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## COMMONWEALTH ACT NO. 186

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**AN ACT TO CREATE AND ESTABLISH A  
“GOVERNMENT SERVICE INSURANCE  
SYSTEM,” TO PROVIDE FOR ITS  
ADMINISTRATION, AND TO APPROPRIATE THE  
NECESSARY FUNDS THEREFOR**

SECTION 1. Title. — The short title of this Act shall be the  
***“Government Service Insurance Act.”***

SECTION 2. Definitions. — When used in this Act the following terms shall, unless the context otherwise indicates, have the following respective meanings:

- (a) “Employer” shall mean the National or a local government, an agency, board, or corporation controlled or owned by the Government, and shall include the Philippine Tuberculosis Society. “Employee” shall mean any Filipino citizen in the service of an “employer”.
- (b) “Board” and “System” shall mean respectively, the “Government Service Insurance Board” and the “Government Service Insurance System” created and established in this Act.
- (c) “Salary, pay, or compensation” shall be so construed as to exclude all bonuses, per diems, allowances and overtime pay, or salary, pay or compensation given in addition to the base pay of the position or rank as fixed by law or regulations.

- (d) “Member” shall mean any person insured in the System.
- (e) “Life Insurance” shall mean any form of insurance on life authorized herein, such as limited payment life, endowment, etc. “Retirement Insurance” shall mean any form of insurance on retirement as authorized herein. Benefits granted by this Act by virtue of such life or retirement insurance shall not be considered as compensation or emolument.
- (f) “Membership policy” shall mean a life insurance policy for an amount, the monthly premium of which is equivalent to two, five or six per centum of an employee’s monthly salary or compensation.
- (g) “Regular officer” or “enlisted man” shall mean one whose commission or enlistment is in the regular force of the Armed Forces of the Philippines and not in the reserve force thereof.

SECTION 3. Establishment of Government Service Insurance System. — In order to promote the efficiency and welfare of the employees of the Government of the Philippines and to replace the present pension systems established in Acts Numbered Sixteen hundred and thirty-eight, Thirty hundred and fifty, and Thirty-one hundred and seventy-three, as amended, there is hereby established an institution to be known as the “Government Service Insurance System.”

All personnel, facilities, equipment, and leases, and all records, files, correspondence, and other papers of the liquidated pension funds above referred to, as well as all their respective funds, properties, and assets, including their contracts and other obligations and instruments, which under the provisions of the several acts prescribing for the liquidation of said funds are applicable to the payment of premiums on the insurance policies as herein provided, are hereby transferred to and made a part of the “Government Service Insurance System,” to be administered and disposed of by the Government Service Insurance Board herein created and established,

subject to the provisions of this Act and of those Acts providing for the liquidation of said funds.

SECTION 4. (a) Membership in the System shall be compulsory upon all appointive officers and employees in the executive, legislative, and judicial branches of the government, including those whose tenure of office is fixed or limited by the Constitution or by law; upon all regular employees of the Philippine Tuberculosis Society and the Philippine National Red Cross, and other employees of the government-owned or controlled corporations; upon all regular officers and enlisted men of the Armed Forces of the Philippines; and upon all elective officials receiving compensation as defined in this Act: Provided, That casual, substitute, or temporary employees and substitute or temporary teachers shall be hereby covered for purposes of term insurance for two thousand seven hundred and fifty pesos if appointed for a period of not less than two months, the term insurance to be effective in the month next following the month in which the premium prescribed in Section five hereof has been paid: And provided, further, That said casual, substitute or temporary employees and substitute or temporary teachers shall not be covered by the retirement insurance plan provided for in this Act: Provided, finally, That the term "appointive officer and employee" as used herein shall include those extended permanent appointments and provisional appointments as used in the civil service law but excluding those without any kind Of civil service eligibility when so required.

(b) Membership in the System shall be optional for any employee who is not included in the next preceding subsection or who is otherwise excluded from compulsory membership by the provisions of this Act: Provided, That if he desires to come within the purview of this Act, he must notify the System in writing to that effect: Provided, further, That he complies with the requirements of the System and that he is in the government service when his insurance takes effect: And provided, finally, That after his admission into the System he shall be eligible to either life or retirement insurance benefits, or to both, for which the rates of premiums or contributions prescribed in section five of this Act shall be paid by him including the share otherwise payable by his employer, which is hereby empowered, however,

to pay for its share of the premiums on the insurance of employees described in this paragraph.

- (c) All members of the judiciary;
- (d) All officers and enlisted men of the Regular Force, Philippine Army;
- (e) All regular and permanent employees of the Metropolitan Water District ;
- (f) Regular and permanent employees of other Government boards or agencies, except the University of the Philippines and the Government-owned or controlled business corporations; and
- (g) Those subject to the provisions of Act Numbered Thirty hundred and fifty, as amended, excluding the persons employed to take the place of teachers on maternity or sick leave, or otherwise employed temporarily: Provided, That any provincial, city or municipal government, or the University of the Philippines or any other corporation owned or controlled by the Government, shall have the option of joining the System, and if it so joins, the membership shall be compulsory upon all its permanent and regular employees, and it shall pay its share of the contribution of three per centum per annum of its employees' basic annual salaries or compensation, plus the extra premiums, if any, due to extra hazards of the member's occupation: Provided, further, That it shall be compulsory for the municipal, city and provincial governments to pay the required government contributions corresponding to the employees now subject to the provisions of Act Numbered Three thousand and fifty, as amended: And provided, finally, That membership shall not include (a) officers or personnel detailed from the Army, the Navy, or the Civil Service of the United States, and (b) employees who are not citizens of the United States or of the Philippines.

SECTION 5. (a) Rates of contribution or premiums. — For the benefits described hereunder, each official or employee who is a member of the System and his employer shall pay the monthly rates of contributions or premiums specified in the following schedule:

	Percentage of Monthly Salary Payable By:		
	Employee	Employer	
I. Life Insurance	1	1	Applicable in the case of a civilian employee insured on or after June 16, 1951, but prior to September 30, 1956, unless he chooses to change his old membership policy and be reinsured under a new one, in which case the next succeeding rate shall apply.
	3	3	Applicable in the case of a civilian employee insured prior to June 16, 1951, or on or after September 30, 1956.
	5	0	Applicable in the case of an officer or an enlisted man of the Armed Forces.
	P12.00	P12.00	Fixed annual premium rates regardless of age and salary, applicable to an employee insured under term insurance renewable yearly.
II. Retirement Insurance	4.5	7.5	If employee's monthly salary is P200.00 or less.
	5.5	6.5	If employee's monthly salary is more than P200.00 but his premium for this benefit shall not exceed P56.00 per month.

