branch.

Finally on September 4, 2001 (more than one month after I submitted the three requirements to the GSIS), I was advised by the GSIS by phone that my check was ready for pick up at the GSIS Philcoa Branch.

I promptly went back to the GSIS Philcoa Branch to get my check. When they handed me my check (I still have this GSIS check with me), I got the biggest surprise of all my life's surprises! The amount on my check was 250.28 pesos.

How could I get so little from the GSIS after I contributed to it 13,816.22 pesos (9 percent of my annual salary)? Is the GSIS designed to take advantage of government employees instead of protecting them?

Ms. Araceli V. Ferrer, the section chief of the Claims Division of the GSIS Philcoa Branch, told me that my check was small because they deducted from it the unpaid premiums (in arrears) for the months of June, July and August, 2001 plus the interest penalty for the late premium payments for the said 3 months.

Why did GSIS still collect premiums from me for the months of June, July and August, 2001 when I was no longer connected with UP effective June 1, 2001 as stipulated in my employment contract with UP?

Ms. Ferrer countered that it took UP two months (June to July, 2001) to complete my clearance and service record and it took GSIS Philcoa Branch another month (August, 2001) to process my claim.

For these 3 months of UP and GSIS processing times, over which I did not have any control, I had to be penalized because the GSIS, according to Ms. Ferrer, did not know that I was no longer employed by UP effective June 1, 2001.

But why should I get penalized for the slowness of both the UP and GSIS procedures? I already did my best efforts to speed up everything by making numerous follow-ups of my clearance/service record with UP and my claim for my GSIS contributions with the GSIS.

I recently learned from the accounting office of UP Diliman, Quezon City that my case is just one of the many cases of UP employees (and most likely, other public school teachers and government employees) who had been short-chanced by the GSIS.

Hopefully, the appropriate committee of the Senate or Congress will be enticed to study the problem of GSIS members by conducting a comprehensive review and investigation of the unfair practices and then correct them by amending the GSIS law for the benefit of many government employees including the public school teachers.¹⁵⁸

FOCUS NUMBER 6: “Parisian Life” Controversy

The Government Service Insurance System was under fire due to its newly acquired painting for its museum.

The Museum of Art of GSIS was established in 1996 and offers its services to about thousands of students and visitors in a year. Aside from its latest acquisition, the GSIS Museum also boasts of paintings and sculpture pieces by noted Filipino artists Hernando Ocampo, Fernando Amorsolo, Botong Francisco, and Vicente Manansala.¹⁵⁹

The Juan Luna painting entitled “The Parisian Life” was purchased by the GSIS at Christie’s in Hong Kong for 46 million pesos. All the sectors in the public sphere criticized the GSIS’ decision in buying the said painting due to its extremely high cost. The fact that the GSIS is not able to provide its regular services such as loans and insurance claims made the public conclude that the GSIS is not investing its fund properly and, thus, the public demand for further investigation on the current status of the GSIS.

¹⁵⁸ Virgilio, C. “Short-changed by the GSIS.” *INQ.7.net*. Available Online: http://archive.inq7.net/archive/2001-p/opi/2001/sep/28/letter_2-1-p.html.

¹⁵⁹ “GSIS Denies Using Members’ Premium for Parisian Life.” *Sun.Star Davao*. Available Online: <http://www.sunstar.com.ph/static/dav/2003/08/13/bus/gsis.denies.using.members.premium.for.parisian.life.html>.

History of Juan Luna's "Parisian Life"

It was described in the famous Hong Kong Christie's auction notes that the "Parisian Life" was "a work of art of rare intrinsic beauty," was signed, inscribed and dated "LUNA, Paris 1892." It was depicted as a "last gathering of great Filipinos that were the backbone in the molding of the country. Mounted on a 22 by 31 inches canvass, "Parisian Life" depicted the artist with his closest friends, Jose Rizal and Dr. Ariston Bautista-Lin in a casual evening in a café, in Paris in 1892. This was barely a few months before they returned to the Philippines to play their roles in the Philippine Revolution against Spain. Thus, the painting is as masterly as it is historic.

The valued price of the Luna painting according to the Christie's Catalog was ranged from 1.8 to 2 million Hong Kong dollars (14 Million pesos). "Parisian Life," also know as *Interim d'un Café* was painted in 1892. In 1904, it won a silver medal at the St. Louis Exposition (World Fair).

The "Parisian Life" is no ordinary painting. It was believed to be a painting of esteemed significance historically. First of all, it was depicted as a projection of Luna's tragic life since it was painted at a time when he would witness the death of his infant daughter and the killing of his wife (because of the affair she had with another man), mother-in-law and the frustrated murder of his brother in law.

After Juan Luna painted the artwork, it was then given to his friend (and also in the painting), Dr. Ariston Bautista-Lin. It was then passed on from generation to generation of their family. It was then exhibited at the Universal Exposition in St. Louis, Missouri, USA, where it showcased thousands of works throughout the world and there it won a silver medal for Luna who had by then passed away.

