



The RA 9505 (Personal Equity & Retirement Account Act)

A Presentation to
Actuarial Society of the Philippines

Presented by

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Presentation Outline

Objectives

Descriptions of PERA Participants

Tax Benefits

Business Opportunities – Mutual Funds

WHY IS PERA IMPORTANT?

An initiative with the basic intent of:

- providing retirement income within a defined policy structure.
- institutionalizing long term savings
- developing the domestic capital market

Targeted for the broadest possible audience

- investors in the province
- OFWs and their respective families
- MM investors who may not be fully aware of their investment options.

PERA OBJECTIVES

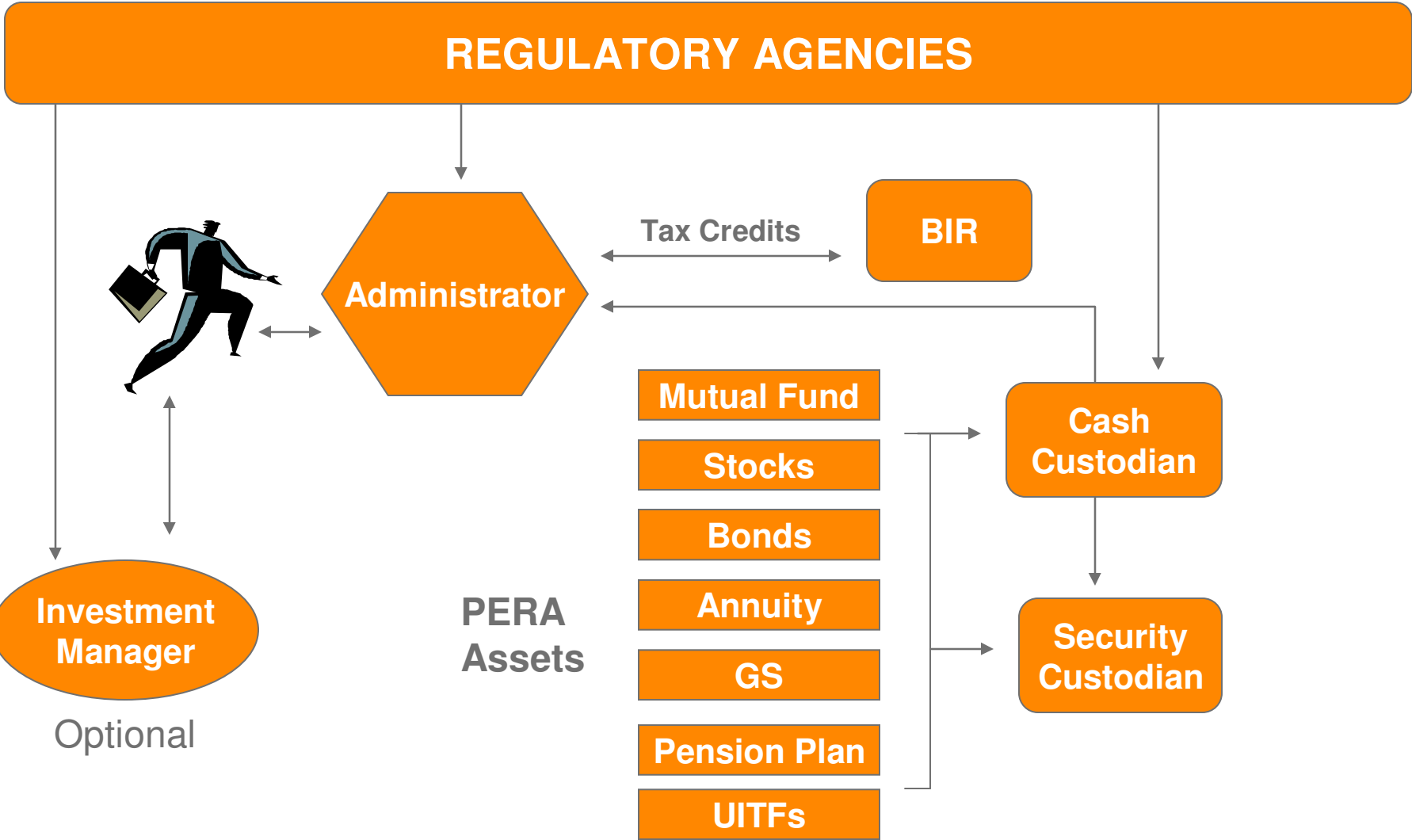
Build an organized framework for mobilizing retail saving through out the archipelago

