Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines
Corporate Government Sector
Cluster 2 – Social Security Services and Housing
Office of the Cluster Director

SSS - CORP SERV SECT
26 NOV 2021 AM10:43

November 24, 2021

SOCIAL SECURITY SYSTEM
Office of the President & CEO
Date/Time Received: 11/26/21 8:10am
Received by: Julius 1100076

Ms. AURORA C. IGNACIO
President and Chief Executive Officer
Social Security System
East Avenue, Diliman, Quezon City

Dear President Ignacio:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the Social Security System (SSS) for the years ended December 31, 2020 and 2019.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Observations and Recommendations, and the Status of Implementation of Prior Years' Audit Recommendations.

The Auditor rendered an unmodified opinion on the fairness of presentation of the financial statements of the SSS for the years ended December 31, 2020 and 2019, with emphasis on the recognition of Insurance Contract Liability in the SSS' financial statements in compliance with the policy directive of the National Government requiring government insurance institutions to adopt the PFRS 4 – Insurance Contracts in CY 2020. This is a shift in the accounting treatment of contingent liability under Philippine Accounting Standard (PAS) 37 – Provisions, Contingent Liabilities and Contingent Assets. Management believes that the resulting significant increases in liabilities, expenses, net loss and net deficit in CYs 2020 and 2019 did not affect SSS' ability to continue as a going concern.

The significant audit observations that have impact on the balances of the accounts presented in the financial statements but in aggregate, do not exceed the materiality level set for CY 2020 audit of accounts and transactions to warrant a modified opinion follows:

1. The non-submission of collection documents by Collecting Banks (CBs)/Collecting Agents (CAs) and incorrect/invalid collection data files resulted in the accumulation of negative balances in the Receivables-CBs/CAs account totaling P720.633 million as at December 31, 2020 causing the delayed posting of the collections thereby understating the Members' Contribution and related income accounts and overstating the loans and interests receivables accounts by a total amount of P720.633 million, contrary to the fair presentation required by PAS 1 and Conceptual Framework for Financial Reporting 2018 (Conceptual Framework).

   We recommended and Management agreed that:

   a. The Liquidity Management and Bank Deposits Department (LMBDD) and Treasury Division (TD) to hasten the activities to ensure that all collecting banks and agents are fully operating under the Real Time Processing of Contribution

(RTPC)/Real Time Processing of Loan (RTPL)-Payment Reference Number (PRN) program;

b. The Contributions Accounting Department (CAD) to continue the reconciliation of the Subsidiary Ledgers (SLs) of individual members to the corresponding General Ledgers (GLs) and validation of excess postings in the SLs; and

c. The General Accounting Department (GADept) and Collection Data Processing and Reconciliation Department (CDPRD) to continue the conduct of thorough analysis and reconciliation of collections between their records and to effect the necessary adjustments to Receivable–CBs/CAs and affected income and receivables accounts to eliminate prior years' negative balances.

2. Collections totaling P671.036 million are temporarily recorded under Other Payables (OP)–Member Loans (ML) Collections account instead of directly crediting to Loans and Interests Receivables–ML and penalty income accounts, hence, these are not immediately posted to the member-borrowers loan ledgers resulting in the overstatement of the balances of Loans and Interests Receivables–ML accounts, understatement of corresponding penalty income account, contrary to the fair presentation required in Paragraphs 2.12 and 2.13 of the Conceptual Framework and PAS 1. This also resulted in incorrect employee subsidiary ledger loan balances that may further result in erroneous or delayed payment of benefits to members.

We recommended and Management agreed that:

a. The Task Force on Loan Payment and Loan Delinquency to:

i. continue to supervise and assist SSS Branches on the correction/adjustment of unposted transactions, and

ii. hasten the formulation of a policy to correct/adjust unposted payments by unlocated/non-existing payee-employers; and

b. The Member Loans Department (MLD) and Investments Accounting Department (IAD) to continue the monitoring of actions taken by SSS Branches on the processing and correction of unposted payments of employers within their jurisdiction.

3. Member Loan (ML) overpayments not yet refunded or applied to new/subsequent/existing loans or adjusted due to erroneous postings which are recorded under Accounts Payable (AP) totaling P1.045 billion as at December 31, 2020 deprived the member-borrowers of the use of their money. Also, various deficiencies noted in the verification of the details of the account balance and of the automated one-time run of application of overpayments to current loan totaling P3.945 billion are contrary to the fair presentation required under Paragraph 2.12 of the Conceptual Framework, which may result in the misstatement of the AP and affected Receivables-ML accounts as at December 31, 2020.

We recommended and Management agreed that:

a. The MLD, Information Systems Department (ISD) III and IAD to:

i. thoroughly verify the individual loan accounts and correct/adjust the erroneously posted payments, Loans Granting Facilities and final benefits (death, disability and retirement), to ensure that only correct overpayments are posted as payment to current loans, and

ii. immediately adjust or reverse unvalidated negative balances that were applied as payment under the automated one-time run of application of Overpayment to Current Loan;

b. MLD to inform member-borrowers without current loans of validated overpayments so that request for refund can be filed; and

c. Set target percentage of reduction of the balance of ML overpayments from this date until December 2021 and in the succeeding year until all the validated ML overpayments are returned to members/beneficiaries.

4. A total of 926,899 employers are delinquent in their remittances of premium contributions including penalties and damages with a total assessment of P321.532 billion as at December 31, 2020 despite the implementation of the Accounts Management System and the Condonation Penalty Contribution Program in CY 2019, consequently depriving the SSS of much needed funds for prompt delivery of social security protection, claims and benefits for its members and beneficiaries.

We recommended the following:

a. Branch Operations Sector, Large Account Division, Legal and Enforcement Group–Operations Legal Services Division I and II/Employers Delinquency Monitoring Department and the SSS COMSEC–Office of the Sheriff to intensify collection effort of employer delinquencies;

b. Review/revisit the Account Management System and implement stricter guidelines to address the issue of increasing number and percentage of delinquent employers;

c. Hasten the preparation and approval of the MOP on the Handling of Non-Compliant and Delinquent Employer Accounts; and

d. Consider another condonation program pursuant to Sections 4(a)(5) and 4(8) to collect from delinquent employers and members who failed to avail of the previous program and offer the program for a longer period.

5. Various ML accounts totaling P66.275 billion or 56 per cent of the total P118.173 billion remain uncollected as at December 31, 2020, the same status of being more than 50 per cent of the total ML balance from CYs 2016 to 2019, hindering the use of funds for more viable and profitable investments.

We recommended and Management agreed that:

a. The MLD to:

i. Closely monitor the collection performance of Branches according to their collection quota; and

ii. Hasten the implementation of the planned activities regarding the cleanup of uncollected loans for more than five years; and

b. The ISD III to hasten the development of programs/modules under the various System Development Requests submitted by the MLD.

The other audit observations together with the recommended courses of action, which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on August 6, 2021, are discussed in detail in Part II of the report.

We respectfully request that the recommendations contained in Parts II and III of the report be implemented and that this Commission be informed of the actions taken thereon by accomplishing the Agency Action Plan and Status of Implementation Form (copy attached as Annex A) and returning the same to us within 60 days from the date of receipt hereof.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:

Ma. Lisa P. Inguillo
MA. LISA P. INGUILLO
Director IV

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government Owned or Controlled Corporations
The Presidential Management Staff, Office of the President
The UP Law Center
The National Library

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

INDEPENDENT AUDITOR'S REPORT

The SOCIAL SECURITY COMMISSION
Social Security System
East Avenue, Diliman, Quezon City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Social Security System (SSS), which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended and notes to financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the SSS as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the SSS in accordance with the Code of Conduct and Ethical Standards for Commission on Audit Officials and Employees (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Notes 19 and 21 to the financial statements. In compliance with the policy directive of the National Government requiring government insurance institutions to adopt the PFRS 4 *Insurance Contracts* in CY 2020, Management recognized Insurance Contract Liability in the SSS' financial statements, which is the sum of the present value of future benefits and expenses, less the present value of future contributions discounted at the appropriate risk-free discount rate. This is a shift in the accounting treatment of contingent liability under Philippine Accounting Standard (PAS) 37 *Provisions, Contingent Liabilities and Contingent Assets*. Management believes that the resulting significant increases in liabilities, expenses, net loss and net deficit in CYs 2020 and 2019 did not affect SSS' ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter

In our report dated September 22, 2020, we expressed a modified opinion on the fairness of presentation of the financial statements for the year ended December 31, 2019 due to non-compliance with PAS 40 on the measurement of four (4) Investment Properties (IPs) at cost model instead of the chosen accounting policy to measure IPs after recognition at fair value model resulting in the understatement of both the IP and Reserve Fund accounts by P16.957 billion and understatement of the balance of the Fair Value Gain–IP-Land account by P4.784 billion. In addition, the account balances of the Loans and Receivables, Investments in Debt Securities at Amortized Cost and Investments in Debt Securities at Fair Value through Other Comprehensive Income of P101.741 billion, P220.764 billion and P52.968 billion, respectively, or a total of P375.473 billion as at December 31, 2019 are misstated by undetermined amounts due to the non-adoption of the provisions of PFRS 9 on the recognition and measurement of expected credit losses through a loss allowance. In CY 2020, management adjusted and subsequently restated the CY 2019 financial statements to recognize the 4 IPs at fair value and it has already adopted the expected credit loss model in the recognition of loss allowance in accordance with PFRS 9. Accordingly, our present opinion on the CY 2019 financial statements, as presented herein, is no longer modified.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the SSS' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the SSS or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the SSS' financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the SSS' internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the SSS' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the SSS to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 38 to the financial statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and have been subjected to auditing procedures applied in the audit of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

ANGELITA R. MANGABAT
OIC-Supervising Auditor

August 6, 2021

Republic of the Philippines
SOCIAL SECURITY SYSTEM
East Ave., Diliman, Quezon City
Tel. Nos. (632) 920-6401 • (632) 920-6446
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STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of the Social Security System is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2020 and December 31, 2019 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Social Security System's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Social Security System or to cease operations, or has no realistic alternative to do so.

The Social Security Commission is responsible for overseeing the Social Security System's financial reporting process.

The Social Security Commission reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stakeholders or members.

SEC. CARLOS G. DOMINGUEZ III
Chairperson, Social Security Commission

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AURORA C. IGNACIO
President and CEO, Social Security System

Date: August 6, 2021

SOCIAL SECURITY SYSTEM
STATEMENTS OF FINANCIAL POSITION
December 31, 2020 and 2019
(In Philippine Peso)

	Note	2020	2019 Restated	At January 1, 2019 Restated
ASSETS				
Current Assets				
Cash and Cash Equivalents	3	**21,514,274,598**	22,417,193,110	15,440,541,241
Financial Assets	4.1	**65,177,190,895**	64,082,814,131	37,045,054,651
Other Investments	5	0	400,000,000	0
Receivables	6.1	**81,069,501,882**	75,072,977,912	62,967,906,490
Inventories	7	**85,318,643**	95,920,305	169,465,093
Non-Current Assets Held for Sale	8	**167,063,160**	239,379,367	244,573,722
Other Current Assets	9	**4,684,312,210**	6,314,191,592	5,495,717,158
		172,697,661,388	168,622,476,417	121,363,258,355
Non-current assets				
Financial Assets	4.2	**326,867,892,376**	314,834,974,501	310,217,160,232
Receivables	6.2	**58,221,985,630**	38,666,073,556	44,759,701,492
Investment Property	10	**74,621,527,922**	71,625,134,997	55,122,806,339
Property and Equipment, net	11	**7,127,984,196**	7,134,302,971	5,854,268,084
Intangible Assets, net	12	**138,878,299**	195,626,815	235,322,104
Other Non-Current Assets	13	**318,180,461**	304,087,530	285,881,020
		467,296,448,884	432,760,200,370	416,475,139,271
Total Assets		**639,994,110,272**	601,382,676,787	537,838,397,626
LIABILITIES				
Current Liabilities				
Financial Liabilities	14	**4,631,585,479**	8,407,116,833	8,246,683,715
Inter-Agency Payables	15	**188,515,012**	167,940,551	149,959,185
Trust Liabilities	16	**1,201,667,210**	861,095,494	765,344,734
Deferred Credits/Unearned Income	17	**76,721,000**	193,450,769	59,046,852
Other Payables	20	**882,539,662**	1,063,119,232	1,990,631,097
		6,981,028,363	10,692,722,879	11,211,665,583
Non-current Liabilities				
Financial Liabilities	14	**729,101,771**	765,314,040	45,390,960
Deferred Credits/Unearned Income	17	**329,061,510**	355,912,179	382,762,849
Provisions	18	**1,941,881,916**	1,735,055,293	1,826,030,306
Insurance Contract Liability	19	**6,757,220,290,677**	6,295,472,225,447	5,907,142,220,263
Other Payables	20	**50,000,000**	50,000,000	50,000,000
		6,760,270,335,874	6,298,378,506,959	5,909,446,404,378
Total Liabilities		**6,767,251,364,237**	6,309,071,229,838	5,920,658,069,961
EQUITY				
Reserve Fund	21.1	**(6,109,188,630,051)**	(5,681,272,001,318)	(5,356,916,876,423)
Revaluation Surplus	21.3	**4,046,242,799**	4,046,242,799	4,046,242,799
Members' Equity	21.4	**1,281,698,533**	1,038,891,527	873,406,815
Cumulative Changes in Fair Value	21.5	**(23,396,565,246)**	(31,501,686,059)	(30,822,445,526)
Total Equity	21	**(6,127,257,253,965)**	(5,707,688,553,051)	(5,382,819,672,335)
Total Liabilities and Equity		**639,994,110,272**	601,382,676,787	537,838,397,626

Certified true copy:

JEAN V. LAGRADA
VP/Concurrent Acting Head
Controllership Group

The Notes on pages 9 to 84 form part of these financial statements.

SOCIAL SECURITY SYSTEM
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2020 and 2019
(In Philippine Peso)

	Note	**2020**	2019 Restated
Income			
Service and Business Income	22	234,025,922,632	253,195,356,770
Gains	23	17,780,769,713	21,062,268,741
Other Non-Operating Income	24	2,529,072,645	2,347,652,686
Total Income		**254,335,764,990**	**276,605,278,197**
Expenses			
Benefit Payments	25	194,870,857,224	196,112,797,505
Net Change in Policy Reserves	26	461,748,116,997	388,333,662,908
Personnel Services	27	6,768,825,122	6,797,376,912
Maintenance and Other Operating Expenses	28	1,502,086,598	2,423,770,163
Financial Expenses	29	218,744,669	309,708,508
Non-Cash Expenses	30	16,501,739,107	7,477,179,354
Total Expenses		**681,610,369,717**	**601,454,495,350**
Profit/(Loss)		**(427,274,604,727)**	**(324,849,217,153)**
Other Comprehensive Income for the year			
Realized gain/(loss) on sale of FA at FVTOCI		80,013,113	755,105,726
Changes in fair value of FA at FVTOCI	21	8,105,120,813	(679,240,533)
Other Comprehensive Income for the year		**8,185,133,926**	**75,865,193**
Comprehensive Income/(Loss)		**(419,089,470,801)**	**(324,773,351,960)**

The Notes on pages 9 to 84 form part of these financial statements.

Certified true copy:

JEAN V. LAGRADA
VP/Concurrent Acting Head
Controllership Group

SOCIAL SECURITY SYSTEM
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2020 and 2019
(In Philippine Peso)

	Cumulative Changes in Fair Value of Investments (Note 21.5)	Revaluation Surplus (Note 21.3)	Reserve fund (Note 21.1)	Members' Equity (Note 21.4)	TOTAL
BALANCE AT JANUARY 1, 2020	**(31,501,686,059)**	**4,046,242,799**	**(5,681,272,001,318.00)**	**1,038,891,527**	**(5,707,688,553,051)**
CHANGES IN EQUITY FOR 2020					
Add/(Deduct):					
Members' Contribution				271,421,251	271,421,251
Comprehensive income/(loss) for the period	8,105,120,813		(427,194,591,614)		(419,089,470,801)
Other Adjustments					
SSS' share in ECC & OSHC corporate operating budget			(292,617,921)		(292,617,921)
Withdrawal				(47,953,998)	(47,953,998)
Guaranteed income/Annual incentive benefit			(551,806)	19,339,753	18,787,947
Adjustments on prepaid benefits payable			(428,867,392)		(428,867,392)
BALANCE AT DECEMBER 31, 2020	**(23,396,565,246)**	**4,046,242,799**	**(6,109,188,630,051)**	**1,281,698,533**	**(6,127,257,253,965)**
BALANCE AT JANUARY 1, 2019	(30,822,445,526)	4,046,242,799	525,441,040,184	873,406,815	499,538,244,272
Adjustment:					
Recognition of insurance policy reserves			(5,907,142,220,262)		(5,907,142,220,262)
Accrual of premium contribution collections			6,832,906,171		6,832,906,171
Accrual and prepayments of benefit claims			5,073,423,039		5,073,423,039
Remeasurement of 3 IPs with litigation from cost to fair value			12,174,241,128		12,174,241,128
Recognition of Expected Credit Loss			509,186,349		509,186,349
Reclassification of NCAHFS to IP			194,546,968		194,546,968
RESTATED BALANCE AT JANUARY 1, 2019	(30,822,445,526)	4,046,242,799	(5,356,916,876,423)	873,406,815	(5,382,819,672,335)
CHANGES IN EQUITY FOR 2019					
Add/(Deduct):					
Members' Contribution				187,410,259	187,410,259
Comprehensive income for the year	(679,240,533)		(324,094,111,427)		(324,773,351,960)
Other Adjustments					
SSS' share in ECC & OSHC corporate operating budget			(243,408,492)		(243,408,492)
Withdrawal/Management Cost				(73,482,268)	(73,482,268)
Guaranteed income/Annual incentive benefit			(17,604,976)	51,556,721	33,951,745
RESTATED BALANCE AT DECEMBER 31, 2019	**(31,501,686,059)**	**4,046,242,799**	**(5,681,272,001,318)**	**1,038,891,527**	**(5,707,688,553,051)**

The Notes on pages 9 to 84 form part of these financial statements.

Certified true copy:

JEAN V. LAGRADA
VP/Concurrent Acting Head
Controllership Group

SOCIAL SECURITY SYSTEM
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019
(In Philippine Peso)

	Note	2020	2019
Cash flows from operating activities			
Collection of members' contribution	22	208,959,277,135	220,379,478,961
Proceeds from investments and other income		22,549,725,256	15,215,515,112
Payments to members and beneficiaries		(197,872,788,741)	(196,758,118,302)
Payments for operations		(7,646,880,488)	(10,425,007,710)
Net cash generated from operating activities		25,989,333,162	28,411,868,061
Cash flows from investing activities			
Loan releases and other investment purchases		(26,483,852,613)	(20,841,054,807)
Acquisition of property and equipment	11	(356,705,736)	(484,665,361)
Acquisition of intangible assets	12	(541,000)	(14,000,000)
Net cash used in investing activities		(26,841,099,349)	(21,339,720,168)
Cash flows from financing activities			
Corporate operating budget of:	21		
Employees' Compensation Commission		(118,958,924)	(243,408,494)
Occupational Safety and Health Center		(173,658,997)	0
Flexi-fund equity:			
Contribution		250,564,915	159,585,771
Withdrawal		(47,603,998)	(73,482,268)
Guaranteed income		18,839,674	35,712,242
Annual incentive benefit		(55,180)	(1,760,497)
PESO fund equity:			
Contribution		20,856,336	27,824,489
Withdrawal		(350,000)	0
Guaranteed income		3,453	0
Net cash used in financing activities		(50,362,721)	(95,528,757)
Net increase/(decrease) in cash and cash equivalents		**(902,128,908)**	**6,976,619,136**
Effect of exchange rate changes in cash and cash equivalents		(789,604)	32,733
Cash and cash equivalents at beginning of the year	3	22,417,193,110	15,440,541,241
CASH AND CASH EQUIVALENTS AT END OF YEAR	**3**	**21,514,274,598**	**22,417,193,110**

The Notes on pages 9 to 84 form part of these financial statements.

Certified true copy:

JEAN V. LAGRADA
VP/Concurrent Acting Head
Controllership Group

SOCIAL SECURITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
(All amounts in Philippine Peso unless otherwise stated)

1. GENERAL INFORMATION

The Social Security System (SSS) is an independent and accountable government-owned and controlled corporation that administers social security protection to Filipino workers, local and overseas and their beneficiaries. Social security provides replacement income for workers in times of death, disability, sickness, maternity, old age, unemployment or involuntary separation and other contingencies.

On September 1, 1957, Republic Act (RA) No. 1161 or the "Social Security Act of 1954" was implemented. Thereafter, the coverage and benefits given by SSS have been expanded and enhanced through the enactment of various laws. On May 1, 1997, RA No. 8282, otherwise known as the "Social Security Act of 1997", was enacted to further strengthen the SSS. Under this Act, the government accepts general responsibility for the solvency of the SSS and guarantees that prescribed benefits shall not be diminished. Section 16 of RA No. 1161, as amended by RA No. 8282, exempts the SSS and all its benefit payments from all kinds of taxes, fees or charges, customs or import duty.

On February 7, 2019, RA No. 11199 or the "Social Security Act of 2018", was enacted to rationalize and expand the powers and duties of the Social Security Commission (SSC) to ensure the long-term viability of the Social Security System, repealing for the purpose RA No. 1161, as amended by RA No. 8282, otherwise known as the Social Security Act of 1997. Among the landmark provisions of the RA No. 11199 are the grant of unemployment or involuntary separation benefits for the first time in the country, the mandatory coverage of Overseas Filipino Workers (OFWs), the establishment of a Provident Fund exclusive to SSS members, the condonation of penalties on delinquent contributions, and the legislated adjustments in membership premium and monthly salary credits. In pursuit of its policy, a social security program shall be developed emphasizing the value of "work, invest, save and prosper" for a more responsive SSS. The maximum profitability of investible funds and resources of the program shall be ensured through a culture of excellence in management grounded upon sound and efficient policies employing internationally recognized best practices.