It shall be compulsory for each employer to pay its share of the premiums or contributions in accordance with the rates indicated above, unless it requests reduction of said rates and the System finds, after an examination of said employer's financial condition, that it cannot afford to pay said rates, in which case it shall pay only such rates of premiums or contributions as the System may consider within its capacity to pay. In case of such reduction, the benefits payable to the member and/or his beneficiaries shall be adjusted actuarially in accordance with such rules and regulations as the System shall adopt.

Payment of premium for retirement insurance shall begin on the last day of June, nineteen hundred and fifty-one or of the calendar month the employee entered the service or became covered by his retirement plan, whichever is the later date, and that for life insurance shall begin on the last day of the calendar month preceding the month in which one's insurance takes effect: Provided, however, That retirement premiums shall not be required of Justices of the Supreme

Court and the Court of Appeals, and Judges of the Courts of First Instance, Agrarian Relations, Industrial Relations, Tax Appeals and Juvenile and Domestic Relations Courts, officers and enlisted men of the Armed Forces of the Philippines who are hereby excluded from said benefit.

Unpaid premiums or contributions shall bear such rate of interest not exceeding six per centum per annum as the Board may prescribe.

(b) Premiums for optional insurance. — The amount of premium on one's optional insurance described in section ten hereof shall be as provided in his policy. The premiums on this optional insurance shall be entirely borne by the insured.

(c) Premiums for optional retirement annuity. — Each employee may at his option and under such rules and conditions as the Systems may prescribe deposit additional amounts from time to time, the total of which shall not exceed ten per cent of the total salaries he has received from his employer prior to his retirement. These deposits shall be credited with interest of three per centum per annum, compounded monthly, and together with said interest shall at the date of his retirement be available to purchase in addition to the annuity described in section eleven hereof such an annuity as he will elect and the System will offer. In the event of his death or separation before becoming eligible for retirement, the total amount so deposited with interest, shall be refunded to him or his beneficiaries as recorded in his application for optional retirement annuity filed with the System.

(d) Collection and remittance of premiums. — Each employer concerned shall at the end of each month deduct and withhold from the monthly salary of every employee in its service the premiums payable by him in accordance with the preceding schedule plus the additional premiums, if any, required in section seven hereof. It shall advance and remit to the System beginning April 1 of each year and quarterly there after the monthly premiums for the current quarter, together with its corresponding shares as described in the said schedule, plus extra premiums and additional amounts, if any, as required in the following sections: Provided, That if such employee is separated from the service, then any premiums not due and payable



shall be refunded or credited to his employer. A member no longer in the service may pay his premiums directly to the System or as provided herein below.

Except as otherwise specified herein, payment of any premium on one's optional insurance and/or retirement annuity in the System may be made to an employer whose location is convenient to the member, and such employer is hereby authorized and required to accept such payment, issue receipt therefor, and remit the same immediately to the System.

SECTION 6. Employer's premiums. — Each employer shall include in its annual appropriation and remit to the System, in preference to other obligations except salaries and wages of its employees, the necessary amounts for its corresponding shares of the premiums and remittance described in subsection (a) of section five, plus any extra premiums that may be required on account of the hazards of risks of its employees, occupations, plus the additional amounts, if any, required in the next following section: Provided, however, That if one's compulsory membership policy matures, the employer's premium for his life insurance shall cease until he acquires a new membership policy, which, however, shall be granted only upon satisfactory evidence of insurability And provided, finally, That in case of transfer of an employee from one employer to another, the former employer shall be relieved of paying further premiums for him, and the new employer, whether or not it has joined the system, shall assume the same, appropriating therefor the necessary amount.

The Board shall have the full power and authority to adopt rules and regulations for the collection and remittance of premiums or other amounts payable as provided in this Act and/or any indebtedness to the System, and impose a fine not exceeding the loss or damage that the System may suffer on the official or officials responsible for the delay or failure in collecting or remitting said premiums or indebtedness without prejudice to such other punishment as may be imposed in accordance with existing Civil Service rules and regulations. Notwithstanding any law to the contrary, the Board may give extra remuneration to officials in charge of collecting and remitting said premiums, amounts, or indebtedness, if by so doing the best interest of the System shall be advanced.

SECTION 7. Additional amounts or premiums. — (a) For the amount of annuity corresponding to the services rendered by an employee prior to June sixteen, nineteen hundred and fifty-one, the National Government shall pay the necessary additional amounts or premiums as may be determined by the System, which shall be paid in equal annual amortization's at the rate of seventeen million three hundred thousand pesos beginning with the year nineteen hundred and sixty-seven for a period of fifty years or until the said additional amounts or premiums shall have been fully paid which amounts of seventeen million three hundred thousand pesos is hereby set aside and appropriated out of any funds in the National Treasury.

The increase in the additional amounts or premiums for the annuity corresponding to the services rendered prior to the approval of this amendatory Act due to increase in retirement benefits provided for in this amendatory Act, as may be determined by the System, shall likewise be paid by the National Government in equal yearly amortization's for a period of forty years, in the same manner as provided for in the next preceding paragraph, such amortization to commence not earlier than ten years from the date of approval of this amendatory Act. The sums necessary for this purpose are deemed appropriated in accordance with Section twenty-seven of this Act.

(b) The Board is hereby authorized and empowered, carrying out the provisions of this Act, to supplement the individual premiums of members with moneys received in the form of donations, gifts, legacies, or bequests, or otherwise, and to receive and deposit to the credit of the System, and invest all moneys which may be donated by private individuals, organizations, or corporations.

(c) All savings in appropriations for salaries and wages that may be realized by each employer during each fiscal year shall be transferred by said employer to the System which shall use the same for the payment of benefits provided in this Act.

