MAY 3 1 2024
MEMORANDUM NO. 2024 - 25

TO : ALL ELECTRIC COOPERATIVES (ECs)

SUBJECT : "GUIDELINES IN THE ESTABLISHMENT OF A RETIREMENT FUND FOR ALL ELECTRIC COOPERATIVES AND THE GRANT OF RETIREMENT BENEFITS TO ITS REGULAR EMPLOYEES"

I. RATIONALE

Establishing a retirement fund/plan and the grant of retirement benefits is part of the compensation package of the EC for all its regular employees. Having a retirement fund/plan allows the EC to invest in the financial security of its employees upon retirement. The retirement fund/plan contains the income goals of the fund, the investment actions to be made to achieve those goals, the benefits that an employee will receive upon separation and the requirements to be entitled to such benefits.

Pursuant to Republic Act No. 7641, also known as the Retirement Pay Law, companies are required to provide retirement pay/benefits to their employees; thus, retirement planning is crucial for all Electric Cooperatives (ECs) and setting up a retirement fund/plan shall ensure ECs compliance with the laws.

Further, Section 5 (I) of Republic Act No. 10531 authorizes NEA to enforce standards through a mechanism of incentives and disincentives for complying and non-complying ECs, respectively. This retirement fund/plan is for the benefit of all regular employees of ECs to motivate them to render continuous, quality and efficient service to its member-consumers-owners (MCOs) and other stakeholders.

II. POLICY

It shall be the policy of the NEA to recognize and reward the quality and efficient service of all EC regular employees rendered for the purpose of improved EC operations and empowered MCOs, thus, authorizing complying ECs to grant just and equitable Retirement Benefits to its regular employees. For this purpose, all ECs are mandated to establish a Retirement Fund/Plan policy for the approval of NEA.

III. ESTABLISHMENT OF RETIREMENT FUND/PLAN

It shall be the policy of the NEA to recognize and reward the quality and efficient service of all EC regular employees rendered for the purpose of improved EC operations and empowered MCOs, thus, authorizing complying ECs to grant just and equitable Retirement Benefits to its regular employees.

In line with this, it shall be the responsibility of the EC Management to provide/establish a Retirement Fund for all the regular employees, duly approved by the Board of Directors through a Resolution, subject to the confirmation of NEA.

The Retirement Fund shall be a Defined Benefit Plan wherein the benefits to be received by the employees are defined by formulas fixed in the retirement plan rules while an actuary periodically estimates the contributions necessary to meet the benefits.

The Retirement Fund shall be sourced from the internally generated fund (IGF) of the EC, after the conduct of an actuarial valuation to determine the amount necessary to cover the retirement of all regular employees.

After the conduct of an actuarial valuation and the determination of the fund necessary for the purpose, the amount shall be included in the annual Corporate Operating Budget (COB) of the EC.

IV. NATURE OF THE RETIREMENT FUND/PLAN

A trust is a legal arrangement where a trustee manages assets on behalf of the beneficiaries of the trust. The trustor (EC) refers to the entity that establishes a trust. The trustee (financial institution) is the legal entity which shall hold and manage the trust for the benefit of another person or entity and is entrusted with the responsibility of overseeing the retirement fund/plan. The beneficiary is the person/s for whom the trust has been created or in the context of a trusteed retirement plan, the regular employees who will be entitled to receive the future retirement benefits are considered the beneficiaries.

The EC shall register a retirement fund with a Trust Entity. In this case, the EC shall appoint financial institutions (with trust licenses granted by the Bangko Sentral ng Pilipinas) as trustees. The trustor (EC) and trustee (financial institution) shall establish an investment policy where the trustee shall exercise sole discretion in making investments in accordance with the agreed policy. The trustee shall handle benefit payouts to retiring employees.

The relationship between the Trustor, often the Retirement Plan Administrator or the EC itself, and the Trustee is formally defined under a Trust Agreement entered into by the parties. While the trustee has sole discretion on where to invest the funds entrusted to it, the trustor may give specific instructions with regard to where the funds would be invested.

