
PLANNING AHEAD



*You're a rare Filipino if even **one** of the retired folks you personally know is financially self-sufficient. Most retirees rely on relatives for support. Unfortunately, this cannibalizes resources which could be used by children and grandchildren – whom we always say are the nation's future. There are at least two reasons for senior citizens' sad economic dependence: we're living longer (which is nice), and it's getting more expensive to keep us healthy as we age (not so good). But there's another silent, scandalous truth at work: we Filipinos haven't **saved and invested** well enough.*

Who can blame us? Savings accounts offer yields that are too low to beat inflation, so it makes perfect sense to spend rather than keep money in bank deposits. To build wealth, many of us buy real estate and jewelry. But these are tough to sell in a pinch. Most of us don't view financial instruments as reliable investments. Do-it-yourself stock-picking is quite risky; and there are many outright frauds and pyramid scams.

Help is on the way. Soon, we may be able to retire without imposing a burden on the younger generations. Come join the rising number of Filipinos who now dare to plan ahead.

THE PERA ACT

Today, Congress is preparing to submit to the President the **Personal Equity and Retirement Account Act (PERA Act)**, which will allow each tax-paying Filipino to create his or her own individual retirement fund or PERA. There is every potential for PERAs to augment, and eventually surpass, social security benefits and relatives' handouts as the chief source of Filipinos' income during retirement.

Each PERA owner has the freedom to choose how his or her contributions will be invested across the following options:

- Publicly traded stocks, bonds, or other securities;
- **Mutual funds** or unit investment trust funds;
- Annuity contracts, insurance pension products, or pre-need plans.

The law mandates the distribution of investment proceeds once the contributor reaches the age of 55, provided he or

she has contributed for at least five years. At the time of distribution, a contributor may withdraw all PERA assets either in one lump sum or as regular pension payments (with full distribution of any remainder upon death), or may defer distribution and continue contributing to his or her PERA.

PERA'S INCENTIVES

Using tax and other incentives available both **up-front** and in the **future**, PERAs are designed to foster the virtuous habit of contributing towards one's own long-term goals:

- An **income tax credit** equivalent to 5% of contributions, for up to PHP 100,000 in annual contributions per PERA for Filipinos based locally, or for up to PHP 200,000 in annual contributions per PERA for Filipinos working abroad (any contributions over such annual caps will not be eligible for tax credits; these annual caps may be adjusted for inflation in the future; each tax-paying Filipino can open up to five PERAs for himself or herself);
- **Tax exemption** on all PERA income and distributions;
- **Exclusion** of all PERA assets from the contributor's **taxable estate**;
- Protection of all PERA assets from any assignment, alienation, pledge, encumbrance, attachment, garnishment, seizure, or levy; and
- Exclusion of all PERA assets from a person's total assets in an event of insolvency.

To ensure that PERAs are used mainly for retirement, monetary **penalties** will be charged for premature distributions, except in cases of hospitalization beyond 30 days or total permanent disability. Penalties for such early withdrawals will be higher than whatever amount of tax incentives the contributor enjoys. These rules are meant to keep contributors focused on their longer-term self-interest.

INVESTOR PROTECTION AND EDUCATION



Once the PERA Act is passed into law, implementing rules and regulations (IRRs) will then be formulated by the Department of Finance, the Bureau of Internal Revenue, the Bangko Sentral ng Pilipinas, and other regulatory bodies in order to protect and educate investors. The IRRs are expected to cover these subjects:

- Qualification of PERA administrators, custodians and investment managers, and their directors and employees;
- Qualification and eligibility of investment products;
- Valuation standards for investment products;
- Requirements for disclosing the terms, conditions and risks of investment products;
- Requirements for promoting investor education;
- Standards to ensure that investments suit clients' needs;
- Fees to be charged by administrators, custodians and investment managers; and
- Administration of tax incentives.

The PERA Act itself lays out fines and imprisonment for wrongdoing or negligence by administrators, custodians and investment managers, and directors and employees of these.

