

[EXECUTIVE ORDER NO. 590, December 15, 2006]

**DEACTIVATING THE ARMED FORCES OF THE PHILIPPINES
RETIREMENT AND SEPARATION BENEFITS SYSTEM BY 31
DECEMBER 2006, DIRECTING THE TRANSFER OF ITS ASSETS IN
TRUST TO A GOVERNMENT FINANCIAL INSTITUTION, AND FOR
OTHER PURPOSES**

WHEREAS, the Armed Forces of the Philippines ("AFP") Retirement and Separation Benefits Systems ("RSBS" or "System") was established under Presidential Decree No. 361 issued on 30 December 1973 (PD 361) to provide the funding scheme for the payment of retirement and separation benefits provided under existing laws to military personnel of the AFP;

WHEREAS, under Section 5 of PD 361, as amended by Presidential Decree No. 1656 issued on 21 December 1979 (PD 1656), the funds of the RSBS shall be allowed to grow to be able to provide perpetually the cash requirement covering the retirement and separation benefit payments to military personnel on a self-sustaining basis, and that prior to the time when perpetual self-sufficiency of the funds of the RSBS is attained as determined by actuarial valuation, the yearly requirement for retirement and separation benefits of military personnel as provided under existing laws shall be fully funded out of the annual appropriations for the AFP;

WHEREAS, in the *Senate Blue Ribbon Committee Report* issued in 1998, the revision or creation of a new RSBS Charter was recommended, providing for a highly structured organization, with clearly defined powers and functions, and strict investment guidelines;

WHEREAS, in the *Feliciano Commission Report* issued in 2003, it was determined that the RSBS, in its present conception and structure, was "*fundamentally flawed*" and had not discharged its mandate. Accordingly, the Feliciano Commission recommended that the RSBS be liquidated in an orderly manner; that soldiers' contributions be returned to them with interest and that an AFP Service and Insurance System be initiated, which shall be subject to the financial and investment disciplines of the *Bangko Sentral ng Pilipinas* (BSP) and the *Securities and Exchange Commission* (SEC);

WHEREAS, based on the *Financial Advisory Report* prepared by the *KPMG Laya Mananghaya & Co., Philippines* (hereinafter, the "KPMG Report") on the financial status and condition of RSBS, the following conclusions were arrived at:

- a. Inappropriateness of RSBS' investment portfolio, which consisted mainly of non-liquid assets (i.e., real estate and equity investments in and advances to

non-traded companies) that take a long time to dispose, are risky and with very low yields;

- b. Slow Fund build-up and inability to achieve its goal of self-sufficiency, caused primarily by the low rate of profitability of a majority of its assets, classified as non-productive and low-yielding;
- c. Illiquid position as a large portion of its assets is in non-earning or low-yielding investments; and
- d. Inability of RSBS to follow a Board Resolution, following the Senate Blue Ribbon Committee investigation of RSBS in 1998, to divest and liquefy all real estate assets and to focus on fixed-income investments.

WHEREAS, based on the 16th *Actuarial Valuation* Report rendered by Feliciano F. Miravite, Inc. dated 30 November 2005, it was concluded that the self-sufficiency projections under the current valuation estimate the point of self-sustaining status of RSBS to occur in the year 2058, and that the funds of the System shall be exhausted within 32 years after achieving self-sufficiency in the year 2090;

WHEREAS, the foregoing reports provided an indication of the estimated magnitude of RSBS' Fund deficiency, for the net assets of RSBS to be able to satisfy the retirement benefit payments due to retired/retiring military personnel under existing laws on the retirement benefits due them;

WHEREAS, the Secretaries of the Department of National Defense (DND), Department of Finance (DOF), and the Department of Budget and Management (DBM), together with the Chief of Staff, Armed Forces of the Philippines (CSAFP), have jointly recommended the deactivation and winding down of the RSBS since it does not and will not be able to attain its objective of attaining self-sufficiency, which means that the payment of retirement benefits to be given to retired/retiring military personnel shall continue to be funded by annual appropriations for the AFP in the General Appropriations Act (GAA);

WHEREAS, in order to insure that the Funds of the System shall be preserved for the payment of the refund of members' contributions as and when they fall or become due, it is necessary to deactivate the operations of the System in an efficient and orderly manner;

NOW, THEREFORE, I, GLORIA MACAPAGAL-ARROYO, President of the Republic of the Philippines, by virtue of the powers vested in me by law, do hereby order:

SECTION 1. Deactivation of the Armed Forces of the Philippines Retirement and Separation Benefits System. The Armed Forces of the Philippines Retirement and Separation Benefits System, a government instrumentality under the Executive Branch, is hereby deactivated, effective 31 December 2006.

SECTION 2. Creation of Cabinet Oversight Committee. A Cabinet Oversight Committee is hereby created, composed of the **Secretary of National Defense, the Secretary of Finance, the Secretary of Budget and Management, together with the Chief of Staff, Armed Forces of the Philippines (CSAFP)**, and a representative of the office of the President designated by the President (hereinafter, the "COC-RSBS"). The COC-RSBS shall provide policy guidelines for, and oversee, the final liquidation of assets and liabilities of the RSBS, the winding-