



“Pension System in Chile: The Effect of the Financial Crisis”

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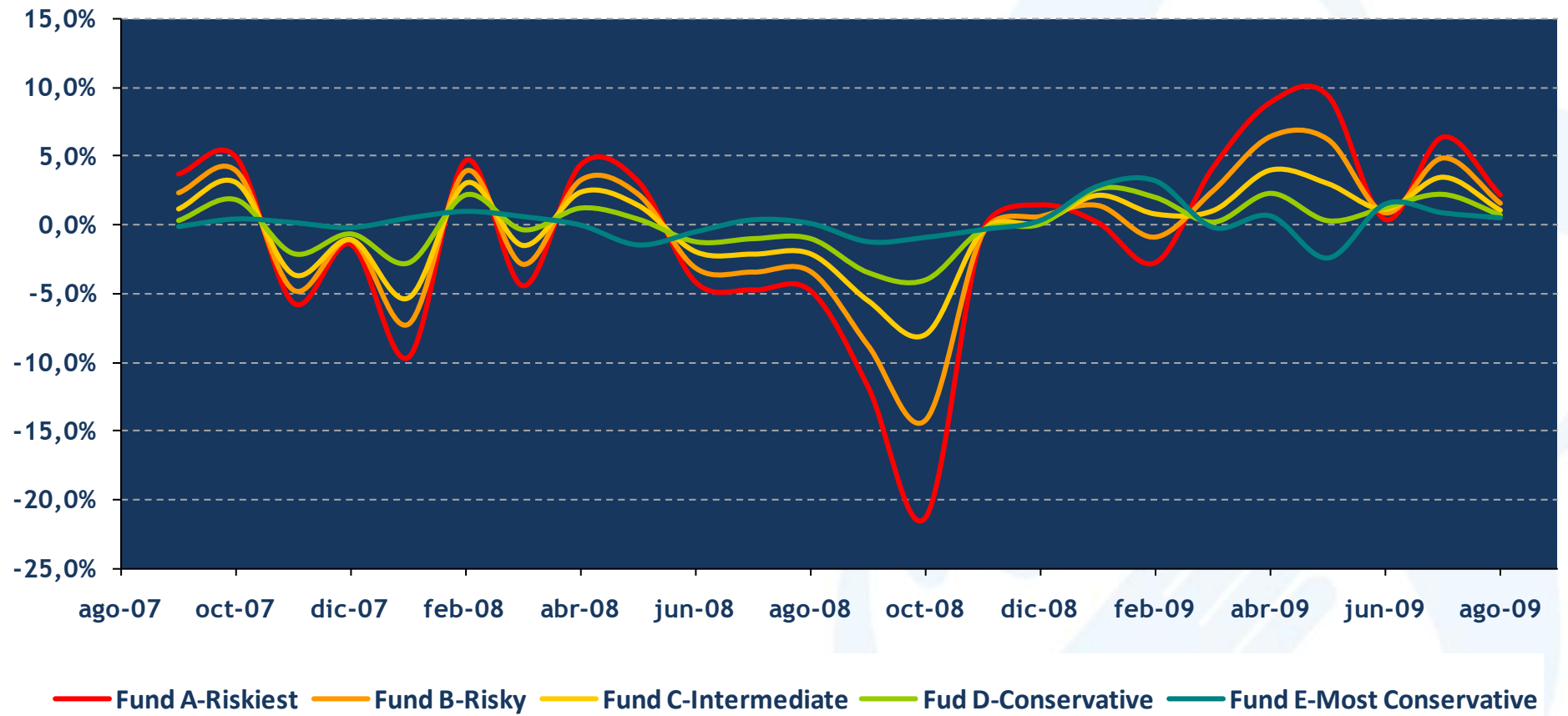
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Outline