Transform saving into investments

Defined tax benefits for all PERA investors and additional benefits for OFWs

Protect the investor against conflict of interest

PERA Picture



Participants of PERA – Regulatory Agencies



Bangko Sentral ng Pilipinas (BSP)
Insurance Commission (IC)
Securities & Exchange Commission (SEC)

Roles

- Pre-qualify Administrator(s)
- Accredited Investment Manager
- BSP accredits Custodian
- Approves PERA products
- Prescribes minimum info on Risk disclosure.

Participants of PERA - Contributor



Qualification

- Capacity to contract
- must have a TIN

Privileges

- Establish a PERA account with an administrator
- Contribute a maximum P100k / year to be entitled to tax credit.
- If married, the spouse can contribute the same amount.
- If OFW, the limit is P200K / year.
- Spouse of OFW, P200K limit as well.
- Employer can contribute to the PERA account but, prerogative to invest is on the employee.
- Must invest at least 5 years or until age 55.
- May or may not have an investment manager
- Allowed to have 5 PERA accounts BUT w/ One Administrator only.

Participants of PERA - Administrator



Roles

- Reports transactions to the contributor
- Administers PERA accounts
- Educates the contributor (risks, options)
- Assesses the risk profile of contributor
- Document manager
- Financial manager, in-charge of asset valuation.
- Coordinates with the BIR
- “conscience of the contributor”

Requirements

- **Qualification Certificate from the Regulatory Agency**
- **Accreditation Certificated from the BIR.**
- **Can be a concurrent IM if it has a trust license.**
- **Net worth of P100,000,000.00**
- **PLUS 1% increment of PERA assets.**
- **Personnel equipped with expertise to perform as administrator**
- **System and technological requirements**
- **CANNOT sell their products as PERA assets to their contributors.**

Participants of PERA – Investment Manager



Roles

- Makes decisions in behalf of the contributor.
- Not allowed to sell its own products and that of its affiliates.

Eligible entities that can be accredited as investment managers:

- Entities with trust license
- Investment Company Advisers

Requirements

- **possess sufficient experience and supervision and control procedures for the conduct of investment management functions**

Participants of PERA – Custodian



Role (Cash custodian)

- Responsible for the safekeeping and disposal of cash fund from PERA accounts.
- Reports activity

Role (Securities Custodian)

- Maintains custody of all securities, deposits, and other investments on instruction of administrator.
- Reports activity

Requirements

- **Only banks or entities with trust license can act as a custodian.**

Some Key Points



Being an Administrator AND the Investment Manager is not allowed except if the administrator has trust license.

The investment management is not a sales function.

Administration is not a sales function.

Investment manager is an option to investor.

PERA aims to encourage savers to become investors in longer term instruments.

Investor protection is a fundamental concern.

The success of PERA should be treated as a public good.

Tax Benefits - Contribution

On Contributions (P100K / P200K)

IF contributed by the individual:

**Not deductible from income tax
instead, a 5% tax credit.**

IF contributed by the employer:

Deductible from gross income

**Not subject to Fringe Benefit Tax unless over the limit or employee is
over 55 years old.**

5% tax credit (?)

Tax Benefits – Investment Income

Income earned from investments and reinvestments is tax-exempt

20% final withholding tax on deposit and deposit substitutes.

Tax on interest income from long-term deposits and deposit substitutes

7.5% final tax on interest income of EFCDU

10% tax on cash dividends from domestic corporation

Capital Gains Tax on sale of stock in a domestic corporation

Regular income tax

Tax Benefits – Investment Income

Non-income taxes (payable?)

