



Special Seminar on Annuities and Pensions

Round Table: Practical Examples of the Annuity Market

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Pension Modalities



In Chile, there are 4 modalities of pensions:

1. Phased Withdrawal Product (AFP)
2. Immediate Annuity (LIC)
3. Temporary Withdrawals with Differed Annuity (AFP → LIC)
4. Immediate Annuity with Phased Withdrawal Product (AFP + LIC)

Pension Modalities Comparison



Characteristics	Phased Withdrawal Product (PWP)	Immediate Annuity (IA) Simple or with Special Coverage Conditions.	Temporary Withdrawals (TW) with Differed Annuity (DA) Simple or with Special Coverage Conditions.	Immediate Annuity (IA) with Phased Withdrawal Product (PWP) Simple or with Special Coverage Conditions.
Administered by	Pension Fund Administrator (AFP)	Life Insurance Company (LIC)	TW: AFP DA: LIC	IA: LIC PWP: AFP
Changes in the modality	Yes	No	TW: Yes DA: No	IA: No PWP: Yes
Ownership of funds	Affiliate	LIC	TW: Affiliate DA: LIC	IA: LIC PWP: Affiliate
Pension amount	Variable	Constant	TW: Variable DA: Constant	IA: Constant PWP: Variable
Inflation adjusted pension	Yes	Yes	Yes	Yes
State guarantee	Yes	Yes	Yes	Yes
Inheritance	Yes	No	TW: Yes DA: No	PWP: Yes IA: No
Covers reinvestment and longevity risk	No	Yes	TW: No DA: Yes	PWP: No IA: Yes

Pension Modalities



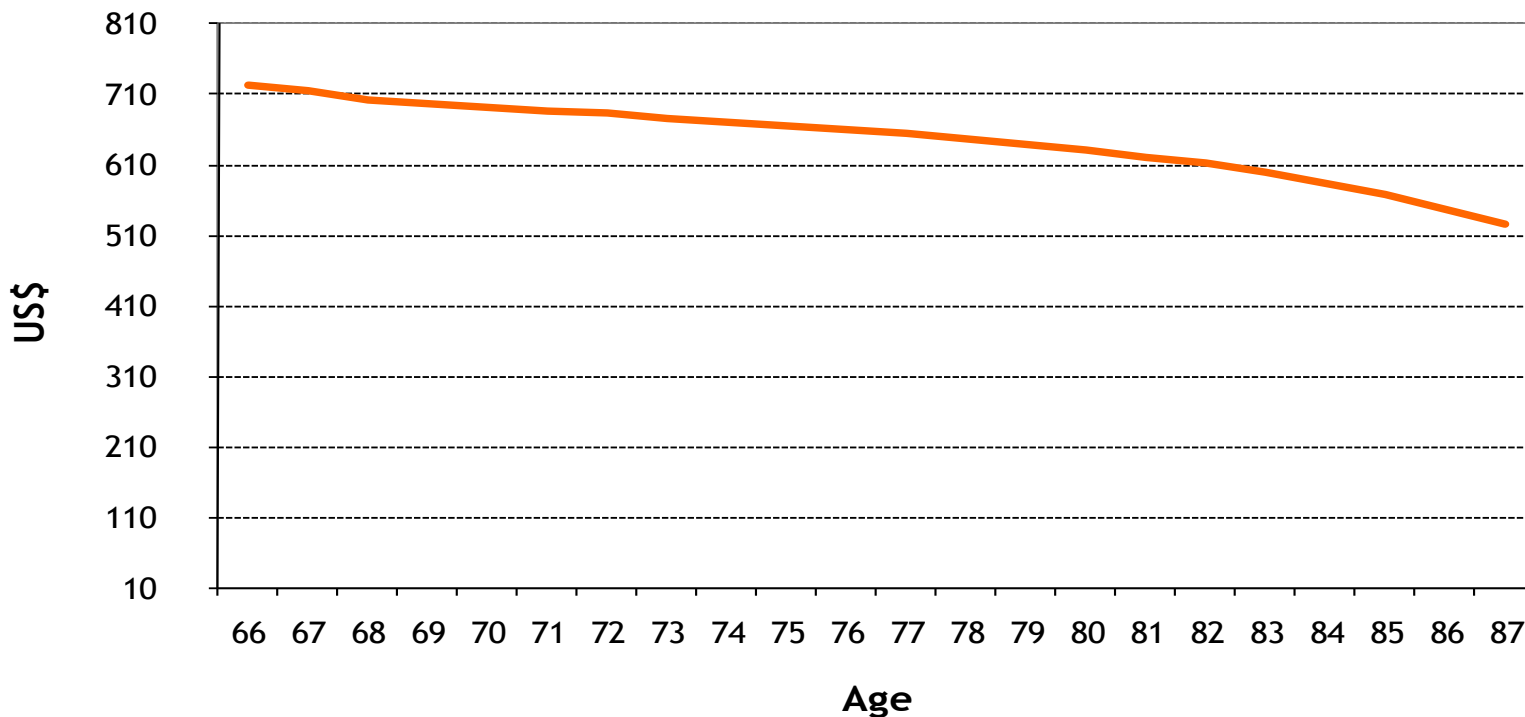
Phased Withdrawal Product (AFP)

