

Republic of the Philippines
National Capital Judicial Region
REGIONAL TRIAL COURT
Branch 66
Makati City

IN THE MATTER OF: PETITION
FOR CORPORATE REHABILITATION,

SPEC. PROC. NO. M-6802
(For Corporate Rehabilitation under P.D.
No. 902-A)

PERMANENT PLANS, INC.,
Petitioner.
x-----x

**PROPOSED LIQUIDATION PROGRAM
FOR PETITIONER'S TRUST FUND**

Petitioner **PERMANENT PLANS, INC.**, by counsel, and the undersigned Court-Appointed Liquidator, in compliance with the Order dated August 6, 2010, to this Honorable Court, most respectfully submit the following proposal for the liquidation of the Trust Fund, to wit:

PREFACE

In 1989, Permanent Plans, Inc. was incorporated and registered with the Securities and Exchange Commission, and started its full marketing operations on July 1, 1989. It was established as a pre-need company with an initial authorized capital stock of P386,525,000.00.

A pre-need company is a corporation that is authorized by law and licensed by the appropriate Government agency to offer and sell pre-need plans to the general public (Republic Act No. 9829).

Among the products (duly approved by the Securities and Exchange Commission) then marketed by Permanent Plans, Inc. were the pension plans, regular education plans and the life/memorial plans.

The pre-need pension plan contracts consisted of the Ordinary Pension Agreement (OPA), Regular Pension Agreement (RPA), Juvenile Pension Agreement (JPA), DECA Pension Agreement, Comprehensive Pension Agreement (CPA), Executive Pension Agreement (EPA) and the Super Saver Plan (SSP). In November 25, 2008, the life/memorial plan including the new pension plans were approved by the Commission.

These consisted of Perma Flex Plan and the Destiny Plan for life plans/memorial and the Prosperity, Diligence, Exclusive and Affluence Plans for the new pre-need plans.

The pre-need plan contracts were designed to pay for the Subscribed Maturity Value (SMV) at plan's maturity date. Insurance coverage was also provided to the pre-need pension and life/memorial plans. Benefits include death claims, accidental death and dismemberment, total and permanent disability and dismemberment.

As approved by the Securities and Exchange Commission, for every peso then collected by petitioner from its customers, the same was disbursed as follows:

- a) 10% went to the Government by way of taxes;
- b) 12% went to insurance premium reserves;
- c) commissions of Sales Agents are as follows:
 - i) 45% of premium payment for the first year;
 - ii) 15% of premium payment for the second year;
 - iii) 5% of premium payment for the third year.
- d) overriding benefits of all Senior Sales Agents as follows:
 - i) 10% of premium payment for the first year;
 - ii) 2% of premium payment for the second year;
 - iii) 1% of premium payment for the third year
- e) Other extra perks i.e. travels and other cash incentives to all levels of Sales Associates;
- f) Trust Fund contribution, as follows:
 - i) 11.28% of premium for the first year;
 - ii) 35.42% of premium for the second year;
 - iii) 69.30% of premium for the third year;
 - iv) 73.50% of premium for the fourth year;
 - v) 75.00% of premium from the fifth year and onwards.
- g) Administrative Expenses.

The Trust Fund Contributions as well as the sums meant for Insurance Premium Reserves are strictly required to be deposited with a select group of Trustee Banks pre-accredited by the Securities and Exchange Commission.

In petitioner's case, its Trustee Banks are the ING Bank, the Metropolitan Bank & Trust Company and the United Coconut Planters Bank.

The investment of these Funds is left upon the sole discretion of the Trustee Banks subject to some conditions set forth by the Securities and Exchange Commission. Permanent Plans, Inc. has **NO PARTICIPATION** on where or how the Trust Fund and Insurance Premium Reserves are invested. Notably, the fees of the Trustee Banks are billed, collected and paid **EVEN** if the investment portfolios showed a **NEGATIVE** return.

