10 years after the 2008 Pension Reform

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Report prepared by*

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Documento de trabajo

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1. Introduction

This report discusses progress among a selection of the main measures introduced in the 2008 pension reform, ten years after their implementation. The main objective of the report is to provide a medium-term perspective on the implementation of these measures, which will allow affiliates, regulators, public policy makers and the general public to understand the scope and relevance of the 2008 reform.

Section 2 focuses on the evolution in coverage of the Solidarity Pillar (*Pilar Solidario*) and the scope of the Dependents Benefit ("*Bono por Hijo*"). The Solidarity Pillar has benefited 1,507,592 people as of December 2018, which means that its coverage reaches 57.7% of all elderly, disability and widowed pensions in the Chilean pension system (including the *Instituto de Previsión Social*, IPS, Social Security Institute). It should be noted that both the Basic Solidarity Pension (*Pension Básica Solidaria*, PBS) and the Solidarity Pension Contribution (*Aporte Previsional Solidario*, APS) benefit mostly women. With regard to fiscal spending in the Solidarity Pillar, the State contribution has been increasing steadily, from 0.58% of GDP in 2009 to 0.8% of GDP in 2018. The Dependent Benefit has benefited more than 510,000 women between 2009 and December 2018.

Section 3 reports on two measures that sought to improve the system's coverage: mandatory contributions for independent workers and the extent of voluntary pension savings, both individual plans (*Aporte Previsional Voluntario,* APV) and collective plans (*Ahorro Previsional Voluntario Colectivo,* APVC). Since 2012, around one million independent workers have been subject to mandatory contributions each year. However, given the effective contribution was an optional decision during the transition period, only around 250,000 individuals per year have contributed to the measure, which corresponds to an average coverage of 26%. This unveils the urgency of making mandatory to contribute to social security for this group of workers. Accordingly, a law introduced in January 2019 established such an obligation. Besides, the law increases the contribution rate from 10% to 17% over a nine-year period. With respect to the APV, the number of accounts has increased steadily since the beginning of the 2008 reform, although in terms of accumulated savings, the pre-2008 reform tax regime continues to be predominant. On the other hand, the APVC has not had the expected impact.

Section 4 analyses two measures that sought to increase competition in the AFP (Pension Fund Administrator, *Administradora de Fondos de Pension*) industry, specifically the introduction of the auctioning process for new affiliates and for the Disability and Survivorship Insurance (*Seguro de Invalidez y Sobrevivencia*, SIS). Both the auctioning processes have had a direct impact on the welfare of affiliates, reducing the commissions charged (in the case of new affiliates) and the premiums charged (in the case of SIS). In the case of the process for new affiliates, both the average commission and the minimum market commission were reduced until 2017. However, the number of participants also experienced a decrease over time, and the bidding was declared void for the period August 2018-July 2020, which produced an increase in both the average commission (from 1.19% in 2017 to 1.26% in 2018) and the minimum commission (from 0.41% AFP Plan Vital in 2017, to 0.72% AFP Modelo in 2018). A new bidding process was called for October 2019-September 2021 and was successful, with a minimum commission of 0.69% offered and the entry of a new AFP (AFP Uno). With respect to the SIS tender, there have been six since 2008. It is worth noting the increase in the number of life insurance companies participating in the auctioning processes over time, from nine companies for men and eight for women in the first one, to a maximum in the third process of 14 and 16 companies bidding for men and women, respectively. In the last tender, 10 companies for men and 14 for women were submitted for 2018-2020. It is also noted that the average rate to be charged registered a significant fall through the fourth tender (period 2014-2016), and increased in value over the last two bids, standing at 1.53% for the period 2018-2020 (still well below the first rate after the reform of 2008, 1.87%).