Pursuant to Sections 9 to 11 of RA No. 11199, coverage in the SSS shall be compulsory upon all private employees including domestic workers not over 60 years of age and their employers, self-employed persons, regardless of trade, business or occupation and sea-based and land-based OFWs. Compulsory coverage of the employer shall take effect on the first day of his operation and that of the employee on the day of his employment, while coverage of self-employed person shall take effect upon his registration with the SSS. Non-working spouses of SSS members and Filipino permanent migrants, including Filipino immigrants, permanent residents and naturalized citizens of their host countries may be covered by the SSS on a voluntary basis. Likewise, SSS members separated from employment including OFWs may continue to pay contributions on a voluntary basis to maintain their rights to full benefits.

Under Section 26-B of RA No. 11199, the SSS as part of its investment operations, acts as insurer of all or part of its interest on SSS properties mortgaged to the SSS, or lives of mortgagors whose properties are mortgaged to the SSS. For this purpose, a separate account known as the "Mortgagors' Insurance Account" was established wherein all amounts received by the SSS in connection with the aforesaid insurance operations are placed.

Under Section 4 of RA No. 11199, a Provident Fund for the members which will consist of contributions of employers and employees, self-employed, OFW and voluntary members shall be established based on (i) the SSS contribution rate in excess of 12 per cent, or (ii) monthly salary credit in excess of P20,000.00 up to the prescribed maximum monthly salary credit and their earnings, for the payment of benefits to such members or their beneficiaries in addition to the benefits provided for under this Act. A member may contribute voluntarily in excess of the prescribed SSS contribution rate and/or the maximum monthly salary credit, subject to such rules and regulations as the SSC may promulgate. The rate of contributions as well as the minimum and maximum monthly salary credits shall be in accordance with the schedule defined under Section 4.a.9 of the law. The rate of penalty on unpaid loan amortizations shall be determined and fixed by the SSC from time to time through rules and regulations on the basis of applicable actuarial studies, rate of benefits, inflation, and other relevant socioeconomic data.

Under Section 4 of RA No. 8282, voluntary provident funds known as the Flexi-Fund and the Personal Equity and Savings Option (PESO) Fund were established and approved in September 2001 and June 2011, respectively. Membership to the Flexi-Fund is on voluntary basis for OFW members with at least P16,000 monthly earnings either covered under existing program or new entrant with requirement of initial contributions to the SSS program. The PESO Fund is offered exclusively to SSS members in addition to the regular SSS Program. It aims to provide SSS members the opportunity to receive additional benefits on their capacity to contribute more. Each member of the PESO Fund shall be allowed a maximum contribution of P500,000 per annum and a minimum of P1,000 per contribution. These two funds shall cease upon implementation of the new provident fund provided under Section 4 of RA No. 11199.

The SSS also administers Employees' Compensation and State Insurance Fund as provided in Presidential Decree (PD) No. 626, as amended. The Employees' Compensation Commission (ECC), a government corporation, is attached to the Department of Labor and Employment for policy coordination and guidance. It was created on November 1, 1974 by virtue of PD No. 442 or the Labor Code of the Philippines. It, however, became fully operational with the issuance of PD No. 626 which took effect on January 1, 1975.

The ECC is a quasi-judicial corporate entity created to implement the Employees' Compensation Program (ECP). The ECP provides a package of benefits for public and private sector employees and their dependents in the event of work-connected contingencies such as sickness, injury, disability or death.

The State Insurance Fund (SIF) was established to provide funding support to the ECP. It is generated from the employers' contributions collected by both the Government Service Insurance System (GSIS) and SSS from public and private sector employers, respectively.

Coverage in the SIF shall be compulsory upon all employers and their employees not over 60 years of age, provided, that an employee who is over 60 years of age and paying contributions to qualify for the retirement of life insurance benefit administered by the System shall be subject to compulsory coverage. On March 6, 2019, the ECC in its Board Resolution No. 19-

03-05 approved the policy on expanding the coverage of the ECP to the self-employed compulsory members of the SSS.

The summary of the financial performance and result of operations of the funds as at December 31, 2020, are as follows. All inter-fund accounts have been eliminated.

	SSS*	EC-SIF	Total
Total Assets	**597,838,627,918**	**42,155,482,354**	**639,994,110,272**
Liabilities	6,744,112,533,551	23,138,830,686	6,767,251,364,237
Reserve Fund**/Equity	(6,146,273,905,633)	19,016,651,668	(6,127,257,253,965)
Total Liabilities and Equity	**597,838,627,918**	**42,155,482,354**	**639,994,110,272**

***Includes Insurance Contract Liability (ICL)*

	SSS*	EC-SIF	Total
Income	250,204,598,843	4,131,166,147	254,335,764,990
Expenses	217,969,398,988	1,892,853,732	219,862,252,720
Net change in policy reserves	461,186,468,088	561,648,909	461,748,116,997
Total expenses	679,155,867,076	2,454,502,641	681,610,369,717
Profit/(Loss)	(428,951,268,233)	1,676,663,506	(427,274,604,727)
Other comprehensive income for the period	8,302,072,955	(116,939,029)	8,185,133,926
Total comprehensive income	**(420,649,195,278)**	**1,559,724,477**	**(419,089,470,801)**

**SSS includes Flexi-Fund, PESO Fund and Mortgagors' Insurance Account*

The principal office of SSS is located at East Avenue, Diliman, Quezon City. It has 177 local branches and 147 service and representative offices located in various cities and municipalities of the country, and 28 foreign branch offices situated in Asia and Pacific, Europe, Middle East and North America.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

a. *Statement of Compliance with Philippine Financial Reporting Standards (PFRS) and Commission on Audit (COA) Circular No. 2017-004*

The accompanying financial statements were prepared in accordance with PFRS and Philippine Accounting Standards (PAS) issued by the Philippine Financial Reporting Standards Council (PFRSC). PFRS are adopted by the PFRSC from the pronouncements issued by the International Accounting Standard Board and approved by the Philippine Board of Accountancy. As a Commercial Public Sector Entity (CPSE), SSS is required to adopt the PFRS as its applicable financial reporting framework pursuant to COA Circular No. 2015-003 dated April 16, 2015, as amended.

The PAS that was not applied for the reporting period is as follows:

PAS 19 – Employee Benefits – computation using the Projected Unit Credit cost method is not applied for the reporting period due to lack of material time for the Actuarial and Risk Management Group to set-up new data, assumptions, and methodology. It is calculated with the assumption that all regular SSS employees would retire by the end of the following year. The salary increases and leave credits are projected up to the retirement year, which are then the basis for the computation of the employee retirement benefits. Full compliance with PAS 19 shall be effected in the following year.

b. *Presentation of Financial Statements*

The financial statements are presented in accordance with PAS 1, Presentation of Financial Statements. The System presents all items of income and expenses in a single Statement of Comprehensive Income (SCI).

For this purpose, SSS adopts the guidelines laid down under COA Circular No. 2017-004 dated December 13, 2017 on the preparation of financial statements and other financial reports and implementation of PFRS by government corporations classified as CPSE, unless Management believes that a different classification and presentation of the accounts provides information that is reliable and more relevant to users of the financial statements.

SSS also presents a third Statement of Financial Position (SFP) as of the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that have a material effect on the information in the SFP at the beginning of the preceding period. The related notes to the third SFP are not required to be disclosed.

c. *Basis of Measurement*

The financial statements have been prepared on the historical cost basis, except for the following items:

- Financial assets at fair value through profit or loss (FVTPL) are measured at fair value;
- Financial assets at fair value through other comprehensive income (FVTOCI) are measured at fair value;
- Investment properties are measured at fair value;
- Non-current assets held for sale are measured at the lower of carrying amount or fair value less cost to sell; and
- Land under property and equipment are measured at revalued amount.

Fair Value Measurement

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. The fair value of a non-financial asset is measured on its highest and best use. The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

The SSS classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- *Level 1* – inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. FVTPL and FVTOCI investments fall under this level.

- *Level 2* – *inputs* other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the over-the-counter derivative contracts.

- *Level 3* – inputs for the asset or liability that are not based on observable market data (*unobservable* inputs). This level includes investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market prices in its valuations where possible. Investment properties and non-current assets held for sale are within this level.

d. Accrual Accounting

In accordance with PAS 1, the financial statements, except for cash flow information, have been prepared using the accrual basis of accounting.

e. Functional and Presentation Currency

The financial statements are presented in Philippine peso, which is the System’s functional and presentation currency. All amounts are rounded to the nearest peso, unless otherwise stated.

f. Estimates and Judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

2.2 Adoption of New and Amended PFRS and Interpretations

a. *Effective in 2020 that are relevant to the System*

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS and Philippine Interpretations which the SSS adopted effective for annual periods beginning on or after January 1, 2020:

- Amendments to References to Conceptual Framework in PFRS set out amendments to PFRS, their accompanying documents and PFRS practice statements to reflect the issuance of the Revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes: (a) a new chapter on measurements; (b) guidance on reporting financial performance; (c) improved definitions of an assets and a liability, and guidance supporting these definitions; and (d) clarification in important areas, such as the roles of stewardship, prudence, and measurement uncertainty in financial reporting. These changes will not result in any immediate change to the current PFRS but will be used in setting future standards.

- Amendments to PAS 1, Presentation of Financial Statements and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors-Definition of Material. The amendments refine the definition of material in PAS 1 and align the definition used to PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgments.

- Amendment to PFRS 16 *Leases-Corona Virus Disease 2019 (COVID-19) Related Concessions.* The amendment provides lessees with exemption from assessing whether a COVID-19 related rent concession is a lease modification.

b. *Effective in 2020 that are not relevant to the System*

The following new PFRSs, amendments and annual improvements to existing standards are mandatory effective for annual periods beginning on or after January 1, 2020 but are not relevant to SSS financial statements:

- Amendments to PFRS 3, *Business Combinations – Definition of a Business.* The amendments clarify the minimum requirements to be a business, remove the assessment of the market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is a business. The amendments are effective, and asset is not a business.

- Amendments to PRFS 9, *Interest Rate Benchmark Reforms*. The amendments clarify that entities would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform.

- Amendments to PFRS 9. Financial Instruments, PAS 39 Financial Instrument. Recognition and Measurement and PFRS 7 Financial Instruments Disclosures - Interest Rate Benchmark Reform. The amendment states:

  - Entities would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform;
  - Are mandatory for all hedging relationships that are directly affected by the interest rate benchmark reform;
  - Are not intended to provide relief from any other consequences arising from interest rate benchmark reform (if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amendments, discontinuation of hedge accounting is required); and
  - Require specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments

Under prevailing circumstance, the adoption for the forgoing new and amended PFRSs does have any material effect on the financial statements of the System.

c. *Effective subsequent to 2020 but not adopted early*

Relevant new and revised PFRS which are not yet effective for the year ended December 31, 2020 and have not been applied in the preparation of the financial statements are summarized below.

d. *Effective Beginning on or After January 1, 2021*

- Amendments to PFRS 9 - Financial Instruments, PFRS 7 - Financial Instruments: Disclosures, PFRS 4 - Insurance Contracts, and PFRS 16 - Leases – Interest Rate Benchmark Reform – Phase 2

- Amendments to PFRS 9. Financial Instruments, PAS 39 Financial Instrument. Recognition and Measurement and PFRS 7 Financial Instruments Disclosures. PFRS 4, Insurance Contracts and PFRS 16, Leases – Interest Rate Benchmark Reform-Phase 2. The amendments relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements and disclosure requirements applying PFRS 7 to accompany the amendments regarding modifications and hedge accounting.

Effective for annual period beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework.* The amendments update an outdated reference to the Conceptual Framework in PFRS 3 without significantly changing the requirements in the standard.

- Amendments to PAS 16, *Property, Plant and Equipment – Proceeds before Intended Use.* The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

- Amendments to PAS 37, *Onerous Contracts – Cost of Fulfilling a Contract.* The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

Annual Improvements PFRS Standards 2018-2020 (effective January 1, 2022)

- PFRS 1, First-time Adoption of PFRS -Subsidiary as a first-time adopter. The amendment permits a subsidiary that applies paragraph D16 (a) of PFRS 1 to measure cumulative transition differences using the amounts reported by its parent, based on the parent's date of transition to PFRS.

- PFRS 9 Financial Instrument - Fees in the "10 per cent" test for derecognition of financial liabilities. The amendment clarifies which fees should be included in the "10 per cent" test for the derecognition of a financial liability. An entity includes only fees paid to, or received between the entity (the borrower) and the lender, including fees directly attributable to third-party fees.

- PFRS 16, Leases-Lease incentives. Any payments made to or on behalf of a lessee within the context of the lease contract shall be considered as an integral part of the net consideration of the lease and therefore be accounted for as an incentive.

- Amendment to PFRS 16: Covid 19 Related Rent Concessions. The amendment provides relief for leases in accounting for rent concessions granted as a consequence of COVID 19. It therefore provides an option to lessees from assessing whether a rent concession related to COVID 19 is a lease modification or just a variable lease payment in the period(s) in which the even or condition that triggers the reduced payment occurs.

- Amendments to PFRS 7: Financial Instruments – Disclosures. It requires entities to provide disclosures in the financial statements that will enable users to evaluate the following:

  - The significance of financial instruments for the entity's financial position and performance;
  - The nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period; and
  - How the entity manages those risks.

Effective for annual period beginning on or after January 1, 2023 (globally); January 1, 2025 (local-Philippines)

- PFRS 17, *Insurance Contracts* – PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, Insurance Contracts, which currently permits a wide variety of practices in accounting for insurance contracts. The new standard applies to all types of insurance contracts (i.e., life, non-life, direct insurance, and reinsurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. The code model of PFRS 17 is the general model, supplemented by (a) a specific adaptation for contracts with direct participation features (the variable fee approach) mainly for short-duration contracts. The new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. The new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts.

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-Current.* The amendments aim to promote consistency in applying requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

Effectivity deferred indefinitely

- PFRS *10 (Amendments), Consolidated Financial Statements and PAS 28 (Amendments), Investment in Associates and Joint Venture.* The amendments to PFRS 10 require full recognition in the investor's financial statements of gain or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, between an investor and its associate or joint venture. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that were sold or contributed a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

The SSS plans to adopt prospectively all relevant and applicable standards from the date of its effectivity.

2.3 Financial instruments

a. Financial Assets

a.1 Date of recognition

The SSS initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets are recognized initially on the trade date at which the SSS becomes a party to the contractual provisions of the instrument.

a.2 Initial recognition

The SSS initially recognizes a financial asset at fair value. Transaction costs are included in the initial measurement, except for financial assets measured at FVTPL.

a.3 Determination of fair value

The SSS determines fair value based on the nature of the financial assets classified according to the intention of the management following the fair value hierarchy of PFRS 13. This seeks to increase consistency and comparability in fair value measurements and related disclosures. Based on the hierarchy category which considers the inputs used in valuation techniques into three levels. SSS financial assets fall under Levels 1 and 3 only.

a.4 Classification and subsequent measurement

The SSS classifies its financial assets as subsequently measured at FVTPL or FVTOCI or at amortized cost based on the business model for managing the financial assets and their contractual cash flow characteristics. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

- *Financial assets at FVTPL*

  Financial assets at FVTPL consist of held-for-trading financial assets. Held-for-trading financial assets are financial assets acquired or held for the purpose of selling in the short term or for which there is a recent pattern of short-term profit taking.

Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets at FVTPL are measured at fair value and changes therein are recognized in profit or loss.

- *Financial assets at amortized cost*

  Financial assets are measured at amortized cost if both of the following conditions are met: (1) the asset is held within the System's business model, the objective of which is to hold the assets in order to collect contractual cash flows; and (2) the contractual terms of the instrument give rise on specific dates to cash flows that are solely payments of principals and interest (SPPI) on the principal amount outstanding.

  After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition that are an integral part of the effective interest rate.

  Gains and losses are recognized in profit or loss when the financial assets at amortized cost are derecognized or impaired, as well as through the amortization process.

  Loans and receivables are financial assets carried at cost or amortized cost less impairment in value. Such assets are with fixed or determinable payments that are not quoted in an active market.

- *Financial assets at FVTOCI*

  Financial assets are measured at FVTOCI if both of the following conditions are met: (1) the asset is held within the business model, the objective of which is achieved both by collecting contractual cash flows and selling financial assets; and (2) the contractual terms of the instrument give rise on specified dates to cash flows that are SPPI on the principal amount outstanding. Subsequent to initial recognition, FVTOCI financial assets are carried at fair value in the statement of financial position. Changes in the fair value of such assets are recognized in other comprehensive income and presented within reserves in the unrealized gain or loss on FVTOCI financial assets portion. When FVTOCI financial asset is derecognized, the cumulative gains or losses are not recognized to profit or loss, instead, it will remain part of the statement of comprehensive income. Dividends on FVTOCI equity instruments are recognized in profit or loss when the right to receive payments is established.

a.5 Impairment of financial assets

The SSC in its Resolution No. 41-s.2021 approved the policy/guidelines in recognizing and measuring credit impairment. The SSS adopts the Expected

Credit Loss (ECL) in accordance with the provisions of PFRS 9 Financial Instruments – Impairment.

The ECL Model is applied on credit exposures covered by PFRS 9, which include the following:

1. Loans and receivables that are measured at amortized cost.
2. Investments in debt instruments that are measured at amortized cost or at fair value through other comprehensive income.
3. Credit commitments and financial guarantee contracts that are not measured at fair value through profit or loss.

SSS adopts the rebuttable presumption in PFRS 9 that a default does not occur later than when a financial asset is 90 days past due.

Credit exposures are classified into three different stages at each reporting date, based on the significance of the increase in credit risk since initial recognition, as follows:

- Stage 1 – Performing – credit exposure that fall under this category are those that are not yet amortizing, current and whose credit risk has not appreciated significantly from initial recognition, i.e., credit exposures with days-past-due (DPD) not more than 30 days.

- Stage 2 – Under-performing – credit exposures classified under this category are those whose credit risk increased significantly since initial recognition, i.e., past due credit exposures with DPD greater than 30 days but less than or equal to 90 days.

- Stage 3 – Non-performing – credit exposures that have clear evidence of impairment at the reporting date, i.e., past due credit exposures with DPD greater than 90 days.

In assessing significant increases in credit risk, the risk of a default occurring on the credit exposure at the reporting date are compared to the risk of a default occurring on the credit exposure at the date of initial recognition.

As soon as the loan is granted to the member-borrower, it is be classified under Stage 1. For all credit exposure already on the books, the following rules shall apply:

a. Exposures with significantly increased credit risk since initial recognition shall be classified under Stage 2.
b. Non-performing exposures shall be classified under Stage 3.

Transfer from Stage 1 to Stage 2 is made under the following conditions:

a. Exposures with missed payment for more than thirty (30) days
b. Exposures with risk ratings downgraded by at least two grades for rating agencies with below 15 rating grades and three grades for rating agencies with more than 15 rating grades

Transfer from Stage 3 to Stage 1 is made under the following conditions:

a. There is sufficient evidence to support full collection.
b. Full collection is probable when payments of principal and interest due are received for at least six months.
c. Non-performing restructured exposures that have exhibited improvement in credit worthiness of the counterparty after a total one year probation period, i.e.,
   - 6 months in Stage 3 before transferring to Stage 2, and another 6 months in Stage 2 before transferring to Stage 1; or
   - Directly from Stage 3 to Stage 1 without passing through Stage 2 after 12 months.

Restructured exposures classified as "performing" prior to restructuring shall be initially classified under Stage 2. The transfer from Stage 2 to Stage 1 shall follow the 6-month rule as mentioned in item "b" above.

The ECLs are revalued every year.

a.6 Derecognition of financial assets

Financial assets are derecognized when the rights to receive cash flows from the asset have expired or have been transferred and the SSS either has transferred substantially all risks and rewards of ownership or has neither transferred nor retained substantially all the risks and rewards of ownership but has transferred control of the asset.

b. Financial liabilities

Financial liabilities are initially measured at fair value, and when applicable, adjusted for transaction costs unless the Fund designated a financial liability at FVTPL.

The Fund's financial liabilities includes accounts payable, accrued operating payable, accrued benefit payable, claims pay-out payable, and lease liabilities which are subsequently measured at amortized cost.

Financial Liabilities are derecognized in the statement of financial position only when the obligation is extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.4 <u>Cash and cash equivalents</u>

Cash comprises cash on hand and cash in bank. Cash equivalents are deposit on call and highly liquid investments with original maturity of three months or less, which are readily convertible to known amount of cash and are subject to an insignificant risk of change in value.

2.5 Inventories

Supplies and materials inventories are valued at lower of cost or net realizable value. Cost is determined using the weighted average method. Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operation of the SSS.

Inventories include semi-expendable property, or those tangible items with cost below the capitalization threshold for property and equipment (see Note 2.8). These items are recognized as expense in full upon issuance to end users but are recorded in the Report on the Physical Count of Inventories for monitoring purposes.

2.6 Non-current assets held for sale (NCAHFS)

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met when the sale is highly probable, and the asset is available for immediate sale in its present condition.

Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Any excess of carrying amount over fair value less costs to sell is an impairment loss. No depreciation is recognized for these assets while classified as held for sale.

NCAHFS includes real and other properties acquired (ROPA) in settlement of contribution and member/housing/other loan delinquencies through foreclosure or dation in payment. They are initially booked at the carrying amount of the contribution/loan delinquency plus transaction costs incurred upon acquisition. When the booked amount of ROPA exceeds the appraised value of the acquired property, an allowance for impairment loss equivalent to the excess of the amount booked over the appraised value is set up.