Pensioner: 66 years old

Wife: 63 years old

Balance on Individual Retirement Account (IRA): US\$ 121,262

Pension amount during the first year: US\$ 724



Pension Modalities



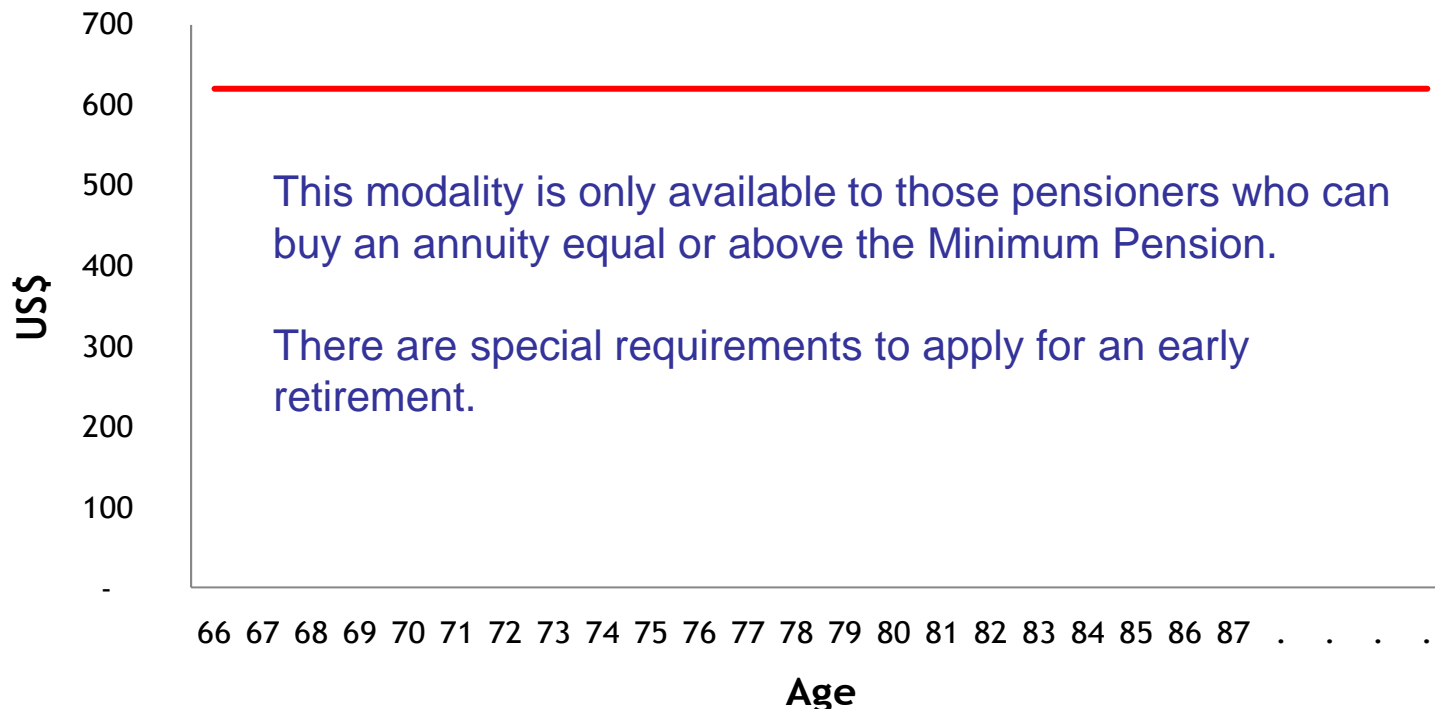
Annuity (LIC)

Pensioner: 66 years old

Wife: 63 years old

Balance on Individual Retirement Account (IRA): US\$ 121,262

Pension Amount: US\$ 619



Pension Modalities



Temporary Withdrawals with Differed Annuity (AFP \Rightarrow LIC)

