GOVERNMENT COMPENSATION REFORMS

Competitive Pay to Incentivize Good Performance

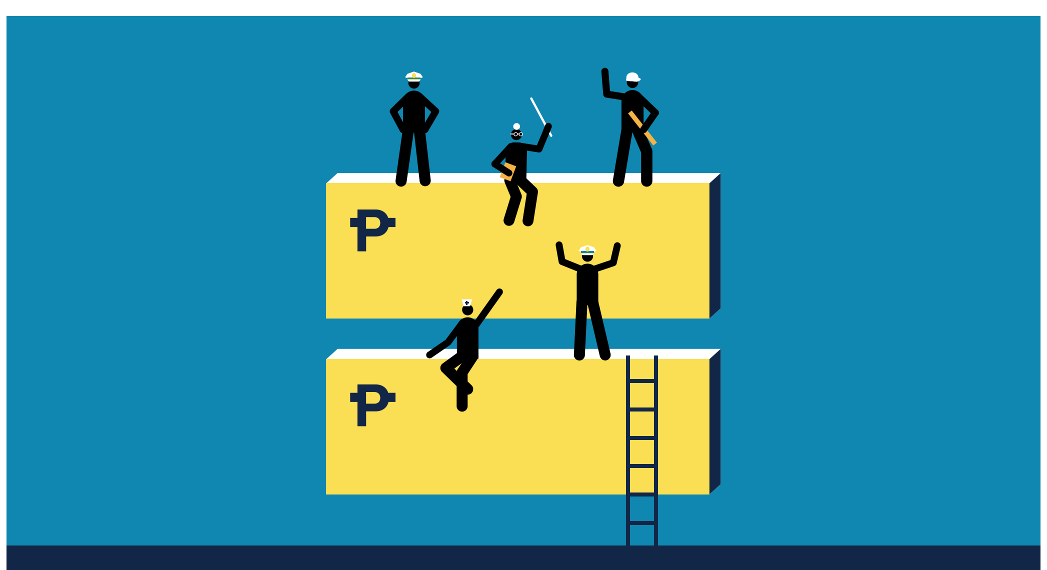
IN A NUTSHELL

- Government pay should be hinged on: equal pay for work of equal value; competitiveness with the private sector, performance-based; and financial sustainability.

- *In the past,* the government sought to implement these principles through the Salary Standardization Law (SSL) of 1989 and its updates, SSL II in 1994 and SSL III in 2009. However, key factors had constrained the implementation of these principles:
  - Before SSL III, the ballooned fiscal deficit prevented salary hikes. In 2009, SSL III increased basic salary rates in four tranches up to 2012 and rationalized benefits.
  - Distortions in pay across government, e.g., excessive bonuses in GOCCs, liberal grant of Magna Carta benefits, and "pabaon" in the military
  - Principle of SSL III for performance-based pay not fully implemented

- *Since 2010,* reforms for just, competitive, and performance-based pay have been pursued:
  - After the full implementation of SSL III, introduced SSL 2015 to bring salaries to at least 70 percent of market rates and institutionalize performance-based incentives
  - Addressed distortions: rationalized GOCC pay, clarified the provision of *Magna Carta* benefits, pursued military and uniformed pay reforms after ending "pabaon"
  - Introduced the Performance-Based Bonus (PBB) to reward performing employees

- *Moving forward,* the government should continue to address issues that constrain a fair, competitive, performance-based, and sustainable pay system:
  - Continue to improve revenue collections to fund increases in salaries under SSL 2015 without eating into productive spending
  - Continue to cure pay distortions, e.g., via military and uniformed pension reform
  - Cure issues in implementing the PBB to motivate public servants



In the public sector, an ideal compensation system is anchored on four guiding principles: (1) equal pay for work of equal value; (2) competitive pay with counterparts in the private sector; (3) performance-based compensation, in which the employees' and their organization's performance are linked to the pay they receive; and (4) fiscal sustainability, in which personnel services costs are maintained at manageable levels in proportion to total government expenditure[1]. Implementing these principles help attract, retain, and motivate competent and committed public servants.

Ultimately, a fair, competitive, performance-based, and sustainable pay system helps the government deliver timely and quality services to citizens.

Since 1986, the Philippine government has pursued measures to abide by these principles. Foremost of such measures was the Compensation and Position Classification Act of 1989, or the Salary Standardization Law (SSL). The SSL sought to address pay disparities across government agencies by standardizing the compensation of all government employees. The SSL was subsequently amended in 1994 (SSL II) and in 2009 (SSL III). The amendments provided for additional financial benefits in order to adjust pay levels to address rising living costs as well as to standardize the allowances and incentives in government.

> "The implementation of all three laws improved government compensation and contributed to the upliftment of the economic status of public servants. The compensation reforms also increased the saleability of working for the government."
>
> **Assistant Director Maria Lourdes Aganon**
> DBM ORGANIZATION, POSITION CLASSIFICATION, AND COMPENSATION BUREAU

SITUATION BEFORE 2010

The SSL III and Persistent Disproportions in Government Compensation

By leveraging salary increases with responsibility and accountability, all three SSLs upheld the basic ethos of "equal pay for work of equal value." Thus, all three SSLs had recognized, although not resulting in a significant monetary adjustment, the differences in duties and responsibility of positions. Moreover, they had raised the salary grades of critical and hard-to-fill positions, as well as the qualification requirements, complexity of functions, and labor market conditions. The SSLs likewise sought to address the overlaps in the salaries of supervisors and subordinates, which had also been a cause of personnel dissatisfaction.