The relatives of Dr. Ariston Bautista-Lin presented the painting in Singapore in light of a Southeast Asian Cultural event and, thus, decided to sell the painting in the auction house of Christie's in Hong Kong.¹⁶⁰

Value of the Luna Painting

According to Dr. Eric Zerrudo, , GSIS Director for Cultural Facilities and Curator and Manager of the GSIS Museum, there are many reasons as to why this painting is considered to be very valuable into which it is better to explain this in its three aspects which are:

- Historical
- Aesthetic
- Social Value

Historically, it is a painting of Juan Luna, one of the most profound masters in art. It was also a painting created in the 19th century and is up to date 110 years old. It was also one of the last few painting created by Juan Luan before he returned to the Philippines and joined the revolutionary movement. The painting had the image of three very important people in the history of the Philippines namely:

- Jose Rizal who created Noli Me Tangere and El Filibusterismo that sparked the Philippine Revolution;
- Dr. Ariston Bautista-Lin a famous doctor that found the cure that stopped a very deadly epidemic, and, of course;

¹⁶⁰ Pilar, S. "On the Parisian Life of the GSIS." Available Online:
<http://www.upd.edu.ph/~updinfo/archives/nov-dec2002/Luna%20By%20Prof%20Pilar.html>.

- Juan Luna who also painted the “Spolarium” which is shown at the National Museum and the “Blood Compact” which can be seen at the Malacanang Palace.

It is also the only painting of Juan Luna that he included himself in the picture and which for an artist would mean that the painting is very important to its creator or painter.

It also has various aesthetic values. First, it can be considered as one of the oldest paintings still living in the Philippines. Its beauty is found in the paintings meaning. The painting can be interpreted in three ways:

One theory is that the girl in the painting is a courtesan who has caught the attention of three Filipinos who are a long way from their home and their womenfolk. A more unattractive meaning of the painting in which can be seen in its most simplest and obvious form.

The second interpretation was that it represented the tragic life of Juan Luna in which Juan Luna was illustrating the treacherous actions of his wife.

The third interpretation and certainly the most interesting of all is the political meaning of the painting. The painting of Juan Luna is not merely just a painting of emotions but also of political agenda. To prove the point as why some facts of the painting were assessed to be political was, first, in the painting all objects seem to be pointing at the lady, whether it is the table, newspaper and even the left behind clothes. Why they were all positioned towards the lady was because the painter wanted the observer to focus on the main character, the lady.

The girl as an observer could see is positioned in an awkward manner. Interestingly, the exact diameters of the image of the lady fit the exact shape of the Philippine archipelago.

Another alleged mistake made by Juan Luna was having a line drawn from the back of the girl's head making it look as if she is being strangled. However, it was discovered that this was intentionally made, by Juan Luna, to emphasize that the Philippines was under the tight and suppressing rule of the Spaniards.

Another is that it is seen that the coat placed beside the girl is of Spanish origin. In connection, there were two cups in the desk that show that the cup of the girl symbolizing the Philippines is already half empty while the drink of her companion, symbolizing the Spaniards is still full. This was interpreted as the Spaniard taking advantage of the Philippines.

In the end, Juan Luna only wanted to show the continued abuse that Filipinos' were receiving from the hands of the Spaniard Colonizers.

If being priceless and historical are not enough there is also to consider the social value that this painting has. Socially, it can be seen as the representation of the painter's emotion during those turbulent times. It is also a piece of our history, a fragment of our culture, and a lasting memory of one of our first heroes. He may not have written a novel or actually went into combat but his painting was able to show the true reality in more ways than one.

The Acquisition by the GSIS of the Juan Luna Painting

According to Dr. Eric Zerrudo, when the GSIS through his initiative, found out that the lost painting was going to be sold in Hong Kong, they made plans of buying it. Dr. Eric Zerrudo convinced the Board of Trustees of the GSIS to buy the said painting for its very high value which he considered as a must-have in the GSIS museum. And in doing so, it only took the approval of the Board to obtain the funds needed to purchase the painting.

The Board is headed by the President or General Manager. With the approval of the Board they, were set off to buy the painting. Considering that they are a GOCC, they are able to use their fund in any way they deemed fit. The funds that were used to buy the painting came from the revenue from their various investments. When asked about how much money they were willing to spend, he gave no comment. But from the interviews with General Manager Garcia he said "we the came there to win." This only shows that no matter how high the price they were willing to go the distance.

According to Dr. Eric Zerrudo, the 46 million pesos shelled out by the GSIS is only a mere .007% of the gross revenue that the GSIS' possesses. And instead of just leaving it in banks where the depreciation of the monetary value is continuous, he thought that it would be better used in the preservation of such valued art work where its value socially among the Filipinos is priceless.

Reasons and effects of the Juan Luna painting.

