

[ G. R. No. L-10791. August 18, 1958 ]

**ELENA SOTTO VDA. DE MARALAG, ET AL., PLAINTIFFS AND APPELLEES, VS.  
GOVERNMENT SERVICE INSURANCE SYSTEM, DEFENDANT AND APPELLANT.**

**D E C I S I O N**

**MONTEMAYOR, J.:**

This is an appeal from the decision of the Court of First Instance of Manila, rendered by Judge E. Soriano (Civil Case No. 23380), ordering defendant and appellant Government Service Insurance System (GSIS) to pay plaintiffs and appellees the sum of P2,101.02 with legal interest thereon until fully paid, plus costs. The appeal was first taken to the Court of Appeals, but the latter by resolution indorsed the said appeal to us, involving as it does purely questions of law.

The lower court in its decision made a fair and correct statement of the facts as well as the issues involved, including some observations, and we are quoting with favor and making our own the pertinent portion of said decision:

“Plaintiffs’ complaint alleges, in a nutshell, that on July 1, 1951, defendant issued Insurance Policy No. T-11039 on the life of Dalmacio C. Maralag for the sum of P4,275 with plaintiffs as the beneficiaries thereunder; that the insured had paid all the premiums due under the said policy and the latter was in force when he died on January 23, 1963; that on October 2, 1953, defendant paid to plaintiffs P2,137.50 on account of the said policy, leaving a balance unpaid in the amount of P2,101.02, and that despite formal demand, defendant has refused to pay said balance, thus compelling plaintiffs to engage the services of counsel for P500 to file this action. Plaintiffs’ complaint accordingly asks for judgment sentencing defendant to pay to them the sum of P2,101.02, with legal interest thereon until fully paid, attorney’s fees in the sum of P500, and the costs. Defendant’s answer prays for the dismissal of said complaint on its principal defense that the Manila

Railroad Company, the employer of the deceased, had not paid to defendant its share of the insurance premiums of its employees in the amount of P185,973.21 from July 1, 1951 up to the time of the insured's death j that pursuant to the provisions of Section 9 of Republic Act No. 728 the Board of Trustees of defendant is authorized to make readjustment of the insurance benefits whenever the employer fails to pay its share of the insurance premiums of its employees, and that in accordance with the said authority, the Board of Trustees of defendant approved Resolution No. 355 on September 16, 1952, readjusting the insurance benefits to one-half where the employer has not paid its share of the insurance premiums due on the policies of its employees. Because of this alleged failure of the Manila Railroad Company to pay to defendant its share of the insurance premiums of its employees, defendant put in a third-party complaint against the said company, but upon suggestion of the Court, no action was taken on the said third-party complaint and counsel for the original parties agreed to submit the case for decision on their respective memoranda. This was done because there is hardly any dispute as to the salient facts, and in order to expedite the termination of the case.

"From the parties' pleadings and memoranda, stripped of unessentials, it appears that the only defense of defendant against plaintiffs' action is based on the following pertinent provisions of Section 9 of Republic Act No. 728:

'\* \* \* Notwithstanding any provision of this Act to the contrary, and in order to insure the solvency of the System and to protect the interest of all its members, the Board is hereby authorized to make readjustment in any of the benefits payable to an employee under this Act in accordance with such rules and regulations it may prescribe if his employer fails to pay for him its share of the contributions or premiums required by this Act and no person, regardless of the date of his retirement, may allege vested right by reason of this readjustment.' pursuant to which, the Board of Trustees of defendant approved Resolution No. 355, reading pertinently as follows:

'*Resolved*: That the readjustment recommended by the Associate Actuary and Acting Manager, Production Department, for retirement insurance benefits be postponed until the next regular meeting of the Board, while that for life insurance benefits "that in case of a death claim under a term policy, the adjusted benefit be one-half of the amount of insurance less indebtedness of the

Insured, if his employer fails to pay for him its share of the contributions or premiums required by Republic Act No. 660”, be approved effective June 18, 1952, when Republic Act No. 728 was approved.’

Defendant contends that, under the said resolution and because of the failure of the Manila Railroad Company to pay its share of the insurance premiums of its employees, the defendant readjusted the benefits payable to the beneficiaries of the insured upon the latter’s death on January 23, 1953 to one-half the amount of the insurance.

“The question just referred to was raised in Sayson vs. The Government Service Insurance System, et al., CA-G. R. No. 12031-R, and the Court of Appeals resolved it adversely to defendant’s contention. Interpreting the aforequoted provisions of Section 9 of Republic Act No. 728, the Court of Appeals said:

“1. A conscientious examination of the statute just quoted yields the fact that the authority of the Board of Trustees of the Government Service Insurance System to make readjustments refers, in the words of the law, to “any of the benefits payable to an employee \* \* \*.” The law withheld from the Board the power to readjust the benefits due the heirs of beneficiaries of a deceased employee. That the power to make readjustment is limited to the benefits payable to an employee, is clearly indicated in the later part of the statute which states that “no person, regardless of the date of his retirement; may allege vested right by reason of this readjustment.” For no person other than an employee himself is entitled to retirement. Heirs and beneficiaries do not come within the compass of the term employee. \* \* \*.

