Salary Loans as Investments for Insurers

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Section 202 (j) of the Amended Insurance Code recognizes investments in salary loans as allowable and admitted assets for insurance companies and mutual benefit associations (MBAs). This is reflected in Circular Letter Nos. 2016-65 (*Adoption of New Financial Reporting Framework*), 2014-17 (*List of Admitted Assets under the Amended Insurance Code*), and 2015-42 (*Salary Loans Extended to Department of Education Teachers*). Around four or five insurance companies have exposures in salary loans for public school teachers.

<u>Salary loans by Public School Teachers</u>

The most prominent of these salary loan programs are those extended to public school teachers. For insurers, this is specifically covered by CL No. 2015-42, which limits the aggregate amount of loans to not exceed 20% of the total assets of life companies and MBAs or 20% of the net worth of non-life companies. Moreover, the salary loan program must be covered by a Memorandum of Agreement between the insurance company or MBA and the Department of Education. Correspondingly, the Department of Education has issued several directives setting in place an accreditation program for insurers and MBAs. This accreditation program seeks to prevent excessive charging of rates and other unscrupulous practices.

As of 2018 estimates, 562,090 out of the 689,365 (or 81%) public school teachers in the Philippines have loans to various lending institutions. Reported loan exposure of private lending institutions is Php163 billion, as of end of August 2017, while outstanding loans from GSIS amounts to around Php122 billion. Total teachers' loans have thus reached around Php300 billion (or $5.8 billion). The default rate on GSIS salary loans is at a high 40%. GSIS has, in fact, threatened to sue for the unpaid loans.

<u>Salary Deductions</u>

Salary loans to public school teachers has become a social issue. Specifically, it is the payment of these loans through salary deductions, leaving the teachers with meager salary, that has become the issue. At some point, the Alliance of Concerned Teachers (ACT) has denounced what they termed as "arbitrary deductions" after deductions have left some teachers with a take home pay of as low as Php200.

Salary deductions have been authorized under Section 47 of the General Appropriations Act of 2017. The Department of Education (DepEd) issued Department Order No. 12, s. of 2017 directing school divisions to implement the Php4,000 net take home pay (NTHP). In a subsequent Department Order No. 38 s. 2017, however, DepEd directed: "*Notwithstanding the new threshold limit on NTHP, deductions already incorporated in the payroll, shall be continued, even if this effectively reduces the NTHP to lower than the Php4,000 threshold*." The reason given for this is the non-impairment of the obligations of contracts. Later, due to objections to D.O. No. 38, Department Order No. 55 s. 2017 was issued guaranteeing that teachers will receive no less than Php4,000 for their net take-home pay even if payments for their loans will be deducted from their salaries. It also prioritized loans to GSIS, HDMF, BIR, and the Philippine Health Insurance Corp. Before this prioritization, DepEd adopted the "first in, first served" rule.

On April 11, 2018, Department Order No. 18 s. 2018, the current prevailing regulation, was issued. It provides the current monthly net take home pay of Php5,000, as provided in Section 48 of the General Provisions of the 2018 General Appropriations Act. It also recognized that MBAs and insurance companies may be accredited under the program subject to an order of preference. Furthermore, it imposed ceilings on interest and non-interest rates on loans, as well as a service fee in favor of the DepEd Provident Fund.

Insurance Premia

It also recognized insurance programs by insurance companies and MBAs for accreditation. Accredited insurance companies and MBAs will be assigned an APDS code for its exclusive use for billing purposes.

Possible Solutions

Some have identified the root of the problem as "overborrowing" on the part of the teachers. According to a study by the Philippine Institute for Developmental Studies (PIDS), public school teachers borrow 50% more compared to other employees of the government. Some of the loans would include those borrowed from the GSIS and the Home Development Mutual Fund (or Pag-Ibig Fund). Indeed, some teachers have outstanding loans from seven lending institutions. Hence, a proposal has been made to promote financial literacy among our teachers.

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