The "Parisian Life" is truly a great painting and it stands in a class of its own among the Luna paintings. But as to why the GSIS wanted to acquire such a painting,

using funds that were supposed to be invested in more income generating activities, could be explained by four reasons.

First of all, it was a work of Juan Luna. The most expensive painting that they had in the GSIS Museum that they could be proud of was only an Amoroso and a Malang creation. In other words, unlike the National Museums and other museums around the world, they had no grand painting that they could show off. And being one of the most lucrative among the GOCCs, they envisioned themselves as having such an artwork.

Another fact is the quality of the GSIS Museum. As a center for heritage, they wanted a painting that depicted the first struggles of the Filipinos. They wanted something that inspired the hearts and minds of all Filipinos. They wanted a painting of one of the first masters of the form, Juan Luna.

The third reason was the availability of funds. Because the GSIS, according to them, had millions of pesos to their disposal, instead of dispersing them to investments that were not sure to be successful, the GSIS chose to invest in the social relevance of the painting. The total value of the GSIS museum is worth 500 million pesos and the Luna painting is considered a tenth of that total value.

Lastly, they considered the painting not just because of the monetary value of the painting but also the social value that it contributes to, not only to their employees, foreigners and other officials, but also to the students that come by the museum to study and learn their arts, culture and history as told by the "Parisian Life".¹⁶¹

¹⁶¹ "Parisian Life is to Stay Here". *Government Service Insurance System*. Available Online: http://www.gsis.gov.ph/newsroom/newsletter/2002/november/parisian_life_here_to_stay.html.

The Source of Funds for the "Parisian Life" According to GSIS

The GSIS has denied persistent rumors that the P46 million Juan Luna painting "Parisian Life" was bought using contributions of members.¹⁶²

GSIS Vice President for Public Affairs Mer Nilo Racimo stressed that the money used to purchase the painting was sourced from GSIS' Social Insurance Fund.

The fund, according to him, comes from the insurance fees collected from first class cities and municipalities.¹⁶³

He said to a reporter in the SM Davao City exhibit that: "Properties of government offices located within these areas pay a certain amount to the GSIS to have their assets insured from earthquake, floods, and fire."¹⁶⁴

He said the agency has the authority to use the fund for the painting's purchase. It is also stressed that the exhibit is not an effort to justify the artwork acquisition¹⁶⁵.

GSIS, according to Racimo, has a P181 billion fund available for investment. He added that there is enough money for everybody. This is in support to his denial that inadequate fund is the reason for the temporary suspension of salary and policy loans processing.¹⁶⁶

Eric Zerrudo, stressed the point that, the painting's exorbitant price may be attributed to its high significance level." He added that, "We should not measure a national treasure in centavos or in pesos." According to him, the painting itself represents a piece of our history and is, in fact, a reflection of our culture.¹⁶⁷

¹⁶² "GSIS Denies Using Members' Premium for Parisian Life." op. cit.

¹⁶³ Ibid.

¹⁶⁴ Ibid.

¹⁶⁵ Ibid.

¹⁶⁶ Ibid.

¹⁶⁷ Ibid.

Problem

In its latest report, the Commission on Audit, through Director Juanito Espino Jr., said that nowhere in Republic Act 8291, or the GSIS charter, does it authorize the state pension fund to invest in an artwork, considering that the GSIS actually failed to meet its required actuarial reserve level last year.¹⁶⁸

“Moreover, on the condition that investments shall satisfy the requirements of liquidity, safety/security and yield in order to ensure the actual solvency of the funds of GSIS, the investment in the Juan Luna painting may be clothed with indecency and questions of validity, considering that the actual reserves of the System amount to P219 billion, while reserves requirement amounted to P238.55 billion, or a variance of P25.62 billion as of December 31, 2002,”¹⁶⁹

On October 27, 2002, the GSIS, through Garcia, participated in the auction sale of several paintings held at Christie’s auction house in Hong Kong. And it was now revealed that the “Parisian Life” was just one of the few paintings that the GSIS acquired in that auction.¹⁷⁰

The COA remained firm in its position that the GSIS was not authorized to use its funds to buy the painting.¹⁷¹

“The modes of investments of excess fund of GSIS are clearly enumerated under Section 36 of the GSIS charter. There is nothing in Section 36 that involves investment in artwork like the Juan Luna painting.” This was also according to Mr. Espino¹⁷²

¹⁶⁸ Arcibal, C. “Parisian Life Purchase in Violation of GSIS Charter, COA Officials Rule.” *The Manila Times Internet Edition*. Available Online: http://www.manilatimes.net/national/2003/sept/04/top_stories/20030904top6.html.

¹⁶⁹ Ibid.

¹⁷⁰ Ibid.

¹⁷¹ Ibid.

¹⁷² Ibid.

