
LEGAL INSIGHTS

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PhilHealth SC Ruling Exposes Why PDIC's 107 Billion Transfer is Void and Unconstitutional

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The Supreme Court in *Pimentel III, et al. v. House of Representatives, et al.* (G.R. Nos. 274778, 275405 & 276233, December 3, 2025) held that Special Provision 1(d), Chapter XLIII of the 2024 General Appropriations Act (GAA), Department of Finance (DOF) Circular No. 003-2024, and the transfer of PHP 60 billion fund balance of the Philippine Health Insurance Corporation (PhilHealth) to the National Treasury are **void** due to grave abuse of discretion amounting to lack or excess of jurisdiction and violations of several constitutional provisions.

The key reasons for the decision are as follows:

1. The transfer of the fund balance was deemed void because Special Provision 1(d) of the 2024 GAA constituted an unconstitutional rider, failing the test of germaneness required by Article VI, Section 25(2) of the Constitution. The provision was inherently ambiguous because it introduced the undefined terms “fund balance” and “reasonable levels” for reducing reserves, which necessitated the DOF to issue external guidelines, amounting to an undue delegation of legislative power.
2. The provision was deemed inappropriate as it implicitly amended or repealed Section 11 of the Universal Health Care Act (UHCA), a substantive law, by substituting the legally mandated actuarially estimated method for setting reserve fund ceilings with an arbitrary averaging method utilized by the DOF, thereby violating the constitutional prohibition against legislating amendments through a general appropriations measure.
3. The measures were void for violating the constitutional mandate regarding special funds under Article VI, Section 29(3) of the Constitution, which requires that all money collected on a tax levied for a special purpose must be treated as a special fund and paid out only for that purpose. The funds transferred, which originated from special sin tax collections and government subsidies earmarked exclusively for the implementation of the UHCA, were classified as restricted special funds. Diverting these funds to finance projects listed under Unprogrammed Appropriations in the GAA violated this exclusivity mandate, particularly since the legal exception allowing transfer (when the purpose has been fulfilled or abandoned) was not applicable, as the goal of achieving universal health care remains unrealized.
4. The transfer of funds was declared void for unlawfully bypassing the stringent requirements of the power of augmentation, thereby violating Article VI, Section 25(5) of the Constitution. This constitutional provision exclusively vests the power to augment appropriations from “savings” in an office to an item within that same office only in designated officials, such as the President, and not in an alter ego like the Secretary of Finance. The “fund balance” transferred was neither classified as “savings” generated from the appropriations of the Office of the President, nor was it used to augment an item within the source office (PhilHealth), thus constituting an unauthorized exercise of augmentation or an illegal cross-border transfer of funds.

- The decision was based on the fact that Special Provision 1(d) and the mandated transfer infringed upon the people’s constitutional right to health (Article II, Section 15) and the right to affordable, sustainable, and accessible public health care insurance (Article XIII, Section 11). By forcibly reallocating a significant portion of PhilHealth’s “reserve funds,” the government materially undermined the core legal and ethical obligations established by the UHCA, particularly the mechanism designed to ensure PhilHealth’s financial viability and its capacity to expand benefits or decrease member contributions. This action constituted a demotion and degradation of the fundamental right to health by diverting dedicated health resources to other projects, many of which were unrelated to healthcare and already had funding sources.

Why the PDIC is Next

The PDIC transfer involved approximately PHP 104 billion from the PDIC’s corporate reserves, which was identified for remittance under the same mechanism that affected PhilHealth: Special Provision 1(d), Chapter XLIII of the 2024 GAA, and DOF Circular No. 003-2024. Like the PhilHealth fund transfer that was declared void, this provision aimed to capture the “fund balance” or alleged unrestricted excess of the Government-Owned or -Controlled Corporation (GOCC) reserves, forcing the transfer to the National Treasury to serve as funding sources for the increased Unprogrammed Appropriations within the GAA. The legal principles established in the consolidated PhilHealth case (specifically the declarations that Special Provision 1(d) was an unconstitutional rider, violated the mandate on special funds (Article VI, Section 29(3)), and resulted in an illegal augmentation) are directly applicable to PDIC’s PHP 104 billion fund transfer.

We explain below why the key legal principles in the PhilHealth ruling are on all fours with the PDIC’s PHP 107 billion transfer to the National Treasury:

PhilHealth Ruling (Key Points)	Application to PDIC’s PHP 107 Billion Transfer
<p>Special Provision 1(d) (and DOF Circular No. 003-2024) is void for implicitly repealing or amending substantive law (Section 11 of UHCA) through the GAA, overriding specific mandates regarding fund calculation and usage.</p>	<p>The PDIC transfer, also mandated by Special Provision 1(d), is unconstitutional as it implicitly amends the PDIC charter (Republic Act 3591, as amended by RA 10846). Section 18 of the amended charter explicitly exempts the DIF, which is composed of insurance premiums collected from banks, from the GOCC dividend law (RA 7656), stating that these premium assessments should not be remitted as dividends to the National Government.</p> <p>PDIC may remit dividends to the National Government only if the target DIF level for the applicable year has been reached. However, when computing the amount of dividends to be declared and remitted, all assessment collections (premiums from banks) shall not be considered as income. Instead, the dividend rate shall be based only on income from “other sources”. This means that funds derived from bank assessment collections, which are meant</p>

	to build the DIF, are explicitly excluded from the base used for calculating dividends.
The unconstitutional provision violated the rule against including “riders” or inappropriate provisions in an appropriations bill.	The Special Provision overrides the statutory protection designed to ring-fence the DIF, making the provision “inappropriate” in the context of the GAA.
PhilHealth’s funds, including its reserves sourced partially from earmarked taxes, constitute a “special fund” that must be paid out <i>only</i> for its specific purpose (UHCA implementation).	The DIF is a special fund raised from bank premium contributions intended solely for depositor protection in case of bank failures. Diverting this special fund to pay for projects like flood control under the Unprogrammed Appropriations violates the principle that money collected for a special purpose shall be paid out for such purpose only.
The only constitutional exceptions allowing special funds to be transferred to the general fund are when the specific purpose has been fulfilled or abandoned.	The PDIC’s purpose (protecting deposits/financial stability) is far from fulfilled; the PDIC’s reduced reserves (from PHP 310 billion to PHP 203 billion) are currently inadequate to cover insured deposits if one of the top-three largest universal banks fail. Therefore, the funds cannot be transferred under the constitutional exception.
The transfer was deemed an unauthorized realignment or cross-border transfer because the funds taken (“fund balance”) were not “savings” from the augmenting office (PhilHealth/Office of the President) nor used to augment an item <i>within</i> the source office, as strictly required by the Constitution.	The PHP 107 billion DIF remittance constitutes a reallocation of funds from PDIC’s special corporate reserve to general Unprogrammed Appropriations, effectively resulting in an illegal cross-border augmentation. The funds remitted were dedicated insurance premiums/reserves, not “savings” eligible for augmentation under Article VI, Section 25(5).
The diversion severely undermined the operational viability and sustainability of PhilHealth, infringing the constitutional commitment to affordable and accessible public health care insurance.	The PDIC cash sweep cut PDIC’s deposit insurance reserves by roughly one-third (1/3), reducing its estimated coverage of total insured deposits from 8.8% to 5.5%,. This weakens PDIC’s capacity to resolve large bank failures and threatens the fundamental mandate of providing depositor protection and maintaining public confidence in the banking system.