Thus, while a net loss in the amount of P47,084,191.00 was reported in its 2008 Audited Financial Statement, the Trust Fund still paid the total of P1,691,457.16 in Trust Fees.

As stated in the above-mentioned Audited Financial Statement for the year 2008, the Trustee Banks reported a negative return in all the investment portfolios where the Trust Fund was placed, as follows:

| | |
|-----------|---------|
| ING Bank | -23.61% |
| MetroBank | -22.75% |
| UCPB | - 6.47% |

Considering that the Trust Fund needed the amount equivalent to a yield rate of 12% to realize its "goal" for the year, the foregoing negative returns actually translated as follows:

| | |
|-----------|---------|
| ING Bank | -35.61% |
| MetroBank | -34.75% |
| UCPB | -18.47% |

It should be noted at this juncture that the cost models of the plans that were approved by the Securities and Exchange Commission were based on the income projections of an independent Actuary and the Trustee Banks. Thus, if the Trustee Banks are unable to deliver on their projections, the desired return will not be met and the Trust Fund will incur a deficiency overtime.

Corollary to this, the Securities and Exchange Commission issued the Pre-need Rule 31 (as amended) on May 10, 2007, which adopted the revised accounting standards and chart of accounts that shall be considered as the generally accepted accounting principles (GAAP) for pre-need plan companies in the Philippines.

In 2008, based on the computation by an internal qualified actuary consequently verified by an independent or external actuary accredited by the SEC, the required Pre-Need Reserves (PNR) as of December 31, 2009 amounted to P635,457,902.00 as compared to 2007 PNR of P407,967,758.00. The amount computed by the SEC accredited actuary resulted to a deficiency of Trust Fund Assets by P249,156,193.00 (P635,457,902.00 – PNR less 386,301,709.00 – Investment in Trust Fund) as of December 31, 2008 as against the excess Trust Fund of P123,127,225.00 in 2007.

Unfortunately, this paper loss resulting from a change in accounting principles became the platform to further the ambitions of some lacklustre politician. Instead of recognizing a growing concern brought about by market reversals, these alders became the doomsday prophets of the pre-need industry.

It is a combination of these factors that resulted in Permanent Plans, Inc., finding itself where it is at present.

THE TRUST FUND

As of October 31, 2010, the Trust Fund consisted of, as follows:

a) Cash, Stocks, Equities, Direct Loans and Receivables

| | | |
|-----------|---|----------------|
| ING Bank | P | 139,515,841.00 |
| MetroBank | | 131,242,001.00 |
| UCPB | | 6,758,465.00 |

b) Real Property

| | | |
|-----------|---|----------------|
| MetroBank | P | 174,244,000.00 |
| UCPB | | 2,700,000.00 |

c) Liabilities

(Trust Fees/Withholding Tax/others) P (1,560,380.00)

d) Insurance Reserve Fund P (1,166,396.00)

Total P 451,733,531.00

The real property component consists of One (1) Lot Title with Title No. N-205785 with an area of 25,363 square meters, representing the company's 1/3 part joint venture participation in a memorial park named "Recuerdo Memorial Gardens" located in fast growing Commonwealth, Quezon City, with a trust fund value of One Hundred Seventy Four Million Pesos (P174,000,000.00), more or less. This value of the

property has been carried in corporate audited books since 2008. Notably, the joint venture partners of Permanent Plans, Inc. are: Rizal Memorial Park Developers represented by Riccor Properties and the Bayot Family. The Recuerdo Memorial Park development company was Permaplans Investments Inc. a wholly-owned subsidiary of Permanent Plans, Inc. whose responsibilities to the Park included the construction (now 100% complete) and day-to-day maintenance. No sales activities are currently being undertaken by Recuerdo Memorial Gardens due to the Liquidation Order of the Court- at a huge financial disadvantage to Permanent Plans. Inc.'s project partners.

The inventory equivalent of available memorial lots assigned to Permanent Plans by the joint venture is currently being audited/validated by Sycip Gorres and Velayo (SGV). Based on the preliminary review of the Liquidator and Treasurer the inventory share of the PPI lot totals to five thousand four hundred seventy nine (5,479), double interment lots.

