Pension Reform in Chile after 25 years
(29 March 2006)

Guillermo Arthur
President
Association of Pension Fund Administrator of Chile
International Federation of Pension Fund Administrator
RESULTS
Difference between members and contributors

Work Force and Membership of the AFPs

- Work Force
  - Outside Work Force: 1,333
  - Dismissed: 351
  - Indep. workers and not remunerated: 1,762
  - Unemployed: 440

- AFP Membership
  - INP + AA.FF.: 194
  - Contributors + DNP: 3,949

Thousands

<table>
<thead>
<tr>
<th>Work Force</th>
<th>AFP Membership</th>
</tr>
</thead>
<tbody>
<tr>
<td>6,345</td>
<td>7,395</td>
</tr>
</tbody>
</table>
Development of the Pension Funds
(In Millions of UF as of December Each Year)

The accumulated funds belong to 7.4 million Chileans

Mill. U.F. | US $ 74,756.47 Millions
0 9 16 55 72 100 132 159 198 244 319 455 643 781 830 963 1,002 1,208 1,303 1,428 1,511 1,760 1,966 2,139

Millions of UF as of December Each Year:
Pension Fund Investments
(As % of the Pension Fund in December 2005)

MM US$ 74,756.47

- Banking: 29.86%
- Corporate: 23.25%
- State: 16.45%
- Foreign: 30.44%
- Dep.+Bonds: 24.08%
- M.B.S.: 4.86%
- Shares: 0.83%
- R.B.(I.N.P.): 3.91%
- Central Bank: 10.63%
- Treasury I.: 1.91%
- I.F.S.: 2.57%
- Bonds: 6.76%
- Shares: 13.91%
- Equities: 29.60%
- Fixed Income: 0.84%
Real Annual Yield of the Pension Funds

Average Annual Yield
Accumulated Jul. 81– Dec. 05

*: Weighted average multi-funds
Pensions Paid by Type
as % of total as of December 2005

574,011 pensions paid

26%

16%

9%

2%

1%

7%

40%

Average Early Retirement
Men : 55.6 years (9.4 years early)
Women : 53.3 years (6.7 years early)
Total : 55.2 years
Monthly Social Security Cost for an Average Contributor

Dec. each year as % of Average Taxable Income

Includes Cost of Insurance and Fixed Commission

0.99% Dis. + Surv. Ins.
1.31% % Comm. AFP
0.12% Fixed Commission

Includes Cost of Insurance and Fixed Commission
Impact on the Economy
Contribution of the Social Security Reform to Economic Growth

Reform and Growth of GDP

- **Contribution of Social Security Reform**: 33.3%
- **Not explained**: 0.5%
- **Initial**: 1.0%

Average growth rate
- **1960-1980 (%)**: 3.1
- **1981-2001 (%)**: 3.1

Total growth rate: 4.6%
The Pension Funds are invested in various sectors of our Economy.
# PENSION FUND INVESTMENT

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>MMUS$</th>
<th>% P.F.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>4,117</td>
<td>5.5%</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>1,257</td>
<td>1.7%</td>
</tr>
<tr>
<td>Sanitation</td>
<td>490</td>
<td>0.7%</td>
</tr>
<tr>
<td>Natural Resources</td>
<td>3,784</td>
<td>5.1%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>4,002</td>
<td>5.4%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>1,821</td>
<td>2.4%</td>
</tr>
<tr>
<td>Services</td>
<td>2,075</td>
<td>2.8%</td>
</tr>
<tr>
<td>Investment Fund</td>
<td>2,110</td>
<td>2.8%</td>
</tr>
<tr>
<td>Financial</td>
<td>18,527</td>
<td>24.8%</td>
</tr>
<tr>
<td>Foreign</td>
<td>5,389</td>
<td>15.36%</td>
</tr>
<tr>
<td>Government</td>
<td>12,297</td>
<td>16.4%</td>
</tr>
<tr>
<td>Various Industries</td>
<td>1,517</td>
<td>2.0%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>74,756</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
Proposals for Improving the Pension System
1. Greater coordination of the Three Pillars

1.1. Improvements to the First Pillar
   a) Graduated minimum pensions

1.2. Improvements to the Third Pillar
   b) Incentives different to the tributary one for workers of low rents
3. Continuing with high yield on Pension Funds

Yield, Accumulated Balance and Pension

Balance accumulated by the worker in Millions of Ch$

Pension / Final Salary (%)

27% 42% 70% 122% 222%

Real Annual Yield

0% 1% 2% 3% 4% 5% 6% 7% 8%
4. Deepening competition

- Compared commissions ...

**Cost of Fund Management Alternatives (% Funds)**

- Low est Management Fee (Cerulli)
- AFPs Chile
- Priv. Def. Contrib. Large Plans (CBO)
- Separate Accounts (Cerulli)
- Priv. Def. Contrib. Smaller Plans (CBO)
- TER FMutuos US (ICI) *
- Mutual Funds (CBO) *
- 401k (CBO)
- TER FMutuos US (M.Stanley) *
- Fondos Mutuos Chile (Econsult) *

* The commissions charged by the Chilean AFPs are lower than those charged on average by fund-managers around the world

* Weighted according to the asset allocation of the Pension Funds

SOURCE: Morningstar, CBO, ICI, M.Stanley, Cerulli Report and Econsult
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