Section 5 focuses on the investment regime of pension funds and the functioning of the Technical Investment Committee (*Comité Técnico de Inversiones*, CTI) as an advisory body to the Superintendence of Pensions (*Superintendencia de Pensiones*). The investment regime as of the 2008 reform extended the limits of investment abroad, both globally and by type of fund. Looking at the evolution of foreign income investment (foreign public bonds, foreign private bonds and foreign stocks), the proportion increased from 27% on average for the period 2002-2008, to 40% on average for the period 2009-2018. By type of fund, although Fund A has the highest percentage invested in foreign income (71% average for the period 2009-2018), the increase applies to more conservative funds as well. It is worth mentioning that the CTI has been an instance of technical debate regarding various issues of interest. The CTI role has been driven by the intent to provide an impartial and competent opinion to the Superintendence of Pensions, informing its views on establishing regulation in pension and unemployment funds, and investment matters. Although the real accumulated profitability of the funds cannot be precisely attributed to either the adequate CTI proceedings or the changes in investment limits of the investment regime, their performance has been favourable: all the pensions funds (A to E) exceed the pre-financial crisis values of 2008 as of December 2018.

Finally, section 6 reports four measures related to pension benefits and pension advice that have positively impacted each of the target groups they sought to benefit. The first refers to modifications to the SIS: elimination of the transitional period of disability and extension of coverage to women between 60 and 65 years of age. The second refers to the granting of a widowed pension for men with a female testator. The third refers to compensation for divorce or marriage annulment. The fourth refers to the growing role of pension advisors in choosing better pensions.

2. Solidarity Pillar (*Pilar Solidario*) and Dependent Benefits (*Bono por Hijo*)

2.1. Solidarity Pillar: Basic Solidarity Pension (*Pensión Básica Solidaria, PBS*) and Solidarity Pension Contribution (*Aporte Previsional Solidario, APS*)

Prior to the 2008 reform, the risk of poverty in old age was addressed by two basic programmes: the minimum state-guaranteed pension (*Pensión Mínima Garantizada por el Estado*, PMGE), which provided a floor pensions for individuals with at least 20 years of contributions, and assistance pensions (*Pensiones Asistenciales*, PASIS) for individuals not entitled to a pension from any pension system (Superintendence of Pensions, 2009).

The 2008 reform replaced these programs with a single scheme that guarantees that all individuals in the least affluent 60% of the population have access to a basic pension, regardless of their contribution history. This program provides old-age and disability benefits, financed from the General Revenue of the Nation.

Individuals not entitled to a pension from any pension system are entitled to a Basic Solidarity Pension (PBS) once they are 65 years old and meet the residence and other verification requirements[1]. Individuals who have made contributions, but who are entitled to a pension under a certain level, are entitled to a Solidarity Pension Contribution (APS), with the same age, means-testing and residence requirements.

The disability program offers benefits under similar conditions, but for individuals between 18 and 64 years of age who have been qualified as disabled by a medical commission that evaluates the technical conditions for worker disability. Once the person reaches the age of 65, he or she may be eligible for benefits under the old-age solidarity system.

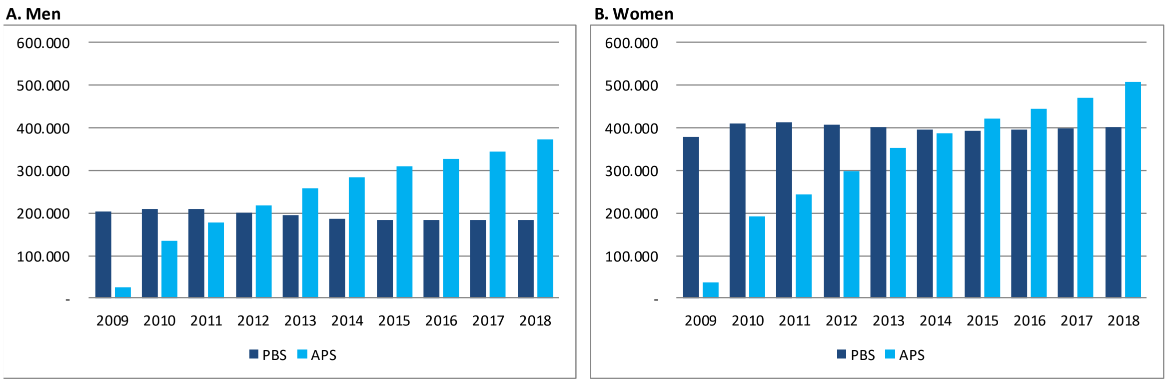
The number of PBS beneficiaries has remained relatively stable since 2011 for both men and women, reaching a total of 593,706 beneficiaries on average in 2018 (32% are male and 68% female). The number of PBS beneficiaries shows a fairly sustained growth pattern since its inception, reaching a total of 882,830 beneficiaries on average in 2018, a figure 51% higher than PBS beneficiaries for the same period. Of the total number of PBS benefits in 2018, 42% were for men and 58% for women (Figure 1.1).

