Chile

Chile: Pension system in 2020

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 system was introduced in 1981 and is defined contribution.

Key indicators: Chile

		Chile	OECD
Average worker earnings (AW)	CLP (million)	10.3	31.1
	USD	12 967	39 178
Public pension spending	% of GDP	2.8	7.7
Life expectancy	at birth	79.9	80.6
	at age 65	19.6	19.7
Population over age 65	% of working- age population	19.7	30.4

Qualifying conditions

The normal retirement age is 65 years for men and 60 years for women within the defined contribution system. Individuals are not required to stop working to claim a pension benefit.

The basic solidarity pension (PBS) is an entitlement for individuals without other pensions. The PBS is payable from the age of 65 to the poorest 60% of the population, with benefit receipt conditional on having at least 20 years of residency and on being resident in at least four of the five years prior to the claim. There is also a supplementary welfare pension named Solidarity Pension Payment (APS) which is targeted to individuals with low pensions. Pensioners may claim this benefit if their defined contribution pension is lower than a specified amount: the maximum welfare pension (PMAS)[1]. The qualifying conditions to apply for this benefit are the same as the qualifying conditions to claim a PBS.

As lower earners with full careers will still be eligible for the welfare pension the retirement age for women used in the modelling is 65.

Benefit calculation

Defined contribution

The contribution rate for the individual accounts scheme is 10% of covered earnings. Administrative fees are levied on top of the contribution rate (not out of the mandatory contribution). There is a ceiling on covered earnings, which in 2020 was set at 80.2 UF[2], which is equivalent to CLP 2 331 440 in December 2020 (the ratio of the maximum covered income to the minimum wage was 7.1 in December 2020). This ceiling is indexed to real earnings growth.

Upon retirement, the retiree may choose between four pay-out options. The accumulated capital can be used to buy an immediate life annuity, to get a temporary income with a deferred life annuity, to take a programmed withdrawal, or it may be split to buy an immediate life annuity and take a programmed withdrawal. Annuities may only be bought by individuals who can finance a pension higher than the PBS. An amount of 15 UFs is withdrawn from the individual account to cover for funeral expenses. For

[1] A law enacted in 2019 increased the amount of the PBS and the PMAS by 50%. This increase is being gradually implemented and will be fully in place by January 2022.

[2] The UF is a monetary unit indexed to inflation. As at 31st December 2020, 1 UF amounted to CLP 29 070.33 (USD 40.87)

comparison with other countries, replacement rates have been calculated assuming an actuarially fair annuity, using sex-specific annuity rates.

Targeted and supplement

The basic solidarity pension (PBS) is a fixed amount, adjusted every year to account for inflation. A law enacted in 2019 increased the amount of the PBS by 50% but with a gradual increase between 2020 and 2022, depending on age. The PBS amounted to CLP 141 374 for pensioners between 65 and 74 years old, 147 029 for pensioners between 75 and 79 years old and 169 649 for pensioners older than 79 years old in December 2020.

The Solidarity Pension Payment (APS) is a supplement calculated as the difference between the PBS and the ratio of the PBS to the PMAS multiplied by the amount of the pension. The PBS therefore acts as a minimum pension. The PMAS is a fixed amount, also adjusted every year to account for inflation. A law enacted in 2019 increased the amount of the PMAS by 50% but with a gradual increase between 2020 and 2022, depending on age. The PMAS amounted to CLP 417 764 for pensioners between 65 and 74 years old, 434 474 for pensioners between 75 and 79 years old and 501 316 for pensioners older than 79 years old in December 2020. The ratio of the PBS to the PMAS was 33.8%.

Minimum pension

The guaranteed minimum old-age pension requires at least 20 years of contributions and total income must be less than the minimum old-age pension. The minimum monthly old-age pension is CLP 142 452.33 if younger than age 70; CLP 155 760.68 if aged 70 to 75; or CLP 166 191.39 if older than age 75. This benefit is being phased out and replaced by the old-age solidarity top-up benefit (APS) by 2023. Until then, there is a choice between the two benefits for those who received the guaranteed minimum pension before 1 July 2008, and those aged 50 or older on 1 July 2008.

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 certain thresholds. The first condition is that the benefit must be at least equal to 80% of the PMAS. The second condition is that the pension must be at least equal to 70% of the average income in the ten years prior to claiming a pension.