Upon in-depth assessment that properties classified as NCAHFS ceases to meet the conditions set under PFRS 5, such assets will be reclassified to other asset classification following the guidelines in the Classification, Reclassification and Recording of SSS Real Estate Properties.

2.7 Investment property

Investment property account consists of land or building held to earn rentals and/or for capital appreciation. This account also includes real properties that were previously subject of mortgage loan, individual real estate loan, commercial and industrial loan which were foreclosed or acquired through dacion en pago, cancelled or relinquished by former owners in favor of SSS due to non-payment.

An investment property is initially measured at cost, including transaction costs. Such cost should not include start-up costs, abnormal waste, or initial operating losses incurred before the investment property achieves the planned level of occupancy. After initial recognition, it is measured at fair value with any change therein recognized in profit or loss except for properties carried at cost due to inability to determine the fair value reliably.

The fair values of investment properties are determined annually at the reporting date by an independent professionally qualified valuer and internal appraiser using the Market Data Approach, Cost Approach, and Income Approach. The market value is estimated using gathered available local market conditions giving considerations to the following: (a) extent, character and utility of the properties, (b) comparable properties which have been sold recently, plus current asking prices; (c) zoning and current land usage in the locality, and (d) highest and best use of the property.

The generally accepted Market Data or Comparative Approach was used to measure land under the investment property based on sales and listings of comparable property registered within the vicinity. Comparisons are premised on the factors of location, land use, physical characteristics of the land and time element. For the value of the land with improvements, the appraisers used the Cost Approach taking into account the current cost of reproduction, if new of the replaceable property in accordance with the prevailing market prices for materials, labor, contractor's overhead, and profit and fees. In arriving the value of the improvements, the modified quantity survey method was used by analyzing the various construction elements of the property (foundations, columns and beams, flooring walls, roof, etc.). In Income Approach, the value of the property is determined using the interest rates and yields as well as the records of rental income and operating expenses. However, in some cases when there are no comparable listings in the open market, the Value Opinion from other appraisers or the BIR Zonal Valuation are used which are considered as Level 3 valuation.

Transfers to or from investment property are made when and only when, there is a change in use, evidenced by: (a) commencement of owner-occupation; (b) end of owner-occupation; (c) commencement of an operating lease to another party, or (d) commencement of development with a view to sale.

2.8 Property and equipment

Property and equipment, except land, are stated at cost less accumulated depreciation, amortization and any impairment in value. Land is carried at revalued amount. Increase in value as a result of revaluation is credited to reserves under property valuation reserve unless it represents the reversal of a revaluation decrease of the same asset previously recognized as an expense, in which case it is recognized as income. On the other hand, a decrease arising as a result of a revaluation is recognized as an expense to the extent that it exceeds any amount previously credited to property valuation reserve relating to the same asset.

Valuations are done by an external independent appraiser every three years or as the need arises. The value of land was arrived at using the Market Data Approach. In this approach, the value of the land is based on sales and listings of comparable properties registered within the vicinity. This approach requires the establishment of comparable properties by reducing reasonable comparative sales and listings to a common denominator with the subject. This is done by adjusting the differences between the value of the subject property and those actual sales and listings regarded as comparable. Comparisons were premised on the factors of location, land use, physical characteristics of the land, time element, quality, and prospective use. On improvement and building, the Cost Approach was adopted in arriving the market value of the building. This approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current prices for similar assets including costs of labor, transport, installation, commissioning and consultant's fees. Adjustment is then made for accrued depreciation which encompasses condition, utility, age, wear and tear, functional and economic obsolescence.

Construction in progress (CIP) represents building and building/leasehold improvements under construction and is stated at cost. CIP is not depreciated until such time as the relevant assets are completed and put into operational use.

The initial cost of property and equipment consists of its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable cost necessary in bringing the asset to its working condition and location for its intended use. Cost also includes an initial estimate for dismantling and removing the item or restoring the site on which it is located, the obligation for which an entity incurs when the item is acquired. The capitalization threshold for an item to be recognized as property and equipment is P15,000 while items whose amounts are below the capitalization threshold are accounted as semi-expendable properties (see Note 2.5).

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the SSS, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. An item of property and equipment is derecognized when either it has been disposed or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gains or losses on the retirement and disposal of an item of property and equipment are recognized in the SCI in the period of retirement or disposal.

Expenditures incurred after the item has been put into operations, such as repairs and maintenance, are normally recognized as expense in the period such cost are incurred.

Depreciation is calculated over the depreciable amount less its residual value. It is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

The system recognizes the right-of-use (ROU) asset for the right to use the underlying asset over the lease term. ROU asset is initially measured based on the present value of the lease payments plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset on which it is located, less any lease incentives received.

Consistent with COA Circular No. 2017-004, the estimated useful lives of property and equipment are as follows:

Assets	Useful Life
Building and other structures	10-30 years
Furniture and equipment/computer hardware	5-10 years
Land improvements	10 years
Transportation equipment	7 years
Leasehold improvements	10-30 years or the term of lease whichever is shorter
Right-of-use asset	Term of the lease

Property and equipment except land and construction in progress have residual value equivalent to ten per cent of the acquisition cost.

Leasehold improvements are amortized over the shorter of the terms of the covering leases or the estimated useful lives of the improvements.

Fully depreciated assets are retained in the accounts until they are no longer in use.

2.9 Intangible assets

Intangible assets are stated at cost less accumulated amortization and impairment. They comprise software and licenses. Acquired computer software/licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Computer software/licenses with finite lives are amortized on a straight-line basis over their estimated useful lives, while those with indefinite useful lives or those used perpetually or for as long as there are computers compatible with them are carried at cost and tested annually for impairment or whenever there is an indication that the assets may be impaired.

2.10 Impairment of non-financial assets

The carrying amount of non-financial assets, other than investment property and NCAHFS sale is assessed to determine whether there is any indication of impairment or an impairment previously recognized may no longer exist or may have decreased. If any such indication exists, then the asset’s recoverable amount is estimated. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in profit or loss unless it relates to a revalued asset where the value changes are recognized in other comprehensive income/loss and presented within reserves in the property valuation reserve portion. Depreciation and amortization charge for future periods is adjusted.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized in prior years.

2.11 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the SSS and the amount of revenue can be reliably measured.

The following specific recognition criteria must also be met before revenue is recognized:

a. *Members' contribution*

Revenue is recognized from member contributions when it falls due or when earned, not necessarily when collected or when cash is received with the following criteria: (a) collectability is reasonably assured (e.g., the employer can be reliably expected to pay the contribution; (b) sufficient documentation exists; and (c) the contribution due is determinable.

The SSC under its Resolution No. 161-s.2021 dated April 08, 2020 approved the Accounting Policy on Accrual of Revenues from Member Contributions and Expenses for Member Benefits. The accrual of member contributions procedural guidelines includes the following:

1. Employers shall be assessed for collectability.

    a. In the initial phase (Phase 1), accrual shall be applied to large accounts employers starting CY 2020. Phase 2 covering all active employers will be implemented in CY 2022.

    b. The employer must be paying for at least three years and with continuous payment for the last six months which shall be recomputed by semester.

    c. Accrual shall stop if the employer has no payment for three consecutive months prior to applicable month.

2. Contribution collection from active regular employers who pass the collectability assessment shall be accrued every month using as basis the electronic Collection System (e-CS) which automates the generation of Payment Reference Number (PRN).

3. Analysis of the accrual report:

    a. The generated PRN shall be recorded as receivable and revenue based on the applicable month.

    b. If the employer paid, the accrual entries will be cleared or will be adjusted accordingly if with error.

    c. If the employer did not pay for the contributions due, different balance sheet entries are required depending on when employer/member pays the amount due: accounts receivable asset or unearned revenue liability.

d. Provision for impairment shall be recorded in accordance with existing ECL policy.

Contributions from other employers that are not yet included in accrual process, self-employed and voluntary members contribution shall be recorded on a cash basis.

Contributions from Flexi-Fund and PESO Fund members are directly credited to equity upon collection.

b. *Interest and penalty income*

Revenue is recognized as the interest and penalty accrues, taking into account the effective yield on the asset and computed based on the following approved policy:

- Accrual of interest and penalty earned on loans shall only be allowed if the loans and other credit accommodations are current and performing.

- Loans are current and performing if any principal and/or interest are paid for at least ninety (90) days from contractual due date.

- No accrual of interest and penalty is allowed if a loan has become non-performing. Interest and penalty on non-performing loans shall be taken up as income only when actual payments are received.

- Loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal, interest and penalty is unlikely without foreclosure of collateral, if any.

- All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest and/or penalty are unpaid for more than ninety (90) days from contractual due dates or accrued interest for more than 90 days have been capitalized, refinanced, or delayed by agreement.

c. *Dividend income*

Dividend income is recognized at the time the right to receive the payment is established.

d. *Rental income*

Rental income is recognized on a straight-line basis over the lease term.

2.12 Expense recognition

Expenses are recognized in the statement of comprehensive income upon utilization of the service or at the date they are incurred for operational and benefit expenses.

The accrual of benefit expense is recognized when the transaction occurs or when the expenses are incurred, not necessarily when they are paid or disbursed with the following criteria being met: (a) there is an obligating event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation; and (b) the amount of expense is determinable or can be reliably estimated in the case of accrued expense.

The procedural guidelines in the accrual of benefit expenses includes the following:

1. Phase 1 - Retirement benefits

    a. Benefit filed and encoded in the Benefit System but not yet settled (i.e., in-process claims) or incurred benefits but not yet paid (IBNP);
    b. Benefits entitlements but not yet filed (i.e., compulsory retirement), or incurred benefits but not yet reported (IBNR); and
    c. Adjustments of the portion of initial pension benefits (i.e., advance 18 months) paid but applicable after the financial statement reporting period.

    Phase 2 shall be for the other benefits.

2. The Benefit Systems shall compute the amount of accrued benefits for set-up of payables, including the generation of aging report.

3. The Benefit Administration Division (BenAD) and Information Technology Management Group (ITMG) shall certify the generation of the following reports:

    a. Summary of yearly Benefit Accruals per Type; and
    b. Yearly Aging Report of Accrued Benefits.

4. Year-end reports shall be provided to Branch Accounting Department in January for proper recording.

2.13 Leases

a. SSS as lessee

At inception of the contract, the SSS has assessed that the contract contains a lease that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The System assessed whether:

- The contract involves the use of an identified asset – which the asset is physically distinct or represents substantially all the capacity of a physically distinct asset;

- The System has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and

- The System has the right to direct the use of the asset and that it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

As a lessee, the SSS classified leases as an operating lease based on its assessment of non-transferability of the risks and rewards of ownership. The right-of-use asset is recognized for lease contracts that have a term of more than twelve months at the commencement date of the lease.

The lease liability is initially measured at the present value of the lease payments that are not yet paid at the commencement date, discounted using applicable Bloomberg's PHP BVAL rates. The BVAL rate used in 2020 is based on the term specified in the contract.

In applying PFRS 16 for the first time, SSS has used the following practical expedients permitted by the Standard:

- The use of applicable BVAL rate to a portfolio of leases depending on the term on the lease of contract;

- Reliance on previous assessments on whether leases are onerous;

- The accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases on a straight-line basis;

- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and

- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

SSS has also elected not to reassess existing lease contracts at the date of initial application. Instead, for contracts entered into before the transition date, SSS relied on its assessment made applying PAS 17. Accrued rent payable is also adjusted accordingly.

The SSS leases various offices nationwide. Rental contracts are typically made for fixed periods of 3 to 8 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

b. *SSS as lessor*

Leases, where the SSS does not transfer to the lessee substantially all the risk and benefits of ownership of the asset, are classified as operating leases.

Lease income from operating leases is recognized as income on a straight-line basis over the lease term.

In any case, SSS does not enter into a finance lease agreement.

2.14 Related party disclosures

PAS 24 ensures that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may be affected by the existence of related parties and by transactions and outstanding balances with such parties. Related party transactions are transfer of resources, services or obligations between SSS and its related parties, regardless of whether a price is charged.

2.15 Provisions and contingencies

Provisions are measured at the best estimate (including risks and uncertainties) of the expenditure required to settle the present obligation and reflects the present value of expenditures required to settle obligation where the time value of money is material.

A provision is recognized when, as a result of a past event, the SSC has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle that obligation. However, it requires the approval of the SSC and the setup of a budget for the actual expenditure required to settle the obligation.

In CY 2020 SSS adopted PFRS 4 and recognized contingent liability for the present value of future benefits and expenses, less the present value of future contributions discounted at the appropriate risk-free discount. The change in accounting treatment from PAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* is in compliance to the government's directive of treating government insurance institutions as self-sustaining insurance institutions.

2.16 Prepayments

Prepayments are the usual advances to suppliers and creditors including the cash deposit to the Procurement Service. The advances to suppliers and creditors are expensed monthly. Also included is the benefit expense for the first 18 monthly retirement pension to members who opted to avail of the advance retirement benefits.

2.17 Income taxes

Based on Section 16, RA No. 11199, as amended, the SSS and all its assets and properties, all contributions collected and all accruals thereto and income or investment earnings therefrom as well as all supplies, equipment, papers or documents shall be exempt from any tax, assessment, fee, charge, or import duty. Thus, SSS is exempt from paying income taxes to the government.

2.18 Transactions in foreign currencies

Transactions in foreign currencies are initially recorded in Peso at the exchange rate at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the prevailing functional currency rate at reporting date. Exchange rate differences arising from the restatement or settlement of monetary items are recognized in profit or loss in the year in which they arise.

2.19 Events after the reporting date

Post year-end events that provide additional information about the System's financial position at the end of reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

3. CASH AND CASH EQUIVALENTS

This account is composed of the following:

	2020	2019
Cash on hand	**1,086,399,922**	1,447,893,465
Cash in bank	**3,919,743,759**	2,305,950,645
Cash equivalents	**16,508,130,917**	18,663,349,000
	21,514,274,598	22,417,193,110

Cash in banks earns interest at the respective bank deposit rates. Time and special savings deposits (TD/SSD) are made for varying periods of up to 90 days depending on the immediate cash requirements of SSS and earn interest at the prevailing time and special savings deposit rates.

Interest rates per annum range from 0.12 per cent to 3.8 per cent for time and special savings deposits which is dependent on the tenor with overnight (1 day) placement at the minimum. Savings and current accounts interest rates are 0.001 per cent to 0.25 per cent per annum except for the current account used for the UBP Quick Cards which earns 3.5 per cent interest based on TD/SSD prevailing rates as stipulated in the memorandum of agreement.

In consideration of the banks' making their deposit pick up facility available to the SSS, the latter agreed to maintain an average daily balance ranging from P1 million to P25 million in a non-drawing interest bearing current account/savings account (CASA) with each of the banks' servicing branches. As at December 31, 2020, the amount of P407 million is being maintained in several banks for such purpose.

Interest income earned from cash in banks and term deposits amounted to P607.557 million and P902.991 million as at December 31, 2020 and 2019, respectively (see Note 22).

4. FINANCIAL ASSETS

This account consists of the following:

4.1 Current Financial Assets

	2020	2019 Restated
Financial assets – at FVTPL		
Government securities	**24,131,015,975**	24,825,049,102
Equity securities	**14,018,329,535**	10,388,295,423
Externally managed fund	**9,716,702,606**	7,325,411,817
Investment in mutual fund	**3,075,426,202**	3,299,001,358
	50,941,474,318	45,837,757,700
Financial assets – at amortized cost		
Investment in bonds – local		
Corporate bonds	**8,996,720,000**	3,275,340,000
Government bonds	**4,247,307,625**	11,942,467,652
Government notes	**510,000,000**	0
Corporate notes	**500,000,000**	3,045,858,953
	14,254,027,625	18,263,666,605
Allowance for impairment loss	**(18,311,048)**	(18,610,174)
	14,235,716,577	18,245,056,431
	65,177,190,895	64,082,814,131

The fair value of financial assets through profit or loss are measured using active quoted market prices, recurring and Level 1 based on the level of fair value hierarchy. They are measured at fair value to properly reflect the changes and actual values of the asset in the market.

Pursuant to Section 26-A of the RA No. 11199, the engagement of local fund managers was approved by SSC under its Resolution No. 1035-A dated December 12, 2018 to manage portion of SSS Investment Reserve Fund with total deployed investment of P9 billion under the following mandates:

Balanced Fund Mandate
- Rizal Commercial Banking Corporation
- BPI Asset Management and Trust Corporation
- ATRAM Trust Corporation

Pure Equity Fund Mandate
- BPI Asset Management and Trust Corporation
- Metropolitan Bank and Trust Company
- Philequity Management, Inc.

Pure Fixed Income Mandate
- BPI Asset Management and Trust Corporation

Mutual fund investment is an investment vehicle made up of a pool of money collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and other assets managed by professional fund managers. Investment in domestic mutual fund was approved by SSC under Resolution Nos. 351 and 509 dated April 25 and June 20, 2018 respectively, with a P3 billion allotment. The said amount is invested and distributed at P1 billion each to the three accredited mutual fund companies, namely: Philequity Fund, Inc., Philippine Stock Index Fund Corp. and Sun Life of Canada Prosperity Balanced Fund, Inc. As at December 31, 2020 and 2019, the value of invested funds amounted to P3.075 billion and P3.299 billion, respectively.

The costs of the financial assets are as follows:

	2020	2019
Government securities	**23,127,931,058**	24,231,594,697
Equity securities	**16,736,458,662**	12,528,068,526
Externally managed fund	**9,000,000,000**	7,000,000,000
Investment in mutual fund	**3,092,680,466**	3,057,305,012
	51,957,070,186	46,816,968,235

4.2 Non-Current Financial Assets

	2020	2019 Restated
Financial assets at amortized cost		
Investment in bonds – local		
Government bonds	**168,233,181,505**	153,179,565,710
Corporate bonds	**17,830,937,354**	23,928,209,942
Corporate notes	**4,148,000,000**	5,819,000,000
Government notes	**0**	510,000,000
	190,212,118,859	183,436,775,652
Allowance for impairment – corporate bonds and notes	**(92,021,615)**	(92,175,910)
	190,120,097,244	183,344,599,742
Financial assets at FVTOCI		
Equity securities	**84,511,644,717**	78,522,400,585
Government bonds	**49,373,547,174**	50,104,017,976
Corporate notes	**2,338,750,686**	2,338,750,686
Corporate bonds	**523,852,555**	525,205,512
	136,747,795,132	131,490,374,759
	326,867,892,376	314,834,974,501

The fair value of the FVTOCI financial asset is measured using active quoted market prices, recurring and level 1 based on the level of fair value hierarchy. They are measured at fair value to properly reflect the changes and actual values of the asset in the market. Fair value gains/losses are recognized in the other comprehensive income. The cost of the financial assets as at December 31, 2020 and 2019 is P160.144 billion and P162.992 billion, respectively.

Notes and bonds earn interest at 1.25 to 12.50 per cent depending on the amount and terms of the investment. Interest income earned from investments in bonds – local as at December 31, 2020 and 2019 is P11.226 billion and P10.721 billion, respectively (see Note 22).

5. OTHER INVESTMENTS

This account consists of Investment in Time Deposit in local currency with original maturities of more than 90 days placed on August 7, 2019 at P400 million with interest rates of 3.4 and 3.8 per cent and has matured on February 3, 2020.

6. RECEIVABLES

This account consists of the following:

	2020	2019 Restated
Current		
Loans and receivable	**83,385,849,607**	77,386,987,184
Lease receivable	**183,534,338**	95,566,946
Other receivables	**997,983,578**	1,188,852,700
	84,567,367,523	78,671,406,830
Allowance for impairment	**(3,497,865,641)**	(3,598,428,918)
	81,069,501,882	75,072,977,912
Non-Current		
Loans and receivable	**79,501,372,410**	59,991,520,751
Lease receivable	**16,023,813**	15,738,293
Other receivables	**1,267,198,272**	1,316,150,805
	80,784,594,495	61,323,409,849
Allowance for impairment	**(22,562,608,865)**	(22,657,336,293)
	58,221,985,630	38,666,073,556

Loans and receivable account is composed of receivables from short-term member loans, housing loans, commercial and industrial loans, pension loans, loan to other government corporation. It also includes contribution and premium receivable, interest, dividend and sales contract receivables. These are measured at amortized cost with provision of impairment loss pursuant to PFRS 9 and the policy guidelines on the recognition of ECL.

	2020	2019 Restated
Current		
Loans receivable	**67,459,910,980**	62,872,831,097
Contribution and premium receivable	**11,325,257,363**	9,959,072,409
Interest receivable	**3,942,978,871**	4,526,613,949
Dividend receivable	**657,238,087**	27,110,161
Sales contract receivable	**464,306**	1,359,568
	83,385,849,607	77,386,987,184

	2020	2019 Restated
Non-Current		
Loans receivable	**55,875,227,914**	36,255,831,621
Interest receivable	**12,707,637,960**	12,707,637,960
Sales contract receivable	**1,232,324,561**	1,197,280,862
Loan to other government corporation	**9,686,181,975**	9,830,770,308
	79,501,372,410	59,991,520,751

Loans receivable is recognized at amortized cost and composed of the following:

	2020	2019 Restated
Member loans	**118,172,934,615**	95,294,306,035
Housing loans	**1,560,520,509**	1,737,963,123
Pension loans	**3,514,955,267**	2,009,395,882
Commercial and industrial loans	**69,509,283**	69,778,458
Program member assistance for development entrepreneurship (MADE)	**17,219,220**	17,219,220
	123,335,138,894	99,128,662,718

The Loan Restructuring Program (LRP) which ended on April 01, 2019 has covered the member-borrowers affected by previous calamities/disasters with past due calamity loans and other short-term member loans. The total principal and accrued interest of all past due short-term loans of the member-borrower were consolidated into one Restructured Loan (RL1). Penalties were condoned after full payment of outstanding principal and interest of RL1 within the approved term. However, if the balance of RL1 is not zeroed at the end of the term, the unpaid principal of RL1 and the proportionate balance of condonable penalty become part of a new principal under Restructured Loan 2 (RL2). The balance of the restructured member loan as at December 31, 2020 amounted to P9.370 billion with accumulated impairment provision of P1.117 billion.