The retirement fund (trust assets) is a restricted fund which should be maintained in a separate account. Once funds are set aside for the payment of retirement benefits, such funds can be used solely for that purpose. This prevents the EC Management from using the funds for other EC expenditures. Trust books and records involving retirement funds are separate and independent from other books and records of the EC, which are adequately identified, and subject to audit by the NEA.

A Trust Entity also ensures that the EC will have enough liquidity to ensure that funds are available when needed. Hence, employees are assured that funds will be readily available upon their retirement from the service.

Setting aside funds before retirement benefits become due and payable allows the funds to earn tax-free interest during the interim period, effectively reducing the total amount of money spent for retirement benefits.

The EC retains ownership of the Retirement Fund and shall be subject to the NEA regular conduct of audit.

V. GRANT OF RETIREMENT BENEFITS BASED ON EC CLASSIFICATION

A. Mega Large ECs

Length of Service	Percentage
At least 5 years	100% x (basic pay + 1/12 of 13th month pay) x no. of years of service
6 to 10 years	125% x (basic pay + 1/12 of 13th month pay) x no. of years of service
11 to 15 years	150% x (basic pay + 1/12 of 13th month pay) x no. of years of service
16 to 20 years	175% x (basic pay + 1/12 of 13th month pay) x no. of years of service
21 to 25 years	200% x (basic pay + 1/12 of 13th month pay) x no. of years of service
26 to 30 years	225% x (basic pay + 1/12 of 13th month pay) x no. of years of service
31 years and above	250% x (basic pay + 1/12 of 13th month pay) x no. of years of service

B. Extra Large ECs

Length of Service	Percentage
At least 5 years	75% x (basic pay + 1/12 of 13th month pay) x no. of years of service
6 to 10 years	100% x (basic pay + 1/12 of 13th month pay) x no. of years of service
11 to 15 years	125% x (basic pay + 1/12 of 13th month pay) x no. of years of service
16 to 20 years	150% x (basic pay + 1/12 of 13th month pay) x no. of years of service
21 to 25 years	175% x (basic pay + 1/12 of 13th month pay) x no. of years of service
26 to 30 years	200% x (basic pay + 1/12 of 13th month pay) x no. of years of service
31 years and above	225% x (basic pay + 1/12 of 13th month pay) x no. of years of service

C. Large ECs

Length of Service	Percentage
At least 5 years	50% x (basic pay + 1/12 of 13th month pay) x no. of years of service
6 to 10 years	75% x (basic pay + 1/12 of 13th month pay) x no. of years of service
11 to 15 years	100% x (basic pay + 1/12 of 13th month pay) x no. of years of service
16 to 20 years	125% x (basic pay + 1/12 of 13th month pay) x no. of years of service
21 to 25 years	150% x (basic pay + 1/12 of 13th month pay) x no. of years of service
26 to 30 years	175% x (basic pay + 1/12 of 13th month pay) x no. of years of service
31 years and above	200% x (basic pay + 1/12 of 13th month pay) x no. of years of service

D. Medium ECs

Length of Service	Percentage
5 to 10 years	50% x (basic pay + 1/12 of 13th month pay) x no. of years of service
11 to 15 years	75% x (basic pay + 1/12 of 13th month pay) x no. of years of service
16 to 20 years	100% x (basic pay + 1/12 of 13th month pay) x no. of years of service
21 to 25 years	125% x (basic pay + 1/12 of 13th month pay) x no. of years of service
26 to 30 years	150% x (basic pay + 1/12 of 13th month pay) x no. of years of service
31 years and above	175% x (basic pay + 1/12 of 13th month pay) x no. of years of service

E. Small ECs

Length of Service	Percentage
5 to 10 years	50% x (basic pay + 1/12 of 13th month pay) x no. of years of service
11 to 20 years	75% x (basic pay + 1/12 of 13th month pay) x no. of years of service
21 to 25 years	100% x (basic pay + 1/12 of 13th month pay) x no. of years of service
26 to 30 years	125% x (basic pay + 1/12 of 13th month pay) x no. of years of service
31 years and above	150% x (basic pay + 1/12 of 13th month pay) x no. of years of service

VI. GRANT OF RETIREMENT BENEFITS BASED ON STRAIGHT LINE METHOD

The grant of retirement benefits to EC regular employees for the continuous service shall be on a straight-line method upon retirement from the EC.