However, key factors had constrained the objectives of the SSL to establish a fair, competitive, performance-based, and sustainable pay. First, fiscal constraints that limited the government from raising salaries to be at par with the private sector, although the SSL III was enacted in 2009 when the deficit eased. Second, there were exemptions from the SSL. Third, bonuses and other additional benefits were not tightly linked to performance.

Before the SSL III: Salary Hikes Hampered by Fiscal Constraints

Before the enactment of the SSL III, the unstable fiscal situation (see Fiscal Management) prevented the government from bringing salaries closer to market rates. After a five-percent pay increase for all government employees in 2001,[2] salary rates had remained stagnant because of a ballooned fiscal deficit and the increasing personnel services (PS) cost that reached an average of 33.8 percent of total expenditures annually from 2001 to 2005. With the fiscal crisis in 2004, increasing the salary rates would further constrain resources for capital outlays and priority programs.

In response, the previous administration began the Rationalization Program in 2004 in an attempt to curb the high PS costs, while modernizing the bureaucracy as well (see JLD sidebar on the Rationalization Program). When the fiscal deficit eased, the government made across-the-board salary adjustments in 2007 and in 2008.[3] While across-the-board increases had provided the much-needed economic relief to employees, the problem, however, was that the salary rates were not benchmarked with the private sector.

The SSL III: An Updated Framework for Competitive and Performance-Based Pay

Eventually, Congress passed Joint Resolution (J.R.) No. 4 in 2009, otherwise known as the SSL III, to bring salaries closer to market rates and enshrine performance in the pay system. The SSL III upgraded the basic salaries in four annual tranches from 2009 to 2012, and in the process addressed distortions in salaries. The SSL III also standardized allowances and benefits, and introduced a performance-based incentive scheme "to reward exemplary civil servants and well-performing institutions.[4]" The SSL III enforced all these elements through the Total Compensation Framework.

Components of Total Compensation as Rationalized by the SSL III

1. Basic Salary Plus Step Increments
2. Standard Allowances and Benefits
   - Personnel Economic Relief Allowance (PERA) – monthly allowance of P2,000
   - Clothing Allowance - Annually at P5,000 per employee
   - Year-end Bonus and Cash Gift – the year-end bonus is equivalent to one month basic salary while the cash gift is currently pegged at P5,000
3. Specific-Purpose Allowances and Benefits
   - Representation and Transportation Allowances (RATA) – given monthly to division chiefs and up; RATA rates have increased over the years to keep up with rising costs
   - Honoraria – token payments for services rendered beyond the normal duties and responsibilities, such as for serving as lecturers in seminars
   - Hazard Pay – given to government personnel, such as health workers and uniformed personnel who are exposed to dangerous situations
   - Subsistence Allowance – allowance for meals or sustenance
4. Incentives
   - Incentives for the employee's loyalty to government service, such as loyalty incentives and anniversary bonuses
   - Incentives for the agency's performance in exceeding financial and operational targets, such as the Collective Negotiation Agreement incentive and for the employee's performance, such as the Productivity Enhancement Incentive

Distortions in Government Pay due to Exemptions

Even as the SSL III sought to standardize and rationalize the government compensation system, inequity remained because of exemptions from the SSL. In particular, 27[5] Government-Owned and Controlled Corporations (GOCCs) and Government Financial Institutions (GFIs) had been exempt from the SSL. Moreover, by virtue of their respective charters, some of the GOCCs and GFIs enjoyed a certain degree of fiscal independence from the national government.

Such exemptions were necessary to make the pay packages of GOCCs and GFIs, especially those with commercial operations, competitive with the market. However, such conditions were abused as excessive allowances and bonuses were granted to their officials and staff. For instance, an investigation conducted by the Senate Committee on Finance in 2010 found that the Metropolitan Waterworks and Sewerage System (MWSS) gave 25 months' worth of bonuses and allowances to its employees in one year (R. Chua, 2010). Moreover, because the compensation of members of the governing boards of GOCCs in the past had been unregulated, various directors or trustees granted themselves excessive and unauthorized bonuses and other compensation "regardless of performance and with poor attendance records (GCG, 2013)." Likewise, certain directors who were appointed to investee corporations had claimed bonuses, profit-sharing, and stock options that should have otherwise accrued to their respective GOCCs (GCG, 2013).

Liberal Interpretation of Well-Meaning Magna Carta Benefits

Prior to the SSL III, Congress initiated provision of allowances under separate laws, such as those benefits stipulated in Magna Carta for specific professions in the government—public health workers[6], public school teachers[7], social workers[8], and science and technology personnel[9]. The so-called Magna Carta benefits aim to alleviate their economic conditions and to encourage skilled personnel to stay in government service.