Transaction tax on sales on shares in the stock exchange

VAT

DST

Donor's Tax

Estate Tax

Income from excess of P100K/P200K contribution

Early withdrawals*

Tax Benefits – Distribution

IF 5 years and 55 years old; or death; Not subject to income tax of recipient

IF less than 5 yrs and 55 yrs old (early withdrawal)

Tax credits and all unpaid taxes will be deducted from PERA assets.

Donor's taxes applicable

Early Withdrawal Exception

Transfer of PERA accounts to another Administrator

Hospitalization in excess of 30 days

Death or total disability of contributor

Funds which did not enjoy tax incentives

Business Opportunities – GAINS from PERA

REGULATORY AGENCIES

Additional revenues from accreditation, licensing, etc.

ADMINISTRATORS

- **A new breed of service providers.**
- **Employment opportunities**
- **Additional source of revenue**

Business Opportunities – GAINS from PERA

INVESTMENT MANAGERS

- Added service by institutions
- Opportunities for individuals

CUSTODIAN

- Increased business activity
- Additional source of revenue

Business Opportunities – GAINS from PERA

CAPITAL MARKET

- Increased activity and demand
- Capital source

CONTRIBUTOR

- Better understanding of investment options
- Better access to investment vehicles
- Less income tax from PERA investments
- Tax credit
- More investment opportunities

Business Opportunities – Mutual Funds

FIGURE 7.3

IRA ASSETS

BILLIONS OF DOLLARS, YEAR-END, 1990-2008

	Mutual funds ¹	Bank and thrift deposits ²	Life insurance companies ^{1,3}	Securities held directly through brokerage accounts ^{1,4}	Total IRA assets
1990	\$140	\$266	\$40	\$190	\$636
1991	188	283	45	260	776
1992	237	275	50	311	873
1993	321	263	62	347	993
1994	348	255	70	383	1,056
1995	474	261	81	472	1,288
1996	595	259	92	521	1,467
1997	780	254	136	558	1,728
1998	981	249	157	763	2,150
1999	1,277	243	203	929	2,651
2000	1,249	250	203	928	2,629
2001	1,176	255	211	978	2,619
2002	1,044	263	268	958	2,533
2003	1,327	268	285	1,114 ^e	2,993 ^e
2004	1,521	269	282	1,227	3,299
2005	1,700	278	308	1,366 ^e	3,652 ^e
2006	2,028	313	318	1,562 ^e	4,220 ^e
2007	2,304	340	325	1,777 ^e	4,747 ^e
2008	1,598	391	301	1,322 ^e	3,613 ^e

Business Opportunities – Mutual Funds

TABLE 59

WORLDWIDE NUMBER OF MUTUAL FUNDS¹

YEAR-END

	2001	2002	2003	2004	2005	2006	2007	2008
World	53,371	53,996	54,569	55,524	56,868	61,854	66,345	69,032
Americas	13,449	13,884	13,921	14,064	13,764	14,474	15,457	16,459
Asia and Pacific	12,153	10,794	11,641	11,617	12,427	13,479	14,847	14,909
Australia	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
China	N/A	N/A	N/A	N/A	N/A	N/A	341	429
Hong Kong	952	942	963	1,013	1,009	1,099	1,162	N/A
India	297	312	350	394	445	468	555	551
Japan	2,867	2,718	2,617	2,552	2,640	2,753	2,997	3,333
Korea, Rep. of	7,117	5,873	6,726	6,636	7,279	8,030	8,609	9,384
New Zealand	588	577	563	553	563	613	623	643
Pakistan	N/A	N/A	N/A	N/A	N/A	31	64	83
Philippines	20	21	21	24	32	38	40	43
Taiwan	312	351	401	445	459	447	456	443
Africa	426	460	466	537	617	750	831	884
South Africa	426	460	466	537	617	750	831	884

¹Funds of funds are not included except for France, Italy, and Luxembourg after 2003. Data include home-domiciled funds, except for Hong Kong, Korea, and New Zealand, which include home- and foreign-domiciled funds.

²Before 2003, data include special funds reserved for institutional investors.

³Data as of September 2004.



**“An invasion of armies can be resisted,
but not an idea whose time has come.”
- Victor Hugo**

Thank you.