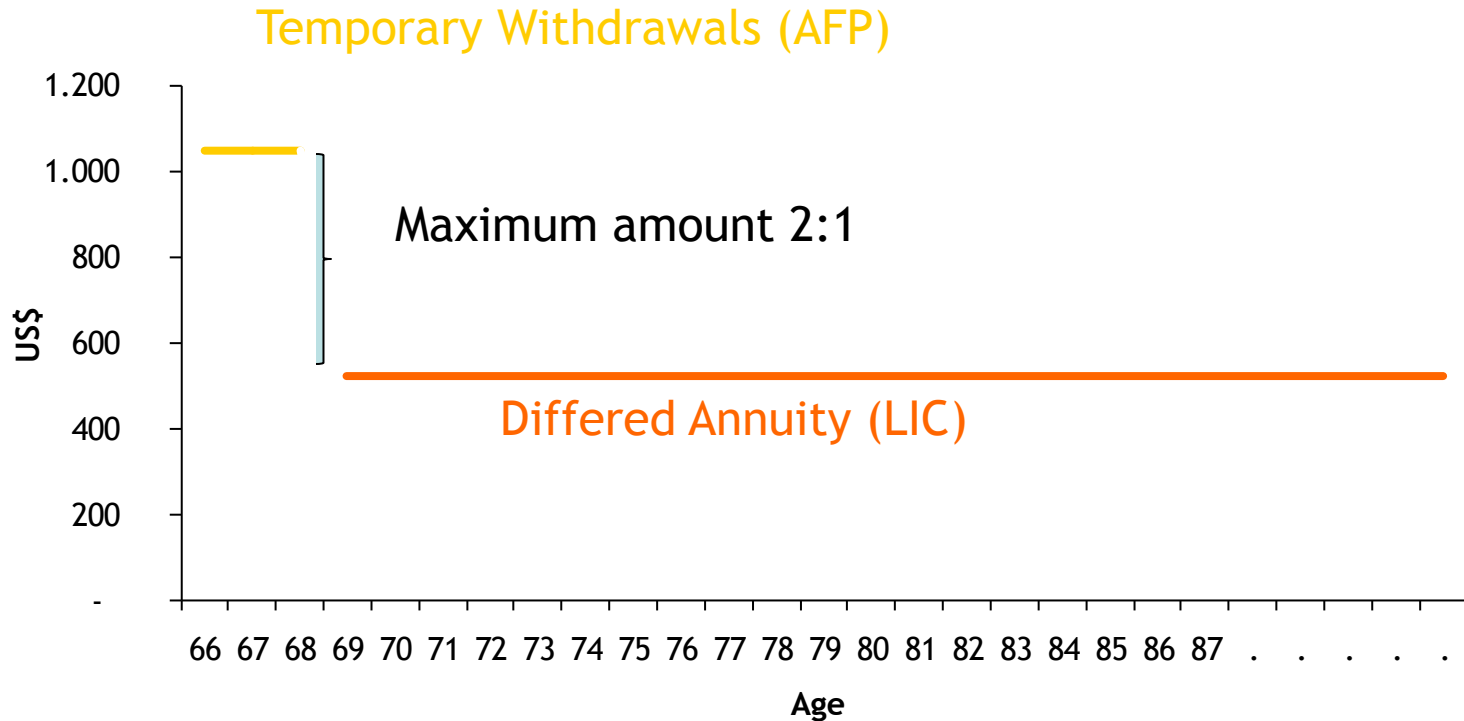
Pensioner: 66 years old

Wife: 63 years old

Balance on Individual Retirement Account (IRA): US\$ 121,262

Maximum withdrawal amount = 2 times the Annuity amount

Differed time = 3 years



Pension Modalities



Immediate Annuity with Phased Withdrawal Product (AFP+ LIC)

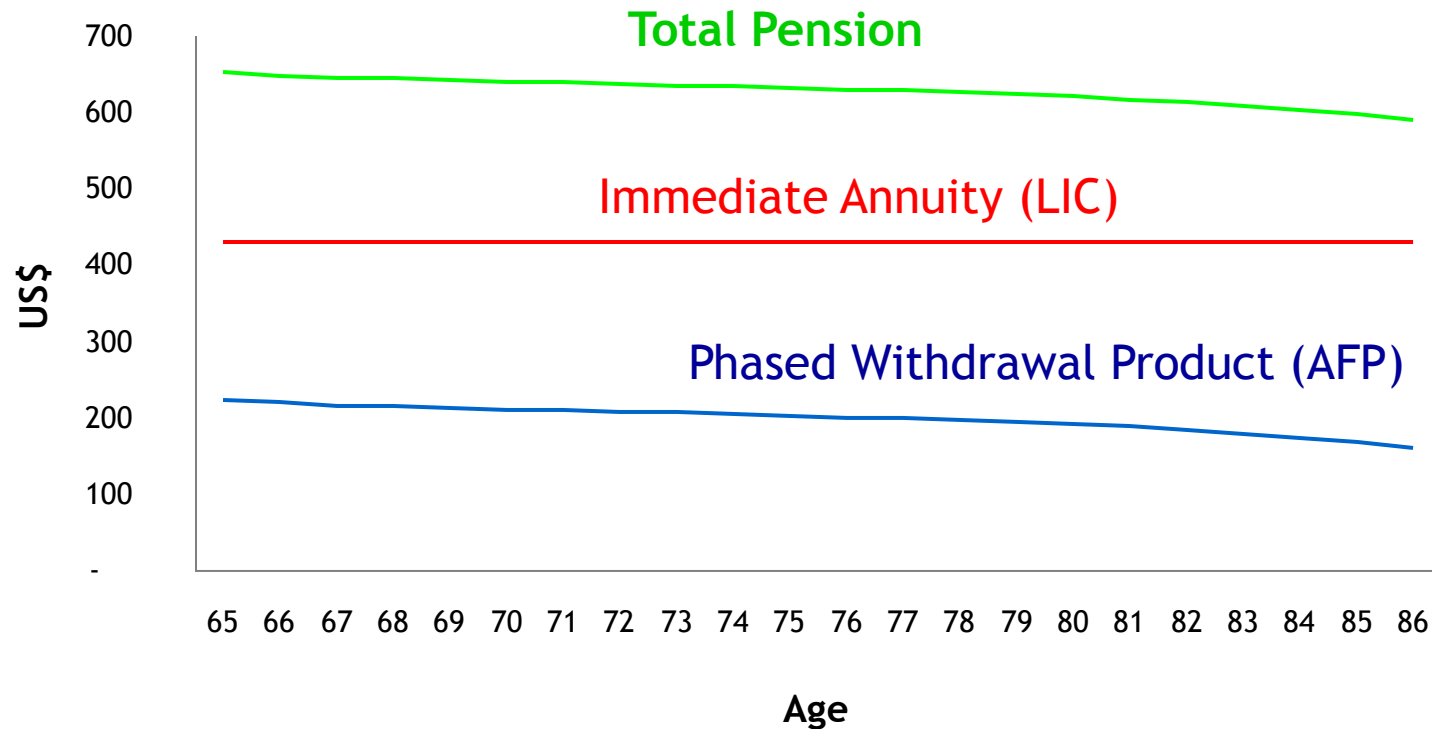
Pensioner: 66 years old

Balance on Individual Retirement Account (IRA) = US\$121,262

Wife: 63 years old

Balance left for Annuity = US\$ 84,080

Balance left for Phase Withdrawal = US\$ 37.182



Other Pension Options



- The Life Insurance Companies (LICs) offer other annuity pension plans that differ from those required in the Pension Law, always within the accepted legal framework.

- All the annuity pension plans must be deposited by the SVS.

