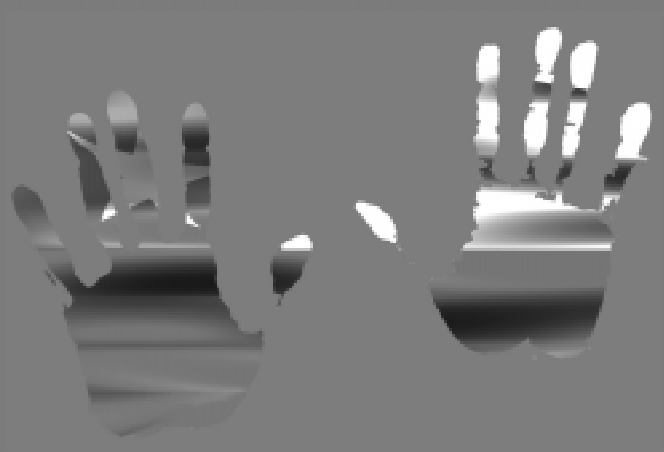


The Chilean Pension System

Fourth Edition



*Superintendency of
Pension Fund Administrators*

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N° 132.445, of 2003.

Santiago - Chile

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Fourth Edition, May 2003

Translator: Linda Craddock

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THE CHILEAN PENSION SYSTEM BASED ON INDIVIDUAL CAPITALIZATION

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PREFACE

The Chilean pension system has attracted justified international interest and with every reason. Of course, in the first place, there is the pioneering aspect of transferring from a pay-as-you-go system to one based on individual capitalization, which is sustainable in time and consistent with the rapid, irreversible aging process in the population. Added to this, there is the positive performance of the pension funds' yield during more than two decades of operation, the reduction of the contribution rate to half its former level, with the resulting increase in the net salary and productivity of the workforce and the significant impact of the pension funds on the development of the Chilean capital market and on the country's levels of savings, investment and growth.

The Chilean pension system is based on the capitalization of social security savings in individual accounts, on professional management of the resources by private Pension Fund Administrators devoted exclusively to that end, on individual ownership of the contributions, and on a system whereby the processes of collection, investment and payment are strictly regulated and supervised. The principles outlined above have been included in social security reforms passed in dozens of countries in the past two decades and have given rise to what is increasingly known as the "Chilean model" of social security in pensions.

All in all, it is the result of on-going development and improvement. Over thirty legal amendments have been introduced to the original version of D.L.3,500, seventeen of them during the democratic governments which succeeded the military government in power at the time when the system was conceived and put into effect. The most recent, and perhaps most far-reaching reforms correspond to the new system of voluntary social security saving and the opening up of new ways to invest social security resources by means of multifunds. This process of change and regulatory modernization reveals not only a practice of constant improvement, but also the consolidation of the essential bases and principles of the system by governments of different ideological persuasions.

The present edition of THE CHILEAN PENSION SYSTEM reflects this history. It contains a general outline of social security in Chile, including a description of the social security system in force before the 1980 reform. It explains the origins and grounds of the reform, the transition that was used, and describes – with due depth and clarity of explanation – the fundamental bases and characteristics of the individual capitalization system. In that section, the book deals with the State's role as guarantor and creator of rules and regulations, the coverage provided by the system, the types of contributions and benefits, the system of fund

investment, the commissions structure, the information received by members and matters related with collection and delinquency in social security.

The text then sets out the results of the system after more than 21 years in operation, both as regards its own, inherent indicators: coverage, benefits, investments, yield and cost, and its impact on related markets or fields, such as the capital market, the insurance industry, the productive sectors, the labour market and the country's economic growth.

It also gathers and describes the most recent improvements, which have contributed significantly to the modernization of the system in our opinion, and have raised the standard of the services that it provides for its members. In these chapters there is a description of the legal changes concerned with the creation of the multifunds, voluntary social security saving, the system of investment both in Chile and abroad, the incorporation of Internet as a vehicle of social security services and the transferability of individual accounts between different countries with similar pension systems.

A book describing a story of constant change and improvement would be inconsistent if it did not deal in a special chapter with the on-going challenges. The final chapter serves to define the priorities as regards the areas needing work in the constant task of development and change, in order to correct those aspects which are functioning below their potential. Neither the undoubted solidity of the system's bases, nor its positive results to date, are a reason to indulge in immobility or stagnation. The history of the system has never been that way, and neither should its future be. For that reason, this book concludes by sketching in the areas where future efforts at reform should be concentrated.

This book represents an effort made by the Superintendency of AFPs, and particularly the professionals of the Research Division, to give the local and foreign reader a complete, accurate, objective and illustrative picture of the Chilean pension system. This edition adds to its predecessors the references to recent reforms and pending challenges. It does more than simply update the text; it reflects clearly and eloquently the desire for essential continuity and on-going improvement in the Chilean pension system.



