Tripartite round table on pension trends and reforms

Overall assessment of the pension system

Chile (Government)

1. **Achievement of ILO core principles**

The Chilean pension system has a high level of compliance with the following ILO core principles:

Principle 1: Progressive realization of universal coverage

The strengthening of the solidarity pillar has led to a significant increase in pension system coverage, ensuring that, across the different parts of the system, approximately 93 per cent of those aged over 65 receive a pension.

Principle 4: Overall and primary responsibility of the State

The Chilean State performs a number of functions conducive to expanding the coverage of the pension system and securing its sustainability over time, including: (1) the creation of the Pensions Reserve Fund (2006) intended to bring long-term financial sustainability to the solidarity pension system; (2) the administration and financing of the pension solidarity pillar and the old system; (3) the delivery of guaranteed pension benefits such as the minimum State-guaranteed pension and the State bankruptcy guarantee; (4) through the Pensions Supervisory Body, it regulates and oversees the pension system and unemployment insurance, ensuring compliance with the regulations governing the functions and powers of the system's stakeholders.

Principle 6: Financial, fiscal and economic sustainability

The contributory component, based on defined contributions, is a fully-funded system with financial and fiscal sustainability over the mid- and long term. There is also the Pensions Reserve Fund, which helps to finance the fiscal obligations deriving from the State's guarantee of basic old-age and disability solidarity pensions, as well as solidarity insurance contributions. In this way, additional support is available to finance future eventualities affecting pensions, thus bringing long-term financial sustainability to the system.

Principle 7: Transparent management and administration

The agency which oversees the pension system (Pensions Supervisory Body, hereinafter SP) and the pension fund administrators (AFPs) provide members and the general public with up-to-date

information on savings, returns on pension fund investments, administrative costs and the quality of AFP services.
At the same time, anyone can find out about the results achieved by the fund administrators from the webpages of the Pensions Supervisory Body and the administrators themselves. In addition, there are standard procedures enabling members to submit complaints of non-compliance. The AFPs must administer pension funds within the legal frameworks established and regulated by the SP**.** All this shows the high level of transparency surrounding the administrators' results and management.

Principle 8: Involvement with social partners and consultations with other stakeholders

There are two main bodies which ensure the involvement of social partners in the Chilean pension system: the Pension System Consumers Committee and the Pensions Advisory Board. The former is mainly concerned with keeping the Under-Secretariat for Social Security and other public bodies in the sector informed of the assessments made by its representatives concerning the operation of the pension system, and proposing strategies on education and dissemination. The Advisory Board has the task of advising the Ministry of Labour and Social Security and the Treasury Department on matters relating to the solidarity pension system.

Principle 9: Periodic review of pensions to match the evolution of the cost of living and level of earnings

The benefits under the solidarity pension system are adjusted automatically to the full extent of the variation seen in the consumer price index (IPC), between the month prior to the previous adjustment and the month in which the variation reaches or exceeds 10 per cent. The pensions in the funded individual system are calculated in accounting units known as UF *(Unidades de Fomento)* and are paid according to the UF value on the day of payment. Using this unit ensures that pensions retain their value over time, since they are updated in line with inflation.

The Chilean pension system complies <u>partly</u> with the following principles:

Principle 2: Social solidarity and collective financing

The pension system in Chile includes various components for securing social solidarity, especially for persons on lower earnings and those who are partly or fully disabled. The solidarity pension system enables fiscal resources to be switched to the poorest. The disability and survival pension (SIS) is financed through a solidarity contribution at the expense of employers on behalf of active workers; it thus generates transfers from active workers to workers who are disabled and their beneficiaries. Finally, occupational accident and disease insurance (ATEP) is an insurance paid for by the employer which protects all workers, and delivers pensions for work-related disability. Currently, contributory pensions are financed entirely by workers. The State, through general taxation, finances the pensions under the old system, the pensions of the armed forces and law-enforcement agencies and the pensions and contributions under the solidarity pension system. The interaction between the contributory pillar and the solidarity pillar results in a mixed pension system. There is scope to strengthen the financing by incorporating employer contributions.