The Educational Assistance Loan Program which is part of the Member loan amounted to P5.161 billion consisting of the 50:50 SSS and NG shares, has been expended/extended as loans to member beneficiaries as at December 31, 2020. The loans for degree course shall be payable in five years to start 18 months for semestral courses, 15 months for trimestral courses, or 14 months and 15 days for quarter-term courses from the scheduled last release date or from the date of last release for those who will not avail of the subsequent releases. For technical/vocational courses, the loan shall be payable in three years to start 18 months for semestral courses from the scheduled last release date or from the date of last release for those who will not avail of the subsequent release. Interest and penalty on overdue amortization as at December 31, 2020 and 2019 are P68.580 million and P509.306 million, respectively.

The Pension Loan Program (PLP) launched on September 3, 2018 that aims to provide financial aid to qualified SSS retiree pensioners by way of providing low-interest loans. The program was approved by the SSC under Resolution No. 341 dated April 25, 2018 and its implementing guidelines were issued under Office Order No. 2018-033 dated May 8, 2018. After 10 months of implementation, the SSC under its Resolution No. 429-s.2019 dated July

5, 2019 approved the enhancement of the program in terms and conditions of the PLP. Among the highlights of the enhancements are as follows: (1) the maximum loan limit increased from P32,000 to P200,000; (2) the age of the retiree pensioner at end of the month of loan term changed from 80 years of age or below to 85 years of age and below; and (3) longer loan repayment terms from 12 months to 24 months. The monthly amortization of the pension loan shall be deducted from the monthly pension of the pension loan borrower in which the first monthly amortization shall become due on the second month after the loan was granted. Interest rate remains at 10 per cent per annum until fully paid computed on a diminishing principal balance, which shall become part of the monthly amortization. Loan releases for CY 2020 reached 74,978 amounting to P3.408 billion and interest income recognized is P212.690 million.

Contribution and premium receivable represent accrued receivables due for the next month which is the next calendar year following the policy approved by the SSC (see Note 2.11a).

The *interest receivable* account represents the accrued interest from various SSS investments such as cash equivalents, notes and bonds, and loans and receivables which are still uncollected as at reporting period. Likewise, the penalty receivable represents the accrual of penalty income from various delinquent loans. These accounts are credited whenever cash is collected, either monthly, quarterly, semi-annually or annually depending on the interest/penalty payment dates of the investment.

As at December 31, 2020 and 2019, the accrued interests are as follows:

	2020	2019 Restated
Interest receivable		
Government notes and bonds	**3,229,414,776**	3,312,385,641
Member loans	**451,773,038**	884,869,784
Corporate notes and bonds	**231,836,397**	260,172,272
Cash equivalent and Short-term Money Placement	**18,644,603**	65,303,876
Sales contract receivable	**6,175,424**	1,724,346
Housing loans	**5,134,633**	2,158,030
	3,942,978,871	4,526,613,949
Allowance for impairment	**(20,634,510)**	(35,964,186)
	3,922,344,361	4,490,649,763

Loans and receivables earn interests at their respective rates, as follows:

	Interest Rate (Per Annum)
Loans receivable	
Member loans	3.0 to 10.0
Housing loans	3.0 to 12.0
Pension loans	10.0
Commercial and industrial loans (CIL)	2.5 to 14.0
Loan to other govt. corporation – NHMFC	4.0
Sales contract receivable	6.0 to 9.0

Non-current interest receivable includes those originated from Home Guaranty Corporation (HGC) guaranteed corporate notes and loan to National Home Mortgage Finance Corporation (NHMFC) amounting to P120.443 million and P12.575 billion, respectively.

The SSC approved SSS' participation and invested in various HGC-guaranteed Asset Participation Certificates (APC) from CY 1995 to CY 2000. However, the Asset Pools failed to service the regular interest due on the APCs. In view of this, the SSS decided to call on the guaranty of HGC from November 2000 to July 2001. HGC was unable to pay in full guaranteed obligations and partially settled it through the issuance of debenture bonds and transfer of 19 lots through *Dacion en Pago*. From CY 2005 to CY 2013, correspondences and meetings were sent and conducted, respectively between and among SSS, HGC and the Department of Finance (DOF). Upon approval of the SSC under Resolution No. 899 dated November 27, 2013, SSS formally filed with Office of the Government Corporate Counsel (OGCC) the Petition for Arbitration and Adjudication versus HGC (Arbitration Case No. 2013-004). Amount subject of arbitration is P5.07 billion covering principal, HGC-guaranteed interest, and compound interest. The case is still with OGCC. Several negotiations were made on the settlement of obligation including proposal for condonation of HGC-guaranteed interest and compound interest for endorsement to the Office of the President of the Philippines. The Risk Management and Investment Committee (RMIC) in its meeting held on June 27, 2019 directed Management to request clearance from the DOF Secretary to renegotiate for better terms towards settlement of HGC's obligation to SSS. Under Resolution No. 638 dated December 2, 2020, SSC approved the settlement proposal of HGC, now Philippine Guarantee Corporation (PGC) with the following terms and conditions:

Cash Payment:	
➢ Upon signing of Settlement Agreement	1,100,000,000
Deferred Cash Payment	
➢ Year 2 to 4 (P100 million per year)	300,000,000
➢ Year 5	200,000,000
HCG/PGC Debenture Bond – Backed by Sovereign Guaranty	
➢ Year 1 to 4 redemption (P200 million per year)	800,000,000
➢ Year 5 (Balloon payment of balance)	2,413,170,775
Settlement value as at October 31, 2020	4,813,170,775

As at December 31, 2020, the Memorandum of Agreement to be executed by and between the SSS and PGC is still for approval by the SSC, and subject to legal opinion/clearance from the Office of the Government Corporate Counsel

Dividend receivables are cash dividends earned but not yet received on shares of stocks that are held as FA at FVTPL and FA at FVTOCI.

Sales contract receivables are contracts arising from deed of conditional sale executed by the SSS with properties under NCAHFS to various buyers of the said properties.

Loan to other government corporation refers to loans to NHMFC as mandated under Executive Order (EO) No. 90 to be the major government home mortgage institution whose initial main function was to operate a viable home mortgage market, utilizing long-term funds principally provided by the SSS, the GSIS, and Home Development Mutual Fund (HDMF), to purchase mortgages originated by both the private and public institutions within the Unified Home Loan Program (UHLP) guidelines. In accordance with the mandates of EO No. 90, the SSC in its Resolution No. 509 dated August 4, 1988 approved the long-term loans to NHMFC for low-income SSS members. Total loan releases from CY 1988 to CY 1995 amounted to P30.075 billion with total housing loan borrowers/beneficiaries of 135,229. In CY 1996, a substantial number of UHLP Portfolio borrowers defaulted in the payment of their loans to NHMFC, thereby causing NHMFC also to default in its payments to SSS. To address the deterioration of NHMFC's financial position, a Memorandum of Agreement dated June 5, 1996 was executed by the parties. On December 17, 2003, the SSC under Resolution No. 684 approved the restructuring of NHMFC's total obligations of P40.515 billion broken down into: Principal (Low, Mod & High Del) – P27.940 billion, Accrued Interest - P11.961 billion and Penalty – P0.614 billion. The interest and penalty were not capitalized during the restructuring and are to be paid after full satisfaction of restructured principal obligation per Restructuring Agreement.

As at December 31, 2020, the total outstanding obligation of NHMFC is P22.262 billion, broken down as follows:

Principal	9,686,181,975
Interest	11,961,415,991
Penalty	614,104,940
	22,261,702,906

The DOF in its letter dated October 19, 2020 informed SSS that the P10 billion shall be considered in the CYs 2022 to 2024 budget allocation for the Net Lending Program to NHMFC in view of the tight fiscal space of the National Government (NG) for CY 2020 and CY 2021.

Lease receivable consists of operating lease receivables from contract of lease executed with the lessees. It represents accrual of rental income from tenants of SSS which are collectible within a year. Rent/lease income are derived from investment properties, ROPA and operating assets, and recognized a total amount of P1.137 billion and P2.613 billion income as at December 31, 2020 and 2019, respectively (see Note 32).

	2020	2019 Restated
Operating lease receivable	**183,534,338**	95,566,946
Allowance for impairment	**(146,852,323)**	(64,837,085)
	36,682,015	30,729,861

Other current receivables compose mainly of the following:

	2020	2019 Restated
Penalty receivable	**247,600,218**	214,334,106
Receivables – disallowances/charges	**20,933,878**	22,353,125
Insurance claims receivable	**2,262,791**	322,388
Due from officers and employees	**592,984**	387,967
Other receivables	**726,593,707**	951,455,114
	997,983,578	1,188,852,700
Allowance for impairment	**(11,236,732)**	(12,875,059)
	986,746,846	1,175,977,641

Penalty receivable is broken down as follows:

	2020	2019 Restated
Penalty Receivable		
Member loans	**245,330,149**	212,784,241
Housing loans	**635,239**	989,086
Rental receivable	**535,349**	525,262
Sales contract receivable	**1,099,481**	35,517
	247,600,218	214,334,106
Allowance for impairment	**(11,236,732)**	(12,875,059)
	236,363,486	201,459,047

Receivable – disallowances/charges are disallowances in audit due from SSS officials and employees which have become final and executory amounting to P20.934 million and P22.353 million as at December 31, 2020 and 2019, respectively.

Insurance claims receivables pertain to the amounts due from insurance companies for the unpaid pension loan and housing loan balances due to death of pensioner-borrower and member-borrower, respectively. As at December 31, 2020 and 2019, the receivable is P2.263 million and P322,388, respectively.

Other receivables consist of accounts such as:

	2020	2019
Collecting banks (CB)/agents(CA)	**667,306,566**	533,472,858
Sale of financial assets	**30,104,208**	414,481,182
Supplier's creditable tax	**25,896,955**	0
Mutual fund management fee rebate	**3,285,978**	3,501,074
	726,593,707	951,455,114

Other Receivables – CB/CA account represents premium contributions and loan payments collected by accredited banks and agents but not yet remitted to SSS amounting to P667.307 million and P533.473 million as at December 31, 2020 and December 31, 2019, respectively. This account is debited upon receipt of collection/remittance data/reports that are electronically transmitted by the CBs/CAs, which are uploaded by the SSS Data Center Operations Department from different CBs/CAs servers and credited for the total remittances appearing in the bank statements. The balances of the account were presented net of negative balances totaling P720.633 million and P870.971 million as at December 31, 2020 and December 31, 2019, respectively, which are mostly prior years' transactions due to unsubmitted valid collection/remittance data/reports.

Receivables arising from sale of financial assets are sold equity securities, but cash payments are not yet received as of reporting period.

The account *Receivable-Supplier's creditable tax* is debited to recognize the amount of creditable withholding taxes on year-end accrued expenses not yet deducted from the payment to supplier but remittance to BIR in the following month will be advanced by SSS. Credit this account upon payment to supplier deducted from its billing.

Rebate on management fees from mutual fund companies represents refund not yet converted into additional shares as of reporting period.

Allowance for impairment on expected credit losses for current and non-current receivables are measured depending on the credit exposures and credit risks. Loan accounts that are current or only up to 30 days past due are classified in Stage 1. Those that are more than 30 days but less than 90 days past due are classified at Stage 2, while those that are already past due for more than 90 days are classified at Stage 3.

	2020	2019 Restated
Current		
Loans receivable	**3,319,142,076**	3,484,752,588
Interest receivable	**20,634,510**	35,964,186
Operating lease receivable	**146,852,323**	64,837,085
Other receivables	**11,236,732**	12,875,059
	3,497,865,641	3,598,428,918

	2020	2019 Restated
Non-current		
Loans receivable	**5,520,593,056**	5,704,643,726
Interest receivable	**12,707,637,959**	12,707,637,959
Loans receivable–other government corporation	**3,329,164,616**	3,244,092,609
Sales contract receivable	**399,055,337**	384,617,676
Operating lease receivable	**16,023,812**	15,738,292
Other receivables	**590,134,085**	600,606,031
	22,562,608,865	22,657,336,293

Movements in Allowance for Impairment Loss of current and non-current receivables for CY 2020 are as follows:

	Restated Balance, January 1	**Additional Provision**	**Recovery/ Reversal**	**Balance, December 31**
Loans and receivable	25,561,708,744	1,803,650,151	2,069,131,341	25,296,227,554
Lease receivable	80,575,377	83,786,824	1,486,066	162,876,135
Other receivable	613,481,090	651,255	12,761,528	601,370,817
	26,255,765,211	1,888,088,230	2,083,378,935	26,060,474,506

The impairment provisions as at December 31, 2020 and 2019 amounted to P1.888 billion and P124.221 million, respectively, and are recognized in the books using the guidelines in recognizing and measuring credit impairment set forth in Note 2.3a.5 based on the approval of the SSC in its Resolution No. 41-s.2021.

As part of the corporate social responsibilities of the System, the SSS supports the government during the time of pandemic to assist the NG in its COVID-19 response and in accelerating the recovery and bolster the resiliency of the Philippine economy. SSS implemented the following moratorium on loan and lease payments in response to RA No. 11469 or Bayanihan to Heal as One Act (Bayanihan 1) and RA No. 11494 or Bayanihan to Recover as One Act (Bayanihan 2):

1. SSC Resolution No. 205-s.2020 dated May 19, 2020 and 423-s.2020 dated August 26, 2020 – Moratorium on Short-Term Loan Payments of SSS Members Affected by the Corona Virus Disease 2019 (COVID-19) Situation

2. SSC Resolution No. 233-s.2020 dated May 19, 2020 - Moratorium and Extension of Payment for Buyers of SSS Owned Real and Other Properties Acquired and Housing Acquired Assets

3. SSC Resolution No. 234-s.2020 dated May 19, 2020 – Deferment of Rental Payments of Lessees of SSS Investment Properties, Real and Other Properties Acquired and Housing Acquired Assets

4. SSC Resolution No. 258-s.2020 dated May 19, 2020 – Moratorium on Housing Loan Payments of SSS Members Affected by Corona Virus Disease 2019 (COVID-19) Situation

5. SSC Resolution No. 551-s.2020 dated October 21, 2020 – Moratorium on Short-Term Loan Payments Under RA No. 11494 "Bayanihan to Recover as One Act" (Bayanihan Act 2)

6. SSC Resolution No. 552-s.2020 dated October 21, 2020 – Moratorium on Housing Loan Payments Under RA No. 11494 or "Bayanihan to Recover as One Act"

7. SSC Resolution No. 609-s.2020 dated November 16, 2020 – Deferment of Rental Payments of Lessees of SSS Investment Properties, Real and Other Properties Acquired and Housing Acquired Assets

8. SSC Resolution No. 610-s.2020 dated November 16, 2020 – Moratorium and Extension of Payment for Buyers of SSS Owned Real and Other Properties Acquired and Housing Acquired Assets

The moratorium on loan repayments generally covered the repayment period of April to May 2020 (applicable period of March to April 2020) and November to December 2020 (applicable period of October to November 2020). The loan payment term is extended based on the borrower's number of month's moratorium. Loan repayment shall resume on the month immediately after the borrower's moratorium period. The accrued interest during moratorium period shall be paid on the last month of loan payment term (Short-Term Member Loans and Housing Loans) or equally divided and paid over the remaining installment payment term of the buyer (Sales Contract Receivables).

The moratorium on lease payments covered the payment period of April to May 2020 and November to December 2020. The lease payment shall resume one month after lifting of Enhanced Community Quarantine (ECQ) while accrued interest during moratorium shall be equally amortized up to a maximum of six monthly installments which shall be added to the regular rents due on the succeeding months.

7. INVENTORIES

This account is composed of the following:

	2020	2019
Office supplies inventory	**89,241,312**	118,590,907
Accountable forms inventory	**3,786,308**	5,468,002
Drugs and medicines	**842,224**	3,006,051
Medical, dental and laboratory supplies inventory	**2,121,318**	302,565
	95,991,162	127,367,525
Allowance for impairment	**(10,672,519)**	(31,447,220)
	85,318,643	95,920,305

Supplies and materials issued and recognized as expense during CYs 2020 and 2019 amounted to P84.415 million and P168.091 million, respectively (see Note 28).

The amount of write-down for Inventories that have become obsolete in CY 2020 and 2019 amounted to P10.673 amounted to P31.447 million, respectively. Details as follows:

	2020	2019
Office Supplies Inventory	**9,871,378**	28,952,836
Accountable Forms Inventory	**801,141**	2,494,384
	10,672,519	31,447,220

8. NON-CURRENT ASSETS HELD FOR SALE

This account is composed of the following:

	Land	Building	Acquired assets/ Registered	Total
Carrying amount, January 1, 2020	**0**	**582,660**	**251,436,806**	**252,019,466**
Accumulated impairment loss	**0**	**0**	**(12,640,099)**	**(12,640,099)**
Net carrying amount, January 1, 2020	**0**	**582,660**	**238,796,707**	**239,379,367**
Transfer	**0**	**(582,660)**	**(26,109,608)**	**(26,692,268)**
Cancellation/adjustments	**0**	**0**	**30,335,302**	**30,335,302**
Disposals	**0**	**0**	**(76,603,603)**	**(76,603,603)**
Impairment, net (loss)/recovery,	**0**	**0**	**644,362**	**644,362**
Net carrying amount, December 31, 2020	**0**	**0**	**167,063,160**	**167,063,160**

	Land	Building	Acquired assets/ Registered	Total
Net Carrying amount, January 1, 2019, as reported	7,631,638	525,528,475	324,646,607	857,806,720
Reclassification to Investment Property	(2,631,510)	(526,020,315)	(84,581,173)	(613,232,998)
Restated Net carrying amount, January 1, 2019	5,000,128	(491,840)	240,065,434	244,573,722
Additions	0	582,660	346,072,715	346,655,375
Transfer	0	0	(58,986,079)	(58,986,079)
Disposals	(5,000,128)	0	(280,906,270)	(285,906,398)
Impairment (loss)/recovery	0	491,840	(7,449,093)	(6,957,253)
Restated Net carrying value, December 31, 2019	0	582,660	238,796,707	239,379,367

The non-current asset held for sale is measured at the lower of carrying amount and fair value less cost to sell. The fair value is measured based on the assessment of internal/external expert, non-recurring and is level 2 and 3 based on the level of fair value hierarchy. As at December 31, 2020, the impairment loss of P3.325 million and recoveries/reversals of impairment of P3.969 million are recognized in profit or loss.

Had there been no impairment, the carrying amount of the NCAHFS as at December 31, 2020 and 2019 are as follows:

	2020	2019 Restated
Land	**0**	0
Building	**0**	582,660
Acquired assets/Registered	**173,586,058**	251,436,807
	173,586,058	252,019,467

As for the internally appraised properties classified as NCAHFS, the value of land was established using the Market Data Approach. The initial value of the land is based on the sales and listings of comparable properties. Adjustments were then applied to the gathered value of land by comparing the physical and locational characteristics of the subject property and the comparable properties.

The value of the improvements was arrived at using the Cost Approach. The current reproduction cost of the improvement or structure is first established in accordance with the prevailing market prices of construction materials, labor, contractors' overhead, profits and fees. Adjustments are then made to reflect depreciation resulting from physical deterioration and obsolescence.

NCAHFS includes real and other properties acquired which are held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. As at December 31, 2020, SSS has sold 191 properties through cash and installment bases generating gain on sale of P71.727 million, which forms part of the P1.162 billion gains generated for CY 2020 (see Note 23).

NCAHFS/ROPA can be leased out momentarily while waiting for its sale to maximize its potential income. As at December 31, 2020, 89 ROPA Acquired Asset properties with a total book value of P40 million are being leased out under a cancellable lease contract that can be terminated anytime without any penalty imposed to SSS. Rental income recorded as at December 31, 2020 and 2019 amounted to P16.396 million and P41.706 million, respectively. NCAHFS properties that are unsold for more than one year with carrying book value of P758.748 million were reclassified to Investment Property based on the Guidelines on the Classification, Reclassification and Recording of SSS Real Estate Properties approved by the SSC on June 10, 2020 under Resolution No. 292-s.2020. The properties were reclassified in 2020 and retrospectively applied in 2018 and 2019, wherever applicable. There are no transfer or sale of NCAHFS to government and non-profit organizations. All properties were sold to private individuals.

9. OTHER CURRENT ASSETS

This account is composed of the following prepayments:

	2020	2019 Restated
Prepayments		
Prepaid benefit expense	**4,658,265,084**	6,298,958,949
Advances to contractors/supplier	**11,500,000**	3,000,000
Prepaid rent	**8,314,948**	11,472,281
Prepaid insurance	**540,984**	420,314
Other prepayments	**5,691,194**	340,048
	4,684,312,210	6,314,191,592

Prepaid benefit expense refers to the first 18 monthly retirement pension in lump sum paid to SSS members who opted to avail the advance retirement benefits. This was approved per SSC Resolution No. 161.s-2021 (Note 2.12) and retrospectively applied in prior year.

Advances to contractors/suppliers represents cash deposit to Procurement Service (PS)-Philippine Government Electronic Procurement System (PhilGEPS) intended for the Government Fares Agreement (GFA) and e-wallet for the Virtual Store. These are both initiatives of the Department of Budget and Management (DBM) and the PS-PhilGEPS that will ensure fast, efficient, flexible and savings in time, energy and money when processing the air transportation needs of all government officers and personnel of their domestic trips for the GFA and for the procurement of common-use supplies and equipment through the Virtual Store. As at December 31, 2020, the balance of cash deposit amounted to P3.0 million for GFA and P8.50 million for the Virtual Store e-wallet.