### ***I. Life Insurance Benefit***

SECTION 8. (a) Compulsory membership insurance. — An employee whose membership in the System is compulsory shall be



automatically insured on the first day of the calendar month following the month he was appointed or on the first day of the calendar month he was appointed if the date of his appointment is the first day of the month: Provided, That his medical examination, if required, has been approved by the System: And provided, further, That he has satisfactorily completed the six-months probation's period required under the new Civil Service Law before his appointment becomes permanent: And provided finally, That the rates of premiums as prescribed in Section five of this Act shall be payable retroactively by him and his employer under such terms and conditions as the System may prescribe.

(b) Optional membership insurance. — The life insurance of an employee whose membership in the System is optional shall take effect, if he is alive, on the first day of the calendar month following the calendar month during which the first premium thereon was paid to the System: Provided, That his application for membership and his medical examination, if required, have been approved by the System.

(c) Amount and kind of insurance. — Membership insurance shall be in such form under such terms and conditions as the Board may prescribe and the member may select: Provided, That upon his request a civilian employee who was insured on or after June sixteen, nineteen hundred and fifty-one but prior to September thirty, nineteen hundred and fifty-six, may have his old membership insurance changed into one which the Board may allow subject to the rules and regulations it may adopt.

SECTION 9. Effect of dismissal or separation from service. — Upon dismissal for cause of a member of the System, the benefits under his membership policy shall be automatically forfeited to the System, except one-half of the cash or surrender value, which amount shall be paid to such member, or in case of death, to his beneficiary. In other cases of separation before maturity of a policy, the Government contributions shall cease, and the insured member shall have the following options: (a) to collect the cash surrender value of the policy; or (b) to continue the policy by paying the full premiums thereof; or (c) to obtain a paid up or extended term insurance in such amount or period, respectively, as the paid premiums may warrant, in

accordance with the conditions contained in said policy; of (d) to avail himself of such other options as may be provided in the policy.

SECTION 10. Optional Insurance. — Upon application to the Board and on satisfactory of insurability, each member may obtain, at any time, additional life insurance and/or educational insurance of his minor dependents as he may desire, in multiple of one hundred pesos, subject to such rules and regulations as the Board may prescribe and to the provisions of Section fourteen hereof: Provided, That the full amount of the premiums on such additional life insurance and/or educational insurance shall be paid by said member, and the amount thereof may be deducted from his pay or compensation, when expressly authorized by him.

## ***II. Retirement Insurance Benefit***

SECTION 11. (a) Amount of annuity. — Upon retirement after faithful and satisfactory service a member shall be automatically entitled to a life annuity guaranteed for at least five years and thereafter as long as he lives. The amount of the monthly annuity at the age of fifty-seven years shall be thirty pesos, plus for each year of service after the sixteenth of June, nineteen hundred and fifty-one, two per centum of the average monthly salary received by him during the last three years of service, plus, for each year of service rendered prior to the sixteenth of June, nineteen hundred and fifty-one, one and two-tenths per centum of said average monthly salary: Provided, That this amount shall be adjusted actuarially if retirement be at an age other than fifty-seven years: Provided, further, That the maximum amount of monthly annuity at age fifty-seven shall not in any case exceed three-fourths of said average monthly salary: And provided, finally, That retirement benefit shall be paid not earlier than one year after the approval of this Act. In lieu of this annuity, he may prior to his retirement elect one of the following equivalent benefits.

- (1) Monthly annuity during his lifetime;
- (2) Monthly annuity during the joint-lives of the employee and his or her spouse guaranteed for at least five years, which annuity, however, shall, upon death of either and after the

five-year guarantees period, be reduced to one-half and be paid to the survivor.

- (3) For those who are at least sixty-three years of age, lump-sum payment of present value of annuity for first five years, and for those who are at least sixty but below sixty-three years of age, lump-sum payment of the present value of the annuity for the first three years, with the balance of the five-year guaranteed annuity payable in lump-sum upon reaching sixty-three years of age, and annuity after the guaranteed period to be paid monthly: Provided, further, That it shall be compulsory for an employer to pay on the date of retirement in preference to all other obligations, except salaries and wages of its employees, its share of at least the premiums required to permit an employee to enjoy this options.

- (4) Such other benefits as may be approved by the System.

(b) Survivors benefit. — Upon death before he becomes eligible for retirement, his beneficiaries as recorded in the application for retirement annuity filed with the System shall be paid his own premiums with interest of three per centum per annum, compounded monthly. If he has served at least five years and his death is not due to his own misconduct, gross negligence, intemperate use of drugs or alcoholic liquor, vicious or immoral habits, his beneficiaries shall also be paid by the employer his one month's salary for every year of service, based on the highest rate received.

If on his death he is eligible for retirement, then the automatic retirement annuity or the annuity previously chosen by him shall be paid accordingly.

(c) Disability benefit. — If he becomes permanently and totally disabled and his services are not longer desirable, he shall be discharged and paid his own contributions with interest of three per centum per annum, compounded monthly, if he has served less than five years. If he has served at least five years but less than fifteen years, he shall be paid also the corresponding employer's premiums, without interest, described in subsection (a) of section five hereof:

Provided, That if his disability is not due to his own misconduct, gross negligence, intemperate use of drugs or alcoholic liquor, or vicious or immoral habits, he shall also be paid by the employer one month's salary for every years of service, based on ht e highest rate received. If he has served at least fifteen years he shall be retired and be entitled to the benefit provided under sub-section (a) of this section, unless he is qualified to receive and choose the benefit provided for in the next preceding sentence.

(d) Upon dismissal for cause or on voluntary separation, he shall be entitled only to his own premiums and voluntary deposits, if any, plus interest of three per centum per annum, compounded monthly.