Based on a recent appraisal report dated September 8, 2010 commissioned by the Court-Appointed Liquidator to Asian Appraisal Company, Inc., the current market value of a Recuerdo Memorial Lawn Lot ranges from a low valuation of P59,000.00 to a high of P67,000.00. Summarily, the total inventory of lots ranges from a low of P323,261,000.00 to a high of P367,093,000.00. The aforementioned are gross values that have not taken into account the following expenses: cost of Sales, advertising and commissions, fixed and general administrative expenses and government taxes.

The other part of the real property component of the Trust Fund consists of two (2) condominium units and one (1) parking slot in Horizon City Flats located at No. 264 Haig Street, Brgy. Daang Bakal, Mandaluyong City, with a book value of Four Million Ninety One Thousand Two Hundred Eighty One Pesos (P4,091,281.00) and a fair market value of Four Million Three Hundred Seventy Five Thousand Pesos (P4,375,000.00).

THE PROPOSED LIQUIDATION PROGRAM

This proposes a fair and pro-rated return of Trust Fund values to all Planholders ONLY on record based on the LIQUIDATION VALUE of the Trust Fund assets. The basics of the liquidation program consist of the following guidelines:

- a) Non-planholders shall NOT qualify as recipients of the liquidated trust fund (examples of non-planholders are: employee retirees, bank and supplier creditors, investor

advances, liquidation and legal fees, company operating expenses, etc...);

b) Pro-Rated sharing will be determined by the:

- Contribution to the Trust Fund as determined by the Type of Plan and paid-out costs such as Insurance
- Contract Price weighed against the Termination Value
- Date of Full-Payment

c) Release of Liquidation Values will be on a *first-in-first-out* policy

Most, if not all the pre-need companies similarly situated with Permanent Plans, Inc., propose to or are paying an amount equivalent to the Termination Value (TV) of each Contract.

Termination Value (TV) as defined by the Contract is ---

- a) For fully paid plans, fifty percent (50%) of the plan payments made;
- b) For active plans, it is dependent on the total plan payments made;
- c) For new plans, it will be entitled to a non-forfeiture option of the plan

If all the plans subject of the present proceedings are given a value based on their respective Termination Value (TV) utilizing the above-listed parameters, the total will amount to P370,086,576.00, as of June 30, 2010. The breakdown of which is as follows:

PENSION PLANS:

| STATUS | TERMINATION VALUE |
|---------------------------|--------------------------|
| a) Fully Paid – Matured | P 39,294,151.00* |
| b) Fully Paid Not Matured | 275,322,823.00 |
| c) Actively Paying | 54,975,031.00 |

(*The termination value for Fully Paid – Matured is set at 50% of the Plan Contract Price.)

EDUCATION PLANS:

| | |
|-------------------------|--------------|
| a) Fully Paid – Matured | 85,930.00.00 |
|-------------------------|--------------|

LIFE/MEMORIAL PLANS:

| | |
|--------------------|---------------|
| a) Fully Paid | 25,578.00.00 |
| b) Actively Paying | 267,340.00.00 |

NEW PLANS

a) Active 115,722.00

TOTAL P 370,086,576.00

Should Permanent Plans, Inc. embrace the industry practice of the return of Termination Values, the Liquidation Team foresees an excess of roughly P80,000,000.00 that will be released by the Trust Fund to the corporate body of Permanent Plans.

The Liquidation Team does not believe the aforementioned fair to Planholders and thus proposes the Liquidation Value (LV) Program presented earlier.

Further to this, the Liquidation Team of Permanent Plans, Inc. submits at this juncture that there appears to be encouraging evidence that the Real Estate Property component of the Trust Fund is undervalued due to the fast-paced progress of Commonwealth Avenue in Quezon City - today's richest and premier-class city in Metro Manila. Moreover, based on recent economic data, a market for the Recuerdo Memorial Gardens exist. The population of affluent Quezon City homeowners and neighbouring geographical administrations total 2,000,000 people. Recuerdo Memorial Gardens is the only memorial park in the area today.