In total, the Solidarity Pillar has benefited 1,507,592 people as of December 2018, which means that its coverage reaches 57.7% of all old-age, disability and widowed pensions in the Chilean pension system (including the IPS).

[1] The residency requirement requires that the person has lived in the country for at least 20 years from the age of 20 at the time of application and at least four years in the five years prior to application.

Figure N° 1.1: Basic Solidarity Pension (Pensión Básica Solidaria, PBS) and Solidarity Pension Contribution (Aporte Previsional Solidario, APS)

(Average annual number of beneficiaries, by sex)



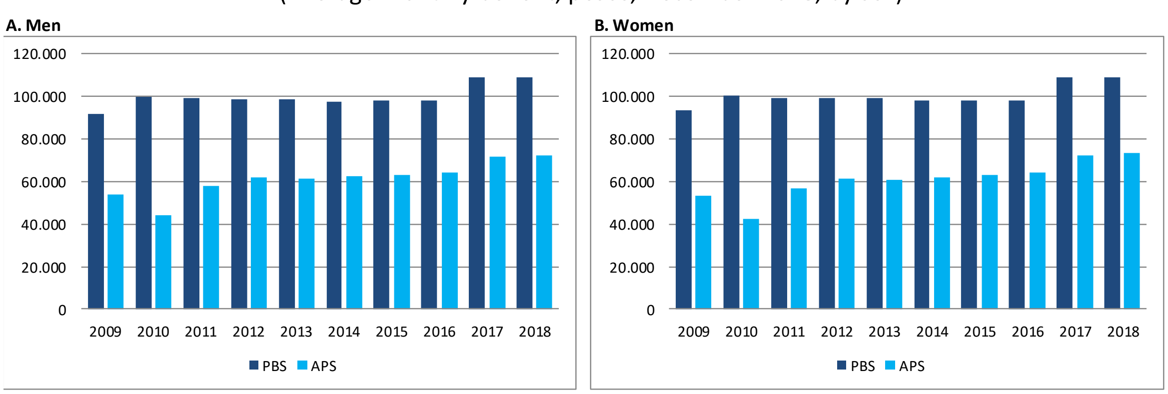
Note: Includes total old age and disability benefits.

Source: Superintendence of Pensions

The PBS benefit has been in place since July 1st, 2011, covering 60% of the less affluent population (Superintendence of Pensions, April 2017). The individual monthly amount of this benefit reached $107,304 as of July 1st, 2018, readjusted in July each year according to the variation of the Consumer Price Index (*Índice de Precios al Consumidor*, IPC) of the last 12 months counted since the last readjustment. In addition to the annual inflation adjustment, both the PBS and the Maximum Pension with Solidarity Contributions (*Pensión Máxima con Aportes Solidarios,* PMAS) -a relevant parameter, among others, for the calculation of APS- have had slight adjustments since their inception (Table 1.1).

Figure N° 1.2: Basic Solidarity Pension (Pensión Básica Solidaria, PBS) and Solidarity Pension Contribution (Aporte Previsional Solidario, APS)

(Average monthly benefit, pesos, December 2018, by sex)



Note: Includes total old age and disability benefits.

Source: Superintendence of Pensions

However, the average real amount that beneficiaries have received for PBS and APS since their status has been stable at around $96,000 and $60,000, respectively, for both women and men[2], until 2017, with a slight increase in both average benefits due to the change in parameters in January of the same year (Figure 1.2).