However, the way these benefits had been implemented created distortions in government pay. First, the "unfairly liberal" interpretation of the Magna Carta laws meant that employees who were not the intended beneficiaries had received such benefits: for example, a bookkeeper working in a public hospital received Magna Carta benefits intended for medical personnel (INCITEGov, 2009a). Similar abuses had occurred in instances in which the full hazard pay were given to employees even if their exposure to health risks had been minimal; subsistence allowance were paid even on days off and non-working days; and, at times, double benefits were paid for the same purpose. Moreover, the Magna Carta laws do not specify the sources of funding; hence, savings were used to pay for these benefits. As the amount of savings varied among public hospitals, for example, workers therein did not receive the same amount of benefits. The same situation was true for health workers in local government units (LGUs), which had varying financial capacities to provide such benefits (Lavado, 2011).

The Illegal "*Pabaon*" for Generals

Likewise adding to the distortion in the government's compensation system were outright abuses in the management of public funds to pay for unauthorized compensation. The typical example was the "conversion" of "savings" from unfilled military and other uniformed positions. Such savings were used to provide, among others, the notorious "*pabaon*" or gift for retiring military officials. What had enabled this misapplication to happen was the release of PS funding to the military for both their filled and unfilled positions: an exemption to the general rule in which government offices would only receive funding for their filled positions.

> "'*Pabaon*' was a tradition in the military to convert part of their PS savings for other purposes not authorized by DBM or by law. When the chief of staff retires from the military, he gets an amount—sort a of gratuity of what he should be receiving as part of the services he rendered to the military. There were anecdotal instances that the '*pabaon*' can go as high as hundreds of millions."
>
> **Assistant Secretary Tina Rose Marie L. Canda**
> DBM BUDGET PREPARATION AND EXECUTION GROUP

The illegal "*pabaon*" was being given in addition to the legally mandated pensions and other retirement benefits for the military and other uniformed personnel (MUPs). Adding to the inequity is that the retirement benefits of MUPs are paid by the government from the National Budget and not from a pension fund, such as the Government Service Insurance System (GSIS) to which civilian personnel contribute. The DBM has nonetheless tried to rationalize military pensions by keeping, starting 2009, a database of all military and uniformed personnel who retired as of this date.

Compensation Not Linked to Performance

The implementation of a performance-based incentive scheme "which integrates personnel and organizational performance" was not entirely true to the spirit of the SSL III. For instance, the Productivity Enhancement Incentive (PEI) provided each government employee between P5,000 to P10,000 yearly, regardless of their level of productivity or performance.

The SSL III, through JR No. 4, also institutionalized the grant of the Collective Negotiation Agreement (CNA) Incentive for "both management and rank-and-file employees of agencies with approved and successfully implemented CNAs in recognition of their efforts in accomplishing performance targets at lesser cost, in attaining more efficient and viable operations through cost-cutting measures and systems improvement." Introduced by the previous administration through Administrative Order (A.O.) No. 135 in 2005, the CNA Incentive required that the management and the employees' union must identify in their CNA cost-cutting and systems improvement measures that they would jointly undertake.

The CNA Incentive, paid yearly, was sourced from the savings generated from these cost-saving measures: usually from key items under the Maintenance and Other Operating Expenses (MOOE) of an agency, such as electricity and paper. However, the CNA Incentive had been prone to abuse. Some agencies "forced" the creation of savings by intentionally underspending at the expense of key programs. Others bloated their budgets for MOOE to generate higher "savings" in order to fund higher CNA incentives. As a result, some agencies had provided huge CNA incentives even if they failed to deliver services effectively.

KEY REFORM INITIATIVES AND ACCOMPLISHMENTS

How the SSL was Updated and Enforced Toward Competitive and Performance-Based Pay

The Aquino administration pursued reforms to ensure that public servants receive competitive and just pay. These reforms began with efforts to curb abuses in granting financial incentives to government officials and employees. The administration likewise sought to better link government pay and actual employee performance, as part of broader reforms to deepen the link between budgeting and performance (see Linking Budgeting and Results). In culminating these reforms, the administration reviewed the compensation scheme and proposed adjustments to bring government pay closer to or even at par with those in the private sector.

> "To succeed in our quest for change, we must strengthen and incentivize our public servants as promoters of reform and measurable results.[10]"
>
> **President Benigno S. Aquino III**
> President's Budget Message 2011

Fully Implementing the SSL III and Review of its Impact

A government needs good leadership and competent staff to deliver public services effectively. Thus, the administration first fully implemented the SSL III until 2012. Despite the huge fiscal deficit that it inherited in 2010 (see Fiscal Management), the administration ensured that the requirements for the SSL III—P144.8 billion in total from 2009 to 2012 (*seeTable 1*)—were fully funded. As it improved the fiscal health of the government, the administration not only fully funded the remaining three tranches of the SSL III: it also generated sufficient resources to implement its third (2011) and the fourth (2012) tranches by a month earlier to June, from the original schedule of July as stated in J.R. No. 4.[11]

Table 1. Breakdown of Implementation Cost of the SSL III

Year	2009	2010	2011	2012	Total
Amount	22.8	42.6	38.7	40.7	144.8

Three years after the last tranche of the SSL III in 2012, the administration proposed another round of salary increases to narrow the pay gap between the public and the private sectors.

In line with J.R. No. 4 s. 2009, which provided for a periodic review of the government's Compensation and Position Classification System every three years, DBM initiated a compensation study in 2015, through a private consulting firm[12], to determine the competitiveness of government pay in relation to that in the private sector and craft a compensation strategy to bring government pay closer to market rates.