The normal retirement age is reduced by one or two years for each five years of work under arduous conditions in specific 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

There is a parental leave for working mothers with earnings replacement for a maximum of 24 weeks. Of these 24 weeks, the first 18 are exclusively for the mother. For the following 19 to 24 weeks, the mother may transfer the benefit to the father. The replaced earnings are calculated over the average salary in the previous three months before the birth, with the same ceiling as for pension contributions. The benefit does not vary with the number of children. During this period, the mandatory 10% contribution to the pension system is paid from the parental leave benefit.

When a child aged less than one year has a serious illness, the mother is entitled to take medical leave for a time deemed sufficient by a physician to take care of the child. The medical leave allows the mother (or father, in case the mother agrees to that) to receive her wage and contribute to the pension system during this time.

In addition, a pension voucher is given to women for each child born alive or adopted. This benefit is claimable by the time a woman reaches the age of 65 years. The voucher is equivalent to 10% of 18 times the minimum wage set in place by the time of birth for each child, plus the average net rate of return on defined contribution pension plans from the date of the birth until the benefit claim. The average rate of return is equivalent to the rate of return of "fund C" of the pension system. If a woman is eligible for a PBS, she would receive this voucher in the form of a stream of payments on top of the PBS. On the other hand, women who are not eligible for the PBS, receive the total amount of the voucher in their individual pension accounts, which is converted into a stream of payments to increase the pension.

Unemployment

The Unemployment Insurance has two components: self-insurance through unemployment individual accounts and social insurance through the solidarity unemployment fund. The eligibility conditions for the latter are more stringent than the former. Individuals who are eligible get an unemployment benefit from the solidarity unemployment fund and keep contributing to the pension system. The contribution is 10% of the solidarity unemployment benefit.

Self-employed

The 2008 reform established mandatory participation of self-employed workers into the pension system, for income earned in 2012 or later. The target population were the self-employed individuals who:

- Invoice for their services and thus make a provision for the income tax
- Men younger than 55 and women younger than 50 years old (by January 1st, 2012)
- Affiliates (not pensioners) of the DC individual accounts pension scheme.

In 2019, a new law was passed confirming that contribution to the social security system will be compulsory starting in 2019 (for income earned in 2018) and increasing the total contribution rate from 10% to 17% (gradually with a horizon of 9 years).

The pension contribution base is 80% of the average monthly earnings of the self-employed, before deducting social security contributions, in the previous calendar year, with the floor at the monthly minimum wage and the ceiling at 60 UFs (Unidad de Fomento). The UF, an index that is adjusted daily based on monthly changes in the consumer price index, is CLP 27 908.86 (1 July 2019).

Personal income tax and social security contributions

Taxation of pensioners

When claiming a pension, individuals are allowed to take out part of the accumulated funds in their accounts (known as "Free Purpose Surplus") if the remaining balance is enough to finance a pension that is at least 100% of the maximum welfare pension (PMAS) and yields a replacement rate of at least 70% of the average income of the previous 10 years to retirement. The surplus can be withdrawn as tax-free annual instalments up to a maximum of 200 UTM[3] per year and a total tax-free amount of 1 200 UTM. If obtained as a lump-sum, the maximum tax-exempted amount is 800 UTM.

[3] UTM is the Monthly Taxing Monetary Unit. It is adjusted each month according to inflation. In December 2020 its value was CLP 51 029