Other prepayments consist of subscriptions of online applications and creditable withholding tax at source from rental or other services deducted by an entity designated by BIR as authorized agent.

10. INVESTMENT PROPERTY

This account is composed of the following:

	Land	**Building**	**Development Cost**	**Total**
Fair value, January 1, 2020	62,660,563,480	8,954,885,679	9,685,838	71,625,134,997
Transfer	(67,441,140)	0	0	(67,441,140)
Additions	202,844,073	582,661		203,426,734
Disposal	(44,620,971)	0	0	(44,620,971)
Fair value gain (loss)	3,470,669,649	(565,641,347)	0	2,905,028,302
Fair value, December 31, 2020	**66,222,015,091**	**8,389,826,993**	**9,685,838**	**74,621,527,922**

	Land	**Building**	**Development Cost**	**Total**
Fair value, January 1, 2019, as previously reported	36,311,377,358	5,819,722,048	9,685,838	42,140,785,244
Reclassification from NCAHFS	12,349,586,520	632,434,575	0	12,982,021,095
Fair value, January 1, 2019 Restated	48,660,963,878	6,452,156,623	9,685,838	55,122,806,339

(Forward)

	Land	Building	Development Cost	Total
Additions	0	1,997,453,441	0	1,997,453,441
Transfer	58,986,079	(45,969,000)	0	13,017,079
Fair value net gain	13,940,613,523	551,244,615	0	14,491,858,138
Fair Value, December 31, 2019 Restated	62,660,563,480	8,954,885,679	9,685,838	71,625,134,997

The costs of investment properties as at December 31, 2020 and 2019 is P13.838 billion, as restated.

The fair value of an investment property is determined based on the Cost and Market Approach methods performed by independent appraisers and in-house appraisers, non-recurring and is Level 2 and 3 based on the level of fair value hierarchy. Market values were based on the evidence of reliable transactions like recent land sales and sales offerings of comparable properties within the vicinity and the application of land capitalization rate. Data gathered from interviews with brokers and other real estate practitioners who are knowledgeable with the property market were also used as bases. Adjustment factors were likewise considered such as the date of appraisal, size, location, corner/road influence, and conditions of sale.

The SSS policy in the Classification, Reclassification and Recording of Real Estate Properties identifies the following guidelines when properties are transferred to investment property:

- NCAHFS remained unsold for more than one year.
- PPEs which are no longer used for operational purposes
- Mortgaged properties that have been registered in the name of SSS

On the other hand, investment property is transferred to NCAHFS or PPE:

- Upon consolidation of the registered property (Transfer Certificate of Title (TCT) in the name of SSS) ready for sale
- Upon approval from approving authority to utilize the property for SSS operational use.

Properties from the NCAHFS that are unsold for more than one year were retrospectively reclassified to Investment Property at fair value amounting to P152.418 million based on the approved guidelines. Also, on April 27, 2020, the Aseana Building was conveyed to SSS by Belle Corporation in compliance with the Deed of Conveyance executed by both parties. The property was capitalized at fair market value amounting to P2.635 billion.

Three big-ticket investment properties under litigation that were previously valued at cost model were remeasured at fair value after appraisers considered the pendency of the legal cases of the properties.

Investment Property	Book Value At December 31, 2019	Fair Value At December 31, 2020
Pasay City (FCA 7 Site 2)	2,624,825,000	17,098,860,000
Pryce - Memorial Lots	446,555,000	652,256,000
Green Meadows	120,379,000	1,217,161,400
	3,191,759,000	18,968,277,400

The following amounts are recognized in the Statements of Comprehensive Income.

	2020	2019 Restated
Net gain on fair value adjustment	**2,905,028,302**	14,491,858,138
Rental income	**1,111,175,653**	2,563,569,852
Penalty on rentals	**2,550,257**	5,362,127
Gain/loss on sale/disposal	**6,932,900**	0
Direct operating expenses	**(52,753,429)**	(111,587,958)
Impairment loss – rental and penalty receivable	**(82,641,770)**	(25,153,426)
	3,890,291,913	16,924,048,733

The rentals or sale proceeds on the investment properties are subject to the restriction provided under Sections 25 and 26 of RA No. 11199 which states that ten per cent of other revenues shall be used for administrative and operational expenses. All revenues that are not needed to meet the current administrative and operational expenses shall be accumulated in the Investment Reserve Fund. As at December 31, 2020, there were 41 investment properties sold and generated a net gain of P6.933 million.

Part of the direct operating expenses incurred were for the investment properties generating revenue through lease as at December 31, 2020 and 2019 amounting to P47.454 million and P50.644 million, respectively.

11. PROPERTY AND EQUIPMENT – NET

This account is composed of the following:

	Land	**Land Improvement**	**Buildings and building/ leasehold improvements**	**Right of Use asset**	**Furniture and equipment, transportation equipment, computer hardware and others**	**Construction in progress**	**Total**
Cost							
January 1, 2020	**4,543,368,645**	**19,340,319**	**1,511,736,808**	**1,130,362,431**	**3,519,858,077**	**58,260,148**	**10,782,926,428**
Additions	0	0		149,950,447	355,854,418	12,808,539	518,613,404
Transfers	0	0	9,254,546	0	0	(9,254,546)	0
Retirement/cancellations/ disposal/adjustments	0	0	(46,246,374)	(5,904,389)	(160,569,780)	(69,547)	(212,790,090)
Balance, December 31, 2020	**4,543,368,645**	**19,340,319**	**1,474,744,980**	**1,274,408,489**	**3,715,142,715**	**61,744,594**	**11,088,749,742**
Accumulated depreciation							
January 1, 2020	**0**	**11,691,205**	**911,782,262**	**219,478,261**	**2,395,600,560**	**0**	**3,538,552,288**
Depreciation Expense	0	1,053,880	32,209,607	245,041,597	233,225,969	0	511,531,053
Retirement/cancellations/ disposal/adjustments	0		(46,246,374)	(2,648,101)	(150,494,489)	0	(199,388,964)
Balance, December 31, 2020	**0**	**12,745,085**	**897,745,495**	**461,871,757**	**2,478,332,040**	**0**	**3,850,694,377**
Accumulated impairment loss December 31, 2020	**0**	**1,137,050**	**108,934,119**	**0**	**0**	**0**	**110,071,169**
Carrying amount, December 31, 2020	**4,543,368,645**	**5,458,184**	**468,065,366**	**812,536,732**	**1,236,810,675**	**61,744,594**	**7,127,984,196**

	Land	Land Improvement	Buildings and building/ leasehold improvements	Right of Use asset	Furniture and equipment, transportation equipment, computer hardware and others	Construction in progress	Total
Cost							
January 1, 2019	4,543,368,645	19,340,319	1,496,083,246	0	3,014,880,939	47,062,148	9,120,735,297
Additions	0	0	0	1,136,766,737	551,855,889	23,109,965	1,711,732,591
Transfers	0	0	57,065,387	0	0	(11,096,387)	45,969,000
Retirement/cancellations/ disposal/adjustments	0	0	(41,411,825)	(6,404,306)	(46,878,751)	(815,578)	(95,510,460)
December 31, 2019	**4,543,368,645**	**19,340,319**	**1,511,736,808**	**1,130,362,431**	**3,519,858,077**	**58,260,148**	**10,782,926,428**
Accumulated depreciation							
January 1, 2019	0	10,637,324	909,216,108	00	2,236,542,613	0	3,156,396,045
Depreciation Expense	0	1,053,881	43,796,403	220,543,525	200,617,504	0	466,011,313
Retirement/cancellations/ disposal/adjustments	0	0	(41,230,249)	(1,065,264)	(41,559,557)	0	(83,855,070)
December 31, 2019	**0**	**11,691,205**	**911,782,262**	**219,478,261**	**2,395,600,560**	**0**	**3,538,552,288**
Accumulated impairment loss December 31, 2019	**0**	**1,137,050**	**108,934,119**	**0**	**0**	**0**	**110,071,169**
Carrying amount, December 31, 2019	**4,543,368,645**	**6,512,064**	**491,020,427**	**910,884,170**	**1,124,257,517**	**58,260,148**	**7,134,302,971**

Among the Property and Equipment, only land is subject to revaluation. Revaluation was made by an independent appraiser in December 2018. Any increase in the value of the land as a result of revaluation is recorded under property revaluation reserves while a decrease is recognized as an expense to the extent that it exceeds any amount previously credited to property valuation reserve. The balance of the property revaluation reserves as at December 31, 2020 and 2019 is P4.046 billion and is not subject to any appropriations as at end of the reporting period.

If land were stated on the historical cost basis, its carrying amount as at December 31, 2020 and 2019 is P534.062 million.

Rental income from a portion of five property and equipment under a cancellable lease agreement as at December 31, 2020 and December 31, 2019 is P9.514 million and P7.937 million, respectively, were included in the Statements of Comprehensive Income. The portion under lease cannot be sold separately and is insignificant, thus, remains as Property and Equipment.

The SSS recognizes the Right-of-Use Asset (ROU) for the right to use the underlying leased asset. As at December 31, 2020 and 2019, the carrying amount of the ROU asset is P812.537 million and P910.884 million, respectively. ROU assets are depreciated each year on a straight-line basis over the term of the lease (see Note 14).

As at December 31, 2020 and 2019, the total carrying amount of fully depreciated property and equipment that are still in use are P92.102 million and P71.833 million, respectively.

12. INTANGIBLE ASSETS – NET

This account is composed of the following:

	2020	2019
Cost		
Balance, January 1	**791,568,029**	805,412,631
Additions	**541,000**	14,000,000
Retirement/disposals/cancellation	**(17,519,969)**	(27,844,602)
Balance, December 31	**774,589,060**	791,568,029
Accumulated amortization		
Balance, January 1	**546,045,214**	494,262,300
Amortization charge for the period	**45,454,897**	53,695,288
Retirement/disposals/cancellation	**(5,685,350)**	(1,912,374)
Balance, December 31	**585,814,761**	546,045,214
Accumulated impairment loss		
Balance, January 1	**49,896,000**	75,828,227
Retirement/disposals/cancellation	**0**	(25,932,227)
Balance, December 31	**49,896,000**	49,896,000
Net book value, December 31	**138,878,299**	195,626,815

Intangible assets with definite and indefinite life include both computer software and licenses. The carrying amount of intangible assets with indefinite life as at December 31, 2020 and 2019 is P60.699 million. All intangibles with definite lives are amortized either over a period of five years or with 20 per cent annual amortization rate. As at December 31, 2020 and 2019, the total cost amount of fully depreciated/amortized intangible assets that are still in use are P481.518 million and P477.212 million, respectively.

13. OTHER NON-CURRENT ASSETS

This account consists of the following:

	2020	2019 Restated
Deposits	**97,766,937**	92,177,631
Other assets	**292,791,091**	285,493,590
	390,558,028	377,671,221
Allowance for impairment – other assets	**(72,377,567)**	(73,583,691)
	318,180,461	304,087,530

Deposits account is recognized for the amount of deposits for telephone lines, water connection services, meter deposits, and office rental deposits.

Other assets account consists of fire insurance premium (FIP) and mortgage redemption insurance (MRI) advanced by SSS for properties mortgaged to the SSS. The decrease in the allowance for impairment is due to full payment of housing loan accounts.

14. FINANCIAL LIABILITIES

This account consists of the following:

	2020	2019 Restated
Current financial liabilities		
Accounts payable	**1,799,398,466**	6,161,118,482
Accrued operating expenses	**1,759,689,684**	1,891,812,205
Accrued benefit payable	**912,533,570**	155,169,770
Claims pay-out payable	**3,709,491**	3,657,724
Lease liability	**156,254,268**	195,358,652
	4,631,585,479	8,407,116,833
Non-current financial liabilities		
Operating lease payable	**1,422,339**	0
Lease liability	**727,679,432**	765,314,040
	729,101,771	765,314,040
	5,360,687,250	9,172,430,873

Accounts payable and *accrued operating expenses* comprise of SSS' obligations payable to members, suppliers, employees and officials and loan overpayments for refund to member-borrowers. The *accounts payable* account significantly decreased due to posting of member loans overpayment amounting to P3.945 billion applied to the existing current loan of the borrowers.

Accrued benefit payable represents the SSS obligation to members for retirement pension benefit claims which is recognized using accrual basis of accounting. This includes the accrual of benefit expenses for retirement benefits, which was adopted in CY 2020 and retrospectively applied in the preceding year amounting to P2.026 billion and P1.415 billion, respectively. (see Note 25)

Claims pay-out payable pertains to unpaid insurance claims of policyholders composed of Premium Liability, Fire/earthquake claims IBNP and incurred but not yet reported.

Lease liability represent the lease payable for the right to use the underlying lease asset up to the end of the lease contract in accordance with PFRS 16, details follow:

	2020	2019
Beginning Balance, January 1	**960,672,692**	0
Setup/Additions	**149,950,447**	1,136,766,737
Lease payments	**(221,093,466)**	(83,183,697)
Retirement/Cancellation/Adjustments	**(5,595,973)**	(92,910,348)
Ending balance, December 31	**883,933,700**	960,672,692
Current lease liabilities	**156,254,268**	195,358,652
Non-current lease liabilities	**727,679,432**	765,314,040

The associated right-of-use assets are measured at the amount equal to the lease liability at initial set-up, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognized. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

ROU-Asset	2020	2019
Beginning balance, 1 January	**910,884,170**	0
Set-up/Additions	**149,950,447**	1,136,766,737
Retirement/Cancellation/Adjustments	**(3,256,288)**	(5,339,042)
Depreciation	**(245,041,597)**	(220,543,525)
Net carrying amount, December 31	**812,536,732**	910,884,170

SSS as a lessee maintains 156 lease contracts with variable terms ranging from more than one year to 10 years that are recognized as asset and liability, while 11 contracts with terms of less than one year are recognized as operating expense.

RA No. 11469 or Bayanihan 1 and RA No. 11494 or Bayanihan 2 were enacted granting the President of the Philippines additional authority to combat the COVID-19 pandemic. Recognizing that jobs and operations are disrupted as a consequence of the community quarantine, one of the economic reliefs provided is the concession of residential and commercial rental fees. SSS as a lessee was given rent reprieves and discounts by the lessors of Angeles and Lemery Branch Offices. Angeles Branch Office's lessor granted SSS a free rent from March 17 to May 17, 2020, while Lemery Branch Office's lessor granted a free rent from March 16 to April 30, 2021, 75 per cent discount in May 2020 and 50 per cent discount from June to August 2020.

15. INTER-AGENCY PAYABLES

This account is composed of the following:

	2020	2019
Due to BIR	**102,811,404**	81,074,602
Due to GSIS	**64,895,851**	74,523,169
Due to Philhealth	**11,124,275**	7,052,449
Due to Pag-IBIG	**9,600,302**	5,290,331
Due to SSS	**83,180**	0
	188,515,012	167,940,551

This account includes withholding taxes, contributions to GSIS, Philippine Health Insurance Corporation (PHIC), HDMF and loan amortization due to SSS which were deducted from the payroll of SSS employees.

Due to BIR includes among others, value-added tax (VAT) payable, other taxes withheld for remittance and over remittance in CY 2020 for offsetting in the January 2021 remittance. The VAT exemption of SSS was repealed by Section 86 of the RA No. 10963, also known as the Tax Reform for Acceleration and Inclusion (TRAIN) effective January 1, 2018.

16. TRUST LIABILITIES

This account is composed of the following:

	2020	2019
Trust liabilities	**712,530,850**	462,395,216
Guaranty/ security deposits payable	**242,842,670**	230,385,454
Customers' deposits payable	**246,293,690**	168,314,824
	1,201,667,210	861,095,494

Trust liabilities consist of the following:

	2020	2019
Funds held in trust		
Officials and employees	**469,675,201**	410,245,620
Borrowers and other payors	**23,878,611**	33,128,217
Suppliers and creditors	**3,092,090**	4,637,210
Small business wage subsidy (SBWS) fund	**199,124,435**	0
Flexi-fund	**10,323,877**	10,268,696
SSS provident fund and medical insurance	**5,699,787**	3,378,624
Dividends – stock investment loan program	**649,767**	649,767
Educational loan fund – DECS	**87,082**	87,082
	712,530,850	462,395,216

Funds held in trust (FHT) from officials and employees include amounts deducted from employees' payroll other than mandatory deductions such as provident fund contributions, loan amortization repayments, association dues, etc. and are remitted the following month to private entities. It also includes among others the amounts deducted from their separation/retirement claims for the benefits received but subsequently disallowed in audit which as at December 31, 2020 and 2019, amounted to P435.647 million and P380.554 million, respectively. This is done to assure collection once the pending appeal in court or with COA, will result in an unfavorable decision and disallowances become final and executory. However, in the event that the Supreme Court decision should be in favor of SSS and its employees, the amount withheld from these retired employees will be returned in full.

FHT from borrowers and other payors are payments received for rental deposits from tenants, and surety bond from collecting agents and are refunded after expiration of the contract.

FHT from suppliers and creditors are payments of liquidated damages from suppliers and contractors with protest and sale of bid deposits from bidders. Amounts are utilized or refunded to suppliers if protest is reconsidered and approved. Collections on sale of bid deposits are utilized for payment of expenses of the Bid and Awards Committee (BAC) such as the payment of honoraria to BAC members. Unutilized amounts are closed to miscellaneous income.

SSS provident fund and medical insurance represents the SSS' share in the premium contribution and medical insurance of employees and officials and foreign representatives, respectively.

The SBWS fund represents a joint program of the DOF, SSS and BIR. The SBWS aims to provide a monthly wage subsidy of P5,000 to P8,000 each for two months to around 3.4 million eligible employees of small businesses affected by the economic standstill after separate quarantine measures were imposed nationwide in March to stop the further spread of the COVID-19 with the approved DBM budget of P51 million utilization of the said benefit to 3,101,685 members. The remaining balance of the fund not yet returned to the Bureau of Treasury and outstanding text blast and related charges for payment as at December 31, 2020 amounting to P198.972 million and P0.152 million, respectively

Guaranty/security deposits payable is composed of bidder's deposits, performance or cash bonds and retention money from collecting agents and/or winning bidders in the procurement of goods and services, infrastructure and consultancy services.

Customers' deposits payable are rental deposits made by tenants leasing SSS properties.

17. DEFERRED CREDITS/UNEARNED INCOME

This account consists of the following:

	2020	2019 Restated
Current		
Deferred credits – Output tax	**0**	1,143,797
Unearned rental income	**76,721,000**	192,306,972
	76,721,000	193,450,769
Non-current		
Unearned income – Unrealized gain-bond	**329,061,510**	355,912,179
	405,782,510	549,362,948

The output tax is the VAT of SSS for its properties under lease while unearned rental income represents advance rental payments from tenants of SSS properties.

The non-current unearned income represents unrealized gain from SSS participation in the Republic of the Philippines Domestic Debt Consolidation Program (Bond Exchange) 2011 and 2014, and Liability Management Program (Bond Exchange) 2015.

18. PROVISIONS

This account consists of the following:

	2020	2019 Restated
Pension benefits payable	**478,496,400**	421,990,800
Leave benefits payable	**1,169,992,326**	1,003,172,055
Retirement gratuity payable	**28,691,057**	28,691,057
Other provisions	**264,702,133**	281,201,381
	1,941,881,916	1,735,055,293

Pension benefits payable represents the accrual of compulsory retirement benefit pension already entitled but not yet filed or incurred benefits but not yet reported (IBNR) based on the policy guidelines set forth in Note 2.12.

Leave benefits payable represents the cash value of the accumulated vacation and sick leave credits of employees, 50 per cent of which can be monetized once a year and the balance payable upon resignation/retirement. As at December 31, 2020, there were 1,995 employees who availed of the monetization of leave credits with a total amount of P93.076 million.

Retirement gratuity payable is available to qualified employees under any one of RA No. 1616, RA No. 660 and RA No. 8291. Under RA No. 1616, SSS, as the last employer of the qualified employees, pays the gratuity benefit of those who opt to retire under the said law. Benefits under RA No. 660 and RA No. 8291 are paid by GSIS. Thus, the liability only pertains to RA No. 1616.

Other provisions pertain to Retirement Incentive Award (RIA) given to employees with at least 20 years of creditable service and are entitled to P5,000 for every year of service upon retirement. As at December 31, 2020, 119 employees were given RIA in the total amount of P19.877 million.

The provision is calculated each year with the assumption that all regular SSS employees would retire by the end of the following year. The salary increases and leave credits are projected up to the retirement year, which are then the basis for the computation of the employee retirement benefits.

19. INSURANCE CONTRACT LIABILITY

	2020	2019 Restated
Social Security Fund (SSF)	**6,734,089,235,597**	6,272,902,819,276
Employee's Compensation (EC) Fund	**23,131,055,080**	22,569,406,171
	6,757,220,290,677	6,295,472,225,447

Insurance contract liability is recognized in compliance with DOF's policy directive requiring government insurance institutions (GIIs) falling under its supervision to adopt PFRS 4, the adoption of which was approved by the SSC under Resolution No. 123-s.2021 dated March 10, 2021. It is computed based on six per cent discount rate considering SSS' past investment performance, which considered the following: (a) past performance of SSS' investment assets; (b) collectability of its loan receivables; and (c) forward-looking view of the portfolio performance or outlook on SSS' investments and market conditions.

ICL is the sum of the present value of future benefits and expenses, less the present value of future contributions discounted at the appropriate risk-free discount rate. Actuarial valuation methodology and assumptions are discussed in Note 21.