The Compensation and Benefits Study for the Public Sector, which covered actual pay rates in 2014, revealed that the government pay was, on the average[13], 45 percent below market. The salaries of sub-professional staff (SGs 1-10), such as administrative assistants and drivers, were found to be competitive. In contrast, professionals (SGs 11-24) were found to receive as low as 41 percent of market rates; while middle managers and executives (SGs 25-28) only about a third of the pay of their counterparts in the private sector (*see Table 2*). These findings gave urgency to propose another round of adjustments in the government compensation system, in addition to the decreased purchasing power of government employees by as much as 12.2 percent due to inflation from 2012 to 2015.[14]

A New Round of Hikes to Make Government Pay Competitive

The government developed a new compensation adjustment strategy for 2016 to 2019. Guided by the principles of the J.R. No. 4 and the findings of the compensation study, the government adopted the following parameters (see Parameters for the SSL 2015) in designing the proposed SSL 2015. The proposal builds on reforms that had been implemented since 2010 to curb the abuses that led to inequities in the compensation system, as well as to link pay with performance.

As a result, the proposed SSL 2015 scales up the basic salaries by a weighted average of 27 percent. It likewise introduces a new benefit—the mid-year bonus—as well as enhances the existing Performance-Based Bonus (PBB) (*see Figure 1*). The Mid-Year Bonus or 14th Month Pay is equivalent to one-month basic salary, in addition to the 13th Month Pay. The enhanced PBB, which will be given starting in 2017, will be an additional bonus contingent on performance, which is equivalent to one to two months' basic salary. In total, the basic salary increase, the mid-year bonus, and the enhanced PBB will raise the compensation for all salary grades by an average of 45 percent (*see Table 2*).

The SSL 2015 would cost P225.8 billion, to be paid out in four tranches from 2016 to 2019. The government could afford such increase given the improving revenue collections and the containment of the country's fiscal deficit. Moreover, the compensation adjustment would not impede development spending. The total PS cost as a percentage of the total Budget would continue to decline as projected: from 29 percent in 2015 to less than 25 percent in 2018. Capital expenditures, including infrastructure outlays, would continue to increase to 30 percent by 2018 as projected.

The proposed compensation adjustment, however, was not passed into law before Congress went on recess in February 2016 due to a deadlock on the issue of increases in pension of the military and uniformed personnel. Thus, President Aquino III issued E.O. No. 201 on February 19, 2016[17] to effect the new compensation strategy. The E.O. increases the basic salaries of civilian personnel, and provides for the grant of the Mid-Year Bonus and the PEI amounting to P5,000 for all government

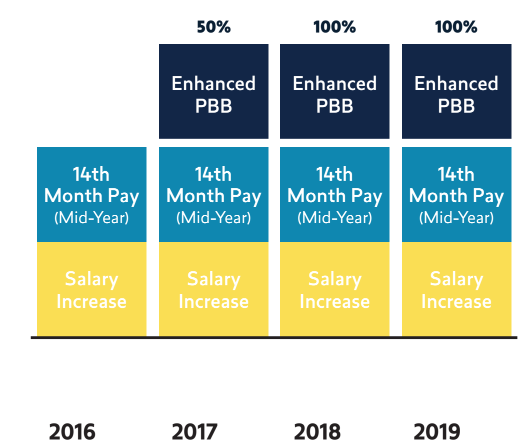
Table 2. Competitiveness of SSL 3 and SSL 2015 Rates Compared to Market

Job Category	Sample Positions		Market Position of Government Pay SSLIII	Market Position of Government Pay SSL2015
Sub-Professional (SGs 1 to 10)	• Utility Worker • Driver • Messenger	• Clerk • Administrative Assistant	126% to 79% of market	154% to 88% of market
Professional (SGs 11 to 24)	• Economist • Agriculturist • Accountant	• Engineer • Lawyer	76% to 41% of market	86% to 70% of market
Middle Manager (SGs 25 to 28)	• Director I • Director IV • Executive Director		39% to 34% of market	70% of market
Executive (SGs 29 to 33)	• Assistant Secretary • Undersecretary • Secretary	• Senator • Vice-President • President	32% to 23% of market	70% of market

Parameters for the SSL 2015

- Raise the minimum salary (SG 1) from P9,000 to P11,068 a month;
- To attract and retain talent, bring the compensation of government personnel to at least 70 percent of the market median for all salary grades;
- Correct salary overlaps in order to recognize differences in duties and responsibilities;
- Strengthen the link between pay and performance, especially for those in higher ranks;
- Temper the cost of benefits (i.e., GSIS premiums and PhilHealth contributions) and allow for higher take-home pay, especially for those in the lower salary grades.

Figure 1. Compensation Strategy under the SSL 2015



	2016	2017	2018	2019	
Cost	57.906 B	54.393 B	65.976 B	47.544 B	**Total 225.819 B**

employees. The PBB amount, meanwhile, will be based on the monthly salary rates starting in 2017. The E.O. also provides for the increase of hazard pay and the grant of a substantial Provisional Allowance and Officers' Allowance, in lieu of base pay increase, for active military and uniformed personnel.