SECTION 12. Conditions for retirement. — (a) On completion of thirty years of total service and attainment of age fifty-seven years, a member shall have the option to retire. in all cases of retirement under this Act, the last three years of service before retirement must be continuous and he must have made contributions for at least five years, which contributions may, upon his request approved by the Board, be deducted from life annuity under such terms and conditions as the Board may prescribe: Provided, That leaves of absence without pay shall not interrupt the continuity of the last three years of service if the total of said leaves or separation during the last three years immediately prior to retirement does not exceed one years: Provided, further, That, if prior to the completion of said three years' continuous service, the employee be separated from the service due to abolition of his position or reduction in force, he shall nevertheless be entitled to retirement benefit if otherwise qualified. In the case of those who are at least fifty-seven years of age a period of service shorter than thirty years may be allowed, provided that each year decrease in service shall be compensated by one-half year increase in age over fifty-seven years. A younger age of retirement may be permitted provided that each year decrease below fifty-seven years shall be compensated by one year increase in service over thirty years. If an employee is a laborer or one whose work is mostly manual, the ages mentioned above may be decreased by not more than five years at the discretion of the System. In all cases no one shall be entitled to retirement benefit if his age is below fifty-two years or his total service is less than fifteen years.

(b) Notwithstanding the provisions of the preceding paragraph, a member may be allowed to retire after rendering a total service of thirty years, regardless of age, the retiring employee to receive a monthly annuity for life, but the benefit for service rendered after June sixteen, nineteen hundred and fifty-one, shall be whatever amount of annuity can be purchased by the accumulated government and personal contributions to the credit of a member plus interest allowed by the system on the date of retirement. Said annuity shall be computed in accordance with the mortality table and the rate of interest adopted by the system. This benefit shall be in addition to the benefit for service rendered prior to June sixteen, nineteen hundred and fifty-one as provided in section eleven (A) of this Act.

(c) Retirement is likewise allowed to any official or employee, appointive or elective, regardless of age and employment status, who has rendered a total of at least twenty years of service, the last three years of which are continuous. The benefit shall, in addition to the return of his personal contributions with interest compounded monthly and the payment of the corresponding employer's premiums described in subsection (a) of Section five hereof, without interest, be only a gratuity equivalent to one month's salary for every year of the first twenty years of service, plus one and one-half month's salary for every year of service over twenty but below thirty years and two month's salary for every year of service over thirty years in case of employees based on the highest rate received and in case of elected officials on the rates of pay as provided by law. This gratuity is payable on the rates of pay as provided by law. This gratuity is payable by the employer or officer concerned which is hereby authorized to provide the necessary appropriation or pay the same from any unexpended items of appropriations or savings in its appropriations. Officials and employees retired under this Act shall be entitled to the commutation of the unused vacation and sick leave, based on the highest rate received, which they may have to their credit at the time of retirement.

An employee who retires under this Subsection (c) may not be eligible for retirement with gratuity or pension under Subsection (a) of Section eleven of this Act, as amended, or vice versa, unless he makes a written application therefore within one year after retirement and reimburses the retirement gratuity or pension previously received by

him, as well as refunds the personal and employer's premiums as the case may be.

(d) The employer concerned may request the retirement of any of such employee described in the preceding subsection who, by reason of a disqualification, is unable to perform satisfactorily and efficiently the duties of his position or some other position of the same grade or class as the occupied by the employee and to which he could be assigned, but such request shall be submitted to the Civil Service Board of Appeals only after the said employee had been notified in writing of the proposed retirement. No such employee, however, shall be so retired unless the Civil Service Board of Appeals has given him a hearing and found him after examination that he is so disqualified. The decision of the Civil Service Board of Appeals as to whether or not the said employee shall be retired under this subsection shall be final and conclusive.

(e) Retirement shall be automatically and compulsory at the age of sixty-five years with lump sum payment of present value of annuity for the first five years and future annuity to be paid monthly, and other benefits given to a compulsorily retired member as provided for in Republic Act Numbered Six hundred and sixty, as amended, if he has completed fifteen years of service and if he has not been separated from the service during the last three years of service prior to retirement; otherwise he shall be allowed to continue in the service until he shall have completed the required length of service, unless he is otherwise eligible for disability retirement. This paragraph shall not apply to elective officials and constitutional officers whose tenure of office is guaranteed. Upon specific approval of the President of the Philippines, the President of the Senate, the Speaker of the House of Representatives or the Chief of Justice of the Supreme Court, as the case may be, an employee may be allowed to continue to serve in the executive, legislative or judicial branch of the government after the age of sixty-five years if he possesses special qualifications and the corresponding Department Secretary certifies in writing that his services are needed.

The automatic and compulsory retirement age for members of the judiciary shall be seventy years under the conditions and with all the benefits provided for in the next preceding paragraph.



If a member exercises the option to retire pursuant to the provisions of Subsection (a) above at age sixty-three years, he shall likewise be entitled to all the benefits provided for in the first paragraph of this subsection. If the option is exercised at age sixty or over but below sixty-three years, the retiree shall be entitled to a lump sum payment of present value of annuity for the first three years, with the balance of the five-year guaranteed annuity payable in lump sum upon reaching the age of sixty-three years, and future annuity to be paid monthly, in addition to other benefits provided for in Republic Act Numbered Six hundred and sixty, as amended.

It shall be the duty of the employer concerned to notify each employee under its direction of the date of his automatic separation from the service at least sixty days in advance thereof.

(f) An employee separated from the service who is receiving an annuity described under section eleven shall not be eligible again to appointment to any appointive position or employment under any "employer" unless the appointing authority determines that he is possessed of special qualifications and his medical examination has been approved by the System, in which he shall not be entitled to payments of his annuity during the period of his new employment: Provided, however, That nothing in this Act shall be so construed as to affect the rights of the annuitant's beneficiary if the annuitant has been receiving or had elected, and was otherwise entitled to, a reduced annuity under subsection (a) of section eleven: Provided, further, That upon the termination of his new appointment, the payment of the annuity were discontinued shall be resumed: And provided, finally, That if the annuitant's salary in his new position is less than the annuity granted to him under this Act, he shall be entitled to receive the difference.

