

CONFIDENTIAL

**TSPI MUTUAL BENEFIT ASSOCIATION, INC.
RETIREMENT PLAN**

**AMENDED PAS 19(R) ACTUARIAL VALUATION REPORT
As of December 31, 2020**



January 13, 2021

MS. ALICE CORDERO
President & Chief Executive Officer
TSPI MUTUAL BENEFIT ASSOCIATION, INC.
2363 Antipollo Street,
Guadalupe Nuevo, Makati City

Dear *Ms. Cordero*:

We are pleased to submit the Actuarial Report on your employee's retirement program for compliance with Philippine Accounting Standards No. 19 R (PAS 19R) for the period ending December 31, 2020.

We have relied on the employee data you have furnished us and have applied the Accrued Benefit Actuarial Cost method (Projected Unit Credit) taking into account the factors of interest, mortality, disability and salary projection rates.

In our opinion, this report presents the actuarial position of the **TSPI MUTUAL BENEFIT ASSOCIATION, INC. Employees Retirement Plan** in accordance with the generally recognized and accepted actuarial principles and practices.

Sincerely,

PANFILO DE LA PAZ, FSA, FASP
Actuary



ACTUARIAL CERTIFICATION

This is to certify that the *Expense* and the *Liability* to be recognized for the period ending December 31, 2020 of **TSPI MUTUAL BENEFIT ASSOCIATION, INC.** relative to its Employee's Retirement Plan, as contained in this report, are computed using assumptions and methods that are consistent with our understanding of Revised Philippine Accounting Standards No. 19 (PAS19 R) and are in accordance with generally accepted actuarial principles.

PANFILO P. DE LA PAZ

Actuary

Fellow, Society of Actuaries

Fellow, Actuarial Society of the Philippines



RECOMMENDATIONS

(As of Valuation Date December 31, 2020)

On the basis of the valuation results, herewith are our comments and recommendations:

A. Characteristics of the Defined Benefit Plan and its Associated Risk

TSPI MUTUAL BENEFIT ASSOCIATION, INC. EMPLOYEES RETIREMENT PLAN is a non-contributory and of the defined benefit type which provided a retirement benefit equal to one hundred (100%) of Plan Salary for every year of Credited Service. Benefits are paid in lump sum upon retirement or separation in accordance with the terms of the plan.

Regulatory Framework in which the Retirement Plan Operates

In accordance with the provision of the Bureau of Internal Revenue Regulations No. 1-68, it is required that a formal Retirement Plan be Trustees; that there must be no discrimination in benefits; that forfeitures shall be retained in the Retirement Fund and be used as soon as possible to reduce future contributions; and that no part of the income of the Retirement Fund shall be used for, or diverted to, any purpose other than for the exclusive benefit of the Plan Members.

Responsibilities of Trustees

The Retirement Plan Trustee, as appointed by the Company in the Trust Agreement executed the Company and the duly appointed Retirement Plan Trustee, is responsible for the general administration of the Retirement Plan the management of the Retirement Fund. The Retirement Plan Trustee may seek the advice of counsel and appoint an investment manager of managers to manage the Retirement Fund, an independent accountant to audit the Fund and an Actuary to value the Retirement Fund.

Unusual or Significant Risks to which the Retirement Plan Exposes the Company

There are no unusual or significant risks to which the Plan exposes the Company. However, in the event a benefit claim arises under the Retirement Plan and the Retirement Fund is not sufficient to pay the benefit, the unfunded portion of the claim shall immediately be due and payable from the Company to the Retirement Fund.

Plan Amendments, Curtailments, or Settlements

There was no plan amendment, curtailment, or settlement recognized for the financial year ended December 31, 2020.



B. Amounts Recognized in the Financial Statements

The valuation results are based on the employee data as of the valuation date as provided by the Company. The discount rate assumption is based on the zero-coupon equivalent of BVAL benchmark market yields on government bonds as of December 29, 2020.

It is assumed that the Company initially applied the Revised Philippine Accounting Standard no. 19 (PAS 19R) on January 1, 2012. The said accounting standard simplifies the reporting of the defined benefit costing by introducing the Net Interest Approach, which disaggregates the defined benefit cost into the following components: Service Cost, Net Interest Cost and Remeasurements.

Under the Net Approach, Service Cost and Net interest on the net defined benefit liability (asset) are both recognized in Profit or Loss (P&L), while remeasurements of the net defined benefit liability (asset) are recognized outside profit or loss in Other Comprehensive Income (OCI).

It is further required by Revised PAS19R that the remeasurements recognized in OCI shall not be reclassified to P&L in a subsequent period. Instead, the company may either accumulate the remeasurement in OCI or transfer those amounts recognized in OCI within the equity in accordance with Revised PAS19R.122.