Rationalized benefits in GOCCs

In 2010, the government imposed a moratorium in the grant of incentives in the GOCCs, pending a review by the Cabinet-level task force on the compensation system of GOCCs.[18] Consequently, President Aquino issued E.O. No. 24 in 2011 to prescribe the rules governing the compensation of members of the Board of Directors or Trustees of GOCCs and government financial institutions. The E.O. set the maximum allowable compensation for members of the Board of Directors or Trustees based on the assets and revenues of the GOCC, as well as the maximum rates for per diem in board and committee meetings.

> "The Aquino administration standardized and rationalized the per diems of the Board of Directors of GOCCs that were subject of abuse before. It also initiated the drafting of the bill on the GOCC Compensation System, which was eventually passed by Congress as the GOCC Governance Act of 2011."
>
> **Asec. Myrna S. Chua**
> DBM ORGANIZATION AND SYSTEMS IMPROVEMENT GROUP

Subsequently, the Governance Commission on GOCCs (GCG), created through the GOCC Governance Act of 2011 (*see Fiscal Management*), determined the compensation and position classification system of the GOCCs, especially those that were SSL-exempt, based on their commercial operations and financial sustainability. The government adopted the Performance Evaluation System for GOCCs in 2013 to tie in incentives with performance. The GOCCs then started to use a performance scorecard as basis for granting performance-based incentives.

In 2016, President Aquino issued E.O. No. 203 to establish a Compensation and Position Classification System (CPCS) and a General Index of Occupational Services (IOS) Framework for the GOCC Sector, which were developed by the GCG after a compensation study. The CPCS, in particular, limited the total compensation of GOCC officers and employees to basic salaries, standard allowances and benefits, specific-purpose allowances and benefits, and variable pay.[19]

Clearer Parameters for Magna Carta Benefits

The administration likewise called for the re-evaluation of the funding and guidelines for Magna Carta benefits, particularly for health workers, in accordance with J.R. No. 4. The review resulted in issuances that clarify the grant of such benefits to health workers and science and technology workers.

One issuance was the DBM-DOH Joint Circular (J.C.) No. 1, s. 2012 that rationalized the guidelines on the grant of hazard pay, subsistence allowance, and longevity pay so that only deserving employees were paid those benefits. It prescribed the rules and regulations in providing said benefits, such as the hazard pay for public health workers at SG 19 and below. Their hazard pay should be based on the degree of exposure to high risk and low risk hazards, as well as on the number of workdays of actual exposure, but at rates not to exceed 25 percent of the monthly basic salary. However, in 2015, the Supreme Court ruled that the provisions of the DBM-DOH Joint Circular were unenforceable insofar as it lowers the hazard pay at rates below the minimum. A revised Joint Circular on Hazard Pay is currently being drafted by the DBM and the DOH. The said J.C., which will be issued in 2016, will prescribe the rules on the payment and rates of the hazard pay for public health workers.

Another joint circular, J.C. No. 1, s. 2013, was issued by the DBM and the DOST to provide for the rules and regulations on the grant of compensation-related Magna Carta benefits to scientists, engineers, researchers, and other science and technology personnel. Similar to the DBM-DOH circular, the DBM-DOST joint circular provided for the inclusion of the funding requirements of the Magna Carta benefits for government employees in the annual Budget. It also rationalized the guidelines for honoraria, per diem, hazard pay, subsistence allowance, and longevity pay.

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government employees in the annual Budget. It also rationalized the guidelines for honoraria, per diem, hazard pay, subsistence allowance, and longevity pay.

The End of Pabaon: An Opportunity to Implement Reforms

The government pursued reforms to curb leakages in the incentives given to military and other uniformed personnel (MUPs). Dovetailing the revelation of the "pabaon" scheme, the government through the DBM withheld the release of budgets for unfilled MUP personnel to the Armed Forces of the Philippines (AFP) and the Philippine National Police (PNP) until these institutions submitted to the DBM validated rosters of active personnel. These lists of personnel, as validated, were further verified against other personnel databases, such as actual payroll; records of the Employees Compensation Commission (ECC) to which all employees of the national government, whether uniformed or civilian, contribute; and the government servicing banks that handle the payment to soldiers and the compensation of MUPs.

Similarly, the DBM, the AFP, and the PNP agreed that the rosters of MUPs be rid of so-called "ghost" personnel and retirees. The administration likewise took the opportunity to implement other reform initiatives in the MUP sector, including the use of automated teller machine (ATM) cards with biometric data in releasing pensions to retirees. The "pabaon" issue also motivated the introduction of Cashless Purchase Cards (*see Faster and Efficient Budget Execution*) to curb abuses related to cash advances and the "conversion" of PS expenses to others.