Principle 3: The right to adequate and predictable benefits

The current system enables every member with pension savings (regardless of the amount) to obtain a pension. However, as the system in Chile is based on defined contributions, the amount of the self-financed pension is not guaranteed or predictable, since it depends on a number of variables. The level and average frequency of contributions to the system are relatively low, which has a negative impact on the amount of savings that workers can take into retirement, and thus on the adequacy of their pensions. Despite this, through the solidarity pension system the State guarantees a minimum pension equal to the basic solidarity pension (PBS) for all those aged 65 and over who belong to the poorest 60 per cent of the population, and supplements the pensions of those who have not accumulated the amount of funds needed to qualify. The State also awards women a bonus for each child born alive or adopted, thus increasing the amount of women's pensions and reducing the pension gender gap.

Principle 5: Non-discrimination, gender equality and responsiveness to special needs

The pension system incorporates disability insurance which finances pensions for all workers who sustain permanent impairment of their working capacity owing to illness or physical or mental decline and who are covered by the system. The solidarity pillar also provides pensions or supplements for disabled pensioners who belong to the poorest 60 per cent of the population. However, the system still has gender gaps which affect pension amounts, owing to women's lower earnings and less frequent contributions and the application of mortality tables differentiated by gender. These gaps have been narrowing thanks to women's greater participation in the labour market, the child bonus and the solidarity pension system, but there is still some way to go before they disappear completely.

2. Overall assessment of the pension system

The Chilean pension system has three main components. The first is the solidarity pension system, which pays out pensions and pension supplements to people from the poorest 60 per cent of the population. This component is financed from general taxation. The second is an individual savings system which pays old-age, disability and survivors' pensions to affiliated workers and their beneficiaries who fulfil certain conditions. Under this system, benefits are financed from the savings accumulated by workers in individual accounts over their working lives and, in the case of disability and survivors' pensions, they are supplemented by resources originating from a system financed by solidarity contributions and employer contributions. The third component comprises voluntary pension savings plans, taken out by workers wishing to increase their pensions by incorporating fiscal incentives into their pension savings.

Over the years, the pension system has been improved, leading to a better quality of life for the country's elderly population. The solidarity pillar was strengthened in 2019 by Law No. 21190, which increased benefits by 50 per cent. This pillar has significantly reduced the level of old-age poverty which, in the 60+ age group, went down from 22.8 per cent in 2006 to 4.5 per cent in 2017. The system thus complies with the basic objective of preventing poverty in old age, while also ensuring the long-term financial sustainability of the benefits provided. The high coverage level in the overall pension system (93% of those aged over 65 receive some kind of pension) is also a clear strength. Also, the system's management and administration are transparent and allows the involvement of various social partners.

However, certain gaps still exist which have not been fully resolved. First, the rate and average frequency of system contributions are relatively low, which negatively affects savings amounts and thus pension adequacy. Although, in 2019, contribution became mandatory for self-employed workers who issue fee receipts, there are still groups of workers who do not contribute to the system. Second, the system retains sizeable gender gaps when it comes to the amounts of pension. Third, because the system is based on defined contributions, a feature which strengthens its financial sustainability, it does not enable workers to predict their old-age pension with any certainty. This hampers workers' ability to plan and to take the decisions needed to ensure a relatively stable living standard once they have passed from the active to the passive phase.

3. Mechanisms to strengthen the pension system

Congress is currently discussing a draft law (Gazette No. 12212-13) which seeks to introduce changes that will help to resolve certain gaps still present in the pension system. The bill contains proposals aimed at improving pension levels and quality.
The specific aims of the bill are to improve the pensions of the middle classes; improve women's pensions, especially those from the middle classes who do not receive solidarity benefits; develop special mechanisms to provide financial security for elderly people with severe functional dependency; improve the pensions that generations of younger workers will receive in the future thanks to their own efforts; strengthen the competition in the pension system; educate and inform better about pensions; and strengthen system oversight.

A variety of tools have been proposed with a view to achieving these objectives, including the creation of a collective savings system to improve the pensions of the middle classes, especially the women in that group, and of severely functionally dependent elderly people on lower incomes; an increase in the employer contribution rate together with mechanisms to increase the effectiveness of contribution coverage; new tendering regulations for affiliates joining the system; new regulations governing the fees charged by pension fund providers; a new tool for education about pensions; greater oversight powers for the Pensions Supervisory Body and new reporting requirements for pension fund providers; and a variety of other reforms.