With current conspiracy with the Juan Luna and the analysis of facts that surround its acquisition, it can be realized there is a need to check on how a GOCC system works, especially the GSIS, which was mandated to take care of the welfare of the people. It is indeed the backbone of every government service worker. It affects not just the teachers, staff, officials, but even the janitors and secretaries that work for the government. A fall of such a corporation could be disastrous to our country.

The first factor that must be considered is the powers given to the Board of the GSIS. The money spent on the painting is a very large amount. If the Board without any liability can make a decision like this without any control from the government it would deem that this is one very powerful position.

The 46 million pesos, allocated by the Board, could have been given to a better investment – let's say education. The ability to spend 46 million for a painting is just heavy.

The next is their decision of investments. Corporations such as the GSIS can spend their revenues on investments that they think would give them more profit and do not particularly mean monetary profit. It means that they could also spend their money on seemingly unnecessary items such as the paintings instead of allocating them on a critical investment. The offices of the GSIS can allocate the funds, for example in the renovation of the GSIS' restrooms that have rusted doors, to make their facilities a lot efficient and useful for the members. Most especially they could have brought their excess funds into the factors that really affect the Philippine society to their primary function of providing loans and benefits.

Another issue regarding the acquisition of artworks is found in one of the news clips found among the GSIS magazine. There was one issue where in they had installed the People Power I monument in their compound worth 1.5 million but later decided that it was not a good investment. Here, we see an inconsistency. If the GSIS could consider a painting for 46 million pesos as a good investment, why could it not consider a sculpture worth 1.5 million pesos that also represents the history of the Philippines and plays a vital role in its transformation as a good investment?

CHAPTER VII DATA ANALYSIS

Data Analysis

In analyzing the public sector, an ample set of tools must be used in order to properly put things in perspective. In the book of Joseph E. Stiglitz, he was able to give the necessary provision of tools to undertake such a task. The 10-point framework is basically interested in answering such questions like:

- Why is there a government program?
- Why does the government program take on the particular form that it takes?
- How does the government program affect the private sector?
- Who gains and who loses as a result of the government program, are the gains greater than the losses?
- Etc.

*First of all, the need for program must be identified. It is useful to begin the analysis of a public program by investigating the program's history and the circumstances under which the program arose.*¹⁷³

There is indeed a need for insurance benefits because the service does not only promote the efficiency and welfare of the employees of the government of the Philippines, it also serves as a branch with the redistributive function of the government. Additionally, there is a need of an institution to safeguard the welfare of the government employees in order to promote effectiveness and efficiency among public workers. If the

¹⁷³ Stiglitz, J. op. cit. pp. 248-249.

government employees are motivated, through the benefits and services, the other offices of the government may function well.

The two needs that the GSIS answers are very important. First of all, it would provide insurance benefits to government employees to promote their efficiency and welfare. Adding to it, as a GOCC, it will also help in raising funds in order for their benefit programs. Second, the GSIS forms part of the redistributive function of government. According to Musgrave, there are three functions of the government: stabilization, allocation and redistribution of income. The GSIS partly serves the third function although there is a question whether they are indeed realizing that function.

The second point is the market failures. Here, there is an attempt to relate the need, source of demand, to certain market failures such as public goods, externalities, etc. There are two further arguments for government intervention. First is that the distribution of income emerging in a market economy may not be equitable to the social sector. Second, individual's own perception of welfare may be an inappropriate or inadequate criterion for making welfare judgment.¹⁷⁴

There is indeed a huge demand for a social service institution here in the Philippines. There are several government workers that need benefit packages as mandated by the law to promote efficiency among them. The market failure is identified as the unequal distribution of resources. The GSIS is a mechanism of the government with its redistributive function.

In the GSIS, distribution of income is inefficient. The members of the System are not getting their actual benefits and compensation. If ever, they are getting it in a delayed

¹⁷⁴ Ibid. pp. 249-250.

basis. Moreover, being the Board of the GSIS is in fact being the individual who establishes the criterion of the welfare judgment. Even if there is the presence of the Commission on Audit, the Board, due to its strength can overrule the COA easily.

The third point is the alternative forms of government intervention program. Once the market failure has been identified, a variety of actions by the government actions might address the problem. The government can choose to produce using public authority, private authority or private power with taxes and subsidies.¹⁷⁵

The three alternatives, aside from the creation of the GSIS, are somewhat infeasible. In the first alternative, outright government provision will entail an inefficient system of insurance provision. It is commonly known that the public sector works less efficiently than the private sector due to many factors such as soft budget constraint, bureaucracy, low incentive, etc. The second and third alternatives are also infeasible, as they will create a situation wherein the insurance system for government employees will be profit-oriented in nature and the agency concerned will have the tendency to move like a private sector economist. In other words, the government can provide the insurance benefit outright, influence the private provision of the insurance benefits or allow the private sector to provide the insurance benefits outright without any regulation.

¹⁷⁵ Ibid. pp. 250-251.