20. OTHER PAYABLES

This account is composed of undistributed collections as follows:

	2020	2019
Current		
Member loans (ML) collection	**671,036,222**	883,045,940
Undistributed collection	**51,746,331**	33,059,838
OFW collections	**89,068,802**	89,087,523
Sales contract receivable	**56,046,853**	49,233,771
Real estate loans collection	**14,560,934**	9,553
Rental receivable	**0**	8,679,434
Employees' housing loan program	**80,520**	3,173
	882,539,662	1,063,119,232
Non-current		
Other payables	**50,000,000**	50,000,000
	932,539,662	1,113,119,232

On member loans collection, the balance of unposted collections decreased by P212.010 million or 24 per cent to P671.036 million in CY 2020 from P883.046 million in CY 2019. This is because the SSS has undertaken various efforts to address the posting issues and expedited the reconciliation process through (1) enhancing computer programs and systems, (2) continuous sending and monitoring of No Collection Lists and Unbalance Transactions to branches, (3) regular clean-up of unpostables and reconciliation and (4) improved frequency of generating the Actual Distribution of payments in the electronic Loan Management System (e-LMS) on a semi-monthly basis.

The undistributed collection accounts always carry respective balances at the end of any given period. Hence, these are collections for loan amortizations and contributions that have not yet been posted to individual members or borrowers and other accounts pending receipt of collecting agencies'/employers' documents and actual distribution of collections and payments whose nature are not indicated by payors.

Since November 2020, SSS has been sending loan billing notices to member-borrowers and employers. This loan billing statement or notice contains a corresponding PRN as part of the Real-Time Processing of Loans (RTPL) program. Individual members and employers must present the PRN when paying at SSS branches with Automated Tellering System or any RTPL-compliant partner. The PRN helps facilitate the immediate and correct posting of loan payments matched to their loan accounts.

The non-current portion of *Other Payables* represents the P50 million seed money to fund the initial investment activities of the PESO fund.

21. EQUITY

The SSS' Equity consists of the following:

	2020	2019 Restated
Reserve fund	**(6,109,188,630,051)**	(5,681,272,001,318)
Cumulative changes in fair value	**(23,396,565,246)**	(31,501,686,059)
Revaluation surplus	**4,046,242,799**	4,046,242,799
Members' equity	**1,281,698,533**	1,038,891,527
	(6,127,257,253,965)	(5,707,688,553,051)

21.1 Reserve fund

The reserve fund consists of the following:

	2020	2019 Restated
Reserve fund/Retained earnings	**648,031,660,626**	614,200,224,129
Reserved fund - policy reserves	**(6,757,220,290,677)**	(6,295,472,225,447)
	(6,109,188,630,051)	(5,681,272,001,318)

The reserve fund as at December 31, 2019 was restated to reflect the effect of the following changes in accounting policies which are retrospectively applied:

1. Recognition of insurance policy reserves
2. Recognition of expected credit loss on financial assets and loans and receivables
3. Accrual of premium contribution collections and benefit payments
4. Remeasurement of three Investment Properties with litigation from cost to fair value
5. Income from Conveyance of Aseana Building to SSS by Belle Corp.
6. Recognition of Mortgagor Insurance Account (MIA) Premium Liability and Claims liability

	2019 Restated
Balance at December 31, 2019, as reported	581,651,564,402
Recognition of insurance policy reserves	
At the beginning of January 1, 2019	(5,907,142,220,262)
During the year 2019	(388,330,005,185)
	(6,295,472,225,447)
Accrual of premium contribution collections	
At the beginning of January 1, 2019	6,832,906,171
During the year 2019	3,126,166,238
	9,959,072,409
Accrual and prepayments of benefit claims	
At the beginning of January 1, 2019	5,073,423,039
During the year 2019	648,375,340
	5,721,798,379

(Forward)

	2019 Restated
Remeasurement of 3 IPs with litigation from cost to fair value	
At the beginning of January 1, 2019	12,174,241,128
During the year 2019	2,740,973,572
	14,915,214,700
Recognition of Expected Credit Loss	
At the beginning of January 1, 2019	509,186,349
During the year 2019	(1,404,408,523)
	(895,222,174)
Reclassification of NCAHFS to IP	
At the beginning of January 1, 2019	194,546,968
During the year 2019	63,222,810
	257,769,778
Prior period adjustment	
Conveyance of Aseana Building property to SSS	2,593,684,359
Impairment of penalty receivables and other non-current assets	(3,657,724)
	2,590,026,635
Balance at December 31, 2019, as restated	(5,681,272,001,318)

The consolidated financial statements have been prepared on a going concern basis, which assumes that the SSS will be able to meet the mandatory payment of member's benefits and operational expenses.

The SSS has recognized a net profit of P34.474 billion for the year ended December 31, 2020, before the recognition of net change in policy reserves of P461.748 billion, due to adoption of PFRS 4 and as at that date, total assets amounted to P639.994 billion. However, as described in Note 19, there is a significant increase in liability as the SSS recognized the insurance contract liability to its members. Moreover, additional benefits like Unemployment Benefits have been released due to the emergence of the COVID-19 pandemic.

Management believes that the payment of benefits will remain as usual and is confident that it will operate until 2054 as projected by Actuarial experts. The implementation of the new contribution rates and the increase in the Monthly Salary Credit to P25,000 by CY 2021 will also help sustain its operations and that will be sufficient to meet operational requirements. Furthermore, under RA No. 11199, otherwise known as the Social Security Act of 2018, Section 21, the Philippine Government guarantees that all the benefits prescribed in the RA shall not be diminished and it accepts general responsibility for the solvency of the System.

Management acknowledges that uncertainty remains over the ability of SSS to meet its funding requirements to pay its members' benefits and operational expenses. However, as described above, management has a reasonable expectation that the SSS has adequate resources to continue in operational existence for the foreseeable future.

As administrator of the SIF, SSS remits to ECC and its Center 70 per cent of the annual COB approved by the DBM, details below:

	As at December 31, 2020	As at December 31, 2019
ECC	**118,958,924**	84,537,194
Center-OSHC	**173,658,997**	158,871,300
	292,617,921	243,408,494

Investment Reserve Fund (IRF)

The investment reserve fund as at December 31, 2020 and 2019 (as restated) amounted to P596.666 billion and P551.435 billion, respectively.

All revenues of SSS that are not needed to meet the current administrative and operational expenses are accumulated in the reserve fund. Such portion of the reserve fund that is not needed to meet the current benefit obligations is known as the IRF which the SSC manages and invests with the skill, care, prudence and diligence necessary to earn an annual income not less than the average rate of treasury bills or any other acceptable market yield indicator in any or in all of the undertaking, under such rules and regulations as may be prescribed by the SSC.

No portion of the IRF or income thereof shall accrue to the general fund of the NG or to any of its agencies or instrumentalities, including government-owned or controlled corporations, except as may be allowed under the SS Act of 2018. It also provides that no portion of the IRF shall be invested for any purpose or in any instrument, institution or industry over and above the prescribed cumulative ceilings as follows: 60 per cent in private securities, 5 per cent in housing, 30 per cent in real estate related investments, 25 per cent in short and medium-term member loans, 30 per cent in government financial institutions and corporations, 15 per cent in any particular industry and 7.5 per cent in foreign-currency denominated investments, 5 per cent in private-sponsored infrastructure projects without guarantee, 5 per cent in private and government-sponsored infrastructure projects with guarantee, 5 per cent in private and government-sponsored infrastructure projects.

As at December 31, 2020, all investment categories are within the SSS charter limits of RA No. 11199.

<u>Actuarial Valuation of the reserve fund of the SSS</u>

The SS Act of 2018 requires the SSS Actuary to submit a valuation report every three years or more frequently as may be necessary, to determine the actuarial soundness of the reserve fund of the SSS and to recommend measures on how to improve its viability.

The reserve fund is affected by (a) changes in demographic factors (such as increased life expectancy, aging of population, declining fertility level and delay in retirement) and (b) the economic conditions of the country. Economic factors on which assumptions are made include interest rates, inflation rates and salary wage increases. With these and other assumptions, and taking into account the uncertainty of future events, the liability and life of the fund are projected.

The latest 2019 Actuarial Valuation of the Social Security Fund (SSF) adheres to the International Standard of Actuarial Practice 2 – Financial Analysis of Social Security Programs as issued by the International Actuarial Association (IAA). This standard has been supported within the International Social Security Association (ISSA) and the International Labour Organization (ILO). It provides actuaries performing the valuation of social security programs the guidance to give intended users confidence that actuarial services are carried out professionally and with due care; the results are relevant to their needs and are presented clearly and understandably; and the assumptions and methodology used are disclosed appropriately. It also promotes the development of consistent actuarial practice for social security programs throughout the world.

The Actuarial Valuation estimates the SSF life and liabilities using an **open group projection method**, where members who will join the System in the future are considered in the projection of revenues and expenditures. The SSS program, as with other social security schemes, was designed such that the contributions of the current paying members fund the benefits of the current pensioners; hence, there is income transfer across generations. With the continuous membership of future generations into the System, the benefits of the current and future pensioners are continuously funded by the contributions of the former; hence, the open-group projection method is appropriate in assessing the sustainability of the SSS program.

SSS is transitioning to PFRS 4 on the reporting of its financial condition, starting with the 2020 Financial Statement. Valuation standards set by the Insurance Commission are to be applied, where the life insurance policy reserve shall be valued, where appropriate, using gross premium valuation. Unlike the open group projection method used in the Actuarial Valuations, the gross premium valuation applies a **closed group projection method**, which only considers the existing members up to end of reporting date while continuing their contribution up to a certain date. The liability computed with this approach is highly theoretical, as it is only truly meaningful for a program that is intended to be fully funded. Nevertheless, it provides an insight as to the magnitude of the liability of a program that is designed to be partially funded, such as the SSS program.

In the gross premium valuation used under the closed group projection method, the Insurance Contract Liability (ICL) is computed as the sum of the present value of future benefits and expenses, less the present value of future contributions discounted at the appropriate risk-free discount rate. In contrast, under the open group projection method, assets are deducted from the ICL to estimate the unfunded liability.

The Valuation using the closed group projection method was conducted for the reporting date of December 31, 2018, December 31, 2019, and December 31, 2020. The cut-off date for actual membership and demographic data is December 31, 2018. These existing members together with new entrants up to the end of reporting date, who continue their contribution up to a certain date, were considered in the projections.

As shown in the following table, the computed insurance contract liabilities at a discount rate of 6% are computed at P5.883 trillion as of December 31, 2018, P6.273 trillion as of December 31, 2019, and P6.734 trillion as of December 31, 2020.

Social Security Fund
Summary of Insurance Contract Liability
(Amount in Trillion Pesos)

	As at December 31, 2018	As at December 31, 2019	As at December 31, 2020
Insurance Contract Liability at 6% discount rate	5.883	6.273	6.734

Meanwhile, the comparison of the liabilities computed under the open and closed group projection methods are presented in the following table.

2019 Actuarial Valuation
Social Security Fund
Comparison of Key Projection Results
Open Group versus Closed Group
(Amount in Trillion Pesos)

Key Projection Results	Open Group (A)	Closed Group (B)
Year of Reserve Exhaustion	2054	
Year Net Revenue Becomes Negative	2045	
Liability Computation		
(Discount rate = 6 per cent)	(As at Dec. 31, 2020)	(As at Dec. 31, 2020)
Insurance Contract Liability	6.452	6.734
Reserves	0.554	
Unfunded Liability	5.898	

The valuation of a social security scheme, which is usually made using the open-group method, has financial indicators as outputs that provide information on the future evolution of costs and on the capacity of the scheme to support them in the long term. One such financial indicator is the year of reserve exhaustion, which presents the number of years the scheme may continue to operate without any changes being made to the legislated contribution rate.[1] For the SSF, this year is projected to be in 2054.

The Insurance Contract Liability as of December 31, 2020 is at P6.734 trillion, computed using the closed group method. Meanwhile, using the open group method, the liability is at P6.452 trillion. As expected of a partially funded program, the liability under the closed group method is larger than that from the open group method.

Instead of a seriatim approach, these projections apply a portfolio approach, which works to the advantage of SSS considering the magnitude of its membership data. Lapse assumptions are implicitly considered as well, in the form of density assumptions and movement among contributing and non-contributing groups. Margin for Adverse Deviation (MfAD) was no longer applied due to the magnitude of the resulting liabilities. Meanwhile, these projections already incorporated the scheduled contribution increases up to 15 per cent in 2025 as mandated by RA No. 11199 (Social Security Law of 2018). Note that the projections do not reflect yet the potential impact of the COVID-19 pandemic on the SSS social security program.

[1] Pierre Plamondon, et al., *Actuarial Practice in Social Security* (Geneva: International Labor Organization, 2002).

The magnitude of the liabilities was caused in part by a structural imbalance, brought about by the mismatch of the increases in pension, monthly salary credit (MSC) ceiling and contribution rate. During the period from 1980 to 2016, pensions were increased through across-the-board pension increases of up to 20 per cent (22 times) and increases in minimum pension amount through RA No. 8282; MSC ceiling was also increased 12 times. The contribution rate, on the other hand, was only increased 4 times during the same period, from 8 per cent to 8.4 per cent in 1980, 8.4 per cent to 9.4 per cent in 2003, then to 10.4 per cent in 2007, and finally to 11 per cent in 2014.

The effect of demographic change on the fund should also be recognized, as there may not be enough contributors remitting to pay all the expenses and benefits of the growing number of pensioners due to declining population growth rate and lengthening life spans.

To address these and other issues on the viability of the reserve fund, actuarial valuations and other studies are conducted regularly, the results of which serve as basis of recommendations for policy reforms. The recommendations mentioned in the valuations include raising the contribution rate, improving the contribution collection, increasing the minimum and maximum MSC, revisiting the pension formula, reviewing the qualifications for eligibility for long-term benefits, raising the retirement age, and exploring other means to improve the adequacy of benefits. Further, reform packages and other measures shall be formulated, which simultaneously address the interest of the stakeholders of SSS: benefit adequacy for current pensioners, and financial sustainability for future pensioners, who are now active contributors of the SSS.

Actuarial Valuation of the reserve fund of Employees' Compensation (EC)

SSS manages the Employees' Compensation Program (ECP), which provides social protection against work-related sickness, injury or death, for private sector workers and household helpers who are compulsory members of SSS. Starting 2019, self-employed members were added in the coverage of the program. With the ECP providing coverage to the same members covered under the SS Law, the Actuarial Valuation of the Social Security (SS) Fund then serves as basis for the conduct of the EC Actuarial Valuation. The data, actuarial bases and assumptions, as well as methodology used in the EC Actuarial Valuation are similar to that used in the SS Actuarial Valuation.

The 2015 EC Actuarial Valuation is the latest conducted valuation, which was used as basis for the computation of liabilities. This 2015 EC Actuarial Valuation was based on the 2015 SS Actuarial Valuation.

Similar to the SS Actuarial Valuation, the EC Actuarial Valuation applies the **open group projection method**, where members who will join the System in the future are considered in the projection of revenues and expenditures.

In the transition of the reporting of the financial condition to PFRS 4, the liability for the EC Fund is computed using the same methodology that was applied to that of the SS Fund. In particular, the closed group projection approach of gross premium valuation was applied, where the members that were considered are only those existing members up to the end of reporting date while continuing their contribution up to a certain date. The reporting dates considered were December 31, 2018, December 31, 2019, and December 31, 2020.

The 2012 data on SSS employed members and household helpers was used for the EC Valuation. To apply the closed group methodology in this EC Valuation, new entrants who enter up to year 2018, 2019 or 2020 were included, as applicable to the reporting date. Starting 2019, self-employed members were included in the projections.

The following table presents the computed liability of P24.469 billion as of December 31, 2018, P22.569 billion as of December 31, 2019, and P23.131 billion as of December 31, 2020, at a discount rate of 6 per cent.

Employees' Compensation Fund
Summary of Insurance Contract Liability
(Amount in Billion Pesos)

	As at December 31, 2018	**As at December 31, 2019**	**As at December 31, 2020**
Insurance Contract Liability at 6% discount rate	24.469	22.569	23.131

The comparison of the liabilities computed under the open and closed group projection methods are presented in the following table.

2015 EC Actuarial Valuation
Comparison of Key Projection Results
Open Group versus Closed Group
(Amount in Billion Pesos)

Key Projection Results	Open Group (A)	Closed Group (B)
Year of Reserve Exhaustion	Beyond 2080	
Year Net Revenue Becomes Negative	Beyond 2080	
Liability Computation (Discount rate = 6 per cent)	(As at Dec. 31, 2020)	(As at Dec. 31, 2020)
Insurance Contract Liability	(2.406)	23.131
Reserves	45.569	
Unfunded Liability	(47.975)	

For the EC Fund, the year of reserve exhaustion is projected to be beyond 2080.

The ICL as of December 31, 2020 is at P23.131 billion, computed using the closed group method. Meanwhile, using the open group method, there is no resulting liability since the EC reserves are able to cover the obligations.

Instead of a seriatim approach, these projections apply a portfolio approach, which works to the advantage of ECC considering the magnitude of its membership data. Lapse assumptions are implicitly considered as well, in the form of density assumptions and movement among contributing and non-contributing groups. Margin for Adverse Deviation (MfAD) was no longer applied due to the magnitude of the resulting liabilities. Meanwhile, these projections already incorporated the impact of SS Act of 2018, coverage of the self-employed, EO No. 33 and EO No. 54.

21.2 Revaluation surplus

Revaluation surplus is the result of revaluation of assets. The balance represents the excess of revaluation/appraisal value over the book value of the revalued asset.

21.4 Members' equity

Members' equity is composed of the contributions and guaranteed earnings of Flexi Fund and PESO Fund members. Guaranteed earnings are computed based on SSS' short term peso placement rate or 91-day Treasury Bill rate, whichever is higher for Flexi Fund, and for PESO Fund, based on the 5-year Treasury Bond rate and 364-day Treasury Bill rate. As at 31 December 2020, total equity for Flexi and PESO funds is P1.165 billion and P117.225 million, respectively.

21.5 Cumulative changes in fair value

	2020	2019
Balance, January 1	**(31,501,686,059)**	(30,822,445,526)
Net gain (loss) arising on revaluation of financial assets at FVTOCI	**8,105,120,813**	(679,240,533)
Balance, December 31	**(23,396,565,246)**	(31,501,686,059)

The cumulative changes in fair value represent the investments revaluation reserves arising on the revaluation of financial assets that have been recognized in other comprehensive income.

22. SERVICE AND BUSINESS INCOME

This account is composed of the following:

	2020	2019 Restated
Members' contributions	**205,697,219,568**	222,745,780,797
Interest income	**19,029,176,963**	20,908,556,958
Dividend income	**4,005,185,841**	2,964,937,904
Fines and penalties – business income	**3,549,293,191**	3,412,317,758
Rent/lease income – investment properties	**1,111,175,653**	2,563,569,852
Income from acquired/foreclosed assets	**16,662,136**	41,705,847
Management fees	**11,016,494**	8,938,207
Other business income	**606,192,786**	549,549,447
	234,025,922,632	253,195,356,770

The service and business income for CY 2020 amounting to P234.026 billion was lower than CY 2019 revenue by P19.169 billion or 7.65 per cent mainly due to the effect of the COVID-19 pandemic which brought closure of business enterprises and unemployment to some SSS members.

The combined SSS and ECC collection of members' contributions including related interests and penalties totaled P208.959 billion and P220.379 for CY 2020 and CY 2019, respectively.

The CY 2019 contribution collection was restated to reflect the effect of the change in accounting policy from cash to basis of recognizing revenue as they become due or when earned and not necessarily when collected or when cash is received. This policy exists to ensure adherence to the accounting standards, promote consistent accounting treatment and improve the overall quality of financial statements.

Interest income is derived from the following SSS investments:

	2020	2019
Bonds investments		
FA at FVTPL	**994,894,400**	1,005,343,581
FA at FVTOCI	**2,632,154,029**	2,775,112,231
FA at amortized cost	**11,226,187,313**	10,720,870,637
	14,853,235,742	14,501,326,449
Loans and receivables	**3,489,195,439**	5,399,820,066
Current/savings/term deposits	**607,557,372**	902,990,641
Time deposits/treasury bills	**5,645,958**	72,982,018
Others	**73,542,452**	31,437,784
	19,029,176,963	20,908,556,958

Other business income for CY 2020 includes P534.887 million service fees on salary loans granted, P20.142 million income from SSS ID replacement, P35.160 million income from rebate of management fee, P10.913 million rental income from operating assets, including penalty of P1.400 million, P5.079 million fire insurance premium and P11,483.53 flexi fund pre-termination fees.

23. GAINS

This account consists of the following:

	2020	2019 Restated
Gain from changes in fair value of financial instruments	**9,958,501,994**	3,845,422,727
Gain from changes in fair value of investment properties	**6,651,334,489**	15,658,690,128
Gain on sale/redemption/transfer of investment	**1,162,471,020**	1,557,624,782
Gain on sale of investment properties	**7,447,765**	0
Gain on sale/disposal of property and equipment	**716,809**	225,867
Gain on foreign exchange (FOREX)	**297,636**	305,237
	17,780,769,713	21,062,268,741

Fair value adjustment of financial instruments for CY 2020 at P9.959 billion is higher than the CY 2019 gain by P6.113 billion, mostly from equity securities with stock market appreciation.

Investment properties are remeasured at fair value, which is the amount for which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. Gain or losses arising from changes in the fair value of the investment properties are included in net profit or loss for the period in which they arise.

Gain on sale/redemption/transfer of investments includes realized gain on sale of equity securities, government securities and NCAHFS.

