


Chile

Chile: Pension system in 2012

The pension system has three components: a redistributive first tier, a second tier of mandatory individual accounts and a voluntary third tier. The individual accounts, introduced in 1981, are of the defined-contribution type. The redistributive first tier was substantially extended in a pension reform in 2008.

Key indicators

		Chile	OECD
Average worker earnings (AW)	CLP (million)	6.22	20.45
	USD	13 000	42 700
Public pension spending	% of GDP	3.6	7.8
Life expectancy	At birth	79.8	79.9
	At age 65	19.5	19.1
Population over age 65	% of working-age population	16.0	25.5

StatLink  <http://dx.doi.org/10.1787/888932908516>

Qualifying conditions

Defined contribution

Normal retirement age is 65 for men and 60 for women. Pension benefits can be drawn at any point from that age. Individuals are not required to stop working to claim pension.

Basic and supplementary schemes

The basic solidarity pension (PBS) is payable from age 65 to the 60% poorest share of the population on condition that people have lived in the country for at least 20 years and at least four of the five years prior to the claim. The qualifying conditions for the supplementary welfare pension are the same.

Benefit calculation

Defined contribution

The contribution rate for individual accounts is 10% of earnings. Administrative fees are levied on top of this contribution (not out of the mandatory contribution).

There is a ceiling on contributions, which in December 2012 was set at 67.4 “Unidades de Fomento” (UF) (real, that is inflation adjusted, units), which was CLP 1 542 559 per month, equal to 8.0 times the minimum wage in December 2012 and almost three times average earnings. The ceiling is indexed to average earnings.

At retirement, the accumulated capital can be used to buy an immediate life annuity, to get a temporary income with a deferred life annuity, to take programmed withdrawals, or to buy an immediate life annuity with programmed withdrawals. A withdrawal of 15 UFs is made from the individual account to cover for funeral expenses. For comparison with other countries, replacement rates have been calculated assuming an actuarially fair annuity, using sex-specific annuity rates.

Basic

The basic solidarity pension (PBS) was CLP 80 528 in December 2012. It is indexed to prices. The 2008 reform also introduced a pension-income-tested supplement as a replacement for the previous minimum pension. The objective of this new supplementary

pension is to improve the living standards of low-income workers when they move into retirement. This is payable to all individuals whose defined-contribution pension is less than a specified amount: the maximum welfare pension threshold (PMaS). The PMaS is indexed in line with prices.

In general terms, the supplementary benefit is defined as the value of the basic pension (PBS) – the ratio of PBS to the value of the maximum welfare pension (PMaS) multiplied by the value of the defined-contribution pension. The key ratio of PBS to PMaS is 29%.

Variant careers

Early retirement

Early retirement is allowed at any age in the defined-contribution scheme as long as the capital accumulated in the account is sufficient to finance a pension above particular thresholds. The first condition is that the benefit must be at least worth 80% of the PMaS. The second condition is that a minimum 70% replacement rate is reached, relative to earnings in the ten years prior to drawing the pension.

The normal retirement age is reduced by one or two years for each five years of work under arduous conditions in specified occupations. The maximum reduction of the normal retirement age is ten years.

Late retirement

It is possible to defer pension claiming after normal retirement age.