(g) If an employee who is not receiving the annuity mentioned in the next preceding subsection be reinstated in the service, he shall be given full credit for services rendered by him prior to his reinstatement for the purpose of determining the amount of annuity under section eleven hereof to which he may be entitled: Provided, however, That said credit shall not be given if the employee shall not refund to the System (1) the contributions for retirement he received

therefrom with interest of three per centum per annum compounded monthly from the date he received them up to the date of their payment, or (2) any gratuity of benefit he received under any pension or retirement plan of an employer unless expressly exempted by law from refunding said gratuity or pension: Provided, further, That if separated before, and reinstated after, June sixteen, nineteen hundred fifty-one only three-fourths of the services rendered prior to the said date shall be credited to the employee after complying with the condition stated unless the President of the Philippines, the President of the Senate, the Speaker of the House of Representatives, or the Chief Justice of the Supreme Court, as the case may be, determines that he possesses special qualifications and his services are needed.

SECTION 13. Computation of service. — The aggregate period of service which forms the basis for retirement and calculating the amount of annuity described in section eleven hereof shall be computed from the date of original employment, whether as a classified or unclassified employee in the service of an “employer”, including periods of service at different times and under one or more employers, and also periods of service performed overseas under the authority of the Republic of the Philippines and periods of honorable service in the Armed Forces of the Philippines prior to June sixteen, nineteen hundred fifty-one, and periods of honorable service in the Philippines under the authority of the United States Government if rendered prior to July four, nineteen hundred and forty-six: Provided, however, That in the case of an employee who is eligible for and receives retirement pay on account of military or naval service or on account of disability incurred therein, the period of service upon which such retirement pay is based shall be excluded: Provided, also, That periods of service rendered after June sixteen, nineteen hundred fifty-one during which premiums are not required shall be excluded, unless the premiums corresponding to said service be later on paid to the System with interest: And provided, further, That the period from January one, nineteen hundred and forty-two to February twenty-eight, nineteen hundred and forty-five and any period not exceeding one year at a time during which an officer or employee had been thereafter out of the service to the date of his reinstatement or reappointment before June sixteen, nineteen hundred fifty-one, shall be included for those who were in the service on December eight,

nineteen hundred and forty-one, except those who were separated prior to the Japanese occupation, in the computation of total service, the annuity mentioned herein, and payment of premiums therefor. For the purpose of this section, the term "service" shall include only full-time service with compensation: Provided, That the Board may include part-time and other services with compensation under such rules and regulations as it may prescribe.

SECTION 13-A. Reconstitution of service record. — For the purpose of Section thirteen of this Act, such employee shall reconstruct and the System shall verify the record of his service rendered prior to June sixteen, nineteen hundred fifty-one, in accordance with such rules and procedures as the Board may adopt and the provision of the Rules of Court.

Such records of services shall be submitted to the System within two years from the date of approval of this amendatory Act, or from his re-employment if re-employed after said date, together with the certificates, affidavits and other documents relied upon for the reconstitution of said record. Any employee who fails to submit such record of service within said specified period shall lose automatically all rights granted by this Act pertaining to said service. Upon proper cause shown, the Board may grant extension of time for the presentation of said record of service or proofs thereof, but in no case shall the total extended period exceed one year from the expiration of the original period. Any certified copy of document or paper that may be necessary in the reconstitution of a record of service shall be furnished, free of charge, by an office, instrumentality, or corporation of the Government.

SECTION 14. Special rights attached to life insurance policy. — Any life insurance policy issued under the provisions of this Act shall not be assignable, except to the System, and shall be entitled to participation in the surplus, as provided in section twenty-five hereof. It shall continue in force, except as otherwise provided herein, whether the member is in or out of the service, so long as he complies with the provisions and conditions thereof. Such policy and the proceeds thereof shall be exempt from all taxes, and shall not be considered a gratuity.

SECTION 15. Additional requirements. — No policy of life insurance shall be issued or delivered unless and until a copy of the form thereof has been filed with the Insurance Commissioner and approved by him; nor shall such policy be so issued or delivered unless it contains in substance the provisions embodied in section one hundred eighty-four of Act Numbered Twenty-four hundred and twenty- seven, as amended: Provided, however, That in the case of annuity or pure endowment contracts, any of such provisions or portions thereof that are not applicable to said contracts shall, to that extent, not be incorporated therein.

SECTION 16. Administration of the System. — The System shall be a non- stock corporation, with its principal place of business in Manila or Quezon City, Philippines. It shall be managed by a Board of Trustees to consist of the General Manager of the System and seven other members to be appointed by the President of the Philippines with the consent of the Commission on Appointments three of whom shall represent three leading confederation of government employee organizations or associations of government employees which represent the cross section of government employees with membership not limited to a particular professional group or class or level of employees, or to employees of a single agency or related agencies, but open to all government employees in all branches, departments, agencies, offices, and instrumentalities of the government irrespective of professions, class or level of position, representing the largest number of government employees who are registered members of the associations or of affiliated organizations, as may be determined by the Government Service Insurance System under such rules and regulations as it may promulgate. The trustees shall elect from among themselves a chairman and a vice-chairman. Each appointive trustee, except the General Manager who shall cease as trustee upon his separation as General Manager shall hold office for three years or until his successor is duly qualified except that, of the four other appointive members of the Board first appointive under this amendatory Act, two shall hold office for two years, and two for three years. At the expiration of the respective terms of such members, a successor shall be appointed for the term of three years, from the date of such expiration. All vacancies, except through the expirations of the terms, shall be filled for the unexpired term only.

The trustees shall be entitled to a per diem of twenty-five pesos for each day of actual attendance in session.