Present Value of Defined Benefit Obligation (PVBO) and Fair Value of Plan Assets (FVA)

As of December 31, 2020, the **PVBO** is P 4,823,654.

While the **Fair Value of Plan Assets** is P 11,583,741 resulting in a *Surplus* of P 6,760,087.

However the Asset Ceiling under Amended PAS 19R 64-65c reduced the carrying amount of the *Surplus*. This resulted in a **Net Defined Benefit Asset** of P 5,839,484.

The **Defined Benefit Cost** to be recognized in *Profit or Loss* is an *Expense* of P 224,922.

Other Comprehensive Income

The components of the **Defined Benefit Cost** to be recognized in *Other Comprehensive Income* (OCI) are the *Remeasurements*, which consist of *Actuarial Gains and Losses* during the year on the **Defined Benefit Obligation** (arising from experience adjustments, which are the differences between the previous actuarial assumptions based on what has actually occurred; and from the effects of changes in the financial and demographic assumptions), the **Return on Plan Assets**



(excluding the amount included in the Net Interest component in profit or loss), and **Changes in the Effect of Asset Ceiling** (excluding the amount included in the Net Interest Component in Profit or Loss).

The **Defined Benefit Cost** to be recognized in *OCI* (Outside P&L) is a *Gain* of P 1,067,854.

C. Amounts Recognized in the Financial Statements

Each Sensitivity Analysis on the significant actuarial assumptions was prepared by remeasuring the PVBO at the balance sheet date after first adjusting one of the current assumptions according to the applicable sensitivity increment or decrement (based on changes in the relevant assumption that were reasonably possible at the valuation date) while other assumptions remained unchanged. The sensitivities were expressed as the corresponding change in the PVBO.

It should be noted that the changes assumed to be reasonably possible at the valuation date are open to subjectivity and not consider more complex scenarios in which changes other than those assumed may be deemed to be more reasonable.

Asset-liability matching strategies to manage risk

The Retirement Plan Trustee has no specific matching strategy between the plan assets and the plan liabilities.

Funding Arrangements

The Company is not required to pre-fund the future defined benefits payable under the Retirement Plan before they become due. For this reason, the amount and timing of contributions to the Retirement Fund are at the company's discretion. However, in the event a benefit claim arises and the Retirement Fund is insufficient to pay the claim, the shortfall will then be due and payable from the Company to the Retirement Fund.

It should be noted that the Defined Benefit Cost to be recognized under PAS 19R is not the recommended amount of contribution to the Retirement Fund. Rather, the recommended contributions to support the Plan benefits may require a separate valuation for funding purposes (Funding Valuation). The reason for this is that the respective valuations use different interest rates to discount future benefits, in that the Funding Valuation uses the Actual and Expected performance of the Retirement Fund while the PAS 19R uses risk-free market rates regardless of the Retirement Fund's Performance.



**TSPI MUTUAL BENEFIT ASSOCIATION, INC.
EMPLOYEES RETIREMENT PLAN
OUTLINE OF BASIC PLAN PROVISIONS**

EFFECTIVE DATE: January 01, 2013

ELIGIBILITY FOR MEMBERSHIP

Membership in the Plan shall be automatic for all officers and employees of the Company who are considered having Regular and Probationary Employment Status. Membership of the plan will commence retroactively on the first day of the month coincident with or next following his attainment of Regular / Probationary Employment Status.

RETIREMENT DATES

Normal Retirement Date:

The Normal Retirement Date of Each Member shall be the first day of the month coincident with or next following his attainment of age sixty (60) with at least five (5) years of Credited Service.

Early Retirement Date:

A member may elect to retire with the consent of the Company prior to his normal retirement date provided he is at least age fifty (50) and has completed at least ten (10) years of Credited Service.

Late Retirement Date:

A member who is allowed by the Company to continue to work on a yearly extension basis beyond his normal retirement date shall continue to be member of the Plan up to his late retirement date. The Late Retirement Date of a Member shall be the first day of any month after attaining his normal retirement date but not beyond age sixty-five (65).

RETIREMENT BENEFITS

Normal and Late Retirement Benefits:

The Normal and Late Retirement Benefits shall be sum equivalent to 100% of Plan Salary for every year of Credited Service

Early Retirement Benefits:

A member who is allowed by the Company to retire prior to his normal retirement date shall receive an amount equal to a Percentage of his Plan Salary for every year of Credited Service in accordance with the following vesting schedule:



<u>Years of Service</u>	<u>Percentage</u>
Less than 10 Years	0%
10 but less than 12	75%
12 but less than 15	80%
15 but less than 20	95%
20 years and over	100%

DEATH AND DISABILITY BENEFITS

In the event that a Member dies or is retired by the Company due to permanent total incapacity or disability as determined by a licensed physician appointed by the Company, his death or disability benefit as the case may be shall be a sum computed in accordance with the retirement benefit formula as of date of death or disability.