> "We also went after the pension leakages because we received anecdotal information that pensions were being received even by those who already died. We limited the number of pensioners who could receive their pension via checks; and we required the periodic updating of the pension list. We also requested the military and PVAO, agencies in charge of pension, to ask all pensioners to re-register using the ATM.
>
> "Of course, it was not easy. They complained. They went to social media, to the media, to anyone who would listen. But because of this process of cleansing the pension roster, we were able to give back to the national government, in forward estimates, P1 billion each year for three years."
>
> **Asec. Tina Rose Marie L. Canda**
> DBM BUDGET PREPARATION AND EXECUTION GROUP

Linking compensation and performance: PBB and CNA

In 2011, President Aquino issued A.O. No. 25[20] that created a task force to develop a mechanism to link the compensation of personnel to their individual and their respective agency's measurable performance, which gave rise to the Performance-Based Incentive System (PBIS) in 2012.[21]

The PBIS provided for two incentives for qualified government employees: the PEI, which was a P5,000 incentive given across the board; and the PBB, a maximum P35,000 incentive (see Table 3) granted to employees based on their contributions in attaining their organization's goals and targets.[22] For the employees to be entitled to the PBB, an agency must meet all the conditions of good governance set annually by the A.O. 25 Task Force (see box); achieve at least 90 percent of each of Congress' approved targets specified in the GAA; and achieve at least 90 percent of the agency's priority commitments to the President as stated in their Secretary's Performance Contract.

Good Governance Conditions for FY 2015

- Maintain/update agency Transparency Seal (Sec. 91 of 2015 GAA)
  The agency's Transparency Seal must include posting of its system of ranking delivery units and individuals, Quality Management Certificate from an international certifying body or the agency's Operations Manual, whichever is applicable.
- Maintain/update PhilGeps posting
- Maintain/update Citizen's Charter or its equivalent

The PBB featured a rationalized distribution of incentives based on the performance of bureaus and individuals. It likewise provided a system of forced ranking for PBB eligible office and employees.

Based on performance, 10 percent of the delivery units were ranked by the department secretary as "Best Bureaus;" while 25 percent were ranked as "Better Bureaus." The remaining 65 percent fell under the 'Good Bureau' category. Within each "bureau" or service delivery unit, employees were similarly ranked as "best," "better," or "good" based on their individual performance. The SSL 2015 institutionalizes the PBB, which will be equivalent to one to two months' basic salary depending on the ranking of the delivery unit starting in 2017.

Table 3. PBB Rates of Incentives, 2016

Group Performance Category	Individual Performance Category		
	Best Performer	**Better Performer**	**Good Performer**
Best Bureau	35,000 (20%)	20,000 (35%)	10,000 (45%)
Better Bureau	25,000 (15%)	13,500 (30%)	7,000 (55%)
Good Bureau	15,000 (10%)	10,000 (25%)	5,000 (65%)

Note: Bureau refers to the delivery unit. The rates were also used in 2012 to 2014; in 2015 and beginning in 2017, the rates were pegged against the monthly basic salary of the individual employees.

Source: Executive Order No. 80, s. 2012

In the process, the PBB enabled the public servants to understand better their individual roles vis-á-vis the service delivery commitments of their agencies, as well as promote better teamwork and improve transparency and accountability. A World Bank study presented to the DBM (Hasnain and Banuri, 2014) on pay and performance reported that government employees perceived the PBB as having "induced improvements in management practices" and a "performance driver and motivation for public service." Moreover, since its implementation in 2012, the participation rate of the agencies in the PBB had increased from 96 percent in 2013 to 99 percent in 2014 (*see Table 4*): an indication that more heads of the agencies saw the value of the PBB as a driver in meeting their service delivery commitments. Likewise, the compliance of the agencies with the good governance conditions had increased from 88 percent in 2012 to 98 percent in 2014. Marked improvements had been recorded in the compliance rate for the Transparency Seal (*see Fiscal Transparency*) and the disclosure of procurement notices and awards through the Philippine Government Electronic Procurement System (*see Procurement Reform*).

Table 4. PBB Participation Rates in 2013 and 2014

FY 2013 (98%) 189 out of 192 agencies		**FY 2014** (99%) 190 out of 192 agencies	
CO	4	CO	5
Departments	23	Departments	23
OEOs	36	OEOs	36
GOCCs	15	GOCCs	15
SUCs	111	SUCs	111

The administration likewise made the grant of the CNA Incentive[23] performance-based, in line with the intent of J.R. No. 4, as well as the provisions of A.O. No. 25. Employees become eligible only if their agencies meet 90 percent of their respective performance targets in the GAA as well as the Secretary's Performance Contracts. To curb excessively high bonuses, the government capped the CNA Incentive at a maximum of P25,000 per employee starting in 2011. The DBM-issued circulars on the CNA Incentive likewise specified that the CNA Incentive be funded only from a limited set of allowable MOOE allotments: traveling expenses, communication expenses, repairs and maintenance, transportation and delivery expenses, supplies and materials, and utility expenses. The circulars issued beginning in 2014 likewise specified that the balances of allotments for programs, activities, and projects (P/A/Ps), which were discontinued or deferred, as well as allotments intended for the acquisition of goods and services to be delivered to the agency's clients, could not be used as sources of funding for the CNA.

CHALLENGES AND NEXT STEPS:

Is the Pay System Already Competitive, Performance-Based, and Sustainable?

The SSL 2015 was envisioned not only to increase government compensation but also to institutionalize the PBIS and other reforms that clearly link government compensation with measurable performance. As the 16th Congress had failed to approve this measure before its regular session closed, President Aquino issued E.O. No. 201 to effect the compensation adjustments. While allowed by J.R. No. 4 s. 2009, the fact remains that an E.O. is not a law that cannot easily be reversed. Beyond institutionalizing the SSL 2015 through law, however, the next administration may need to look into other laws and practices that affect the fairness, competitiveness, performance-orientation, and sustainability of the government's compensation system.