SECTION 17. General powers of the Board. — The Board shall have the powers specified in this Act and the usual general corporate powers. It shall have the following powers and authority: (a) to adopt by laws, rules and regulations for the administration of the System and the transaction of its business; (b) to adopt from time to time a budget of expenditures, including salaries of personnel and appropriate therefor the necessary amounts; (c) to set up its accounting unit and provide the necessary personnel therefor; (d) to invest its funds, directly or indirectly, in accordance with this Act; to discount pensions guaranteed under this Act at such rate of interest as it may prescribe, but not exceeding five per centum per annum, compounded annually; (e) to establish branches of the System whenever and wherever it may be expedient or necessary, fix their domiciles and in general prescribe the other complementary rules of organization which this Act imposes; (f) to lease, purchase, construct or otherwise acquire real property and/or buildings and such facilities which may be necessary or expedient to the effective execution of the purposes of this Act; (g) to prescribe the forms of life insurance and annuity contracts to be issued and the benefits thereof including accident benefits; (h) to fix the premium rates, conditions and term thereof, taking into consideration the kind of insurance, age, health, and other factors affecting the insurability of the employee or member, and to authorize the issuance thereof when so determined; (i) to construct, establish and/or operate hospitals and sanatoriums, when possible and expedient or necessary to the employees' welfare; (j) to enter into agreements or contracts with Government and private hospitals or health institutions and with medical associations or duly licensed physicians, nurses, or other competent persons who may be needed in connection with medical and obstetrical services for members of the System and their dependents, paying them, and authorizing them to accept, reasonable necessary compensation therefor, notwithstanding any provision of law to the contrary; (k) except as otherwise provided in this Act, to extend, when possible and expedient, directly or through other agencies, and under such rules, regulations and conditions as it may prescribe, medical and obstetrical services to other members of the System and their dependents and, in general, promote the health of the members of the



System and appropriate necessary sums therefor from the surplus of the System; (l) having regard to any periodic audit and valuation of the retirement insurance fund, to make such immediate readjustments or modifications in any of the rates or periods of benefits granted under this Act and prescribe rules and conditions therefor, notwithstanding any provision of this Act to the contrary, as appear necessary in order to make said funds sufficient or no more than reasonably sufficient to discharge its liabilities: Provided, That no such readjustments or modifications shall be made that will have the effect of reducing the total amount of the benefits due any member under this Act: Provided, further, That if an actuarial valuation of the fund shows a deficit, the amount necessary to cover it shall be advanced in the following fiscal year by the Government of the Republic of the Philippines, but any amount so advanced shall be refunded by the System as soon as a surplus results from the operation of the fund; (m) to have the power of succession; (n) to sue and be sued; and (o) to exercise such other powers as may be necessary to carry on the business for which the System has been created.

(p) To issue under such terms and conditions as the Board may prescribe mortgage insurance on the lives of the mortgagors and/or co-mortgagors whose properties are mortgaged with the System.

(q) To exclude from compulsory membership in the System the employees of an employer which, after examination of said employer's financial condition, is found to be unable to pay or continue to pay its share of the premiums required by this Act in behalf of said employees.

**SECTION 18.** The Board shall have the power to appoint a president who shall be a person of recognized experience and capacity in the subject of life and social insurance, and who shall be the chief executive of the System, an executive vice president, a senior vice president and actuary, one or more vice presidents, one or more assistant vice presidents, one or more managers, a medical director, and fix their compensation. The general manager shall, subject to the approval of the Board, appoint additional personnel whenever they may be necessary to the effective execution of the provisions of this Act, fix their compensation, remove, suspend, or otherwise discipline



them, for cause. He shall have the power to prescribe their duties, grant leave, prescribe certain qualifications to the end that only competent persons may be employed, and appoint committees: Provided, however, That said additional personnel shall be subject to existing Civil Service laws, rules and regulations.

The Auditor General shall appoint a representative who shall be the auditor of the corporation, and the necessary personnel to assist said representative in the performance of his duties. The number and salaries of the auditor and said personnel shall be determined by the Auditor General, subject to appropriation by the Board of Directors; in case of disagreement, the matter should be submitted to the President of the Philippines whose decision shall be final. Said salaries and all other expenses of maintaining the auditor's office shall be paid by the System.

SECTION 19. Records and reports. — The Board shall cause to be kept such records as may be required for the purpose of making actuarial valuations of the System including such data necessary in the computation of rates of disability, mortality, and withdrawal among the members and any other information that may be useful for the adjustment of the benefits for the members of the System. Separate and distinct records of operation of each fund of the System and of disbursements for the same and all accounts of payments made out of each fund shall, likewise, be made and kept by the System.

Within four months after the end each fiscal year, the Board shall submit to the President of the Philippines who shall furnish a copy thereof to the Congress of the Philippines, a report of operations of the preceding year under the provisions of this Act.

SECTION 20. Auditing and legal service. — The Auditor General and the Secretary of Justice shall be the ex-officio Auditor and Legal Adviser of the System, respectively. The Auditor General, or his authorized representative, shall submit to the Board soon after the close of each fiscal year, audited statements showing the financial condition and progress of the System for the fiscal year just closed, and the Actuary shall make, as of the end of each fiscal year, an actuarial examination and valuation of the System: Provided,

however, that the Insurance Commissioner or his authorized representatives shall make an examination into the financial condition and methods of transacting business of the system at least once in two years and the report of said examination shall be submitted to the board and copies thereof be furnished the Congress and the Office of the President of the Philippines within a reasonable time after the close of the examination: And provided, finally, That for each examination the system shall pay to the Office of the Insurance Commissioner an amount equal to the actual expenses of said office in the conduct of the examination, including the salaries of the examiners and of the actuary of said office who have been assigned to make such examination for the actual time spent in said examination.

SECTION 21. Physical examinations. — For the proper enforcement of the provisions of this Act, all heads of bureaus, departments, and independent offices of the Philippine Government having physicians are hereby directed to conduct physical examinations of all employees subject to the provisions of this Act in such forms as may be prescribed and at such times as may be requested by the Board. Such physicians shall also lend such assistance as may be requested by the Board in connection with the settlement of any claim covered by the terms of any policy issued hereunder.

SECTION 22. Investment of funds. — The Board shall invest such portions of the moneys as shall not be required to meet the current payments in the form of life annuities, death claims, or otherwise, and expenses incidental to the carrying out of the provisions of this Act, in any or all of the following ways and in no others:

(a) In interest-bearing bonds or securities of the Government of the United States or of the Philippines, or bonds or securities of said countries for the payment of the interest and principal of which the faith and credit of said countries are pledged.

(b) In interest-bearing deposits in any bank doing business in the United States or in the Philippines, having an unimpaired paid up capital and surplus equivalent to one million five hundred thousand pesos or over: Provided, That said bank shall first have been

designated as a depository for this purpose by the President, upon the recommendation of the Secretary of Finance.