Table N° 1.1:
Historical Amounts, PBS and PMAS
(Nominal values)

Date	PBS	PMAS
Jul-08	$ 60,000	$ 70,000
Jul-09	$ 75,000	$ 120,000
Jul-10	$ 75,840	$ 200,000
Jul-11	$ 78,449	$ 255,000
Jul-12	$ 80,528	$ 261,758
Jul-13	$ 82,058	$ 266,731
Jul-14	$ 85,964	$ 279,778
Jul-15	$ 89,764	$ 291,778
Jul-16	$ 93,543	$ 304,062
Jan-17	$ 102,897	$ 304,062
Jul-17	$ 104,646	$ 309,231
Jul-18	$ 107,304	$ 317,085

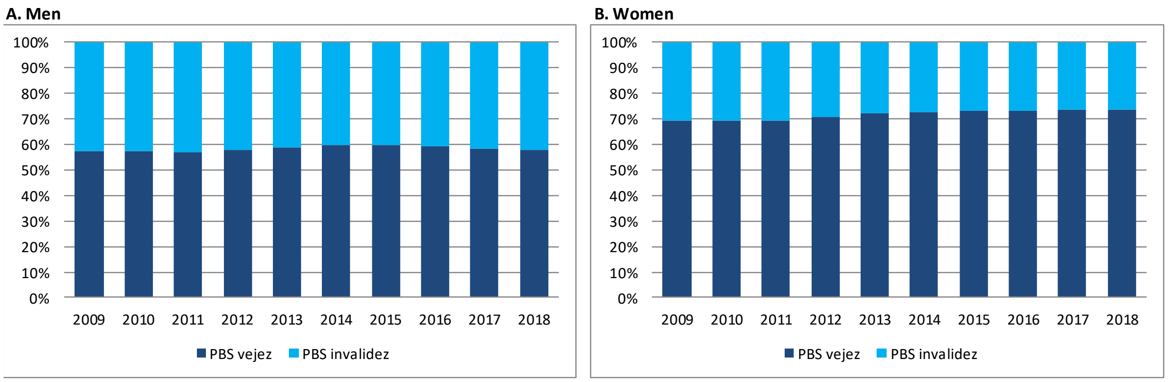
Source: Superintendence of Pensions

As for the composition of the PBS by type of pension, although old-age pensions take precedence over disability pensions, for men the proportion of old-age pensions has remained relatively stable at around 58% since 2009, while for women this proportion has been increasing, from 69% in 2009 to 74% in 2018 (Figure 1.3).

[2] During the first month of the benefit payment, retroactive payments are generated and the first monthly payment is proportional, depending on the day you applied for the benefit. For this reason, the averages by sex are not exactly equal to the defined PBS amount.

Figure N° 1.3: Basic Solidarity Pension (Pensión Básica Solidaria, PBS): old age and disability

(Percentage of beneficiaries, by sex)

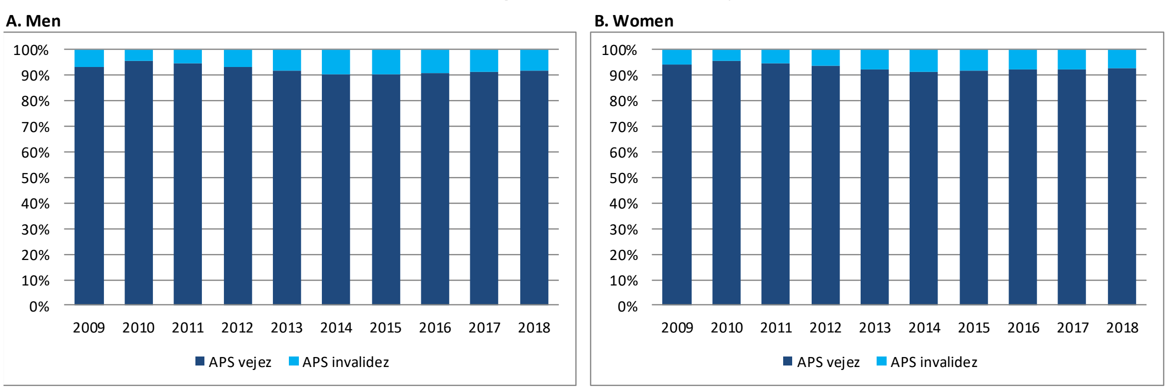


Source: Superintendence of Pensions

In the case of the composition of the APS by type of pension, old-age pensions account for more than 90% of total old-age and disability pensions for both men and women (Figure 1.4).