24. OTHER NON-OPERATING INCOME

This account consists of the following:

	2020	2019 Restated
Reversal of impairment loss	**2,088,536,194**	1,928,211,282
Miscellaneous income	**440,536,451**	419,441,404
	2,529,072,645	2,347,652,686

The SSS considers certain financial assets to have recovered from impairment losses amounting to P2.089 billion in CY 2020 due to the enhanced loan collection efforts and digitalization initiatives implemented by SSS. Majority of the recoveries came from member loans and housing loans amounting to P2.022 billion and P47.994 million, respectively. Other recoveries are accounted from NCAHFS, P4.214 million; sales contract rental and penalty receivables, P1.074 million; and from other assets, P13.484 million, all for the same period.

25. BENEFIT PAYMENTS

This account represents payments to members and their beneficiaries in the event of disability, sickness, maternity, old age, death and other contingencies resulting in loss of income or financial burden. Total benefit payments amounted to P194.871 billion and P196.113 billion, with total number of beneficiaries of 2,821,299 and 3,989,776, for CYs 2020 and 2019, respectively, as follows:

	2020	2019 Restated
Retirement	**115,440,395,522**	113,619,624,285
Death	**55,704,638,322**	57,065,755,182
Maternity	**10,494,277,060**	10,411,803,431
Disability	**6,430,682,592**	7,369,931,044
Funeral grant	**3,073,451,260**	4,230,672,378
Sickness	**2,010,912,997**	3,226,363,930
Unemployment	**1,709,010,067**	177,863,624
Medical services	**7,489,404**	10,783,631
	194,870,857,224	196,112,797,505

Benefit payments of P194.871 billion in CY 2020 is lower than the last year's benefit payments by P1.242 billion or 0.63 per cent. Since the declaration of community quarantines nationwide, preventive measures in the branch operations that were implemented such as the use of drop-box, branch appointment system and the introduction of online submission of claims and the alternative work arrangement for employees prevented the timely filing and processing of claims, hence benefit claims payouts decreased. This includes the accrual of benefit expenses for retirement benefits, which was adopted in CY 2020 and retrospectively applied in the preceding year amounting to P2.026 billion and P1.415 billion, respectively (see Note 14).

The unemployment or involuntary separation benefit is given to qualified SSS member as provided under Section 14-B of the RA No. 11199. A member who is not over sixty (60) years of age and who has paid at least 36 months contributions, 12 months of which should be in the eighteen-month period immediately preceding the involuntary unemployment or separation, shall be paid benefits in the form of monthly cash payments equivalent to 50 per cent of the average monthly salary credit for a maximum of two months: Provided, that an employee who is involuntary unemployed can only claim unemployment benefits once every three years and provided, further that in case of concurrence of two or more compensable contingencies, only the highest benefits shall be paid, subject to the rules and regulations that the SSC may prescribe.

The SSS has paid unemployment or involuntary separation benefit for CY 2020 to 135,814 SSS members in the total amount of P1.709 billion. It increased by P1.531 billion from CY 2019's actual payment of P177.864 million primarily due to the effect of the COVID-19 pandemic.

26. NET CHANGE IN POLICY RESERVES

SSC Resolution No. 123-s. 2021 dated March 10, 2021 approved the adoption of the PFRS 4 in the computation of the ICL for the CY 2020 financial statements and onwards and the use of the discount rate of six per cent.

Net change in policy reserves for CY 2020 is P461.748 billion representing 67.74 per cent of the total expenses for the year. This is P73.414 billion or 18.9 per cent more than the CY 2019 provision of P388.334 billion.

Policy Reserves	**2020**	**2019**	**2018**
Insurance Contract Liability			
SSF	**6,734,089,235,597**	6,272,902,819,276	5,882,673,216,699
EC-SIF	**23,131,055,080**	22,569,406,171	24,469,003,563
	6,757,220,290,677	6,295,472,225,447	5,907,142,220,262
Net Change			
SSF	**461,748,065,230**	388,330,005,185	
EC-SIF	**51,767**	3,657,724	
	461,748,116,997	388,333,662,909	

27. PERSONNEL SERVICES

This account is composed of the following:

	2020	2019
Salaries and wages	**2,876,292,103**	2,980,063,635
Other compensation	**1,599,734,421**	1,709,321,420
Personnel benefit contribution	**1,552,674,762**	1,601,466,068
Other personnel benefits	**740,123,836**	506,525,789
	6,768,825,122	6,797,376,912

Personnel benefit contribution includes Provident Fund which consists of contributions made by both the SSS and its officials and employees and their earnings, for the payment of benefits to such officials and employees or their heirs as provided under Section 4.a.3 of the RA No. 11199. The affairs and business of the fund are directed, managed and administered by a Board of Trustees. Upon retirement, death or resignation, the employee or his heirs will receive from the fund payments equivalent to his contributions, his proportionate share of the SSS' contributions and investment earnings thereon.

As at December 31, 2020, SSS has a total of 6,982 regular personnel of which 43 are new employees but net of 313 retired/separated employees.

28. MAINTENANCE AND OTHER OPERATING EXPENSES (MOOE)

This account is composed of the following:

	2020	2019
General services	**298,040,563**	398,091,098
Labor and wages	**271,609,882**	235,542,353
Utility expenses	**185,458,788**	252,937,751
Repairs and maintenance	**154,298,555**	285,673,055
Communication expense	**119,794,829**	220,886,199
Supplies and materials expenses	**84,414,882**	168,091,312
Professional expenses	**73,451,327**	81,845,282
Traveling expenses	**34,737,165**	73,337,345
Taxes, insurance premiums and other fees	**23,044,233**	20,962,022
Training and scholarship expenses	**5,919,432**	24,846,022
Confidential, intelligence and extraordinary expenses	**1,133,330**	2,191,374
Awards/Rewards, prizes, and indemnities	**58,890**	2,708,950
Other MOOEs	**250,124,722**	656,657,400
	1,502,086,598	2,423,770,163

Other maintenance and operating expenses consist of the following:

	2020	2019
Fees and commission expenses	**77,391,199**	304,931,326
Subscription expenses	**60,371,215**	57,609,636
Printing and publication expenses	**42,592,396**	121,815,733

Forward

	2020	2019
Advertising, promotional and marketing expenses	**29,546,938**	35,214,635
Directors and committee members' fees	**14,124,861**	14,223,334
Rent/lease expenses	**7,457,832**	70,384,385
Transportation and delivery expenses	**6,626,774**	15,803,283
Membership dues and contributions to organizations	**5,966,986**	9,353,634
Donations	**0**	745,522
Other maintenance and operating expenses	**6,046,521**	26,575,912
	250,124,722	656,657,400

29. FINANCIAL EXPENSES

This account is composed of the following:

	2020	2019 Restated
Interest expenses – lease liability	**63,740,243**	63,377,239
Bank charges	**12,481,326**	18,796,715
Other financial charges	**142,523,100**	227,534,554
	218,744,669	309,708,508

The SSS recognizes interest expense on the lease liability calculated using the effective interest method in view of the new accounting standard on leases (see Note 2.13).

Other financial charges represent investment related expenses incurred in connection with managing the investment properties, broker's commissions on trading financial assets and other depository maintenance and off-exchange trade fees. It also includes Flexi Fund and PESO Fund management fees amounting to P11.012 million and P8.938 million for CY 2020 and CY 2019, respectively.

30. NON-CASH EXPENSES

This account is composed of the following:

	2020	2019 Restated
Losses	**14,053,746,815**	4,963,561,781
Depreciation	**511,531,053**	466,011,313
Impairment loss	**1,891,006,342**	1,993,910,972
Amortization	**45,454,897**	53,695,288
	16,501,739,107	7,477,179,354

The SSS recognizes losses from the following:

	2020	2019 Restated
Changes in fair value of financial instruments	**9,732,922,304**	3,308,120,044

Forward

	2020	2019 Restated
Changes in fair value of investment properties	**3,746,306,187**	1,166,831,990
Sale/Redemption/Transfer of Investments	**573,056,351**	487,399,588
Foreign exchange	**1,087,240**	272,503
Sale/disposal of PE and other assets	**374,733**	937,656
	14,053,746,815	4,963,561,781

31. ASSISTANCE AND SUBSIDY

The Educational Assistance Loan Program (EALP) is funded on a 50:50 basis from the NG and SSS. There were no subsidies for EALP received for CYs 2020 and 2019.

The NG counterpart of P3.5 billion was released under Special Allotment Release Order No. BMB-F-12-0031251 dated December 14, 2012. The total cash allocations released to SSS from CY 2012 to CY 2018 amounted to P2.828 billion, as follows:

NCA No.	Date	Amount
2012		
BMB-F-12-0023901	December 14, 2012	45,279,995
2013		
BMB-F-13-0017483	September 23, 2013	480,771,648
BMB-F-13-0020336	November 11, 2013	278,800,497
		759,572,145
2014		
BMB-F-14-0005474	May 2, 2014	260,637,040
BMB-F-14-0012071	August 27, 2014	178,052,884
BMB-F-14-0016332	November 10, 2014	332,923,150
		771,613,074
2015		
BMB-F-15-0005560	April 29, 2015	32,207,250
BMB-F-15-0016231	October 26, 2015	374,662,670
		406,869,920
2016		
BMB-C-16-0006531	April 28, 2016	64,198,930
BMB-C-16-0016736	September 15, 2016	54,212,150
		118,411,080
2017		
BMB-C-17-0000790	January 9, 2017	193,867,300
BMB-C-17-0007120	May 17, 2017	72,955,264
BMB-C-17-0015979	October 11, 2017	274,253,486
		541,076,050
2018		
BMB-C-18-0019433	September 17, 2018	185,357,643
		2,828,179,907

32. LEASE COMMITMENTS

SSS as lessee

The SSS leases offices for its various branches under cancellable operating lease agreements. The leases have varying terms, escalation clauses, and renewal rights. Extension option is exercisable up to one year after the lease period has expired as running from month-to-month with the same terms and conditions as stipulated. On the other hand, if either party desires to terminate prior to expiration of the lease period, the desiring party shall inform the other party in writing of such intention at least 60 days before the intended termination date. There are no residual value guarantees and sale and leaseback transactions in the lease agreement.

In CY 2020, SSS opened 3 representative offices nationwide to provide a conducive member-centric environment and entered into a cancellable operating lease agreement with various property owners. Out of the 323 local branches, 163 branch/service/representative offices located in various locations nationwide are rent-free. As at December 31, 2020 and 2019, the total lease payment made amounted to P228.551 million and P153.568 million, respectively (see Notes 14 and 28). Further, there are no sublease agreements made and no occurrences of contingent rent.

SSS as lessor

The SSS leases out portion of its office space to various tenants under cancellable operating lease agreements and the minimum lease rental amounts to at least P3,920 per month. The leases have varying terms, escalation clauses and renewal rights. Renewal option is available to the lessee who shall give a written notice of its intention to renew at least 60 calendar days prior to the expiration of the lease period. If the lessee continues in the occupation of the leased premises with the consent of the lessor after the term, said extension of the contract shall be understood as running from month-to-month basis under the same terms and conditions stipulated in the agreement, but the monthly rental shall all be escalated based on the SSS leasing guidelines. For the pre-termination terms, either party may pre-terminate the lease for any reason, provided that the party who will initiate the pre-termination shall inform the other party in writing at least 60 calendar days before the intended date of termination. In the case lessee voluntarily pre-terminates the lease agreement, the lessee shall pay the SSS a pre-termination fee to be deducted from the security deposit.

Total rental income earned as at December 31, 2020 and 2019 amounted to P1.137 billion and P2.613 billion, respectively, details as follows:

	2020	2019 Restated
Investment properties	**1,111,175,653**	2,563,569,852
Leased acquired/foreclosed assets	**16,395,604**	41,705,847
Operating assets	**9,513,537**	7,937,248
	1,137,084,794	2,613,212,947

The rental income on investment properties included the recording of income from the conveyed Aseana Building property which was retrospectively applied through amortization of deferred unearned rental income.

33. RELATED PARTY DISCLOSURES

As at December 31, 2020, the composition of the Social Security Commission (SSC) is as follows:

Board Position	Name	Appointment
1. Ex-Officio Chairperson	Carlos G. Dominguez III	Secretary, Department of Finance
2. Vice-Chairperson	Aurora C. Ignacio	President & CEO, SSS
3. Ex-Officio Member	Silvestre H. Bello III	Secretary, DOLE
4. Member	Michael G. Regino	Representing the Workers' Group
5. Member	Ricardo L. Moldez	Representing the Employers' Group
Forward		
6. Member	Diana Pardo-Aguilar	Representing the Employers' Group
7. Member	Anita Bumpus-Quitain	Representing the Workers' Group
8. Member	Manuel L. Argel, Jr	Representing the Employers' Group
9. Member	Bai Norhata Macatbar Alonto	Representing the Workers' Group

Key Management Personnel Remuneration and Compensation

The management personnel of SSS are the President and CEO, Executive Vice President and Senior Vice Presidents of the operating and support groups. The remunerations of key management personnel during the year are as follows:

	2020	2019
Salaries	**29,303,046**	36,400,922
Other allowances and benefits	**20,829,907**	34,071,073
	50,132,953	70,471,995

Meanwhile, the total remuneration received by the Board of Commissioners amounted to P19.799 million and P14.742 million for CYs 2020 and 2019, respectively.

34. FINANCIAL RISK MANAGEMENT

SSS manages the existing and emerging risks across the entire organization. These risks can be divided into four principal risk categories: Financial Risks, Insurance & Demographic Risks, Strategic Risks and Operational Risks. To provide a systematic method of addressing these risks, the SSS established and adopts an Enterprise Risk Management (ERM) approach. ERM is a continuous, proactive and integrated process used to identify, assess and manage risks across all areas and at all levels of the organization. This will ensure the alignment of strategic planning and risk management.

Under ERM, SSS implements a risk management process that is carried out in five phases – (1) strategic plan, (2) risk identification and analysis, (3) risk measurement, (4) risk control and treatment and (5) risk monitoring and reporting. The process runs in a continuous cycle to improve the management system by incorporating the lessons learned and feedback of stakeholders. It is conducted across the entire organization throughout the year in all of its day-to-day operations.

The SSS ERM has seven key components, as follows:

Seven Components of SSS' ERM

1. Corporate Governance – to ensure that the SSC and the Management have established the appropriate organizational process and corporate controls to measure and manage risk across the organization.

   SSS has established a Risk Management Committee (RMC) responsible for the adoption and oversight of risk management program of the System, in accordance with the guidelines prescribed by the Governance Commission for GOCCs (GCG). It also created the Risk Management Division (RMD), under the Actuarial and Risk Management Group (ARMG), which is responsible for ensuring that risk policies are in place among SSS units.

2. Line Management – to integrate risk management into the investment as well as operational activities of the organization.

   RMD conducts series of meetings and workshops to explain the concept of risk and describe the risk management process – ISO 9001:2015 Seminar/Workshop on Risk-based Thinking for all SSS Employees.

3. Portfolio Management – to aggregate risk exposures, incorporate diversification effects, and monitor risk concentrations against established risk limits.

   RMD together with the Investments Sector (IS) implements certain limits for SSS investments. These are debt and equity limits, Value-at-Risk (VaR) limits, Market-to-Acquisition Ratio (MAR) limits, banking sector limits, real property and real estate related investments limits and other industry limits. Also, IS units have established their internal limits for each SSS investment asset (e.g., limit per broker, trading limit per day, allocation for each asset, limit per trader, etc.).

4. Risk Transfer – to mitigate risk exposures that are deemed too high, or are more cost-effective to transfer out to a third party than to hold in the organization's risk portfolio.

   SSS transfers risks through acquisition of insurances to mitigate risk exposures that are deemed too high, which is consequently more cost-effective than to hold in the System's risk portfolio. Insurance policies acquired by SSS include fire insurance for SSS properties, Directors' and Officers' Liability Insurance (DOLI) for SSC and the Management and Credit Group Life Insurance (CGLI) for SSS pensioners who availed of the Pension Loan Program.

5. Risk Analytics – to provide risk measurement, analysis and reporting tools to quantify the organization's risk exposures as well as track external drivers.

   SSS monitors various risk metrics using risk management tools that are developed for the analysis and assessment of risks, which help in the formulation of appropriate mitigating measures. Examples of risk management tools are VAR, MAR, Stop Loss/ Cut Loss, etc.

6. Data and Technology Resources – to support the analytics and reporting processes.

   Currently, RMD manually encodes in its internal database and processes through aggregation various risk-related data from different SSS units using Macro-embedded program in MS Excel. Risk metrics are programmed in MS Excel to generate risk reports.

7. Stakeholder Management – to communicate and report the organization's risk information to key stakeholders.

   RMD, as part of its risk reporting function, presents identified risks, both existing and emerging, and corresponding action plans during Management Review meetings. A document regarding how SSS manages its risks is published on the SSS website under the Transparency Seal.

   The SSS' RMD developed four risk manuals – Financial Risk Management Manual, Insurance and Demographic Risk Management Manual, Strategic Risk Management Manual and Operational Risk Management Manual – that provide a common and systematic approach for managing risks. Each manual contains all risk management tools, policies and procedures that were approved by the SSC and proposed by the RMD. The risk management tools, policies and procedures currently utilized by SSS to manage the four principal risk categories, are discussed below:

34.1 Financial Risks

Financial Risks refers to the potential losses due to changes in external markets, prices, rates and liquidity supply and demand.

The SSC and Management are active in the evaluation, scrutiny and credit approval process on all investments being undertaken by the SSS. The SSC has adopted adequate policies on investment procedures, risk assessment and measurement and risk monitoring by strict observance on the statutory limit provided under the SS Act of 2018 and compliance to the investment guidelines. Internal controls are also in place and comprehensive audit is being done by Internal Audit Services.

1. Market Risk

   Market Risk is the risk of SSS investments declining in value because of economic developments or other events that affect the entire market. This risk arises from (i) fluctuations in market prices of equities due to changes in demand and supply for the securities (*Equity Price Risk*), (ii) changes in SSS' investment value due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship (*Interest Rate*

Risk) and (iii) fluctuations in exchanges rates due to changes in global and local economic conditions and political developments that affect the value of SSS' foreign-denominated investments (*Foreign Currency Risk*).

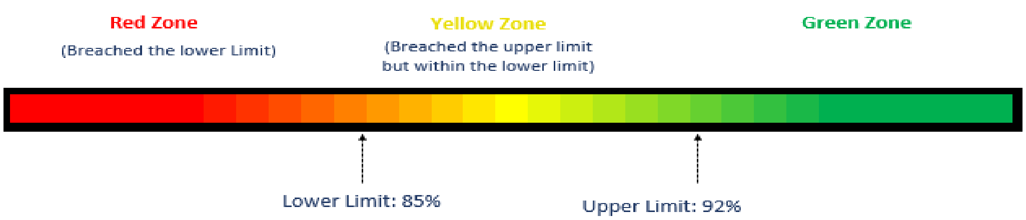
SSS strictly adheres to the provisions of Section 26 of the SS Act of 2018, which states that the funds invested in equities, corporate notes/bonds, loans, mutual funds and other financial instruments shall earn an annual income not less than the average rates of treasury bills or any acceptable market yield indicator. Also, SSS developed risk management tools to monitor and mitigate market risks, these are:

a. *Value-at-Risk (VaR)* – a risk management tool used to measure the equity portfolio's maximum loss under normal market movements for a specified time interval and at a given confidence level. Alternatively, it measures the minimum loss of a portfolio under extreme market movements. Daily VaR estimates are monitored daily and compared to its limits.

The VaR limit is designed to restrict potential loss to an amount tolerable by the Management, given the daily investment exposure on a trading portfolio. It is a general limit that incorporates a wide array of risks but encapsulates the quantification of these risks to a single number.

b. *Market-to-Acquisition Ratio (MAR)* – a risk indicator that measures the percentage of the asset or portfolio's daily market value relative to its acquisition cost. The MAR values range from zero to positive infinity. MAR values lower than 100 per cent indicate unrealized losses while values greater than 100 per cent indicate unrealized gains.

The daily MAR values were translated into colors to indicate the magnitude of risks on the portfolio. These MAR values are visually represented using a MAR Heat Map.



c. *Stop Loss /Cut Loss Program* – a disciplined/programmed divestment of losing stocks triggered by certain conditions (e.g., technical analysis / optimal portfolio recommendations, dividend yield etc.) until all subject shares have been fully divested for the primary purpose of limiting losses to the equity portfolio.

2. Credit Risk

Credit risk refers to the risk of an economic loss from the failure of counterparty to fulfill its contractual obligations or from the increased risk of default during the term of the transaction. This includes risk due to (i) SSS debtor's incapacity or refusal to meet debt obligations, whether interest or principal payments on the loan contracted, when due (*Default Risk*); (ii) taking over the collateralized or escrowed assets of a defaulted SSS borrower or counterparty (*Bankruptcy Risk*); (iii) potential for a loss in value of an SSS investment portfolio when an individual or group of exposures move together in an unfavorable direction (*Concentration Risk*); (iv) deterioration of perceived credit creditworthiness of the borrower or counterparty (*Downgrade Risk*) and (v) failure of a counterparty to deliver a security or its value in cash when the security was traded after SSS have already delivered security or cash value, as per the trade agreement (*Settlement Risk*).

SSS implements structures and standardized evaluation guidelines, credit ratings and approval processes. Investments undergo technical evaluation to determine their viability/acceptability. Due diligence process (credit analysis, evaluation of the financial performance of the issuer/borrower to determine financial capability to pay obligations when due, etc.) and information from third party are used to determine if counterparties are creditworthy.

To avoid significant concentrations of exposures to specific industries or group of issuers and borrowers, SSS investments are regularly monitored against prescribed cumulative ceilings specified in Section 26 of SS Law.

The following table shows the maximum credit risk exposure and aging analysis of the SSS financial assets with past due as at December 31, 2020 and 2019.