- The only two additional plans currently offered are:
 - **Full pension during x years:** the pension is paid to the pensioner during x years and the same pension amount is paid to his beneficiaries in case he passes away before this period (usually 5, 10 or 15 years).

 - **Thinking of her / him:** this pension plan offers the same benefits to the pensioner's spouse when he/she passes away.



Commercialization of Annuities

SCOMP

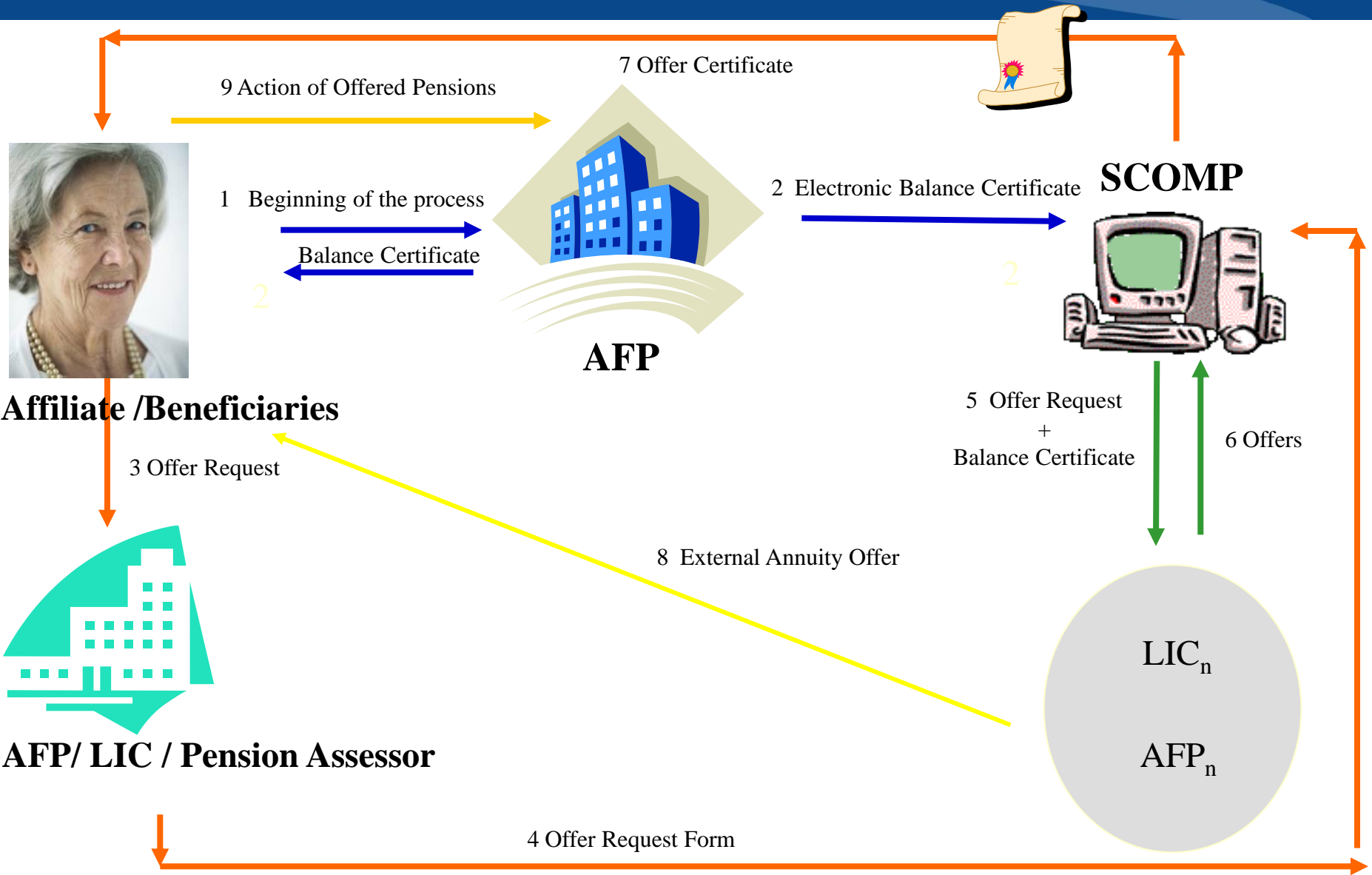
**Sistema de Consultas y Ofertas de Montos de Pensión
(Consultation and Bid System of Pension Amounts)**

Consultation and Bid System of Pension Amounts (SCOMP)



- SCOMP: it is an electronic system that centralizes LICs, AFPs and pension funds assessors.
- Objective: to allow transparency regarding the different pension modalities and to provide this information in a format that is easy to understand and compare.
- Joint regulation and supervision: Superintendence of Securities and Insurance (SVS) and Superintendence of Pensions.
- Operations started on: 19th August, 2004.

How SCOMP Works



Commissions



- **Pension Assessors and Annuity Sale Agents**: both can charge an annuity commission.
- **Annuity Commissions**: 2% of the Investment Retirement Account funds subject to a maximum of US\$ 2,800 defined in the Pension Law.

Benefits of SCOMP



- Promotes price competition.
- Reduces intermediation costs.
- Facilitates the delivery of all reliable offers made by the market participants to the eligible affiliates and permits its comparison.
- Speeds up the process to obtain a pension.
- Facilitates the supervisory process.