Based in part on the said interpretation, the Court of Appeals reached the following conclusions:

‘The Court, therefore, concludes that Resolution No. 355 of the Board of Trustees of the Government Service Insurance System promulgated on September 16, 1952, in so far as it provides “that in case of a death claim under a term policy, the adjusted benefit to one-half of the amount of insurance less indebtedness of the Insured! if his employer fails to pay for him its share of the contributions or premiums required by Republic Act No. 660”, is null and void. In consequence thereof, appellant must pay the remaining benefit under the insurance policy in

question.’

While it is true that the said decision is now pending appeal by certiorari to the Supreme Court, nevertheless, until reversed, it has persuasive effect upon, and should be respected by this Court. This, in the first place.”

With respect to the two last paragraphs of the decision above-quoted, it should be stated that on May 25, 1956, this Tribunal in a unanimous decision (G. R. No. L-8744) penned by Chief Justice Paras, the decision of the Court of Appeals was affirmed.

Contrary to the contention of appellant GSIS, we agree with the lower court that the case of Sayson vs. The Government Service Insurance System, *supra*, decided by the Court of Appeals and affirmed by this Court is applicable in this present appeal for the facts involved therein are very similar, even identical. In the Sayson case, the employee therein involved, Alejandro V. Sayson, was also an employee of the Manila Railroad Company and was issued a life insurance policy by the GSIS. Like Dalmacio C. Maralag in the present case, Sayson paid all the premiums on his insurance policy up to the moment of his death, but the GSIS refused to pay the full amount of the policy, made the adjustment under the provisions of Republic Act No. 728 and the resolution of the Board of Trustees of the GSIS No. 355, and was willing to pay only one-half of the value of said policy. In that case, the Court of Appeals, through Mr. Justice Sanchez, found and held that the adjustment contemplated by the law was only with reference to employees, not their beneficiaries or heirs.

Even on grounds of equity, we are inclined to believe and we hold that the heirs and beneficiaries of the employee, who during his lifetime has religiously paid the premiums on his policy, should not be penalized for any default or failure of his employer, a government entity, to pay its share of the said premiums. After all, the GSIS would not in the end be prejudiced by the payment of the full amount of the policy, because it can always demand reimbursement from the defaulting Government employer, either by suit in court or under the provisions of Section 9, paragraph 2 of Republic Act No. 728, which in part provides:

“The Government of the Republic of the Philippines hereby guarantees the fulfillment of the obligations of the Government Service Insurance System to the members thereof when and as they shall become due. In case an employer defaults in the payment of its obligations to the System, the Secretary of Finance or the Administrator of Economic Coordination and the Auditor General shall take

such steps as may be necessary to have said obligations paid promptly. Said officials or their duly designated representatives are hereby authorized and directed to withhold from the revenues and incomes of a defaulting employer such amounts as may be necessary to pay its obligations, under this Act and remit the same immediately to the System. \* \* \*

Furthermore, it would appear that as correctly observed by the trial court, Republic Act No. 728 and the laws it amended, Commonwealth Act No. 186 and Republic Act No. 660, were intended as social legislation to promote the efficiency, security and well-being of the Government personnel, and it is but right that they be construed in such a manner as to favor said Government employees for whom they were intended in the way of their security and welfare.

In the present case, the GSIS as a defendant, with the approval of the court, filed a third-party complaint against the Manila Railroad Company. However, it would appear that it failed to prove that said railroad company was duly summoned, and so it was never legally included as a party to the case. Consequently, the trial court did not err as claimed by appellant, in not making any pronouncement as regards any liability of the Manila Railroad Company.

In conclusion, we hold that in the operation of the Government Service Insurance System, where a Government employee insured in said System has fulfilled his part of the insurance contract by regularly and fully paying his share of the premium, upon his death, his heirs and beneficiaries should be paid the full amount of the policy, regardless of any default or failure of any Government office, entity or corporation to pay its share of the premium to the System, and on behalf of the insured employee, as provided by law. In its turn, the System may recover from said defaulting employer the amount of the unpaid premium, either through the courts or by administrative process provided by the same law.

In view of the foregoing, the decision appealed from is hereby affirmed, this, without prejudice to any relief, either judicial or administrative which the GSIS may have against the Manila Railroad Company for reimbursement of any amount it may be ordered to pay to the plaintiffs and appellees. With costs.

*Paras, C. J., Bengzon, Reyes, A., Bautista Angelo, Concepcion, Reyes, J. B. L., Endencia, and Felix, JJ., concur.*

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