(c) In first liens upon improved and unencumbered real estate situated in any chartered city, municipality or municipal district, title to which is duly registered under Act Numbered Four hundred and ninety-six, as amended: Provided, That no loan shall be made upon the security of real estate in excess of eighty per centum of the fair appraised value thereof to be determined in such manner as the Board shall prescribe: And provided, further, That no more than seventy per centum of the total assets shall be invested in loans on the security of real estate. Loans granted under this subsection shall be paid within a period of not exceeding fifteen years unless renewed for another period of not exceeding fifteen years under such terms and conditions as the Board may prescribe.

(d) In commuting installment payments due from the Government of the Philippines to individuals upon the proper assignment of the individual's claim to the System.

(e) In loans to provincial and municipal governments for the construction or acquisition of permanent public improvements, subject to the following conditions: That loans under this subsection shall be on self-liquidating projects only and shall be repaid in installments within such period as may be fixed by the Board not exceeding ten years, in accordance with the provision of the next succeeding paragraphs; that loans shall be repaid in installments within ten years, with at least four per centum interest; that in case of default, the Collector of Internal Revenue and the provincial treasurer are authorized and directed to withhold from the revenues of the municipality, city or province concerned such amounts as may be needed to pay the installments and interest due, and remit the same to the Board; that no loan or the interest thereon shall be remitted under any consideration; and that no loan shall be granted unless the municipality, city, or province concerned shall have first demonstrated its capacity to pay the same within the time required for such payment.

Loans to local governments as provided herein may be renewed in the discretion of the Board for a period not exceeding ten years, and in

case of renewal the amount due at the time of such renewal shall be paid in not more than ten annual installments under the same conditions specified in the preceding paragraph: Provided, That such loans shall be granted only under the conditions to be prescribed by the Board.

(f) In loans or advances to the Government of the Philippines or its political subdivisions for the construction of permanent toll bridges or other permanent self-liquidating projects in accordance with the conditions prescribed in the law in such cases made and provided.

(g) In loans to members on the security of their policies: Provided That, no loan on the security of a membership policy shall be granted in excess of fifty per centum of its cash value, except for the purpose of continuing it in force, whenever necessary.

(h) And, generally, in such other loans, investments or securities as are authorized under Act Numbered Twenty-four hundred and twenty-seven entitled "An Act revising the insurance laws and regulating the insurance business in the Philippine Islands"; as amended, or may be approved by the Insurance Commissioner.

**SECTION 23.** Foreclosure. — The Board shall have the right to require the debtor to increase the value of the security of the loan obtained by him in the event of any material depreciation in the value of such security, and failure to comply therefor within ninety days from the date of said requirement, would constitute ground for foreclosure of the mortgage. It shall also make proper provisions for the insurance of all property which shall be held by it as security. All such real estate as may come into its possession on account of money loaned as shall not be necessary for the accommodation of the Government Service Insurance System in the convenient transaction of its business shall be sold and disposed of within five years after title to the same shall have been acquired, or within five years after the same shall have ceased to be necessary for the accommodation of the business of the System, and it shall not hold such property for a longer period unless the interests of the System will materially suffer by the forced sale thereof.

SECTION 24. Accounts to be maintained. — The System shall keep separate and distinct from one another the following funds:

(a) Life insurance fund. — This shall consist of all premiums for life insurance benefit and/or earnings and savings therefrom. It shall meet death claims as they may arise or such equities as any member may be entitled to, under the conditions of his policy, and shall maintain the required reserves to the end of guaranteeing the fulfillment of the life insurance contracts issued by the System. Said reserves shall be computed yearly in accordance with approved valuation standards and with an interest rate of not higher than four per centum per annum.

(b) Retirement insurance fund — This shall consist of all contributions for retirement insurance benefit and of earnings and savings therefrom. It shall meet annuity payments and establish the required reserves to the end of guaranteeing the fulfillment of the contracts issued by the System. Said reserves shall be determined yearly on such annuity tables, with an interest rate of not higher than three per centum per annum, as shall be adopted by the Board.

(c) Contingency reserve fund. — This shall consist of such portion of the surplus of each fund mentioned above as may be set aside each year by the Board pursuant to section twenty-five hereof: Provided, That it shall not exceed ten per centum of the required reserves of the System.

(d) General fund. — This shall consist of such amounts as may be set aside by the Board from each fund, to meet the expenses incidental to the enforcement of the provisions of this Act.

The Government of the Republic of the Philippines hereby guarantees the fulfillment of the obligations of the Government Service Insurance System to the members thereof when and as they shall become due. In case an employer defaults in the payment of its obligations to the System, the Secretary of Finance or the Administrator of Economic Coordination and the Auditor General shall take such steps as may be necessary to have said obligations paid promptly. Said officials or their duly designated representatives are hereby authorized and directed to withhold from the revenues and incomes of a defaulting

employer such amounts as may be necessary to pay its obligations under this Act and remit the same immediately to the System. In case of insolvency of an employer, its obligations under this Act shall be paid in preference to all other obligations except salaries and wages of its employees. No deferment in the payment of an employer's obligations under this Act shall be allowed without the prior approval of the System. Notwithstanding any provision of this Act to the contrary, and in order to insure the solvency of the System and protect the interests of all its members, the Board is hereby authorized to make readjustment in any of the benefits payable to an employee under this Act in accordance with such rules and regulations it may prescribe if his employer fails to pay for him its share of the contributions or premiums required by this Act and no person, regardless of the date of retirement, may allege vested right by reason of this readjustment.

SECTION 25. Disposable surplus. — Any disposable surplus that may result from the operations of the life insurance fund shall be apportioned among the members whose policies are in force for at least one year, when and if the Board deems it expedient, in accordance with schedule prepared by the Actuary and approved by the Board. The disposable surplus shall be that amount left after the mean reserves of the policies, contingency reserves, the expenses incidental to the operation of said fund, the expenses incurred in promoting the health of the members, and other liabilities of the fund have been determined and set aside or satisfied.