The fourth point is the importance of a particular design feature. The detailed provision of a program, for instance, the precise statement concerning the eligibility standards, is often crucial in determining the efficiency and equity consequence of the program.¹⁷⁶

The design features, in some cases, are too tight that the GSIS denies aid to those deserving to receive the aid. An example of this can be the cases that were filed against the GSIS due to the denial of some benefits. In some cases on the other hand, design features are too loose that aid and financial allocation are given to undeserving needs.

There is a duality in the design features of the GSIS. In some cases, the eligibility standards are too tight that the System denies aid to those who are deserving. When the decision involves a loss of funds for the GSIS, the System becomes too tight in giving aid. In cases where those within the GSIS will benefit, the eligibility standards become too loose. An example of the loose eligibility standards is the acquisition of the Luna painting, the ostentatious funding of the GSIS museum, the extravagant retirement packages of the executive of the GSIS, and the huge bonuses of the GSIS employees, etc.

The fifth point is the private sector's responses to the government programs. One of the central features of a mixed economy market economy, like the Philippines, is that the government has only a limited degree of control over it. The private sector may, for instance, react to any government program in such a way as to undo many of its alleged benefits. For example, when the government increases social security benefits, the welfare of the aged may not increase in the long run by the full corresponding amount; individuals may be induced to reduce their own savings for retirement and children may

¹⁷⁶ Ibid. pp. 252-253.

be forced to provide less support for their aging parents. Public support may, thus, crowd out private support, eroding the impact of the government program.

In the case of the GSIS, the public support is in fact already lacking because of the GSIS' inability to disburse funds for members. In effect, the supposed public support does not erode the impact of the program.

The sixth point is the efficiency consequences of each program and assessment of the extent to which the alternative programs can meet the objectives of the public policy. Government programs may result in inefficiencies both in the production of a good and service and in levels of consumptions.¹⁷⁷

The GSIS is efficient in its ability to provide huge salaries for its own employees but is unable to provide for its members efficiently. In effect, it does its best as a private sector economist but falls short of answering its public sector responsibilities.

The seventh point is the distributional consequences of the program. Here, it is determined to see who really benefits from a given government program.¹⁷⁸

There is an incidence of shifted benefits. Instead of really helping those who are in need, the benefits are going to certain groups and individuals.

A shifted benefit occurs when the expenditure or agency benefits someone else than the person or group it is supposed to benefit. In the GSIS case, instead of benefiting the government employees, as it is mandated, the GSIS becomes a milking ground for

¹⁷⁷ Ibid. pp. 254-258.

¹⁷⁸ Ibid. pp. 258-259.

those who work within the System. The one who benefit are the employees of the GSIS, in particular, the top management of the GOCC.

*The eighth point is the equity-efficiency trade-offs. This point looks at the program in order to make certain changes in the program which make someone, or some groups, better off, without making anyone, or almost anyone, worse off.*¹⁷⁹

There is an efficiency in acquisition of funds but the autonomy has made the System think like a private sector economist, driven by profit and lacking in equity considerations

The System is indeed efficient because there is efficient collection and management of the funds, for these factors are expected to be present in a private firm especially in a GOCC. The problem with this is that it indeed acts like a private firm already. The System has become too profit-oriented and is run like a business rather than a service. With this, the failure of the GSIS could be seen. In addition, the funds collected from its members are rechanneled to the bank accounts of high-ranking GSIS officials as seen in the ELIP controversy and the overpaid executives.

The ninth point is the public policy objectives. The discussion so far has focused on two bases for evaluating public programs: their effect on economic efficiency and their effect on distribution. However, government may be concerned with a broader range of objectives.

¹⁷⁹ Ibid. pp. 254-258.

The public policy as alluded to in the constitution and stated in the GSIS Charter is to provide benefits for government employees. Unfortunately, it fails to do this, indicating a lack of accomplishment in public policy objectives.

*The tenth point is the political process. In a democracy, the design and adoption of any public expenditure program involve many individuals and groups, with various objectives and various beliefs about how the economy works. The program that is eventually adopted represents a compromise among their views. It will not conform to the view of any one individual and may seem to be inconsistent with any single set of objectives.*¹⁸⁰

The GSIS was founded as a GOCC. The President of the Philippines appoints the Board of Trustees, particularly the General Manager of the GSIS.

The Board is not answerable to anyone for the Board is not elected.

Therefore it is free to do whatever it wants. Thus, this set of officers has the complete autonomy over the GSIS – specifically the funds.

With the understanding of these factors, conclusions regarding the GSIS can be made.

¹⁸⁰ Ibid. pp. 267-268.