Taxation of pension income

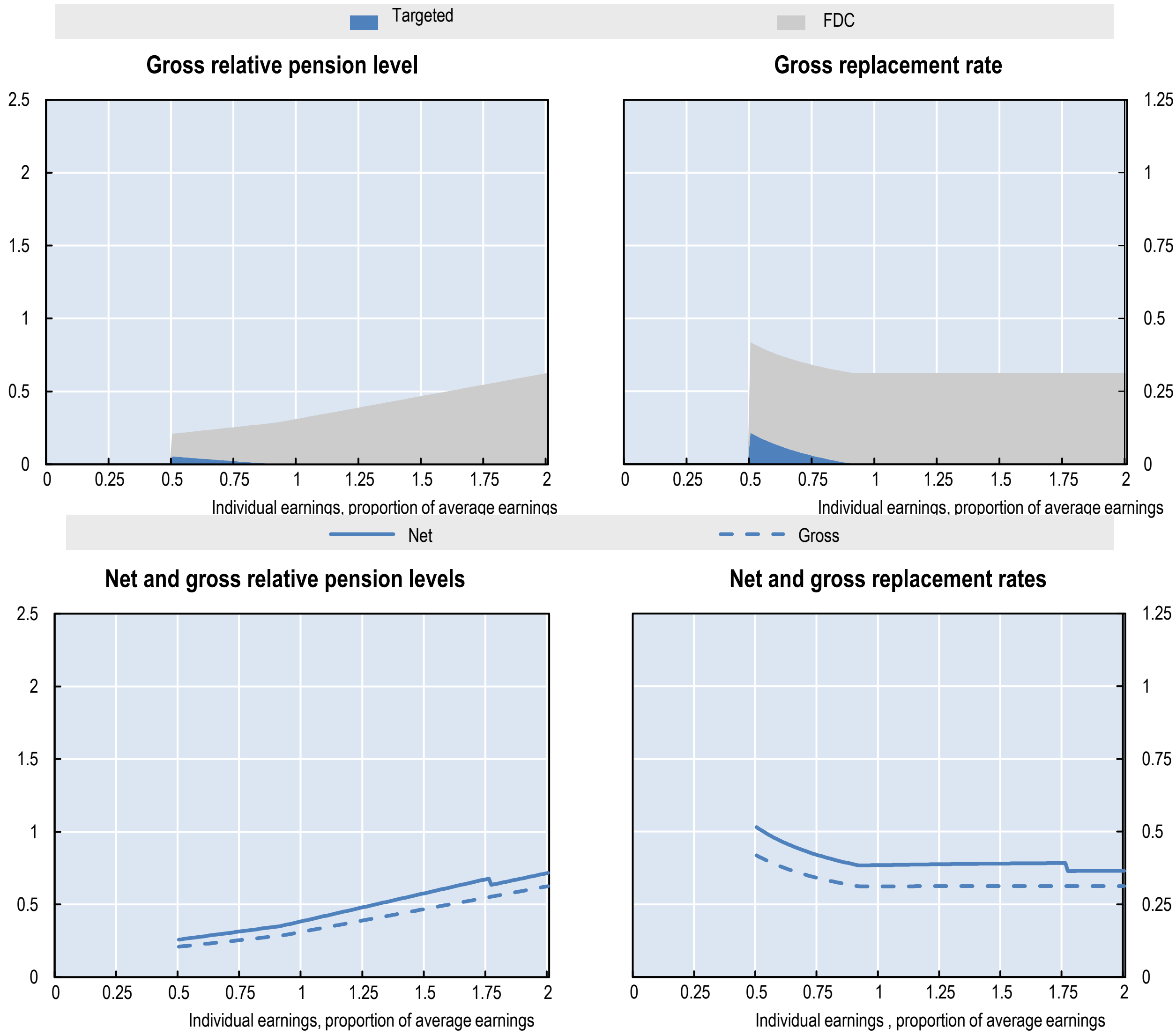
Same rates as general income tax rates apply. The structure of income taxation is progressive:

Income bracket (UTM)		Marginal tax rate
From	To (inclusive)	
-.-	13.5	0%
13.5	30	4%
30	50	8%
50	70	13.5%
70	90	23%
90	120	30.4%
120+		35%

Social security contributions paid by pensioners

Pensioners pay 7% of their pension benefit for health coverage except for individuals who receive a Basic Solidarity Pension or a pension supplement; and pensioners older than 65 years in the 80% poorest share of the population who have lived in the country for more than 20 years, which are exempted.

Pension modelling results: Chile in 2063 retirement at age 65 (men)



Men	Individual earnings, multiple of average					
Women (where different)	0.5	0.75	1	1.5	2	3
Gross relative pension level	20.9	25.5	31.2	46.9	62.5	85.2
(% average gross earnings)	*20.2*	*24.5*	*28.8*	*43.2*	*57.6*	*78.5*
Net relative pension level	25.8	31.5	38.5	57.8	71.7	97.4
(% net average earnings)	*24.9*	*30.1*	*35.4*	*53.2*	*66.1*	*90.0*
Gross replacement rate	41.9	34.0	31.2	31.2	31.3	28.4
(% individual gross earnings)	*40.4*	*32.6*	*28.8*	*28.8*	*28.8*	*26.2*
Net replacement rate	51.6	41.9	38.5	39.0	36.6	32.7
(% individual net earnings)	*49.8*	*40.2*	*35.4*	*36.0*	*33.7*	*30.2*
Gross pension wealth	7.7	6.3	5.7	5.8	5.8	5.2
(multiple of individual gross earnings)	*8.1*	*6.5*	*5.7*	*5.8*	*5.8*	*5.2*
Net pension wealth	9.5	7.7	7.1	7.2	6.7	6.0
(multiple of individual net earnings)	*10.0*	*8.0*	*7.1*	*7.2*	*6.7*	*6.0*

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 90%. Labour market entry occurs at age 22 in 2020. Tax system latest available: 2020.