Regulation and Supervision of Life Insurance Companies (LIC) Annuity Providers

Solvency for LIC Annuity Providers



Main safeguards:

i) **Minimum Capital**

Insurers: US\$ 4.2 million

ii) **Leverage**

20 times surplus

iii) **Technical Reserves**

Mathematical Reserve calculated with Mortality Tables and other parameters defined by the SVS.

iv) **Investments**

Financial instruments and diversified assets taking into account different thresholds such as type of instrument, issuer, financial conglomerate, among others.

v) **Credit Rating**

LIC can only offer annuities if they have an investment grade rating (BBB or higher).



vi) Asset Liability Matching (ALM) and Asset Sufficiency Test (AST)

ALM:

In order to monitor the reinvestment risk or the mismatch between the cash flows of assets and liabilities, the ALM was established as a system to value the Technical Reserves of Annuities.

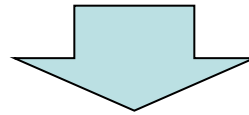
There are incentives for matching: the better the matching, the lower the Technical Reserves requirements.

AST:

Its objective is to complement the ALM taking into account an estimation of the reinvestment risk associated with the mismatch of assets and liabilities throughout the time.

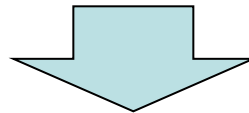
The test consists on calculating the reinvestment rate needed so that the present value of the assets equals the present value of the liabilities in a particular company. If the rate is higher than 3% additional Technical Reserves must be booked.

- **State guarantee for Minimum Pension and pension contributions due to age and disability**



If the pension is below an amount defined by the State, the pension is adjusted up until the Minimum Pension is reached, whenever the pensioner fulfills all the requirements established in the Pension Law.

- **State guarantee in case of bankruptcy of the Life Insurance Company**



The State guarantees the payment of the pension subject to a monthly limit. Limit = Minimum Pension + 75% of the pension paid which is adjusted by inflation, this is up to a maximum of US\$ 2,100.



Main Topics Under Development

SVS New Risk Based Supervisory Approach



Supervisory level

Risk Assessment and Mitigation Activity Process

Risk-Based Supervisory Approach:

- Corporate Governance
- Risk Assessment Process
- Early Intervention

-SVS norms
- Bill draft (2011)



Regulatory level

Minimum Solvency Requirements

- Risk Based Capital
- New Investment Regime

Bill draft (2011)



The Pension Law defines that the Variable Annuity must contemplate:

- A fixed and a variable component.
- The fixed component must be expressed in UF (index that offers protection against inflation) and must fulfill all the Minimum Pension requirements.
- The variable component may be expressed in the local currency, in foreign currency or in an index associated to an investment portfolio approved by the SVS.

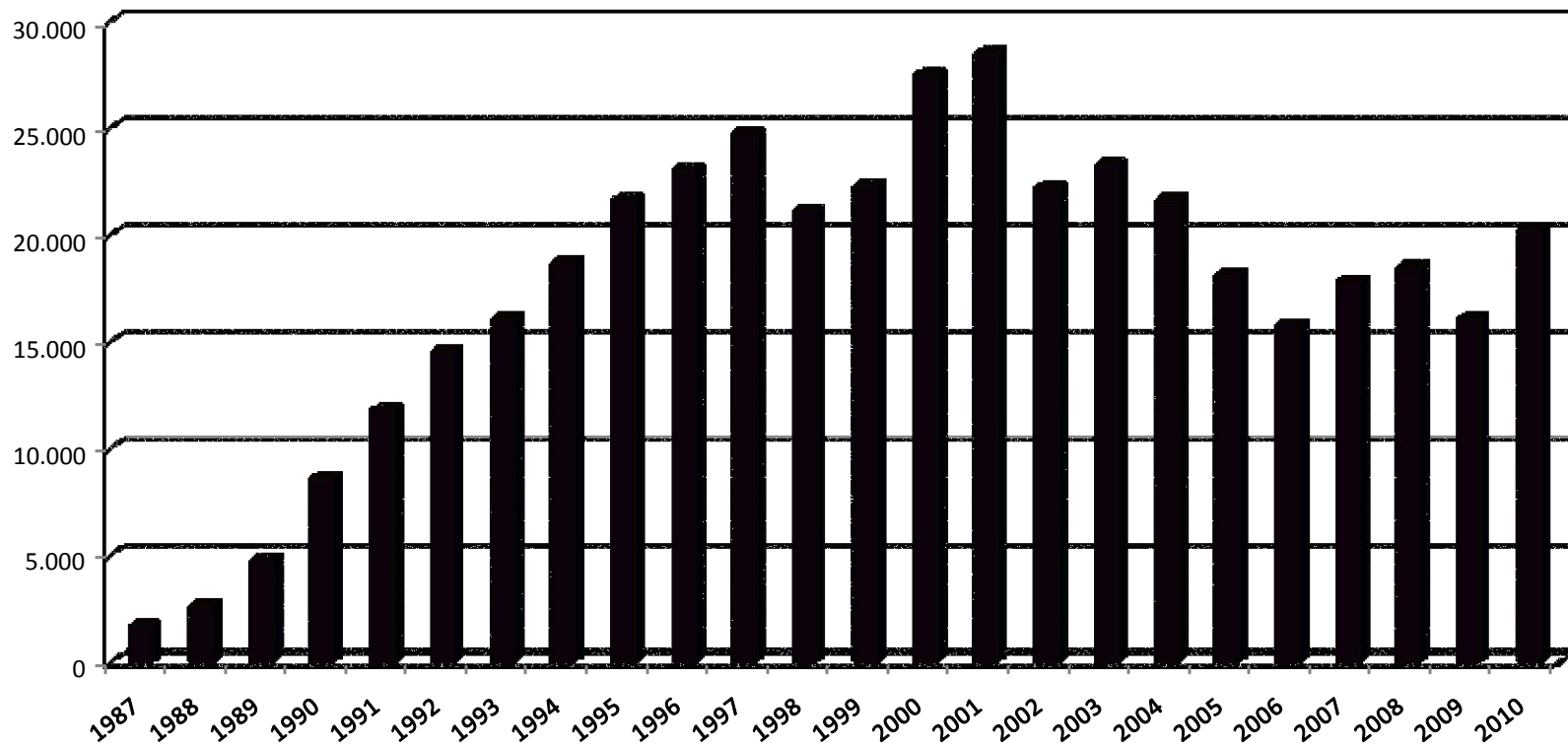
Alternatives for the variable component:

- Variable Annuity in Foreign Currency
- Annuity with a Variable Rate
- Variable Annuity tied to an Index Associated to an Investment Portfolio
- ***Variable Annuity tied to a Mutual Fund***



Statistics

N° of annuities contracted per year



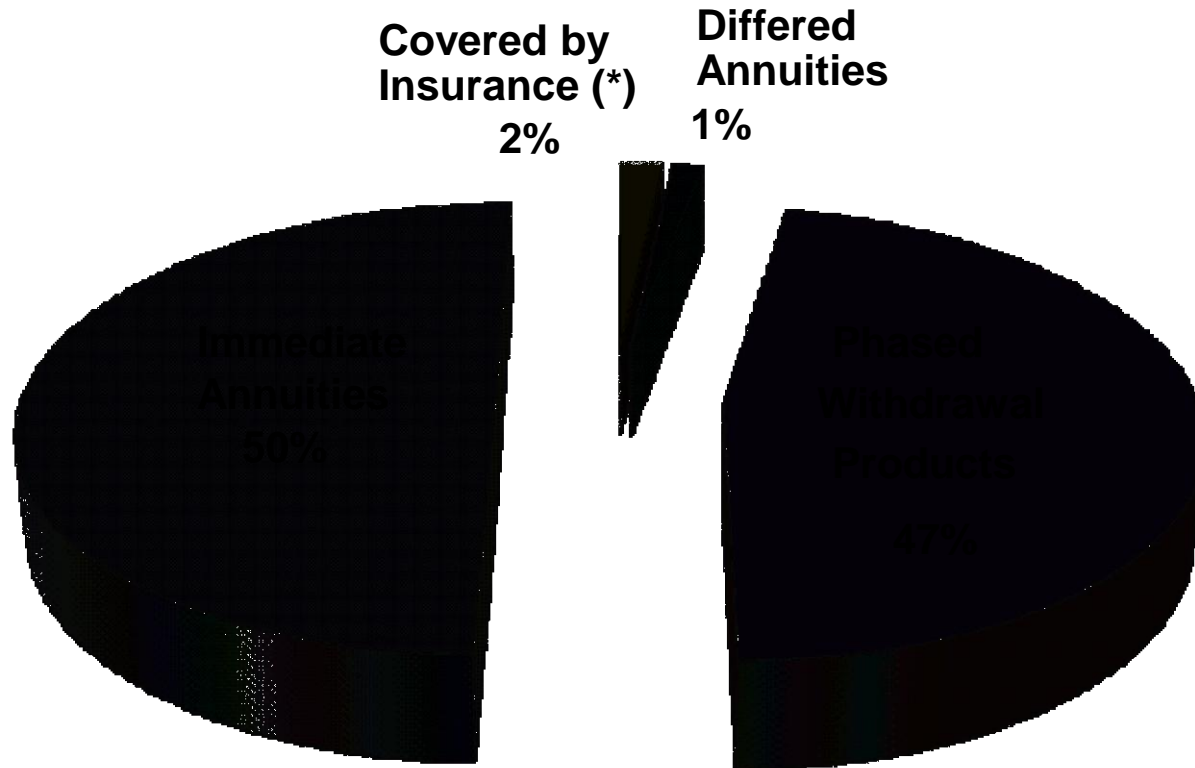
On average there are 20,000 annuity policies contracted per year.

N° of pensions paid as of December 2010



Life Insurance Company	Total	%
METLIFE	55,208	13,3%
BICE	51,214	12,4%
CONSORCIO NACIONAL	51,190	12,3%
CORPSEGUROS	50,771	12,2%
PRINCIPAL	42,065	10,1%
CORPVIDA	27,605	6,7%
CHILENA CONSOLIDADA	25,326	6,1%
PENTA	20,473	4,9%
SECURITY PREVISION	17,380	4,2%
OHIO	16,437	4,0%
RENTA NACIONAL	16,018	3,9%
EUROAMERICA	14,157	3,4%
CRUZ DEL SUR	12,858	3,1%
CN LIFE	8,515	2,1%
BCI	1,929	0,5%
INTERAMERICANA	1,606	0,4%
BBVA	946	0,2%
MAPFRE	895	0,2%
Total	414,593	100 %