Make Compensation Competitive

Under E.O. No. 201, government compensation will be at least 70 percent of the market median by 2019. In this light, the government must sustain the increase in revenue collections and the reduction of the fiscal deficit to finance the four tranches of compensation adjustments as well as to contain PS costs to less than 30 percent of the total Budget. However, proposed revenue-eroding measures pose risks to ensuring adequate resources for the salary adjustments. The continuing demand to increase salaries in order to beat inflation does not only create demands on the fiscal space but also have the effect of pressuring the private sector to hike salaries. There are reports of exodus of private school teachers to the public sector to enjoy better benefits (Sambalud, 2014).

Address Pay Inequities Within Government

Even with the issuance of E.O. 201, key distortions in the government compensation system could remain unaddressed if existing laws providing additional benefits would not be reviewed. First, on Magna Carta benefits, the provision of additional benefits to workers in hazardous jobs may be needed; however, the specific funding sources for those benefits should be identified to ensure the equitable implementation of the law. Second, even with the issuance of E.O. No. 201 for national government and E.O. No. 203 for the GOCC sector, pay inequities within government will remain because of the differing pay scales in these two issuances. While giving certain GOCCs a higher pay scale than those in the regular agencies may be justifiable as the former compete with the private sector, a review may be necessary in order to establish common compensation standards, whether in the regular agencies or the GOCCs. The difference between these two groups may be in the form of incentives and other performance-based benefits.

> "I believe no distinction should be made, in terms of compensation, among ALL government employees to attain a truly standardized compensation system across the entire bureaucracy.."
>
> **Assistant Director Elena Regina Brillantes**
> DBM BUDGET AND MANAGEMENT BUREAU
> FOR GOOD GOVERNANCE SECTOR

Another urgent issue is the looming crisis in the pension of the military personnel. Based on DBM's projections, such pension cost will reach P73.09 billion in 2020 and overtake the total salaries of active AFP military personnel at P73.04 billion. As earlier discussed, inequities already exist between uniformed and civilian personnel, in which the former's retirement and pension benefits are paid out of the Budget, while those of the latter come from their contributions to the GSIS. Thus, efforts to reform the MUP pension system must be pursued, including the development of a pension fund scheme that is a part of, or similar to, the GSIS.

> "Pending the passage of the MUP Pension Reform Bill in Congress, EO 201 is just an interim measure. It has given the national government space to review the automatic indexation and the non-contributing policies under the current system. The current system is no longer sustainable since the national government can no longer foot the entire cost."
>
> **Assistant Director Evelyn Peralta**
> DBM BUDGET AND MANAGEMENT BUREAU
> FOR SECURITY, PEACE, AND JUSTICE SECTOR

Strengthen Performance-Based Compensation

The E.O. No. 201 strengthens the PBB by making it equivalent to one to two months' salary depending on one's performance. However, a number of concerns expressed by government employees about its implementation should be addressed. In particular, the government should continue its efforts in making individual performance assessments more rigorous and evidence-based, while ensuring that such assessments are not too cumbersome for managers and employees to carry out. As DBM Asec. Myrna Chua emphasized, "the major challenge in implementing the PBIS is how to make the system a truly effective tool in incentivizing and rewarding performance."

Such efforts should be pursued in light of concerns on the forced-ranking system: across and within agencies, there exist varying interpretations of the implementation mechanics and criteria for rating performance and ranking delivery units and individuals. Such varied appreciation of the mechanism has been creating skepticism as well as impressions that the forced-ranking system is unfair and subjective. In the DBM itself, a Perception Assessment Report[24] surfaced suggestions to reconsider the forced-ranking process as it lacked transparency, appeared to be "very subjective and too restrictive as it was mostly based on favoritism among employees. [As such, for the respondents, it] is not an accurate measure of performance. (DBM, 2015b)" Respondents of the assessment also said that forced ranking "only encourages unhealthy competition instead of teamwork, increases tension, and creates faction/division among employees (DBM, 2015b)." To address some of these concerns, the A.O. 25 Secretariat conducted dialogues and orientations to level off understanding on the PBB guidelines. Moreover, the agencies were recently required to disclose their respective rating and ranking systems through their Transparency Seals.

NOTES

1 Defined by Asec. Myrna Chua of the Organizations and Systems Improvement Group

2 Across-the-board salary increases implemented by President Estrada through Executive Order (E.O.) No. 22 s. 2001 (10 percent); and by President Arroyo through E.O. No. 22 s. 2001 (five percent)

3 Across-the-board salary increases implemented by President Arroyo through E.O. No. 611 s. 2007 (ten percent), and No. 719 s. 2008 (10 percent).

4 As specified in provision d under 1. Governing Principles, Joint Resolution No. 4 (Authorizing the President of the Philippines to modify the compensation and classification of civilian personnel and the pay schedule of militaty and uniformed personnel in the government, and for other purposes)

5 Though Tourism Infrastructure and Enterprise Zone Authority (TIEZA) is SSL-exempt per Republic Act No. 9593, it still follows SSL provisions.

