Pensions at a Glance 2023

Chile

Chile:
Pension system in 2022

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 funded defined contribution.

Key Indicators: Chile

		Chile	OECD
Average worker earnings (AW)	CLP (million)	11.5	36.0
	USD	13 160	41 261
Public pension spending	% of GDP	2.8	7.7
Life expectancy	at birth	79.5	80.7
	at age 65	84.3	84.6
Population over age 65	% of working-age population	20.9	31.3

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 guaranteed universal pension (PGU) is an entitlement for adults 65 years or older, retired or not, who are not part of a family group belonging to the richest 10% of the population. It is 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.

For those people who meet these requirements but have self-financed pensions above a minimum limit (bottom pension), the amount of the PGU will gradually decrease, until a maximum limit (top pension) above which the benefit is extinguished.

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

Funded defined contribution

The contribution rate for the individual accounts scheme is 10% of covered earnings. There is a ceiling on covered earnings, which in 2022 was set at 81.6 UF (Unidad de Fomento) - The UF, an index that is adjusted daily based on monthly changes in the consumer price index, is CLP 35 110.98 (31 December 2022) -, which is equivalent to CLP 2 865 056 in December 2022 (the ratio of the maximum covered income to the minimum wage was 7.2 in December 2022). This ceiling is indexed to 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 an annuity of at least 3 UF. An amount of 15 UFs is reserved from the individual account to cover for funeral expenses. In Chile, annuity providers calculate annuities based on sex-specific mortality tables. For comparison with other countries, replacement rates have been calculated assuming a life annuity.

Targeted and supplement

The guaranteed universal pension (PGU) is a fixed amount, adjusted every year to account for inflation. A law enacted in January 2022 established the amount of the PGU at CLP 185 000. This benefit was adjusted by inflation in June of the same year, and its value in December 2022 was CLP 193 917.

Those with a self-financed base pension below CLP 660 366 receive the full amount of the PGU. For those whose self-financed base pension is above this threshold, the benefit is gradually withdrawn and is calculated as the amount of the PGU multiplied by a determination factor. This determination factor corresponds to the ratio of the difference between the top pension (CLP 1 048 200) and the self-financed base pension and the difference between the top pension and the bottom pension. These values (PGU, bottom pension and top pension) are adjusted every year to account for inflation.

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 pension must be at least equal to 12 UF. 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 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 PGU, she would receive this voucher in the form of a stream of payments on top of the PGU. On the other hand, women who are not eligible for the PGU, 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 to the solidarity unemployment fund, keep contributing to the pension system while receiving the unemployment benefit. The contribution is 10% of the solidarity unemployment benefit.

Self-employed

In 2019, a law was passed that established a 10-year transition for self-employed workers to have the same social security coverage as dependent workers (pensions, health and other social insurance), with no opt-out clause.

The target population are the self-employed individuals who:

- Invoice for their services (at least four monthly minimum wages during a calendar the year) and thus make a provision for the income tax
- Men younger than 55 and women younger than 50 years old (by January 1st, 2018)
- Affiliates (not pensioners) of the defined contributions with individual accounts pension scheme

The contribution base is 80% of the amount invoiced the previous year, before any deductions. In a year, the pension base considering earnings as a dependent employee and as a self-employed cannot exceed 12 times the monthly ceiling (81.6 UF in 2022).

In 2022, the pension contribution for these workers ranged between 3.7% and 4.3% (due to the options of the transition).

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 balance is enough to finance a pension that is at least 12 UF 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 instalment up to a maximum of 200 UTM 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.

Taxation of pension income

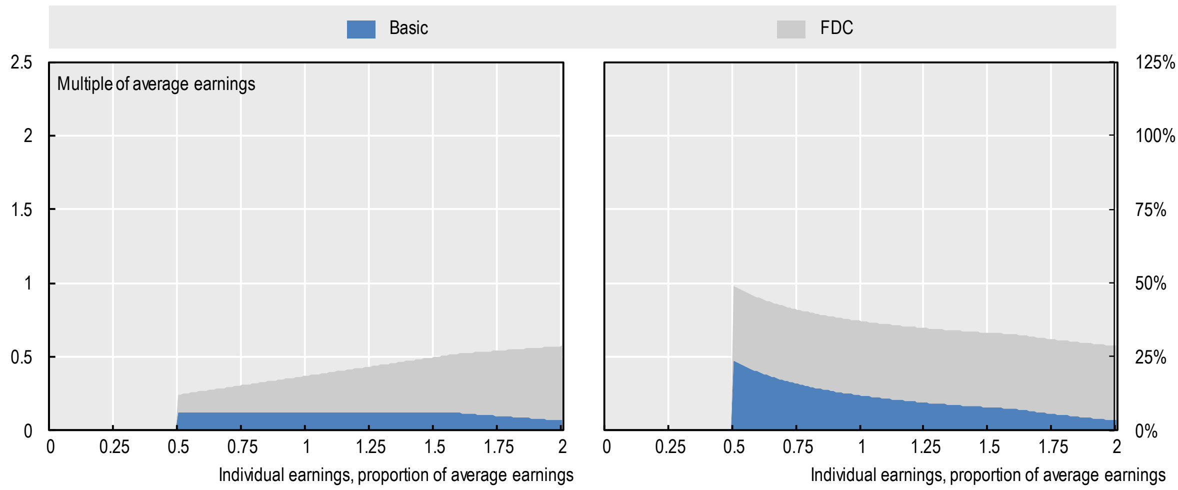
Same rates as general income tax rates apply.