- I. Effect of the Financial Crisis on Pension Funds**
 - II. Policy Recommendations from OECD and IOPS Working (WP N°9) Paper for Responses to the Financial Crisis: What has Chile done?**
 - III. Conclusions and Challenges**
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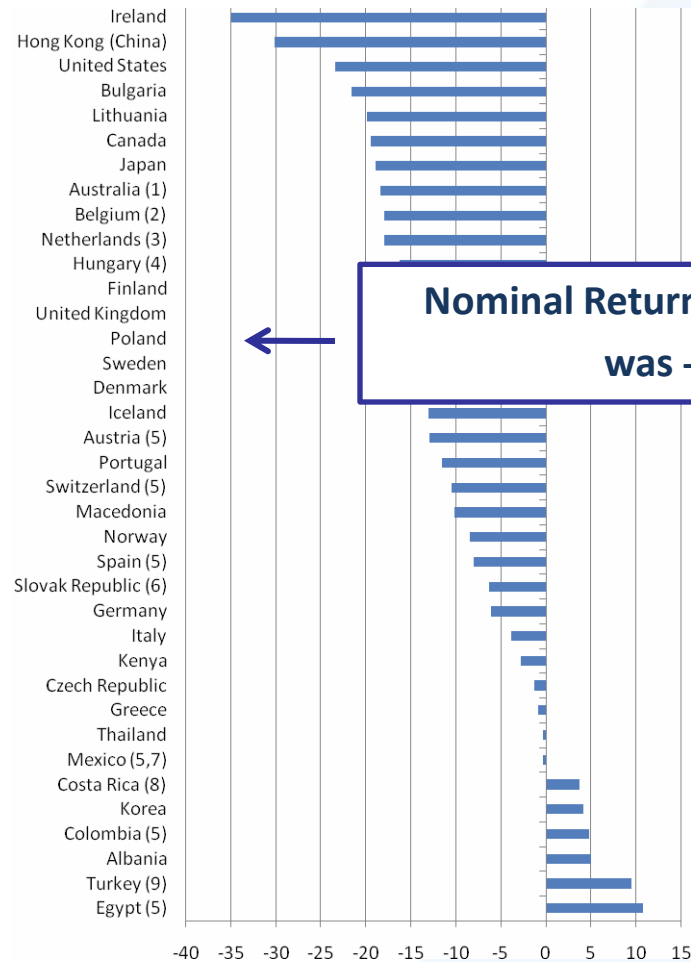
Effect of the Financial Crisis on Pension Saving Funds

Pension Funds Monthly Returns



Effect of the Financial Crisis on Pension Saving Funds

Pension Funds Nominal Returns, selected OECD and non-OECD countries, 2008



Source: OCDE, 2009

Policy Recommendations for the Financial Crisis: What has Chile done?

COMPLEMENTARY PRIVATE PENSIONS ARE STILL NEEDED TO FINANCE RETIREMENT

❖ **The Chilean Pension 2008 Reform strengthens the Mandatory and Voluntary Tiers**

- Pension System will be mandatory for the Self- Employed
- Subsidy to young workers contributions
- If contributions are not paid, it is assumed they are owed (automatic DNP) unless there is a notification that the contract terminated
- Over-contribution for women for the difference in the cost of insurance
- Improvement of investment regulation
- Measures to promote competition amongst PFAs
- Changes in tax regime and subsidy to voluntary savings

Policy Recommendations for the Financial Crisis: What has Chile done?

RETIREMENT SAVINGS HAS A LONG TERM HORIZON

❖ **Early Retirement needs to meet conditions:**

- Since 2004 these conditions have been tightened (gradual implementation)
- Nowadays the conditions are: 67% of labor earnings and 150% of the minimum pension
- From August 2010, the replacement rate must be at least 70% of labor earnings and 150% of the minimum pension
- From July 2012 onwards, the replacement rate must be 80% of the Maximum Pension with Solidarity Complement

❖ **2008 Pension Reform introduces incentives for voluntary savings if it is for pensions**

- 15% subsidy to savings (with a cap of 6UTM (US\$ 410 a year))

Policy Recommendations for the Financial Crisis: What has Chile done?

SUPERVISION MUST BE FLEXIBLE, SENSIBLE AND RISK-BASED

- ❖ **2008 reform eases up Investment Rules**
 - Structural limits defined by law only
 - Advise role of the Investment Committee
 - Increase the Foreign Investment limit to 80%
- ❖ **The Superintendence is moving towards risk-based supervision**
 - Risk concept was included in the Law
 - Supervision Model and Risk Matrix already defined
 - Nowadays we are designing guidelines for the Supervisor and training staff
 - Pilot before the end of 2009

Policy Recommendations for the Financial Crisis: What has Chile done?

