IOPS COUNTRY PROFILE: CHILE

Demographics and Macroeconomics

GDP per capita (USD)	**24,635**
Population (000s)	**17,763**
Labour force (000s)	**8,868**
Employment rate (%)[1]	**67.8**
Population over 65 (%)	**10.4**
Dependency ratio (%)[2]	**20.9**

Data from 2017 or latest available year.

1. Ratio of the employed / working age population
2. Ratio of over 65-year-olds / labour force.

Source: World Bank, OECD and UN.

CHILE: COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- The Solidarity Pillar guarantees that all individuals in the least affluent 60% of the population have access to a basic pension, regardless of their contributory record. It provides both old-age and disability subsidies, funded out of the Nation's general revenue. The Solidarity Pillar replaced the former welfare pension program and the minimum old age pension guarantee.
- The old pay-as-you-go system is still in place for individuals who did not switch to the new system. This system is expected to disappear since new members are not permitted.
- Police officers and members of the armed forces are covered by separate schemes.

Private pensions: personal (mandatory)

- It covers all employees (self – employed are being gradually covered) who joined the labour force after December 1982 and members from the old system who voluntarily switched to the new system.
- It is a fully – funded defined – contribution scheme with individual accounts managed by private firms.

Private pensions: personal (voluntary)

- It covers employees and self – employed workers.
- It is a fully – funded individual account scheme and the balance can be transferred to the mandatory individual account upon retirement.

Source: OECD Global Pension Statistic

CHILE: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

The public pension scheme includes two different programs. First, a pension program for members who remained in the old pay – as – you – go system, currently managed by the Institute of Social Welfare (*Instituto de Previsión Social – IPS*). In June 2018, the system received 36.047 contributions. As of July 2018, there were 644.414 pensioners.

Second, the state provides a pension supplement to individuals older than 65 years old in the 60 per cent poorest share of the population who meet residence requirements and who contributed to the system but get a pension below the Maximum Pension with Solidarity Contribution (*Pensión Máxima con Aporte Solidario – PMAS*). The amount of the supplement declines with the amount of the self – financed pension and the total pension cannot be higher than the PMAS. The amount of the PMAS as of September 2018 is $317.085 per month (US$478).

The state also guarantees a Basic Solidarity Pension (*Pensión Básica Solidaria – PBS*) to individuals older than 65 years old in the 60 per cent poorest share of the population who did not contribute to the pension system. These individuals must comply with residence requirements and not be entitled to a pension benefit in any scheme. The amount of the PBS as of July 2018 is $107.304 per month (US$ 162).

Police officers and members of the armed forces have a separate scheme.

OECD estimates the gross replacement rate for an average worker from the mandatory system at 33.5% (40.1% net)[1].

PERSONAL MANDATORY

Coverage

Private and public employees who entered the labour force after 1 January 1983 are required to participate in the private pension scheme. Self – employed workers have been gradually required to participate starting from 2012. Full coverage of the self-employed should be achieved by 2019. Starting in that year, their participation in the system will be mandatory. Unemployed workers, workers in the informal sector and members to the old pension system are not required to participate. As of July 2018, the number of members in the mandatory private pension system had risen to 10.7 million.

Contributions

All members must contribute 10% of their covered earnings to their private account. The maximum covered earning is 78.3 UF2 (US$ 3.226) as of September 2018. Members must pay a fee over their salary for the management of their accounts which varies between 0.77% and 1.44% of their covered earnings depending on the Pension Fund Administrator (PFA) of their choice. Employers must contribute, on behalf of their employees, a fee of 1.53% of the

[1] OECD Pensions at a Glance 2017

[2] The UF is an inflation indexed unit of account. As of 2 October 2018, 1 UF equals to CLP 27.361.09 or USD 42 approximately.

member's covered earnings to cover for survivor and disability insurance.

Benefits

Upon retirement, members can withdraw their accumulated savings in the form of a life annuity, a programmed withdrawal or a combination of these two products. Legal retirement age is 60 years for women and 65 years for men but members can get a retirement benefit before the legal age if they meet some requirements. Those requirements are: i) having enough pension savings to get a pension higher or equal than 70% of average earnings in the prior ten years before early retirement and ii) members must finance a pension at least equal to 80% of the PMAS. Further, members who have enough savings to finance a pension higher or equal than 70% of their average earnings in the prior ten years before retirement and at least equal to 100% of the PMAS are allowed to withdraw the remaining funds in the form of a lump sum.

Members of the old system who switched to the new system were granted a recognition bond to account for the amount of the accrued rights under the old system. The bond yields 4% a year in real terms and is funded by general revenues. The recognition bond is paid to the member's account upon retirement.

Taxation

Mandatory contributions and returns are tax – exempted. Benefits are taxed as income.

PERSONAL VOLUNTARY

Coverage

Employees and self – employed workers are allowed to contribute to a voluntary pension scheme. Members who contribute to the old system are also allowed to contribute to the voluntary pension scheme. Voluntary contributions are independent from mandatory accounts. By March 2018 there were almost 2 million active voluntary accounts.