Figure N° 1.4: Solidarity Pension Contribution (Aporte Previsional Solidario, APS): old age and disability

(Percentage of beneficiaries, by sex)



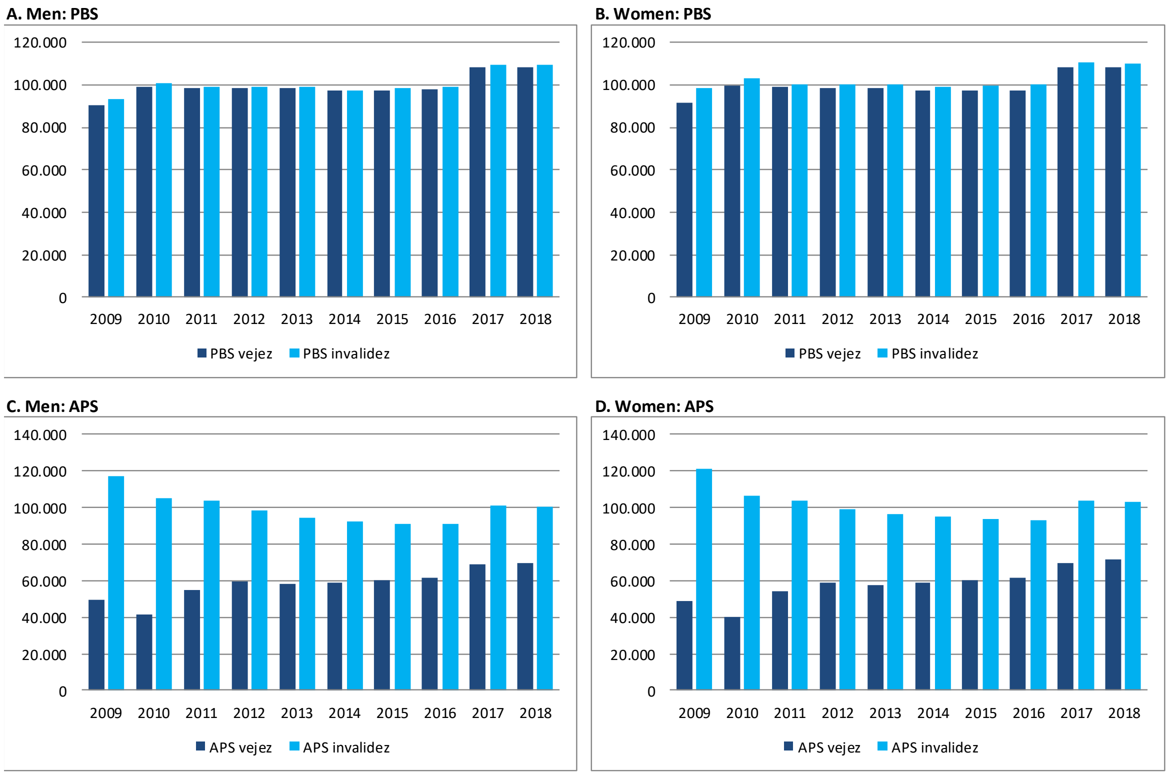
Source: Superintendence of Pensions

The monthly amount of this benefit, by type of pension, is similar between men and women. For instance, the average monthly amount of old-age and disability PBS is similar[3]. In contrast, the disability PBS has been systematically higher than the old-age PBS, a gap that has, however, been narrowing over time (Figure 1.5).

[3] During the first month of the benefit payment, retroactive payments are generated and the first monthly payment is proportional, depending on the day you applied for the benefit. For this reason, the averages are not exactly equal to the defined amount of the PBS and differ slightly between disability and old-age PBS.