SAFETY NETS SHOULD BE USED TO PROTECT AGAINST INSUFFICIENT PENSION SAVINGS

❖ **2008 reform introduces a safety net-1st Tier**

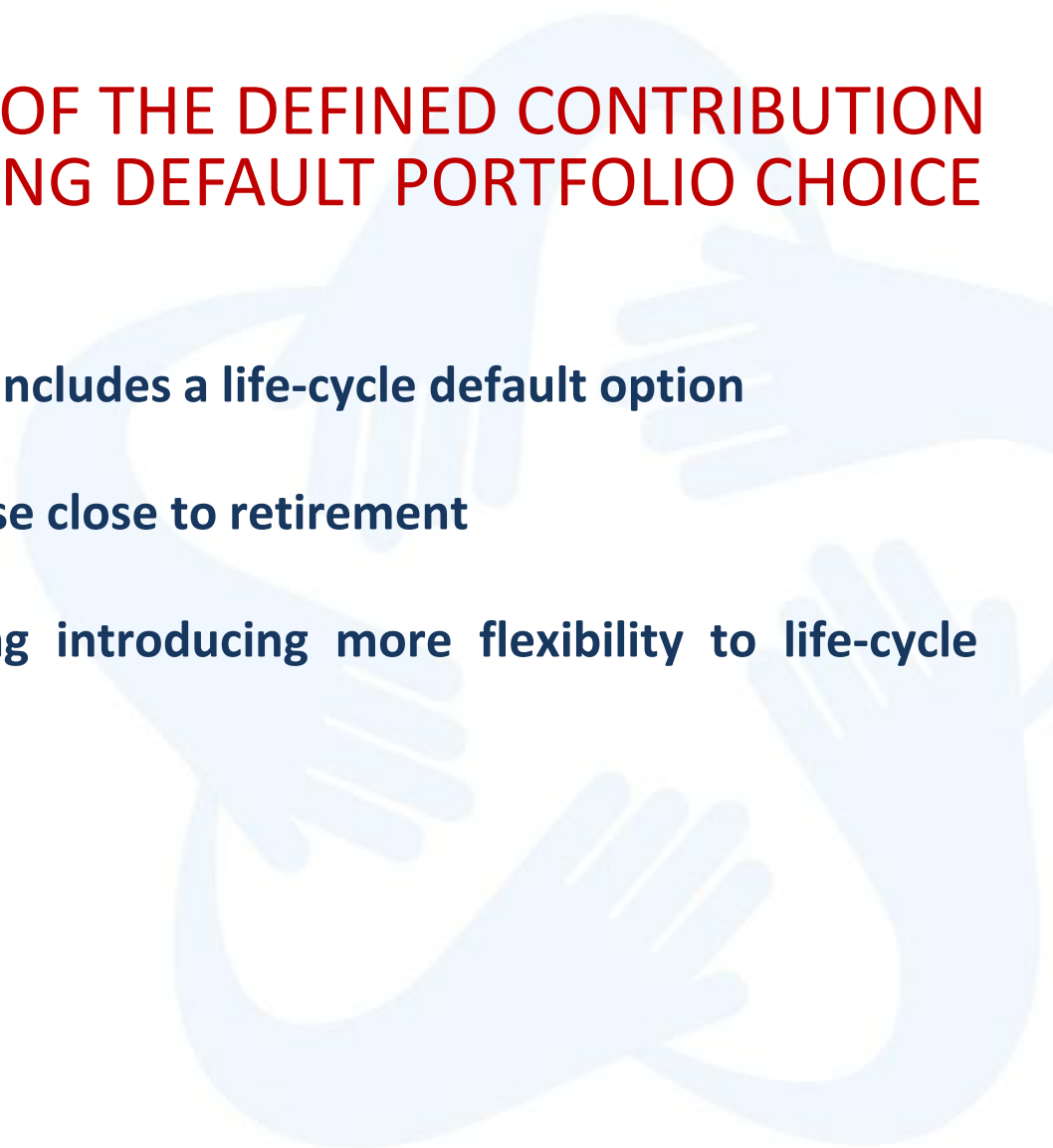
- Basic Solidarity Pension, \$75.000 (US\$ 140)
- Solidarity Top Up for pensions below \$150.000 (US\$280) which gradually increases to \$255.000 (US\$475) in 2011
- Eligible: poorest 50% (60% in 2011)

❖ **Other benefits**

- Voucher for children (women only)
- Low income young workers subsidy to contributions

Policy Recommendations for the Financial Crisis: What has Chile done?