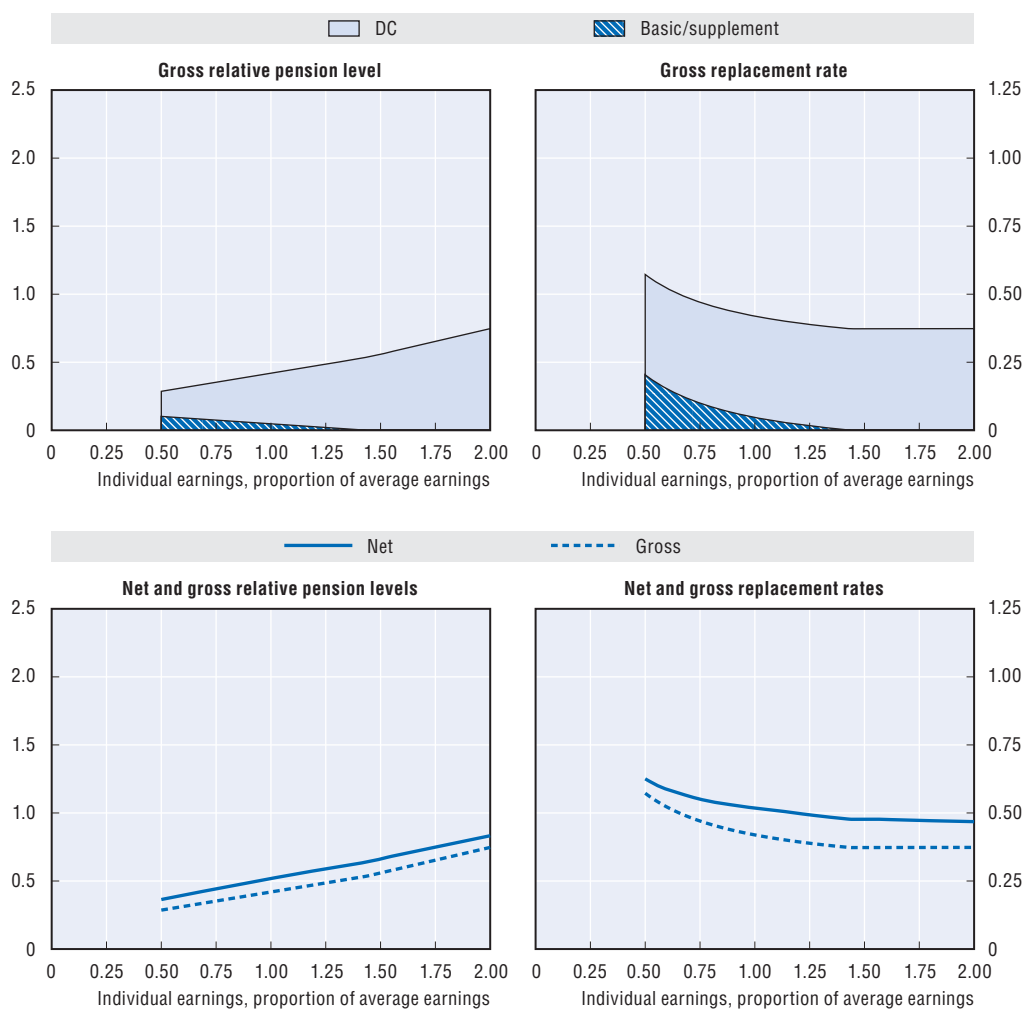
Childcare

A pension voucher is given to women for each child that they have had when they reach 65 years of age. The voucher is equivalent to 10% of 18 months' minimum wages at the time of birth plus the average net rate of return on defined-contribution pension plans from the birth until the pension claim. The average interest rate is calculated for "fund C" of the private pensions: the middle one in terms of the risk-return trade-off. This is transformed into a pension flow when the woman claims her pension.


Unemployment

No credits are given. A separate unemployment insurance system is in place since 2002.

Pension modelling results: Chile



Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level	36.9	28.6	35.3	41.9	55.9	74.7
(% average gross earnings)	29.6	24.2	28.6	33.0	41.8	50.6
Net relative pension level	46.1	36.4	44.2	51.8	66.3	83.3
(% net average earnings)	37.6	31.0	36.3	41.6	51.6	60.9
Gross replacement rate	45.5	57.3	47.0	41.9	37.3	37.3
(% individual gross earnings)	36.6	48.3	38.1	33.0	27.9	25.3
Net replacement rate	54.1	62.5	55.1	51.8	47.7	46.8
(% individual net earnings)	44.1	53.2	45.2	41.6	37.2	34.2
Gross pension wealth	7.8	9.8	8.1	7.2	6.4	6.4
(multiple of individual gross earnings)	8.1	10.7	8.4	7.3	6.2	5.6
Net pension wealth	6.8	8.7	7.1	6.2	5.3	5.0
(multiple of individual gross earnings)	7.2	9.6	7.5	6.4	5.3	4.7

StatLink  <http://dx.doi.org/10.1787/888932908535>