% of pensions paid as of December 2010

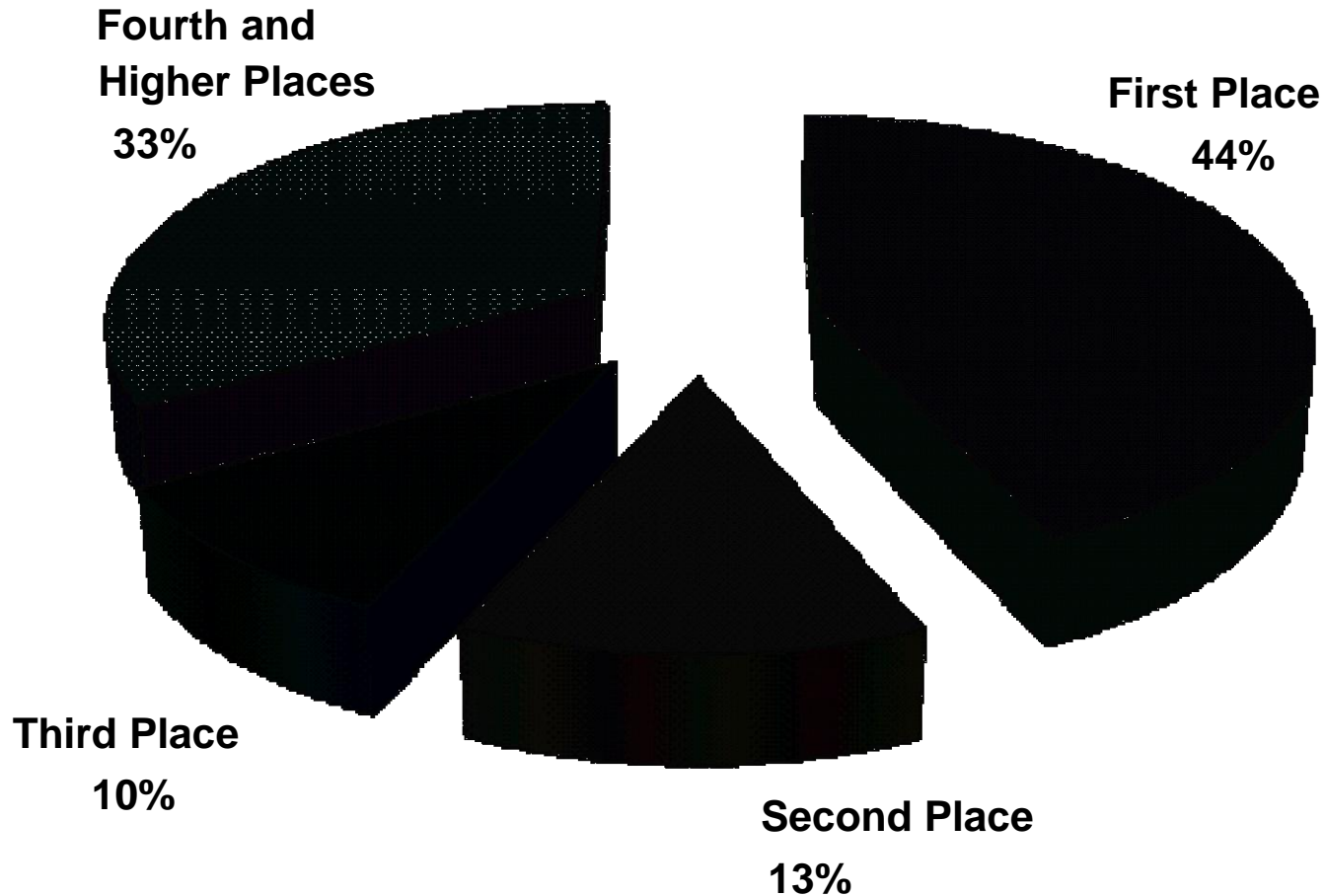


(*) Covered by Insurance is an old modality that is no longer available under the Disability and Survivorship System in which the AFP paid the pension to its affiliate, but this pension was financed with the Life Insurance Company's funds.

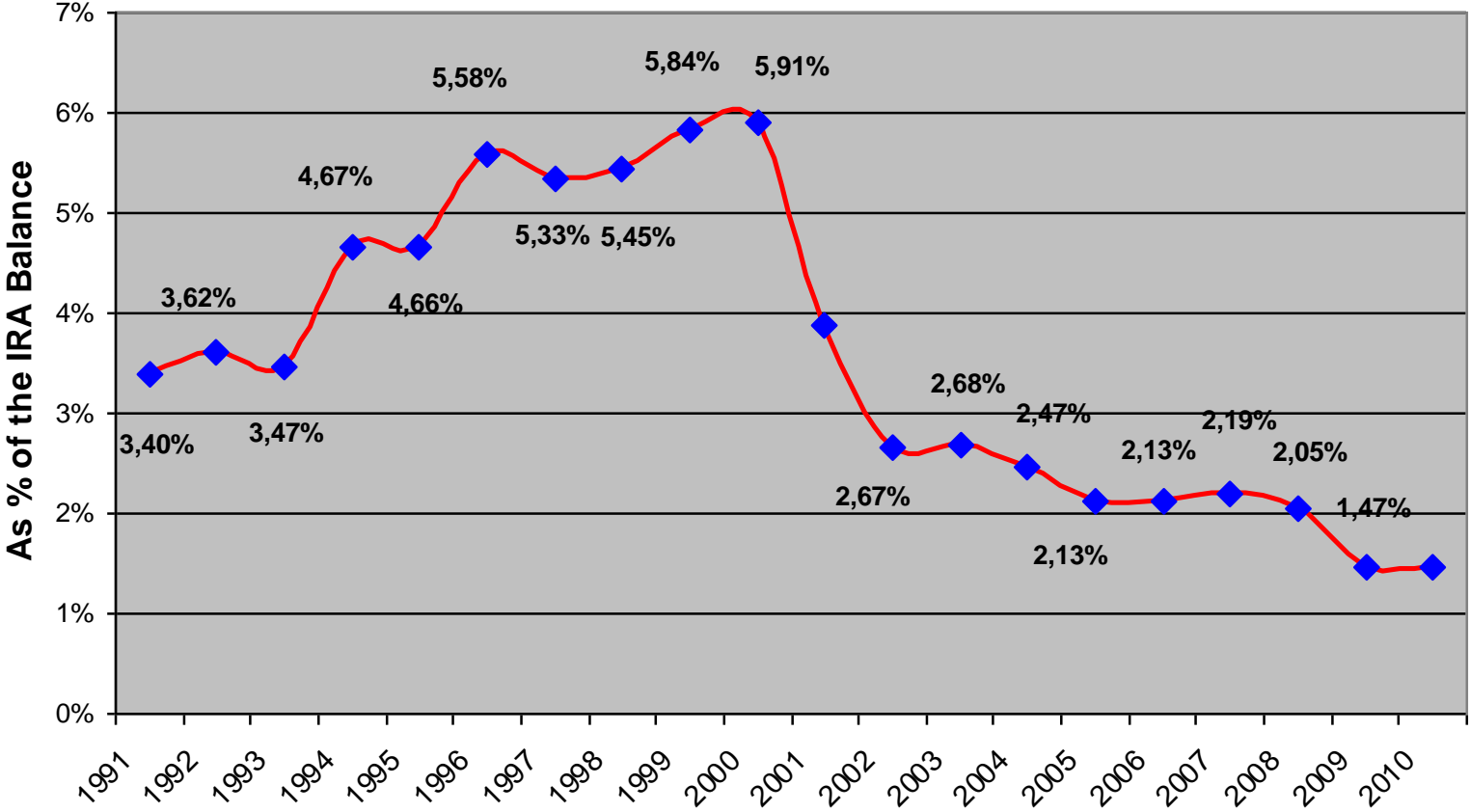
% of affiliates that accepted the bid based on the bid's ranking