CHAPTER VIII SUMMARY, CONCLUSION and RECOMMENDATION

Summary

The Government Service Insurance System (GSIS) is said to be one of today's weakest links. It has not been faithful to its mission. Its trustees are not even accountable to the poor civil servants who are compelled to carry the burden of funding it.¹⁸¹

While the members are suffering, GSIS executives continue to acquire high, unregulated salaries and retirement packages. The GSIS president receives six million pesos a year while the GSIS members don not even get the quality of services they deserve.¹⁸²

GSIS Funds

The GSIS was created to insure civil servants from the hazards of death, injury, and sickness. The GSIS premiums are not exactly cheap. They are deducted from the government workers' salaries by compulsion of law. This money is held in trust by the GSIS trustees to answer for the benefits due to widows, orphans, retirees, and pensioners as well as to sick, injured and dying employees.

Instead of safeguarding it, the fund has been invested in extraneous stock ventures. Many of such investments ended in huge losses.

An example of this would be the investment of the GSIS, together with the SSS, into the Equitable Bank buy-out of Philippine Commercial International Bank (PCIBank). It was reported that the two institutions pumped in 15 billion pesos in such

¹⁸¹ "GSIS: The Weakest Link?." op. cit.

¹⁸² Ibid.

transactions. According to the Commission on Audit (COA), the GSIS lost in that investment.

Of course, the GSIS drumbeaters will say the agency's charter allows investing in stocks. However, it must be stressed that stock investment is not its main mission.¹⁸³

Irrelevant Holdings

The GSIS has invested in oil, mining, real estate, and other highly speculative ventures. Its choice of investment areas borders on gambling.

The GSIS has the luxury to invest in whatever they like and decide in what or how much they will invest. For example, there are half a million public school teachers who constitute almost half of the GSIS membership. If the GSIS invests in oil, what could be the relevance of an oil investment to such employees?

As beneficial owners of the fund that constitutes the total assets of GSIS, there was no proper consultation before such highly speculative investments were made. Employees are only ordered to contribute and left unasked in decision-making.¹⁸⁴

Too Luxurious

COA reports show that in 2000, the GSIS spent 20.5 billion pesos. It paid only 18.2 billion pesos in benefits to members. It spent 1.11 billion pesos in salaries and benefits in one year alone. Between 1999 and 2000, the COA reported a 26-percent increase in payroll cost. Thus, while its members are suffering, the GSIS officials and personnel live the lifestyle of the rich and the famous.

¹⁸³ Ibid.

¹⁸⁴ "GSIS: The Weakest Link?" INQ7.net. Available Online: http://archive.inq7.net/archive/2002-p/bus/2002/mar/22/bus_12-1-p.html.

In 2001, the COA wrote the following memo: "While the fund of the GSIS comes from the contributions of lowly employees like teachers, utility workers and clerks, they, who were entrusted with these contributions, had arrogated upon themselves fantastic salaries taken from the contributions of these lowly employees."¹⁸⁵

Depriving the Poor and Those in Need

Instead of gathering funds and allocating it to the poor and those in need, the System gets money from the poor to make GSIS executives richer and richer.

The Inquirer on Sept. 29, 2001 bannered a story entitled "GSIS bosses getting 724,000 pesos each." This is adding salt to the injury. The GSIS is exempted from the salary standardization law. Thus, the trustees can pass a resolution increasing the executives' salaries and bonuses.¹⁸⁶

Feeding the Rich

The Inquirer cited COA reports showing that the trustees were given a Christmas bonus of 723,968 pesos each. Is this conscionable considering that the nation is in crisis and the people are suffering in extreme poverty?

The President of the Philippines earns only 50,000 pesos a month. The GSIS president gets 564,869.55 pesos in monthly salary, or more than 10 times that of the President of this country.

The GSIS executive vice president gets 453,548.90 pesos a month; the senior vice president (SVP), 300,672.45 pesos, and each vice president (VP) gets 252,187.40 pesos.

¹⁸⁵ Ibid.

¹⁸⁶ Ibid.

A security guard gets 30,104.20 pesos monthly and a laborer, 27,021.50 pesos. These were taken from the poor workers in the government, many of whom get a take home pay of less than 5,000 pesos every payday.¹⁸⁷

Instant Millionaire

Because the GSIS officers have no accountability to its members due to the fact that the members do not elect them, it came up with the Employees Loyalty Incentive Plan (ELIP) to justify the outrageous pensions for the GSIS executives.

A former GSIS president appointed by Joseph Estrada got 16.7 million pesos upon retirement. He worked for less than three years. The Senior Vice President (SVP) got 7.89 million pesos in ELIP, plus 5.6 million pesos in lump sum, 2.15 million pesos in provident fund, terminal leave of 1.8 million pesos and a monthly amount of 93,607 pesos plus a cash award of 50,000 pesos, for a total package of 17.5 million pesos.

One SVP got a total of 16.683 million pesos while another received 15.61 million pesos. A VP received 13.16 million pesos, another got 13.5 million pesos, and another got 10.3 million pesos. The corporate secretary received 16.6 million pesos.¹⁸⁸

"Victims"

The GSIS employees themselves are flooded with money and benefits from the GSIS. The GSIS is mandated to help the Philippine employees and not GSIS employees alone.