6 Magna Carta of Public Health Workers, Republic Act (R.A.) No. 7305

7 Magna Carta for Public School Teachers, R.A. No. 4670

8 Magna Carta for Public Social Workers, R.A. No. 9433

9 Magna Carta for Scientists, Engineers, Researchers, and Other Science and Technology Personnel, R.A. No. 8439

10 Translated to English from its original statement: "*Upang magtagumpay tayo sa ating laban para sa pagbabago, nararapat lamang na palakasin natin ang mga lingkod-bayan bilang mga tagapagtaguyod ng reporma at nasusukat na resulta.*"

11 This is the schedule for the national government sector and GOCCs and GFIs; while for LGUs, JR No. 4 s. 2009 mandated that the salary adjustments be implemented beginning January.

12 Towers Watson is a human resource consulting firm tapped by DBM to conduct the compensation survey.

13 Weighted average

14 Compounded inflation rate from 2012 to May 2015

15 The 13th Month Pay used to be divided into a mid-year bonus and a year-end bonus.

16 The total weighted average increase of 45 percent is composed of 27 percent from basic salary increases, 8 percent from the Mid-Year Bonus, and 10 percent from the PBB.

17 "Modifying the Salary Schedule for Civilian Government Personnel and Authorizing the Grant of Additional Benefits for Both Civilian and Military and Uniformed Personnel"

18 Executive Order No. 7, s. 2010. Directing the Rationalization of the Compensation and Position Classification System in the Government-Owned and Controlled Corporations and Government Financial Institutions and for Other Purposes.

19 The CPCS covers the GOCCs whether these have been previously exempted from or covered by the SSL. It also does not apply to the GOCCs exempted from the GOCC Governance Act: the BSP, SUCs, cooperatives, local water districts, economic zone authorities, and research institutions. It also does not cover indirect compensation, such as life and retirement insurance benefits and provident fund benefits.

20 Harmonization of National Government Performance Monitoring, Information and Reporting System.

21 Introduced in 2012 per Executive Order (E.O. No. 80)

22 For FY 2015, the government modified the PBB in the interim by pegging amounts to the basic salary rates of employees, rather than the fixed rates. A similar scheme was adopted under the SSL 2015.

23 Budget Circulars No. 2011-5, 2012-4, 2013-4, 2014-2, and 2015-2

24 The DBM Perception Report was prepared by the DBM's Internal Audit Service based on the perception assessment it conducted in September 2015 at the DBM. The assessment was participated in by 253 rank-and-file employees.

HOW WE MADE GOVERNMENT PAY COMPETITIVE

Attracting and retaining talent in government requires a competitive compensation package. Executive Order (E.O.) No. 201, s. 2016 increased compensation to at least 70 percent of market rates, rationalized previously abused bonuses, and strengthened the link between pay and performance.

REPUBLIC OF THE PHILIPPINES
ANNUAL PAY SLIP

For the Year 2016

PLANNING OFFICER IV
Salary Grade (SG) 22

PARTICULARS	AMOUNT
Annual Basic Salary	569, 376
Mid-Year Bonus	47, 448
Performance-Based Bonus (PBB)	35, 000
Productivity Enhancement Incentive (PEI)	5, 000
Personal Economic Relief Allowance (PERA)	24, 000
Year-End Bonus (YEB)	52, 448
Uniform/Cash Allowance (U/CA)	5, 000
Collective Negotiation Agreement (CNA) Incentive	25, 000

This sample pay slip shows increases in basic pay and certain benefits of civilian employees of national government agencies as of the First Tranche Salary Schedule released in 2016. Three more tranches are scheduled from 2017 to 2019.

E.O. No. 201 also covers LGU personnel, subject to the LGUs' financial capacity and other parameters.

The E.O. also increases the hazard pay and grants a substantial Provisional Allowance and Officers' Allowance for active military and uniformed personnel.

For GOCCs, E.O. No. 203 establishes a Compensation and Position Classification System for GOCC officials and personnel. Like in national government agencies, the E.O. institutionalizes performance-based incentives.

Annual Basic Salary: Scaled up by a weighted average of 27 percent, pre-E.O. No. 201 to the final tranche of E.O. No. 201. For this SG, the annual basic salary will increase by 11 percent in 2016 and by 53 percent in 2019 from pre-E.O. No. 201 rates.

Mid-Year Bonus: A new incentive for all employees equivalent to one-month salary

Performance Based Bonus (PBB): The Enhanced PBB is worth one to two months' basic salary depending on performance will be effective by 2017 onward.

On top of increasing basic salaries, the E.O. No. 201 introduced the Mid-Year Bonus and enhanced the PBB.

Productivity Enhancement Incentive (PEI): Rationalized to a fixed P5, 000 each for all employees

The E.O. No. 201 rationalized other standard bonuses such as the PEI, PERA, YEB, U/CA, and CNA Incentive.

Year-End Bonus (YEB): Equivalent to one-month salary plus a P5, 000 cash gift

Collective Negotiation Agreement (CNA) Incentive: Capped at P25,000, given to employees whose agencies meet 90 percent of their performance targets in the GAA and the Secretary's Performance Contracts

Total Gross Pay: In 2019, this bottom line will become P1,060,115, a 53-percent increase from P693,128 at pre-E.O. No. 201, if 1.25 months of the Enhanced PBB and the same benefits are included.

Assumptions: This salary represents step 1 of SG 22 with maximum amounts for PBB (best employee in the best bureau) and the CNA incentive. Computations exclude tax and other deductions.