Only the basic pay plus 1/12 of 13th month pay shall be included in the computation of the regular employees' retirement benefits. No allowances shall be considered for inclusion.

All ECs shall be guided by these guidelines in formulating a new policy on the grant of retirement benefits of all regular employees.

VII. TAX-FREE RETIREMENT BENEFITS

A retirement fund with a Trust Entity ensures that annual contributions to fund a retirement plan are deductible from the taxable income of the EC since funds placed in a Trust for the retirement benefits of qualified employees are considered as an expense and are off the ECs books. The Trust Fund is credited with all the contributions, as well as the investment earnings. Investment earnings of a Trust Fund and the benefits received by eligible retirees are both not subject to tax.

VIII. INVESTMENT OPTIONS AND PERIODIC REPORTS

The EC, through its designated trustee, may opt to invest not more than 50% of the accumulated funds to registered and reputable mutual fund companies subject to the approval of NEA.

Informative reports are required to be made and submitted by the trustee to the trustor (and other parties who may have legitimate interest in the trust) on a monthly or quarterly basis, which may consist of the following: (i) balance sheet, (ii) income statement, (iii) schedule of earning assets and (iv) investment activity report. Likewise, the trust entity shall submit to the BSP periodic reports on the trustee's trust business.

The EC is not allowed to use the accumulated funds for lending to EC employees and officers or use the prospective retirement pay as collateral for personal loans of EC employees and officers.

IX. MAXIMUM RETIREMENT FUND

The EC shall submit an actuarial report of the accumulated funds every two (2) years. Once the accumulated fund is sufficient for the retirement benefits of all existing EC employees, the EC shall desist from transferring funds for retirement.

X. APPROVING AUTHORITY

The NEA Administrator shall be the approving authority of the new policy on EC Retirement Benefits.

XI. PROHIBITION AND SANCTIONS

In case of violation/s found after validation, the Board of Directors, General Manager, and other concerned officials shall be required to implement the immediate refund of the full amount disallowed without prejudice to the application of any other sanctions allowed under pertinent laws and other NEA rules and regulations.

No assets held by the trust entity shall be subject to any claims other than those of the parties (trustor/beneficiaries) interested in the trust agreement or trust accounts.

The benefits received by the employees shall be exempt from all taxes and the trust fund shall not be liable for attachment, garnishment, levy or seizure by or under any legal or equitable processes except to pay for the debt of the employee/beneficiary to the Retirement Fund or that arising from criminal liability imposed in a criminal action.

XII. RESPONSIBILITY AND ACCOUNTABILITY

The grant of retirement benefits is subject to the ECs availability of funds and shall be incorporated in the Cash Operating Budget.

The EC's Finance Manager and Internal Auditor shall be responsible for monitoring the compliance to the Guidelines.

The EC Board and General Manager shall likewise be accountable for its proper implementation. They shall be held liable for the grant of retirement benefits over and above provided under the Guidelines.

Reasonable trust fees may be recovered which shall be based on the cost of services rendered by the trustee/financial institution.

XIII. AMENDATORY CLAUSE

This supersedes all NEA approved EC Policies on the establishment of Retirement Funds/Plan and the grant of Retirement Benefits.

XIV. EFFECTIVITY

This policy shall take effect immediately upon filing with the University of the Philippines (UP) Law Center pursuant to the Presidential Memorandum Circular No. 11, dated October 9, 1992.

ANTONIO MARIANO C. ALMEDA
Administrator

NATIONAL ELECTRIFICATION ADMINISTRATION
Office of the Administrator
NEA-OA274671

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