¹⁸⁷ Ibid.

¹⁸⁸ Ibid.

There are several cases that in the end reached the courts just to be resolved. Some of the cases are merely about the GSIS not giving the appropriate benefits or aid to the government employees serving years in the Philippine public offices.

Conclusion and Recommendation

From the discussion and investigation, it can be concluded that the GSIS had, indeed, a massive amount of assets on hand and these assets have the real potential to give a lot of aid to those deserving.

According to the IBON Foundation, the cost of living is pegged at P530 per day for a family of six

If it will be computed, the following results will be gathered:

- The P17.5 million retirement lump sum of a GSIS executive alone could feed 33,018 Filipino families
- The Parisian Life purchase fee of P46 million could feed 86,792 Filipino families
- The GSIS fund alone (P550 million) could feed an astounding 1,037,735 Filipino families.

There is no doubt of the potential to aid that the GSIS has. The funds they control are huge and have unquestionable potential. However, the question is whether they are able to indeed provide aid and promote the efficiency and welfare of government employees.

From the investigation it could be seen that the GSIS is not maximizing its potential to provide benefits for government employees. It has always been delayed in the

releasing of funds despite the fact that it can afford such expensive and grand purchases and retirement packages for its GSIS officials.

Here, there is a classic case of the trade-off between equity and efficiency. In the creation of the GSIS as a GOCC, it has become efficient in its acquisition of resource because it is not bound by the limiting factors of bureaucracy. The GSIS has the ultimate power to invest in something without the need for consultation as compared to other public offices. But there is a trade-off in the equity that members receive. The GSIS now has gathered huge assets that are not helping the members because the benefits of the assets go to the few who work for the GSIS. In other cases as stated in the data, the money amassed was just being allocated in a useless investment.

The System is less service-oriented than profit-oriented. They are less public oriented than private oriented. They are serving the ruling class and not the working class.

The GSIS has failed to serve a broad base of people because its actions have swung too far to the capitalist – private sector spectrum despite its being under the control of the Philippine government. The GSIS employees themselves are inclined to gain profit for their own benefits and not for the welfare of its members. Because of this, it has lost its function, effectiveness, as the prime insurance benefit provider of government employees.

In effect, through the findings, we found Engels to be right as the state basically echoing the interests of the capitalists.

The recommendation of the researcher is that the powers of the Board be reduced and regulated or the quality of Board members be reviewed. In this way, there will be a

check-and-balance system to lessen possible abuse and to ensure that the GSIS remains efficient and, at the same time, is able to provide substantial benefit to its members. The Commission on Audit must also be given substantial powers in order for them to really check the GSIS system. In the GSIS scenario, the GSIS Board can, in one way or another, overrule the COA.

The GSIS is indeed an integral part of Philippine society as it promotes the efficiency and welfare of the employees of the government of the Philippines. It is the researcher's hope that these ideals do not go to waste through the abuse of the few.

**CHAPTER IX
REFERENCES**

- "About the Philippines." *www.gov.ph*. Available Online: <http://www.gov.ph/aboutphil/consart2.asp>.
- "A Primer on the Various Types of Social Insurance, Social Security Benefits and Employee Compensation Claims, and Basic Requirements for Entitlement Under the Different Laws as Administered by the GSIS." GSIS.
- Arcibal, C. "Parisian Life Purchase in Violation of GSIS Charter, COA Officials Rule." *The Manila Times Internet Edition*. Available Online: http://www.manilatimes.net/national/2003/sep/04/top_stories/20030904top6.html.
- Bellow, T. "People and Politics." McMillan Publishing Co., New York: 1986.
- Caedo, G. "An Interview on the Overpaid Executives and the RA 8291. December 10, 2003.
- "Corporate Profile." *Government Services Insurance System*. Available Online: http://www.gsis.gov.ph/corporate_profile/corporate_profile_main.html.
- Cruz, N. "Who Wants to be a Millionaire." *INQ7.net*. Available Online: www.inq7.net/opi/2001/sep/13/opi_nhcruz-1.html.
- Cueto, D. "Audit Commission Voids GSIS Retirement Financial Plan." *INQ7.net*. Available Online: www.inq7.net/nat/2001/sep/11/text/nat_1-1-p.html.
- Cueto, D. "COA Wants Ex-GSIS Chief, 15 Others to Return P72M." *INQ7.net*. Available Online: www.inq7.net/nat/2001/sep/12/nat_10-2.html.
- Cueto, D. "GSIS Bosses to Get P724,000 Each". *INQ7.net*. Available Online: http://archive.inq7.net/archive/2001-p/nat/2001/sep/29/nat_6-1-p.html.
- Dalangin, L. "16 GSIS Employees get P150M in Retirement Benefits: COA." *INQ7.net*. Available Online: http://archive.inq7.net/archive/2001-p/brk/2001/sep/10/brkpol_19-1-p.html.
- Darrell Zahorsky. "Ignite the Two Fires of Employee Motivation." Available Online: <http://sbinformation.about.com/cs/benefits/a/033003.html>.
- Dumlao, D. "SSS, GSIS: Puppet Masters." *INQ7.net*. Available Online: http://archive.inq7.net/archive/2001-p/bus/2001/jun/11/bus_6-1-p.html.
- "Easy Money." *INQ7.net*. Available Online: http://archive.inq7.net/archive/2001-p/opi/2001/sep/12/opi_editorial-1-p.html.