Social security contributions paid by pensioners

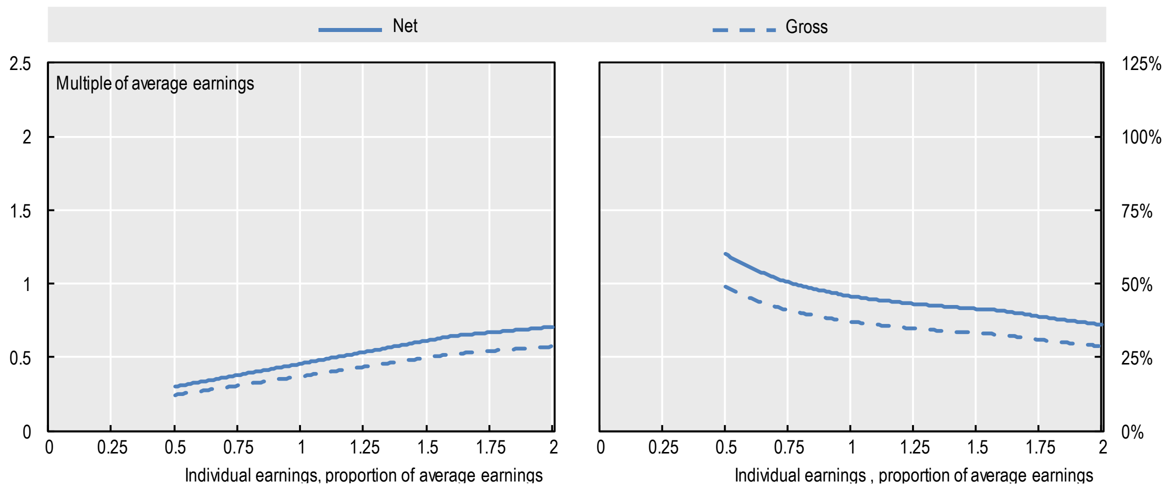
Pensioners pay 7% of their pension benefit for health coverage except for individuals who receive a Guaranteed Universal Pension; and pensioners older than 65 years in the 80% poorest share of the population who have lived in the country for more than 20 years, which are exempted.

Pension modelling results: Chile in 2065 retirement at age 65 (men)

Gross relative pension level **Gross replacement rate**



Net and gross relative pension levels **Net and gross replacement rates**



Men	Individual earnings, multiple of average					
Women (where different)	0.5	0.75	1	1.5	2	3
Gross relative pension level	24.4	30.7	37.1	49.8	57.4	75.7
(% average gross earnings)	23.3	29.1	34.9	46.5	55.2	69.2
Net relative pension level	30.1	37.9	45.7	61.3	70.7	86.7
(% net average earnings)	28.7	35.9	43.0	57.3	68.0	85.2
Gross replacement rate	48.8	41.0	37.1	33.2	28.7	25.2
(% individual gross earnings)	46.7	38.8	34.9	31.0	27.6	23.1
Net replacement rate	60.1	50.5	45.7	41.4	36.1	30.0
(% individual net earnings)	57.5	47.8	43.0	38.7	34.7	29.5
Gross pension wealth	9.9	8.3	7.5	6.7	5.8	5.1
(multiple of individual gross earnings)	10.3	8.6	7.7	6.9	6.1	5.1
Net pension wealth	12.2	10.2	9.2	8.4	7.3	6.1
(multiple of individual net earnings)	12.7	10.6	9.5	8.6	7.7	6.5

Assumptions: Real rate of return 2.5%, real earnings growth 1.25%, inflation 2%, and real discount rate 1.5%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equals 90%. Labour market entry occurs at age 22 in 2022. Tax system latest available: 2022.