IMPROVE THE DESIGN OF THE DEFINED CONTRIBUTION COMPONENT, INCLUDING DEFAULT PORTFOLIO CHOICE

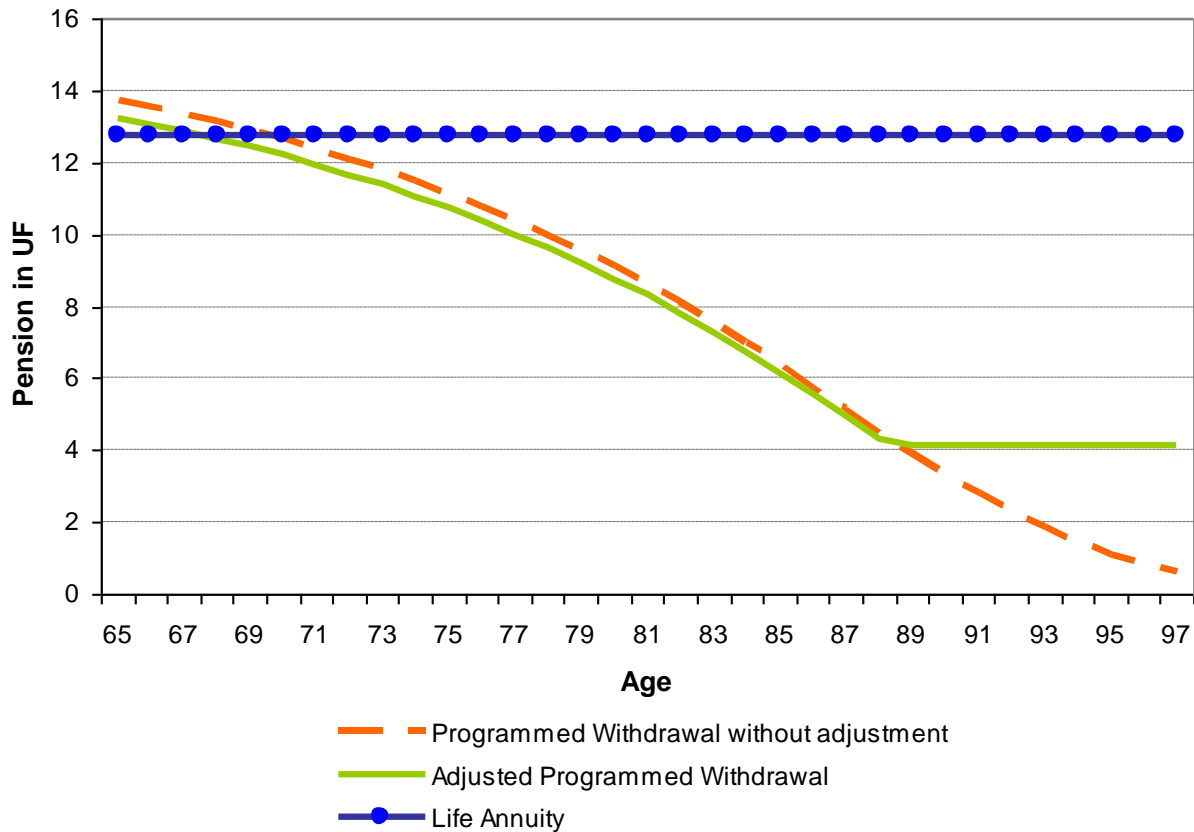
- ❖ **The Multiple-Funds scheme includes a life-cycle default option**
 - ❖ **Portfolio restrictions for those close to retirement**
 - ❖ **The Supervisor is evaluating introducing more flexibility to life-cycle investment paths**
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- A faint, light blue background graphic showing several hands of different sizes and orientations, some reaching out and some holding each other, symbolizing support and community.

Policy Recommendations for the Financial Crisis: What has Chile done?

TO ALLOW MORE FLEXIBILITY TO PENSIONERS TO AVOID LOSSES WHEN THE MARKET IS IN A DOWNTURN

- ❖ **In spite of the legal pension age, individuals may retire later on**
- ❖ **Several alternatives to purchasing an annuity upon retirement:**
 - Programmed Withdrawal (thus, possibility to purchase an annuity later on)
 - Temporary Income with Deferred Annuity
 - Combine Programmed Withdrawal and Annuity

Policy Recommendations for the Financial Crisis: What has Chile done?



2008 Reform:

- Alternative kinds of pensions are reinforced: Pension Advisor
- Floor for Programmed Withdrawal

Policy Recommendations for the Financial Crisis: What has Chile done?