INVOLUNTARY SEPARATION FROM SERVICE

A member who may be involuntarily separated by the Company shall receive separation pay as provided for under Labor Code or a Percentage of his Plan Salary for every year of Credited Service in accordance with the vesting schedule below, whichever is higher:

<u>Years of Service</u>	<u>Percentage</u>
Less than 3 Years	0%
3 but less than 6	25%
6 but less than 8	35%
8 but less than 10	45%
10 but less than 12	65%
12 but less than 15	80%
15 but less than 20	95%
20 years and over	100%

TAX EXEMPTION OF BENEFITS

In accordance with the provisions of Republic Act No. 4917, any retirement benefit received from the Plan shall be wholly exempt from tax provided the Member has rendered at least ten (10) years of Credited Service and is at least age fifty (50) at the time of retirement. Provided, further that any amount received under the Plan due to death, disability, or for any cause beyond the Member’s control shall likewise be exempt from all taxes.

NON-DUPLICATION OF BENEFIT

Any benefit payable under the Plan shall be in compliance with, but not in addition to, the payment of similar benefits the Company for cause shall not be entitled to any benefits.

**DISMISSAL FOR CAUSE**

A member who is dismissed by the Company for cause shall not be entitled to any benefits.

FORFEITURE OF BENEFITS

Benefits that are not paid to Separated Members by virtue of the limitations specified in the Plan shall be retained in the Fund and shall be used to reduce future contributions of the Company.

CONTRIBUTION

Non Contributory to members. Contribution to the retirement fund is actuarially determined.

ADMINISTRATION

The Plan shall be *Trusted*.



DEFINITION OF TERMS

A. Definitions Relating to the Net Defined Benefit Liability/(Assets)

A1. The **Net Defined Benefit Liability/(Asset)** is the deficit or surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

A2. The **Deficit or Surplus** is:

- a. The Present Value of Obligation, less
- b. The Fair Value of Plan Assets (if any).

A3. **Asset Ceiling** is the present value of any economic benefit available in the form of refunds from the plan or reductions in future contributions to the plan.

A4. The **Present Value of a Defined Benefit Obligation (PVBO)** is the present value without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

A5. **Plan Assets** comprise:

- a. Assets held by a long-term employee benefit fund; and
- b. Qualifying insurance policies.

A6. **Assets Held by a Long-Term Employee Benefit Fund** are assets (other than non-transferable instruments issued by the reporting entity) that:

- a. Are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and
- b. Are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in bankruptcy), and cannot be returned to the reporting entity, unless either:
 - i. The remaining asset of the fund are sufficient to meet all the related employee obligations of the Plan or the reporting entity;
 - ii. The assets are returned to the reporting entity to reimburse it for employee benefits already paid.

A7. A **Qualifying Insurance Policy** is an insurance policy (not necessarily an insurance contract) issued by an insurer that is not a related party (as defined in PAS 24 Related Party Disclosures) of reporting entity, if the proceeds of the policy:

- a. Can be used only to pay or fund employee benefits under a defined benefit plan; and
- b. Are not available to the reporting entity's own creditors (even in bankruptcy), and cannot be paid to the reporting entity, unless either:
 - i. The proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
 - ii. The proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

A8. **Fair Value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

B. Definitions Relating to the Defined Benefit Cost

B1. Service Cost comprises:

- a. **Current Service cost**, which increase in PVBO resulting from employee service in the current period;
- b. **Past Service Cost**, which is the change in PVBO for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by an entity in the number of employees covered by a plan); and
- c. Gain or losses on **Settlements**. These are the difference between:
 - i. The present value of the defined benefit obligation being settled, as determined on the date of settlement; and
 - ii. The settlement price, including any plan assets transferred and any payments made directly by an entity in connection with the settlement.

B2. **Net Interest on the Defined Benefit Liability/(Asset)** is the change during the period in the net defined liability/(asset that arises from the passage of time.

B3. **Remeasurements of Defined Benefit Liability/(Asset)** comprise:

- a. Actuarial gains and losses;



- b. The return on plan assets, excluding amounts in net interest on the net defined benefit liability / (asset); and
- c. Any change in the effect of asset ceiling excluding amounts included in net interest on the net defined benefit liability / (asset).

B4. Actuarial Gains and Losses are changes in the PVBO resulting from:

- a. Experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and
- b. The effects of changes in actuarial assumptions.