- “Employee Motivation in the Workplace.” *Accel-Team.com*. Available Online:
<http://www.accel-team.com/motivation/index.html>.
- Engels, F. “*Socialism: Utopian and Scientific*.” 1880.
- “Financial Motivation – Introduction.” *Accel-Team.com*. Available Online:
http://www.accel-team.com/motivation/financial_motivation_01.html.
- “Government.” Encyclopaedia Britannica Deluxe Edition 2004 CD-ROM.
- “GSIS, The Denial Queen.” *INQ7.net*. Available Online:
http://archive.inq7.net/archive/2001-p/bus/2001/sep/21/bus_10-1-p.html.
- “GSIS Denies Using Members’ Premium for Parisian Life.” *Sun.Star Davao*. Available Online:
<http://www.sunstar.com.ph/static/dav/2003/08/13/bus/gsis.denies.using.members.premium.for.parisian.life.html>.
- “GSIS Charter.” *Government Service Insurance System*. Available Online:
http://www.gsis.gov.ph/corporate_profile/gsis_charter.html.
- “GSIS: Services and Benefits: Retirement.” *Government Service Insurance System*. Available Online: www.gsis.gov.ph/services_benefits/retirement/retirement.html.
- “GSIS: Services and Benefits: Retirement: Under P.D. 1146.” *Government Service Insurance System*. Available Online:
www.gsis.gov.ph/services_benefits/retirement/retirement_pd1146.html.
- “GSIS: Services and Benefits: Retirement: Under R.A. 8291.” *Government Service Insurance System*. Available Online:
www.gsis.gov.ph/services_benefits/retirement/retirement_ra8291.html.
- “GSIS: Services and Benefits: Retirement: Under R.A. 1616.” *Government Service Insurance System*. Available Online:
www.gsis.gov.ph/services_benefits/retirement/retirement_ra1616.html.
- “GSIS: Services and Benefits: Retirement: Under R.A. 660.” *Government Service Insurance System*. Available Online:
www.gsis.gov.ph/services_benefits/retirement/retirement_ra660.html.
- “GSIS: The Weakest Link?.” *INQ7.net*. Available Online:
http://archive.inq7.net/archive/2002-p/bus/2002/mar/22/bus_12-1-p.html.
- Horvat, B. “*The Political Economy of Socialism: A Marxist Social Theory System*.” M. E. Sharpe Inc., New York: 1983.

Ibon Facts and Figures. Available Online: <http://www.ibon.org>.

Iqbal A. "U.P. Wants GSIS Law Amended." U.P. Newsletter.

"Parisian Life is to Stay Here". *Government Service Insurance System*. Available Online: http://www.gsis.gov.ph/newsroom/newsletter/2002/november/parisian_life_here_to_stay.html.

Pilar, S. "On the Parisian Life of the GSIS." Available Online: <http://www.upd.edu.ph/~updinfo/archives/nov-dec2002/Luna%20By%20Prof%20Pilar.html>.

Marx, K. "*Manifesto of the Communist Party*." 1848.

Marxism. Wikipedia Definition.

"Membership and Clientelle." *Government Service Insurance System*. Available Online: http://www.gsis.gov.ph/corporate_profile/membership_clientelle.html. Robles, C. "The Government Service Insurance System Act of 1997." Available Online: www.chanrobles.com/legal4gsis.html.

Musgrave, R. "The Theory of Public Finance: A Study in Public Economy." McGraw-Hill, Kogakusha: 1959.

Samuelson, P. & Nordhaus, W. "*Economics*". 2001.

Schnitzer, M. "*Comparative Economic System*." Southwest Publishing Co., Ohio: 1994.

Sherman, H. and Evans, G. "*Macroeconomics: Keynesian, Monetarist and Marxist Views*." Harper & Row Publishers, New York: 1984.

Smith, A. *The Wealth of Nations*.

"State." Encyclopaedia Britannica Deluxe Edition 2004 CD-ROM.

Stiglitz, J. "*Economic of the Public Sector*." W. W. Norton & Company, New York: 2000.

Virgilio, C. "Short-changed by the GSIS." *INQ*. 7.net. Available Online: http://archive.inq7.net/archive/2001-p/opi/2001/sep/28/letter_2-1-p.html.

Zurrudo, E. "Personal Interview on GSIS' Parisian Life". December 10, 2003.