ENHANCE COMUNICATION CHANNELS AND INCREASE TRANSPARENCY OF INFORMATION

- ❖ The Supervisor has defined several ways for the PFAs to provide information to individuals
- ❖ The Supervisor regularly informs the returns of the Pension Funds
- ❖ The 2008 reform mandates the PFAs must disseminate their Investment Policies , which must be approved by the Board
- ❖ The 2008 reform creates a Users Commission
- ❖ The 2008 reform mandates each PFA to have an Independent Board member
- ❖ List of potential Board members that could be chosen by PFAs in the companies where Pension Funds are invested (119 individuals registered)

Policy Recommendations for the Financial Crisis: What has Chile done?

ENHANCE FINANCIAL KNOWLEDGE

- ❖ **Supervisor efforts to educate:**
 - Risk concept
 - Relevance of early contributions
 - Relevance of contributions and of postponing retirement (PPP)
- ❖ **2008 reform creates a Pension Savings Education Fund**
- ❖ **2008 reform regulates Pension Savings Advisor, amending conflict of interests and creating advise during the working stage**
- ❖ **The Supervisors Committee (Banking, Insurance and Securities, and Pensions) is working on a financial education project**

Mientras + Joven ahorres, + plata cuando jubiles

Tus primeros ahorros ganan intereses por más años. De hecho, la mayor parte de tus ahorros al pensionarte corresponderán a los aportes que realices entre los 20 y 30 años.

Si esta moneda representa tus ahorros al pensionarte, lo que aportaste en cada etapa de tu vida es:



Este cálculo considera el ahorro efectuado entre los 20 y 60 años, remuneración creciendo al 2% anual y ganancia de los ahorros de 5% al año.

- Preocúpate que tu empleador pague tus cotizaciones todos los meses por el total de tu remuneración. Revisa tu cartola de AFP
- Si eres independiente, cotiza directamente en tu AFP
- Al cotizar, además, tú y tu familia están protegidos por un seguro de invalidez y muerte. Infórmate de su cobertura y beneficios.

← Early contributions,
between 20 and 30 years
of age,
are very important

Su futuro está en sus manos, ¡Infórmese hoy de su pensión!

Datos Personales:

Nombre: Estanislao Francisco Ruiz Reyes
RUT: 9.546.779-4
Edad: 43

Información a 30 de Abril de 2005

Monto acumulado \$ 7.137.584
Bono de Reconocimiento \$ 460.815
Promedio 6 últimas remuneraciones \$ 317.419

Importante: En los últimos 12 meses, usted cotizó: **6 meses**

¿Qué pasaría con su pensión si usted...

	Recibiría una Pensión Estimada de
...no cotiza nunca más y se pensiona a los 65 años?	\$113.018
...sigue cotizando todos los meses por una remuneración de \$ 317.419 hasta pensionarse a los 65 años?	\$176.054

Para el cálculo de la Pensión Estimada se considera una ganancia de sus ahorros del 5% al año y como beneficiario una esposa 2 años menor.

Usted puede mejorar su pensión:

- Si es independiente, puede cotizar directamente en su AFP.
- Recuerde que puede pensionarse después de cumplir la edad legal. Si posterga su jubilación, aumenta el monto de su pensión.
- Infórmese sobre el Ahorro Previsional Voluntario (APV) y la Cuenta de Ahorro Voluntario (Cuenta 2).
- Existe una pensión mínima garantizada por el Estado de \$77.077. Si su pensión estimada es inferior a este monto, infórmese sobre los requisitos para obtener este beneficio.

Si desea obtener una proyección de pensión más detallada, contáctese con su AFP en:

AFP xxxxxxxx www.afpxxxx.cl F: 800-xxx-xxxx

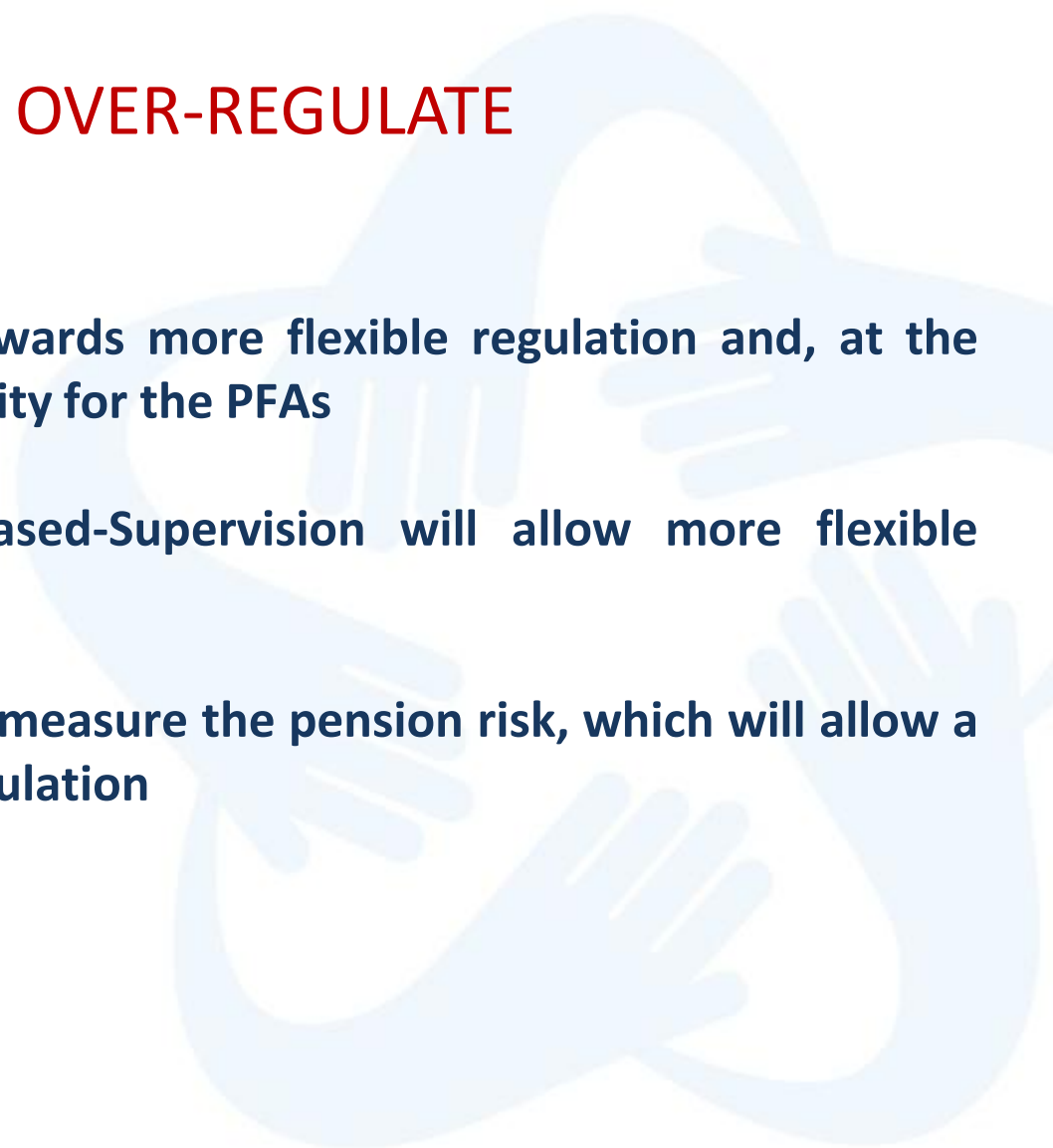
Individual's
information

Pension
forecast

“So you
can...”

Policy Recommendations for the Financial Crisis: What has Chile done?

DO NOT OVER-REGULATE

- ❖ The 2008 reform moves towards more flexible regulation and, at the same time, more responsibility for the PFAs
 - ❖ The new focus on Risk-Based-Supervision will allow more flexible conditions
 - ❖ The challenge is to properly measure the pension risk, which will allow a new view on investment regulation
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- A faint, light blue background graphic showing several hands of different sizes and orientations, some holding a globe, symbolizing global cooperation or support.

Conclusions and Challenges

- ❖ The 2008 Chilean Reform closely follows the international recommendations
- ❖ The welfare 1st-tier is key in the provision of adequate pensions not only in Chile but also worldwide
- ❖ Because pension savings are mandatory, the regulation is particularly relevant, as the risk is faced by individuals and the state
- ❖ 2008 reform gives more protection and, at the same time, more flexibility for regulation and more responsibility for PFAs
- ❖ Worldwide trend to a sensible supervision and risk-based regulation
- ❖ Risk-based regulation is key for a suitable development of the Pension System
- ❖ Proper ways to assess the pension risk will help control for it in the future



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