	2020								
		Past due but not impaired (Age in months)							
	Neither past due nor impaired	1-12	13-36	37-48	49-60	Over 60	Expired	Impaired	Total
		(In Million Pesos)							
Financial assets at FVTPL	38,149								38,149
Financial assets at FVTOCI	136,748								136,748
Financial assets at amortized cost									
Short-term money placements									
Corporate notes and bonds	31,363							110	31,473
Government notes and bonds	167,753								167,753
Loans and receivables:									
NHMFC							6,357	3,329	9,686
Housing loans	258	62	18	21		90	301	811	1,561
Member loans	37,512	26,308	17,182		7,897	21,334		7,940	118,173
Pension loans	3,507							7	3,514
Sales contract receivable	782	3	8	4	3	11	21	399	1,231
Rental receivable		23						163	186
Commercial and industrial loans							5	64	69
Program MADE								17	17
	416,072	**26,396**	**17,208**	**25**	**7,900**	**21,435**	**6,684**	**12,840**	**508,560**

	2019 Restated								
		Past due but not impaired (Age in months)							
	Neither past due nor impaired	1-12	13-36	37-48	49-60	Over 60	Expired	Impaired	Total
		(In Million Pesos)							
Financial assets at FVTPL	35,213								35,213
Financial assets at FVTOCI	131,490								131,490
Financial assets at amortized cost:									
Short-term money placements	400								400
Corporate notes and bonds	35,971							111	36,082
Government notes and bonds	160,158								160,158
Loans and receivables:									
NHMFC							6,586	3,244	9,830
Housing loans	302	85	28	21		126	316	859	1,737
Member loans	31,135	27,863	10,710		4,597	12,745		8,244	95,294
Pension loans	2,004							5	2,009
Forward									

	2019 Restated								
	Past due but not impaired (Age in months)								
	Neither past due nor impaired	1-12	13-36	37-48	49-60	Over 60	Expired	Impaired	Total
	(In Million Pesos)								
Sales contract receivable	763	3	9	4	2	13	20	385	1,199
Rental receivable		11						81	92
Commercial and industrial loans							5	64	69
Program MADE								17	17
	397,436	**27,962**	**10,747**	**25**	**4,599**	**12,884**	**6,927**	**13,010**	**473,590**

To further ensure compliance with Section 26 of SS Act of 2018, Policies and Guidelines in Determining and Managing Exposure Limits to Debt and Equity were established. The investment limits for Conglomerate/Group, Individual Corporation, Individual Corporation's Debt and Individual Corporation's Equity are determined based on two principles: Investment Reserve Fund (IRF) forecast-based principle and risk-based principle.

For the IRF forecast-based principle, the following are the limit ceilings as portion of IRF forecast, where the IRF forecast is computed from the previous year's IRF plus 90 per cent of the current year's target net revenue:

10% for Conglomerate/Group
4% for Individual Corporation
3% for Individual Corporation's Debt
3% for Individual Corporation's Equity

The risk-based principle for computing investment limits is based on the company's value and its credit score.

Factors	Individual Corporation	
	Debt	Equity
Corporation's Value	Three times the Unimpaired Capital of the Corporation	10% of the Market Value of Total Issued and Outstanding Shares of the Corporation
Risk Measure	Merton Distance-to-Default	Altman Z-Score

With respect to stockbrokers, the SSS has adopted the following mitigating measures:

a. *Minimum requirements for stockbroker evaluation*

a.1. Stockbroker must be registered with the Securities and Exchange Commission (SEC) and a member of good standing of the Philippine Stock Exchange (PSE) as defined under Section 28 of the Securities Regulation Code (SRC).
a.2. The stockbroker must belong to the top thirty (30) in terms of cumulative value of transactions during the past three years.
a.3. The stockbroker must be in operation for at least five years and must be profitable for four years in these five years of operation. Provided that,

the stockbroker must be profitable in the year prior to the application for accreditation.

a.4. The stockbroker must have a minimum unimpaired paid-up capital of one hundred million pesos (P100 million), or the minimum capitalization required by the SEC, whichever is higher.

a.5. The stockbroker shall have a positive track record of service to other institutional clients.

b. *Stockbroker transactions, allocations and limits*

b.1. Total daily transactions, excluding block transactions, per stockbroker shall not exceed 50 per cent of the stockholder's equity of stockbrokers.

b.2. Total transactions, excluding negotiated block transactions, for each of the accredited stockbrokers, during the accreditation period, shall not exceed the higher between one over the number of active accredited stockbrokers × 100 per cent and 15 per cent of total SSS transactions.

b.3. Transactions, excluding negotiated block transactions, with the SSS by the stockbroker within the year of accreditation, shall not exceed 40 per cent of its total market transactions. This ensures that SSS is not its only client.

3. <u>Liquidity Risk</u>

Liquidity risk refers to the risk that a company may be unable to meet short-term financial demands. This usually occurs due to the inability to convert a security or hard asset to cash without a loss of capital and/or income in the process. This risk also refers to (i) unanticipated changes in liquidity supply and demand that may affect SSS through untimely sale of assets, inability to meet contractual obligations or default (*Funding Liquidity Risk*) and (ii) the possibility that an institution will not be able to execute a transaction at the prevailing market price because there is temporarily no appetite for the deal on the other side of the market (*Trading Liquidity Risk*).

SSS manages this risk through daily monitoring of cash flows in consideration of future payment due dates and daily collection amounts. The SSS also maintains sufficient portfolio of highly marketable assets that can easily be liquidated as protection against unforeseen interruption to cash flow.

To ensure that investments in Marketable Securities shall be compliant with the basic principles of safety, liquidity and yield and shall benefit as many members as possible of the System, SSS only invests in shares of stock and equity-related issues that satisfy its stock accreditation guidelines.

Also, the RMD developed a Risk Dashboard to provide the Management with bird's-eye view of the financial risks that SSS is facing. This dashboard will help the Management in identifying the issues that may arise from the cumulative impact of risks over time. It consists of risk reports like VaR, MAR Heat Maps, Ageing Reports, and Limit Monitoring, which are presented in tabular and graphical form. RMD also conducts validation, back testing and stress testing on risk models used by the Investments Sector to ensure effectiveness and reliability of models.

4. Reinvestment Risk

This is the risk that an investor will be unable to reinvest cash flows (e.g., coupon payments) at a rate comparable to the current investment's rate of return. The term also sometimes refers to the risk that principal repayments on such security may be paid prior to maturity, thereby forcing the asset manager to seek reinvestment of principal at a time when interest rates may be lower than the rate that was payable on the security.

5. Asset-Liability Mismatch Risk

This is the risk of a change in value from a deviation between asset and liability cash flows, prices or carrying amounts, caused by change in actual cash flow, change in expectations on future cash flows and accounting inconsistencies.

6. Inflation Risk

This is the risk of a loss in the purchasing power because the value of the investments does not keep up with inflation.

7. Systemic Risk

This is the risk of potential failure of one institution to create a chain reaction or domino effect on other institutions and consequently threaten the stability of financial markets and even the global economy.

34.2 Insurance and Demographic Risks

Insurance and demographic risks refer to the potential loss arising from variation in pension fund, claim experience and exposure to adverse persistency, and uncertainty in demographic assumptions when the benefits were designed and valued. This risk also refers to the following:

1. Longevity Risk

The risk that SSS pensioners live longer than expected leading to higher expected payouts.

2. Mortality Risk

The risk due to changes in actual mortality rates that adversely differ from assumptions.

3. Morbidity Risk

The risk due to deviations of actual mortality rates that adversely differ from assumptions.

4. Claims Inflation

The risk due to increase in the total amount of claims over time.

SSS manages these risks through regular conduct of actuarial valuation/studies and monitoring of experiences. There are also mitigating measures to control SSS members' anti-selection practices, such as when a person who has better information on products and/or services selectively uses it to gain personal advantage at the expense of the provider or another party. For example, SSS only allows self-employed members and voluntary members, including Overseas Filipino Workers (OFWs) aged 55 years old and above, to increase their monthly salary credit (MSC) brackets once in a given year but only one salary bracket from the last posted MSC. This is to control the practice of abruptly increasing one's monthly salary credit near retirement to increase expected pension.

34.3 Strategic Risks

Strategic risk arises from unanticipated changes in key elements of strategy formulation and/or execution leading to actual strategic outcomes that adversely differ from expectations. This risk also refers to the following:

1. Governance Risk

   This risk arises from government not functioning as expected.

2. Political Risk

   This is the risk of loss in investment returns due to political changes or instability

3. Strategic Relationship Risk

   This is due to unexpected changes in strategic relationships such as joint ventures/partnerships.

4. External Relations Risk

   This risk is due to unanticipated changes in relationships with external stakeholders such as the public, media, regulators, rating agencies and politicians.

5. Legislative and Regulatory Risk

   This risk is due to changes in laws/government regulations.

6. Economic Risk

   This risk arises from unanticipated changes in the economy such as changes in consumer disposable income affecting ability to pay contributions or loan balances.

7. Strategic Asset Allocation Risk

   This is the risk that the strategic asset allocation is not expected to deliver a particular agreed target return, i.e., the target return and how the assets are invested to deliver this return are not in sync.

SSS manages these risks by creating harmonious relationship with various stakeholders, monitoring new and pending bills, and conducting regular economic researches/studies to craft appropriate policies beneficial to the System and its members. Also, SSS implemented the No Gift Policy, No Noon Break Policy, Anti-Fixer Campaign and No Smoking Campaign which will enhance its image as a government institution.

34.4 Operational Risks

Operational risk refers to potential loss, whether direct or indirect, due to ineffective and inefficient internal processes, human resource failures, system failure or external events. This risk includes the following:

1. Internal Fraud Risk

   These are potential losses due to acts intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity/discrimination events, which involves at least one internal party.

2. External Fraud Risk

   These are potential losses due to acts intended to defraud, misappropriate property or circumvent the law, by a third party.

3. Employment Practices and Workplace Safety Risk

   These are potential losses arising from acts inconsistent with employment, health or safety laws or agreements from payment of personal injury claims or from diversity/discrimination events.

4. Clients, Products and Business Practices Risk

   These are potential losses arising from unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product or service.

5. Damage to Physical Asset Risk

   These are potential losses arising from loss or damage to physical assets from natural disasters or other events.

6. Business Disruption and System Failure Risk

   These are potential losses arising from the disruption of business or system failures due to unavailability of infrastructure or IT.

7. Execution, Delivery and Process Management Risk

   These are potential losses from failed transaction processing or process management, from relations with trade counterparties and vendors.

SSS monitors these risks by conducting regular Risk and Control Self-Assessment (RCSA) throughout the System. RCSA provides insights on risks in each SSS unit, existing and/or emerging. Identified operational risks through RCSA are consolidated in a risk report, which is presented in Risk Management and Investment Committee (RMIC) meetings. Actual risk incidences are reported as well.

Through RCSA, SSS units become more aware of the risks present in their day-to-day operations. As such, they are able to identify gaps and ineffective controls and come up with sensible action plans to minimize possible loss and damage. The progress of the action plans is periodically monitored and reported.

Below are some of the risk management tools used to address operational risks:

a. Privacy Impact Assessment – SSS conducts Privacy Impact Assessment (PIA) to evaluate privacy impacts in all processing systems – existing, new and enhancements. The PIA takes into account the nature of personal data to be protected, threshold analysis, personal data flow, stakeholder engagement and risks to privacy and security in each processing system.
b. Directors' and Officers' Liability Insurance – SSS has been providing its Commissioners and Executives with an indemnity coverage to afford SSS, SSC and its Management the means to pursue their fiduciary duties and obligations to always act in the best interest of the System, with utmost good faith in all their dealings with the property and monies of SSS.

c. Personal Equity Investment Policy – SSS promotes high standards of integrity and professional excellence among its officers and employees in the investment of the Reserve Funds as provided under its Charter through regular monitoring and regulating the official and personal transactions and activities related to equity investments of concerned SSS officers and employees and the establishment of a disclosure mechanism for their personal equity investments.

d. Business Continuity Management Plan – Currently, the SSS trains its employees to be prepared against natural and manmade calamities through regular conduct of disaster preparedness programs, e.g. fire drill, earthquake drill, back-up and recovery of systems. For long-term preparation, the SSS has created a Disaster Control Group that is responsible for planning strategies and mechanisms to provide continuous delivery of services to the public amidst any disruption in operations caused by disasters. Also, SSS has created a Technical Working Group to develop a comprehensive Business Continuity Management Program for SSS to ensure continuity of critical member services, swift return to normal operations and reduce possible loss on the onset of a disruption.

35. RESTATEMENT

The following tables summarize the effect of the adjustments made on the changes in accounting policy, reclassification of assets and prior period adjustments.

Effect on the Statement of Financial Position

Accounts affected	**December 31, 2019**			**January 1, 2019**		
	(In Million pesos)					
	As previously reported	**Effect of the accounting change**	**As Restated**	**As previously reported**	**Effect of the accounting change**	**As Restated**
Provisions-ICL-Life	0	6,295,472	6,295,472	0	5,907,142	5,907,142
Contribution and Premiums Receivable	0	9,959	9,959	0	6,833	6,833
Prepayments - Benefit expenses	0	6,299	6,299	0	5,482	5,482
Accrued Benefit Payable	0	155	155	0	43	43
Pension Benefits Payable	0	422	422	0	365	365
Non-current Assets Held for Sale	892	(653)	239	858	(613)	245
Investment Property	53,089	18,536	71,625	42,141	12,982	55,123
Unearned Revenue/Income	73	117	190			0
FA at amortized cost	201,700	(111)	201,589	184,607	(89)	184,518
Interest receivable	4,508	(17)	4,491	4,248	(28)	4,220
Operating lease receivable	89	(58)	31	79	(40)	39
Other receivable	204	(3)	201	57	(1)	56
Loans receivable	92,015	(2,076)	89,939	85,718	(547)	85,171
Loans Receivable - Other Government Corp	4,915	1,671	6,586	5,038	1,523	6,561
Sales Contract Receivable	1,151	(338)	813	1,076	(346)	730
Other assets	175	37	212	164	36	200
Claims Pay-out Payable	0	4	4			0

Effect on the Statement of Comprehensive Income

Particulars	**2019**
	In Million pesos
Recognition of insurance policy reserves	
Increased in Net Change in Policy Reserves	(388,334)
Accrual of premium contribution collections	
Increased in Members' Contribution	3,126
Accrual and pre-payments of benefit claims	
Decreased in Benefit Payments	986
Conveyance of Aseana property to SSS	
Increased in Rent/Lease Income	1880
Increased in Changes in FV-IP	3514
Recognition of Expected Credit Loss	
Increased in Impairment Loss	(1404)
Reclassified classification of realized gain/loss of debt securities from OCI to P/L	
Increased net changes on Sale/Redemption/Transfer of Investments	41
MIA share in premium income and insurance claims separately recognized as income and expense, respectively	
Increase in Other Business Income	0.05
Increase in Other Financial Charges	(0.03)

36. EVENTS AFTER THE REPORTING PERIOD

The approval of the following policies and guidelines by the SSC after the reporting period are considered adjusting events, hence financial statements are adjusted accordingly.

- On January 27, 2021, the SSC under Resolution No. 41-s.2021 approved the policy/guidelines in recognizing and measuring credit impairment in compliance with PFRS 9 on Expected Credit Loss.

- On March 10, 2021, the SSC under Resolution No. 123-s.2021 approved the adoption of the PFRS 4 in the computation of the ICL for the CY 2020 financial statements and onwards and the use of the discount rate of six per cent for the computation of the ICL in the CY 2020 Financial Statements.

- On March 17, 2021 the Risk Management Investment Committee noted the latest Market Values of SSS properties based on the appraisal valuations from two external appraisal companies hired by SSS for recording in the CY 2020 reporting period.

- On April 08, 2021, the SSC under Resolution No. 161-s.2021 approved the accounting policy on accrual of revenues from member contributions and expenses for member benefits.

The SSS, in pursuit of its mission under RA No. 11199, otherwise known as the SS Act of 2018, to promote social justice through savings and advance the value of “work, save, invest and proper” and SSC Resolution No. 458-s. 2020 dated September 09, 2020 approved the implementation of the Mandatory Provident Fund (MPF) Program for SSS members effective January 01, 2021. The program which is known as the Workers’ Investment and Savings Program (WISP) consists of contributions of employers and employees, self-employed, OFW and voluntary members, based on monthly salary credit (MSC) in excess of P20,000 up to the prescribed maximum MSC, and the earnings. The program aims to provide SSS members a convenient and tax-free savings scheme for payment of benefits to such members or their beneficiaries in the addition to the benefits provided under RA No. 11199.

Also, starting January 1, 2021, the contribution rate shall be increased by one per cent, from the current 12 per cent to 13 per cent. For employed members, including OFW members in countries with Bilateral Labor Agreements with the Philippines, and sea-based OFW members, the additional one per cent will be divided equally between them and their employers.

Likewise, the minimum MSC will be adjusted to P3,000 from P2,000, except for Kasambahay and OFW members whose minimum MSC will remain at P1,000 and P8,000, respectively, while the maximum MSC will be raised to P25,000 from P20,000. The MSC to be considered for the computation of benefits under the regular social security program is capped at P20,000. However, contributions pertaining to the MSC in excess of P20,000 will go to the WISP.

37. OTHER MATTERS

Commitments

Amount authorized but not yet disbursed for capital expenditures as at December 31, 2020 is approximately P933.813 million.

38. COMPLIANCE WITH TAX LAWS

Presented under the following table is the supplementary information which is required by the Bureau of Internal Revenue) under Revenue Regulations No. 15-2010 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

The SSS is withholding and remitting to the BIR applicable taxes withheld imposed under the National Internal Revenue Code and its implementing rules and regulations. Income taxes withheld on compensation and expanded withholding tax are remitted on or before the 15th day of the following month except those withheld for the month of December which are remitted on or before the 20th day of January of the following year. Value-added taxes and final income taxes withheld are remitted on or before the 10th day of the following month.

	Amount
Taxes paid as at December 2020	
On compensation	293,668,911
Expanded	47,165,048
VAT and other percentage tax	272,221,484
Final tax	1,338,326
Output tax (VAT)	91,677,107
Taxes withheld as of December 2020 and remitted in Jan 2021	
On compensation	10,492,823
Expanded	14,907,199
VAT and other percentage tax	34,145,113
Final tax	351,216
Output tax (VAT)	12,120,772
	778,087,999

The SSS is exempted from all kinds of taxes pursuant to Sec. 16 of RA No. 11199 which states that

> *"All laws to the contrary notwithstanding, the SSS and all its assets and properties, all contributions collected and all accruals thereto and income or investment earnings therefrom, as well as all supplies, equipment, papers or documents shall be exempt from any tax assessment, fee, charge, or customs or import duty; and all benefit payments made by the SSS shall likewise be exempt from all kinds of taxes, fees or charges and shall not be liable to attachments, garnishments, levy or seizure by or under any legal or equitable process whatsoever, either before or after receipt but the person or persons entitled thereto, except to pay any debt of the member to the SSS. No tax measure of whatever nature enacted shall apply to the SSS, unless it expressly revokes the declared policy of the State in Section 2 hereof granting tax-exemption to the SSS. Any tax assessment imposed against the SSS shall be null and void."*

Under Section 86 item q. of RA No. 10963, otherwise known as the "Tax Reform for Acceleration and Inclusion" (TRAIN) Law, effective January 1, 2018, SSS exemption on VAT has been repealed.

The amount of output tax on VAT paid by SSS as of December 31, 2020 and 2019 amounted to P91.677 million and P70.387 million, respectively.

39. STATUS OF LAWSUITS

The SSS is involved as a party in several legal proceedings pending resolution that could materially affect its financial position. Among these lawsuits are the following:

Description	Amount	Status
Arbitration case filed against Home Guaranty Corp. (HGC)	P5.073 billion	The case is still pending with OGCC. The RIMC directed Management to request clearance from the DOF Secretary to renegotiate for better terms towards settlement of HGC obligations to SSS. Approval of which was secured from DOF in its letter to SSS dated August 02, 2019. Negotiation is on-going between SSS and HGC (now PhilGuarantee) involving cash repayment of the remaining balance and compromise agreement within acceptable terms and conditions.
Expropriation case filed by the National Grid Corporation of the Philippines (NGCP) on 60,872 square meters portion of SSS property at Pasay City (Site 2 FCA 7)	1.461 billion	Awaiting Order from Regional Trial Court (RTC) on the NGCP's Motion to Withdraw Complaint and Provisional Deposit.
Civil case for Sum of Money with Damages filed against Waterfront Philippines, Inc. (WPI)	1.151 billion	On August 30, 2019, SSS appeal with the Court of Appeals was decided in favor of the SSS. On November 14, 2019, the Office of the Solicitor General (OSG) received a copy of the Petition for Review on Certiorari dated November 04, 2019 filed by WPI with the Supreme Court (SC). OSG still awaiting an order from the SC to file its comment.
Quieting of title filed by Desiderio Dalisay Investment, Inc. (DDII) – "*Dacion en Pago*" (Cabaguio Ave. cor. Del Pilar Street, Brgy. Agdao Proper, Agdao, Davao City)	83.586 million	DDII to execute the Deed of Sale over the properties in favor of SSS and surrender the Owner's Duplicate of Transfer Certificate of Title (TCT) Nos. T-18203, T-18204, T-255986 and T-255985, as well as the Tax declarations over the said properties. SSS to re-compute petitioner's obligations, accordingly, reckoned from June 17, 1982, the date when respondent communicated its acceptance of the offer. SSS Davao was requested to inquire from the RTC of Davao City, Branch 14, whether the records of the case have already been remanded by the SC. This is preparatory for OSG/SSS to file Motion for Execution of Judgment.
Civil case for Sum of Money filed by Pryce Corporation on One Time Maintenance Adjustment Charge (MAC) on SSS owned memorial lots	84.515 million	Pending with RTC – Branch 61, Makati City. On-going discussion for settlement.