MUTUAL FUNDS: BEST CHOICE FOR PERAS

Now that government has created a wonderful new structure which encourages the average Filipino to build capital for his future, the question now becomes: **what type of investment** will allow us to take full advantage of these government incentives?



Asset management products such as **mutual funds** are ideally suited to accumulating resources for long-term needs. Mutual funds are pooled **portfolios** of securities such as bonds, stocks, or a mix of these. Mutual funds grow in value thanks to: (1) active management by **professional** fund managers – which in some cases allows you to beat the stock market; and (2) **diversification**, which reduces risk without sacrificing a lot of potential returns. *For any given level of risk, an intelligently diversified portfolio should normally give better returns than any single stock or bond.* Smart diversification improves the tradeoff between risks and returns.

Mutual funds are also very **convenient** instruments, because they permit you to **delegate** all the day-to-day "buy" or "sell" decisions to experienced fund managers. This act of delegating frees you up, so you can focus on your main pursuits (family, career, or business) instead of forever micro-managing a cluttered PERA basket of individual stocks and / or bonds. You not only save your time (and minimize anxiety!) but also avoid the transaction **costs** (brokers' commissions, taxes, doc stamps and fees) of frequent stock or bond trading that can bite deeply into a PERA's earnings.

In general, mutual funds, particularly **equity** funds (those invested largely in stocks) and **balanced** funds (a mix of stocks and bonds), post better long-run returns than other investment and financial products. The superiority of equity and balanced mutual funds' performance becomes clearer as you compare longer and longer investment holding periods.

Many alternative investment and financial products are essentially promises of fixed yields, and thus can be thought of like long-term deposit instruments. The institutions who issue these products pay you your yield, and pocket the lion's share of the profit. The exact **opposite** is true with mutual funds. Mutual fund managers receive only thin, fixed margins, and thus deliver the bulk of the returns to investors like you.

Other kinds of products (such as those which bundle investment and insurance together) carry an embedded insurance premium cost, which prevents your money from earning as much as it can. In contrast, mutual funds are much more straightforward and **transparent** about their costs and fees. Even more importantly, mutual funds publicly disclose in greater detail and frequency how they manage your money. Finally, mutual funds are highly **affordable**, at a minimum initial investment level of only **PHP 5,000** and a minimum additional investment level of merely **PHP 1,000**.

In summary, for truly long-horizon investing purposes such as PERAs and retirement, probably no instruments can match equity and balanced mutual funds' combination of superior long-run performance, intelligently-managed risks, transparency, convenience, low costs, and affordability.

THE MUTUAL FUND MANAGEMENT COMPANY OF THE PHILIPPINES, INC. (MFMCP)



Established in 1995, The Mutual Fund Management Company of the Philippines, Inc. (MFMCP) is the asset management arm of the ATR KimEng Group. We are the investment advisor (i.e., the fund manager) of *The Kabuhayan Fund*, *The ATR KimEng Equity Opportunity Fund*, and *The MFMCP-Aizawa Trust Philippine Fund*.

Fund managers live or die by their performance, so you can be certain we'll do our utmost best to make the long-term rewards to your PERA more than worth the risk.

For more information on MFMCP, and on our funds and their performance, please click through www.mutualfund.com.ph, or contact us at ird@mutualfund.com.ph or the phone and fax numbers provided at the bottom of this primer. Or drop by any of our offices, likewise listed below.

Group parent ATR KimEng Financial Corp. has interests in the capital markets, insurance, and real estate businesses, and is listed on the Philippine Stock Exchange. MFMCP's **competitive edge in asset management** stems from the ATR KimEng Group's long experience in the global financial markets.

MFMCP and its mutual funds are regulated by the Securities and Exchange Commission (SEC), and are members of the local mutual fund industry body, the Investment Company Association of the Philippines (ICAP).

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Your Interest ALWAYS Comes First.

PRIMER ON THE PERA ACT



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