SECTION 26. Exemption from legal process and liens. — No policy of life insurance issued under this Act, or the proceeds thereof, when paid to any member thereunder, nor any other benefit granted under this Act, shall be liable to attachment, garnishment, or other process, or to be seized, taken, appropriated, or applied by any legal or equitable process or operation of law to pay any debt or liability of such member, or his beneficiary, or any other person who may have a right thereunder, either before or after payment; nor shall the proceeds thereof, when not made payable to a named beneficiary, constitute a part of the estate of the member for payment of his debt: Provided, however, That this section shall not apply when obligations or indebtedness to the System and the employer are concerned, nor when the retirement annuity is assigned to any person, corporation,



association or bank or other financial institution, which is hereby authorized.

SECTION 27. Appropriations. — There is hereby appropriated for the current fiscal year, and annually thereafter, out of any fund in the Philippine Treasury or other depository not otherwise appropriated, including special and corporate funds, such sums as may be necessary to pay the contributions or premiums and interest payable by each employer under this Act, as well as obligations which the Republic of the Philippines assumes or guarantees to pay under this Act.

SECTION 28. Miscellaneous provisions. — (a) Act Numbered Two thousand five hundred and eighty-nine, as amended, and all other retirement or pension plans heretofore in force in any chartered city or corporation owned or controlled by the Government are hereby declared inoperative or abolished, and Act Numbered Four thousand one hundred and eighty-three shall cease to be applicable to employees of any local government admitted to the System: Provided, That the rights of those already retired shall not be affected: Provided, further, That as of the date of approval of this Act the present value of the benefit as may be computed by the actuary of the System or the gratuity payable to any member who has established his right before the approval of this Act to retire under either Act Numbered Two thousand five hundred and eighty-nine or Act Numbered Four thousand one hundred and eighty-three or under any retirement or pension plan mentioned above shall be credited and paid by the employer concerned to the retirement insurance fund of the System in installments to be determined by the System and approved by the President and shall be included in the computation of the additional premiums or amounts required in Section seven hereof for the service annuity described in subsection (a) of Section eleven hereof: And provided, finally, That such a member shall be entitled to the retirement benefit described in this Act only if he so notifies the System on or before December thirty-one, nineteen hundred and sixty-two, otherwise it shall be deemed that he does not desire to be retired under this Act and accordingly the gratuity or benefit payable to him under the law or retirement or pension plan mentioned above shall be exclusively reserved for him by the System. The extension of time herein provided shall not be applicable to those already retired. If such member elects the retirement benefit of this Act, but his

position is abolished, or he dies or becomes disabled before becoming eligible to said benefit, or he resigns after rendering twenty years of service, he or his legal heirs may be paid the retirement benefit to which he has established his right prior to the approval of this Act and his contributions under this Act shall be refunded as provided in Section eleven (d) hereof.

Republic Act Numbered One thousand five hundred and sixty-eight, as amended, and Republic Act Numbered Three thousand and sixteen are also hereby declared inoperative or abolished; Provided, That the rights of those already retired thereunder shall not be affected: And provided, further, That an official or person who is eligible for retirement under any of the aforementioned acts or any other acts may elect and reserve his right to retire thereunder and shall be entitled to the retirement benefit described therein only if he so chooses and notifies the System in writing within one year from the date of approval of this amendatory Act, otherwise it shall be deemed that he elects to be retired under this Act.

(b) Hereafter no insurance or retirement plan for officers or employees shall be created by any employer. All supplementary retirement or pension plans heretofore in force in any government office, agency, or instrumentality or corporation owned or controlled by the government, are hereby declared inoperative or abolished: Provided, That the rights of those who are already eligible to retire thereunder shall not be affected.

(c) Except as herein otherwise provided, the Government service Insurance System, all benefits granted under this Act, and all its forms and documents required of the members shall be exempt from all types of taxes, documentary stamps, duties and contributions, fiscal or municipal, direct or indirect, established or to be established; and more specially, they shall not be subject to the provisions of Act Numbered Twenty-four hundred and twenty-seven, as amended, and no law hereafter enacted shall apply to said System unless it is provided therein that the same is applicable to the System by expressly stating the name of said entity.

(d) Settlement of claims. The System is hereby empowered to adopt rules and regulations to expedite the settlement of claims under the

provisions of this Act. If the money is payable to the estate of a deceased person, the System shall pay the same to such person or persons as it may ascertain to be lawfully entitled thereto in accordance with existing laws on succession. If the money is payable to a minor, payment shall be made by the System to such person or persons as it may consider to be best qualified to take care and dispose of the minor's property for his benefit.

(e) Any provision of law inconsistent with the provisions of this Act is hereby repealed.

SECTION 29. Penalty. — Any person found to have participated, directly or indirectly, in the commission of fraud, collusion, falsification, misrepresentation of facts, or any other kind anomaly in the issuance of any certificate or document for any purpose connected with this Act, or in obtaining any benefit or payment under this Act, whether for him or some other person, shall be punished by a fine not exceeding one thousand pesos or imprisonment not exceeding one year, or by both such fine and imprisonment at the discretion of the court, besides disqualification from holding public office and from practicing any profession or calling licensed by the Government.

No attorney, agent, or other person in charge of the preparation, filing, or pursuing of any claim for benefit under this Act shall demand, charge, or receive for his services more than five per centum of the total amount of such benefit, and said fees shall become due and demandable only after the payment covering said benefit is received by the person or persons entitled thereto. The retention or deduction of any amount from any benefit granted under this Act to cover payment of fees for such services is prohibited. It is also prohibited for any employee of the System to act as attorney or agent for any claimant under this Act and for any government employee to collect any fee for his services in behalf of any such claimant. A violation of any provision of this paragraph shall be punished by a fine not exceeding one thousand pesos, or by imprisonment not exceeding one year, or by both such fine and imprisonment, at the discretion of the court, besides disqualification from holding any public office and from practicing any profession or calling licensed by the Government.

Any premium, contribution, or other amount due the System collected by any treasurer finance officer, cashier, disbursing officer or other employee shall not be used for a purpose other than that authorized by this Act. Any official or employee violating this provision shall be punished by imprisonment for not less than one year nor more than five years, or by a fine of not less than one thousand pesos nor more than five thousand pesos, or by both such imprisonment and fine, at the discretion of the court, besides disqualification from holding public office and from practicing any profession or calling licensed by the Government.

SECTION 30. Effective date. — This Act shall take effect upon its approval.

***Approved: November 14, 1936.***