Contributions

Members may contribute up to 50 UF per month exempted from taxation, which is equivalent to $1.367.690 (US$ 2.068).

Benefits

Members can transfer all or part of the funds to their personal mandatory account upon retirement, in order to increase the amount of their pension. Moreover, workers may withdraw their voluntary savings at any point. However, withdrawals before retirement are subject to a special taxation if voluntary contributions are under the first available tax regime (see section below) or, if they are under the second regime, the state complement is lost.

Taxation

There are two options for the tax treatment of voluntary contributions. In the first available tax regime, members may deduct the amount of the contributions from the tax base for up to

600UF per year. Under the second option, members do not deduct voluntary contributions from the tax base and therefore they will only be required to pay taxes on the yield obtained from the amount withdrawn. Workers who have chosen the latter tax benefit have the right to a State bonus. The amount of this State bonus is 15% of annual voluntary contributions, with a limit of 6 UTM[3] and can be used for early retirement or to increase the retirement benefit.

MARKET INFORMATION

Personal mandatory

The mandatory pension system is managed by private firms known as Pension Fund Administrators (PFA). PFAs ownership is separated from the funds they manage, which are owned by the members. In addition to the management of the funds, PFAs collect contributions, pay benefits, keep records of individual accounts, provide information to the supervisory authorities and to members and acquire collective insurance policies to cover their members in case of death and disability. Currently there are six PFAs operating in the market.

Each PFA must offer four pension funds (known as funds B, C, D and E) and may optionally offer one additional fund (known as fund A). PFAs usually offer all five types of funds. Different investment restrictions apply to each fund and each fund is invested in portfolios with different risk levels. Fund A is the riskiest fund with a maximum of 80% of the fund invested in stocks, and fund E is the safest fund with up to 5% of it invested in stocks. Members may choose up to two funds to allocate their savings. Members aged 56 (men) or 51 (women) or older are not permitted to choose a type A fund. Pensioners are also not permitted to choose a type B fund.

If members do not choose a fund, the AFP must allocate their savings to a default rule, which is defined by: men and women up to age 35 are allocated to Fund B, men between 36 and 55 years and women between 36 and 50 years are allocated to Fund C and men aged 55 or older and women aged 50 or older are allocated Fund D.

PFAs manage assets equivalent to USD 210.512 million as of December 2017 or 74.6% of GDP. The annual real rate of return of the system for Fund A was 6.72% in the period September 2002-December 2017 and 5.65%, 5.08%, 4.44% and 3.72% for Funds B, C, D and E in the same period, respectively. By the end of 2017, 57% of the assets were invested in domestic instruments while 43% were invested abroad. Local investment in equities represented 11.4% of the assets; local fixed investment 45.3% of the assets, equities invested abroad represented 29.4% of the assets and local fixed investment 13.6% of total assets in the system.

The Law establishes a minimum monthly return requirement for each fund which depends on the average return of all funds of the same type. PFAs must ensure a monthly minimum return to the individual accounts.

For Funds A and B the minimum monthly return is the lowest between the real annual average return over the prior 36 months of all funds of the same type minus 4 percentage points; and the real annual average return over the prior 36 months of all funds of the same type minus the absolute value of 50 per cent of this average rate.

For funds C, D and E the minimum rate of return must be the lowest between the real annual average return over the last 36 months of all funds of the same type minus 2 percentage points; and the real annual average return over the last 36 months of all funds of the same type minus the absolute value of 50 per cent of this average rate.

AFPs are required to keep a reserve for each fund they manage equal to 1 per cent of the value of each fund. If the monthly return on investments is lower than the minimum monthly

[3] The UTM is a unit for taxation purposes. 1 UTM is equivalent to CLP 47.920 (USD 72.4) as of September 2018

return, the reserve funds are used to compensate for the shortfall.

PFAs charge a management fee on mandatory contributions as a percentage of monthly taxable income. There are no other fees charged for managing mandatory savings accounts. As of July 2018, the simple average fee was 1.26% and the average fee weighted by number of contributors was 1.27%.

Personal voluntary

Voluntary pension savings are managed by PFAs or other financial institutions, including banks, mutual funds, insurance companies, housing fund managers and others authorized by the Financial Market Commission.

REFERENCE INFORMATION

KEY LEGISLATION

- Law Nº 20,255 of 2008, introduced new benefits for the elderly poor and an auction mechanism of new members based on management fees.
- Law Nº 19,934 of 2004, modifies the pay-out rules, introducing a new methodology for calculating life annuities.
- Law Nº 19,795 of 2002, extended the number of pension funds managed by each APF to 5.
- Law Nº 19,768 of 2002, reformed the mechanism for voluntary social security saving.
- Decree-Law 3,500 of 1980, created the mandatory private pension system.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

- Superintendence of Pensions (SP): http://www.spensiones.cl/portal/institucional/594/w3-channel.html
- Financial Market Commission (CMF): http://www.cmfchile.cl/portal/principal/605/w3-channel.html
- Superintendence of Banks and Financial Institutions (SBIF): https://www.sbif.cl/sbifweb/servlet/Portada?indice=0.0
- The Risk Classification Commission: https://www.ccr.cl/idioma/espanol/