B5. The return on Plan Assets is interest, dividends and other income derived from the plan assets, together with realized and unrealized gains or losses on the plan assets, less:

- a. Any cost managing the plan; and
- b. Any Tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the PVBO.

B6. A Settlement is a transaction that eliminates all further legal or constructive obligations or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of employees that is set out in the terms of the plan and included in the actuarial assumptions. An entity shall recognize a gain or loss on the settlement of a defined benefit plan when the settlement occurs.



**TSPI MUTUAL BENEFIT ASSOCIATION, INC.
EMPLOYEES RETIREMENT PLAN**

STATEMENT OF ACTUARIAL ASSUMPTIONS

	Valuation Date	31-Dec-2019	31-Dec-2020
1.	Effective Date of Plan	1-Jul-2013	
2.	Discount Rate	5.19%	3.97%
3.	Salary Projection Rate	5%	5%
4.	Mortality Rate	The 2001 CSO Table- Generational (Scale AA, Society of Actuaries)	
5.	Disability Rate	The Disability Study, Period 2, Benefit 5 (Society of Actuaries)	
6.	Normal Retirement Age	Age 60	
7.	Projected Retirement Benefit	100% of latest Monthly Salary for every year of service	
8.	Actuarial Cost Method	Projected Unit Credit Method	
9.	Manner of Benefit Payment	Lump Sum	
10.	Withdrawal Rates by Age Group		
		19-24	21.09%
		25-29	19.65%
		30-34	17.73%
		35-39	15.94%
		40-44	5.00%
		≥ 45	10.00%



**TSPI MUTUAL BENEFIT ASSOCIATION, INC.
EMPLOYEES RETIREMENT PLAN**

SUMMARY OF VALUATION RESULTS

	Valuation Date	31-Dec-2020
1.	Number of Lives Covered	119
2.	Average Age in Years	32.81
3.	Average Remaining Working Life	7.03
4.	Average Years of Past Service	6.61
5.	Annual Covered Payroll	18,310,284
6.	Present Value of Defined Benefit Obligation (DBO)	4,823,654
7.	Current Service Cost (CSO)	487,899
8.	Fair Value of Plan Assets (FVPA)	11,583,741
9.	Deficit/(Surplus)	6,760,087
10.	Contributions	1,975,200
11.	Benefits Paid- from Plan Assets	640,000
	Benefits Paid- from Book Reserve (direct payments)	-
12.	Settlements- from Plan Assets	-
	Settlements- from Book Reserve (direct payments)	-



**TSPI MUTUAL BENEFIT ASSOCIATION, INC.
EMPLOYEES RETIREMENT PLAN**

SENSITIVITY ANALYSIS OF ASSUMPTIONS

Sensitivity analysis was conducted to determine the effect on the Present Value of Benefit Obligation (PVBO) of each significant assumption: *discount rate and salary increase rate*. The baseline PVBO as of December 31, 2020 is P 4,823,654.

Parameter	Change in Assumption	Revised PVBO	Increase (Decrease) in PVBO
Discount Rate	<i>Increased by 1%</i>	4,279,999	(543,655)
	<i>Decreased by 1%</i>	5,467,072	643,418
Salary Increase Rate	<i>Increased by 1%</i>	5,402,250	578,596
	<i>Decreased by 1%</i>	4,321,284	(502,370)



**TSPI MUTUAL BENEFIT ASSOCIATION, INC.
EMPLOYEES RETIREMENT PLAN**

ADDITIONAL DISCLOSURES

		31-Dec-2020
Maturity Profile: Weighted Average Duration of the Defined Benefit Obligation		
	Weighted Average Duration of DBO (years)	17.87
Maturity Analysis: Expected Future Benefit Payments		
	<i>Financial Year</i>	
	Year 1	177,163
	Year 2	182,152
	Year 3	186,667
	Year 4	335,102
	Year 5	338,355
	Years 6-10	2,414,351



**TSPI MUTUAL BENEFIT ASSOCIATION, INC.
EMPLOYEES RETIREMENT PLAN**

EMPLOYEE DISTRIBUTION BY AGE AND YEARS OF SERVICE
As of December 31, 2020

Attained Age	Length of Credited Service					Total
	0 to 4	5 to 9	10 to 14	15 to 19	20 and above	
20 to 24	9	0	0	0	0	9
25 to 29	27	10	0	0	0	37
30 to 34	8	12	14	0	0	34
35 to 39	4	6	8	1	0	19
40 to 44	2	4	9	0	0	15
45 to 49	1	0	2	2	0	5
50 to 54	0	0	0	0	0	0
55 to 59	0	0	0	0	0	0
60 to 64	0	0	0	0	0	0
65 and above	0	0	0	0	0	0
Total	51	32	33	3	0	119