ALEJANDRO FERREIRO YAZIGI
SUPERINTENDENT OF AFPs

INDEX

Chapter I	
THE GENERAL PATTERN OF SOCIAL SECURITY IN CHILE	13
A. The Main Programmes	13
1. The Sickness and Maternity Programme	13
2. The Industrial Accidents and Work-Related Illnesses Programme	15
3. The Family Benefits Programme	16
4. Welfare Pensions	17
5. The System of Retirement, Disability and Survivorship Pensions	18
B. Unemployment Insurance	18
1. Coverage	18
2. Mixed Design: Savings and Solidarity Fund	19
3. Sources of Funding	19
4. Benefits	20
5. Administration of the Insurance	23
6. Other Stipulations	24
Chapter II	
THE OLD SYSTEM	27
A. General Characteristics	27
1. Contribution Rates	28
2. Coverage	30
3. Benefits	31
B. The Crisis of the Pay-as-you-go System	34
1. Financial Imbalance	34
2. Inequality in Access to Benefits	38
3. Faults in Administration	39

Chapter III	
THE ORIGIN OF THE INDIVIDUAL CAPITALIZATION SYSTEM	41
A. Conditions Needed for Implementing an Individual Capitalization System	41
1. State Participation in the Implementation of the System	42
2. Existence of a Capital Market	42
3. Existence of an Insurance Industry	44
4. Other Conditions Necessary for the Running of the System	44
B. The Transition Stage	45
1. Main Characteristics	45
2. Re-organization of the Old System	45
3. The Mechanism for Transferring Workers to the New System	46
4. Costs for the State Arising from the Reform	47
5. Projection of the State Social Security Deficit	52
Chapter IV	
A DESCRIPTION OF THE CURRENT PENSION SYSTEM	53
A. The Bases of the Individual Capitalization Pension System	53
B. The Role of the State within the System	54
1. Guaranteed Benefits	54
2. Reasons for Supervision	55
3. The System's Supervisory Body	55
C. Legal Coverage	60
D. Types of Contributions	60
1. Mandatory	60
2. Voluntary	61
3. Compensation Savings	64
E. Benefits	65
1. Types of Benefit	65
2. Financing of Pensions	67
3. Pension Options	68
4. Guaranteed Pensions	69
5. Other Benefits	71

F. Investment of Pension Fund Resources	73
1. Eligible Instruments	73
2. Risk Rating	73
3. Investment Limits	75
4. Authorized Markets	80
5. Securities Custody	80
6. Regulation of Conflicts of Interest	81
7. Minimum Yield	82
8. Investment Abroad	83
9. Valuation of Instruments	87
G. Commissions Structure	91
H. Information for Members	92
I. Delinquency	96

Chapter V

GENERAL CHARACTERISTICS OF THE PENSION FUND ADMINISTRATORS AND A DESCRIPTION OF THE INDUSTRY	101
A. General Characteristics	101
1. Legal Aspects	101
2. The Main Activities of the Administrators	103
3. Rules for Forming an AFP	106
B. A Description of the Industry	107
1. Development	107
2. Market Share and Concentration	108
3. Presence of Economies of Scale	111
4. Development of Transfers between AFPs	111
C. Financial Details of the AFPs	114
1. Balance	114
2. Results	115
3. Main Financial Indicators	117

Chapter VI

MAIN RESULTS	119
A. Coverage	119
B. Benefits	123

1. Pensions by Type	123
2. Pension by Option	126
3. Freely-Usable Surplus	128
C. Investments	128
1. Financial Structure of the Pension Funds	128
2. Risk of the Investment Portfolios	133
3. Development of the Investment Portfolios	134
D. Net Worth Variation of the Pension Funds	143
E. Yield	145
1. The Yield on the Account	145
2. The Yield on the Unit	147
F. The Cost of the System for its Members	148
1. The Importance of Social Security Cost	148
2. Defining Social Security Cost	148
3. Measuring Social Security Cost	149
4. Development of the Average Cost of Social Security	150
5. Equivalent Commission in Relation to the Fund	153
G. Results of Voluntary Social Security Saving (VSSS)	154
H. Delinquency	155
 Chapter VII	
PENSION FUNDS AND THEIR EFFECTS ON RELATED MARKETS	157
A. The Capital Market	157
B. Insurance	160
C. Productive Sectors	162
1. Financial Instruments connected with the Real Sector of the Economy	163
2. Development of Pension Fund Investment in the Productive Sector	163
3. Investment of Pension Funds in Specific Productive Sectors	167
D. National Savings and Economic Growth	169
E. The Labour Market	171

Chapter VIII	
RECENT IMPROVEMENTS TO THE SYSTEM AND PENDING CHALLENGES	173
A. Recent Improvements	173
1. Multifunds	173
2. Investment of Pension Funds Abroad	178
3. Improvements in the Local Investment of Pension Funds	182
4. Voluntary Social Security Savings (VSSS)	184
5. Social Security Service by Internet	189
6. Portability of Individual Accounts	190
B. Pending Challenges	195
1. Life Annuities	195
2. New Pension Options	201
3. Coverage for Workers who do not have an Indefinite Contract and for the Self-Employed	202
4. Gender Considerations in the Pension System	205
5. Industrial Structure	208
STATISTICAL APPENDIX	213
BIBLIOGRAPHY	237
GLOSSARY	241