It appears from the recent Asian Appraisal report that a **positive variance** exists between the book value of the real estate component of the Trust Fund of P174,000,000.00 *vis-à-vis* its present fair market value at the low range of P312,223,000.00 to a high range of P362,296,000.00. It is worth noting that these values will increase over time when the MRT line on Commonwealth Avenue is completed.

This positive variance in values is safely predicted to **FAVOR** the Planholders under the Liquidation Value (LV) Program. *Nonetheless, to be CONSERVATIVE in its assumptions, the Liquidation Team of Permanent Plans, Inc. has elected to use the Trust Fund values as audited in its books - and not the appraised values aforementioned - to ensure that all Planholders are provided a conservative picture of the corporation's financials in the computation of Termination Values.*

The Liquidation Team of Permanent Plans, Inc. has been given reason by the data presented to believe that the Liquidation Value (LV) for each plan will

be greater than the Termination Value (LV) that their respective contracts provide.

The implications of this include:

- a) Planholders will receive amounts **greater** than the Termination Value.
- b) Planholders who receive an interment lot or lots, which are predicted to increase further overtime, enjoy the probability of even greater returns in the future, minimizing investment losses in their pension plans.

Preliminary computations reveal that the Liquidation Value is approximately 60% to 65% of the Contract Price, depending on the type of plan.

In fairness to all Planholders concerned, cash-based pension plans with no or minimal insurance riders are predicted to receive greater liquidation values. Pension plans with heavy insurance riders such as the Deca-Plan, which has a high-cost structure with premiums paid to insurer-partners are predicted to receive lower liquidation values than the former.

For purposes of orderliness, Permanent Plans, Inc. proposes that the release of liquidation payments follow a “first in, first out” policy. Those Planholders who completed the payments of their contracts first will be paid first.

INSURANCE COMPONENT OF PENSION PLANS

Finally, the Court-Appointed Liquidator and petitioner Permanent Plans, Inc. most respectfully inform the Honorable Court that the remaining Insurance Premium Reserve will be sufficient to cover the insurance premiums of the Planholders **only until July 2011** should the Trustee Bank continue to generate positive income on the Trust Fund.

However, should there be losses generated by the Trustee Bank, the current Trust Fund value of P451,733,531.00 will be consequently **REDUCED**.

It should be noted that part of the proposal contained herein is a recommendation from the Liquidation Committee to cancel the insurance component of all pension plans. This is anchored on the need to FIX a definitive value to the Trust Fund that will be eventually distributed to the Planholders.

Based on current data, the annual cost of insurance premiums total to approximately P 18,000,000- an amount greater than Planholders’ claims that have been paid for by the Insurer Provider.

Also, annual interest and dividend income generated by the Cash and Equities component of the Trust Fund of P6,000,000 (a net average return of 2.7% per annum) can not cover the Insurance Premiums moving forward.

EPILOGUE

The liquidation of the corporate assets of Permanent Plans, Inc. will be submitted after a full determination of its true creditors is made and, more importantly, after its external auditor, BDO Alba Romeo & Co., CPAs, has completed the audited financials of the corporation targeted March 2011.

In fairness to all creditors involved, non-trust fund assets must be dedicated to non-Planholders of the corporation as well as all costs and expenses generated by the liquidation program and corporate operating expenses (employee salaries, etc...). The Estate of Atty. Juan Miguel M. Vazquez, largest and primary shareholder, has announced its waiver of any of its rights and claims to Permanent Plans to facilitate a fast-track liquidation of the Trust Fund- in response to requests from various Planholders who seek immediacy to the matter. Moreover, it cedes its voice and participation in any of the legal proceedings with trust and support to the Liquidation Team of Permanent Plans, Inc.

RESPECTFULLY SUBMITTED.

Makati City, December 6, 2010.

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