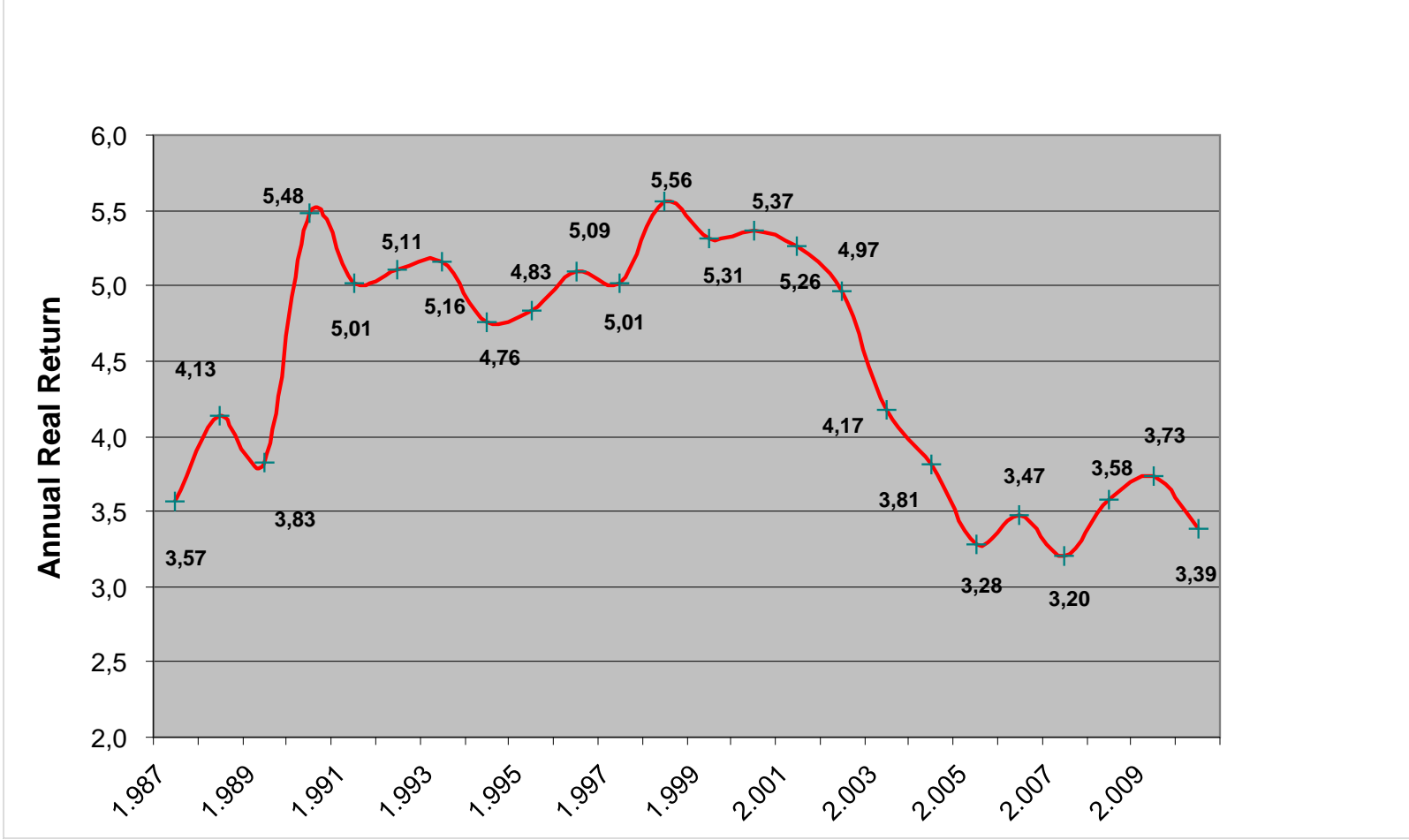
January to December 2010



Commissions



Annuities average Internal Rate of Return SVS



Current Market Rate (MR) and Annuities Rate of Sale (SR)