Figure N° 1.5: Basic Solidarity Pension (Pensión Básica Solidaria, PBS) and Solidarity Pension Contribution (Aporte Previsional Solidario, APS)

(Average monthly benefit, pesos December 2018, by type of pension and sex)



Source: Superintendence of Pensions

With regard to fiscal expenditure in the Solidarity Pillar, the total contribution has been increasing steadily from 0.58% of GDP in 2009 to 0.8% of GDP in 2018. PBS spending has recorded a slightly decreasing trajectory since 2010, when it reached 0.52% of GDP, dipping to 0.39% in 2016. In 2017, this trend reversed, reaching 0.40% of GDP in 2017 and 0.41% in 2018. This reflects the significant boost in APS, from 0.03% of GDP in 2009 to 0.4% of GDP in 2018.

With respect to gender differences, spending on PBS is concentrated on women. In addition, although PBS has been the primary source of spending for women as a proportion of spending on APS for the entire period observed, in the case of men, APS has exceeded spending on PBS from 2015 onwards.

Figure N° 1.6: Basic Solidarity Pension (Pensión Básica Solidaria, PBS) and Solidarity Pension Contribution (Aporte Previsional Solidario, APS)

(Fiscal cost as a percentage of GDP)

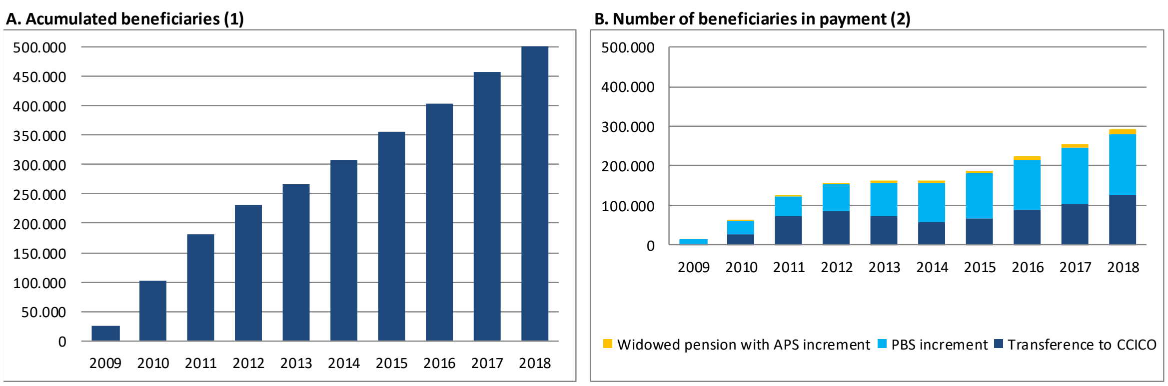
Source: Superintendence of Pensions

2.2. Dependent Benefits (*Bono por Hijo*)

The 2008 reform created a state benefit to mothers for each child birth or adopted child, equivalent to the contribution of a full-time minimum income worker for 18 months. This benefit is generated at the time of the birth of the respective child and receives a return equivalent to the net return of AFP Fund C until the woman reaches the age of 65. This benefit is subject to the residence requirement, but not to income conditions.

Figure N° 2.1: Beneficiaries of the Dependent Payments

(Values as of December each year)



(1) Total number of beneficiaries who have received a benefit from 2009 to December 2018.
(2) Includes affiliates under D.L 3.500 (executive decree 3,500), currently contributing, where resources were transferred to the mandatory contribution individual capitalization account (*Cuenta de Capitalización Individual de Cotización Obligatoria*, CCICO) from the implementation of the measure (2009) to December 2018, plus beneficiaries who receive or were beneficiaries of PBS and beneficiaries who receive a Widowed pension with APS, where the benefit increments their pension in a certain amount.

Source: Superintendence of Pensions

The number of beneficiaries has been increasing since the implementation of the measure, reaching a total of 519,756 women as of December 2018 (Figure 2.1-A). The total number of female beneficiaries receiving payment[4] has also been increasing, especially due to the *bonos por hijo* paid to female PBS beneficiaries. During 2018, the number of female beneficiaries receiving payment reached 291,991, of which 58% were beneficiaries of the Solidarity Pillar (Figure 2.1-B).

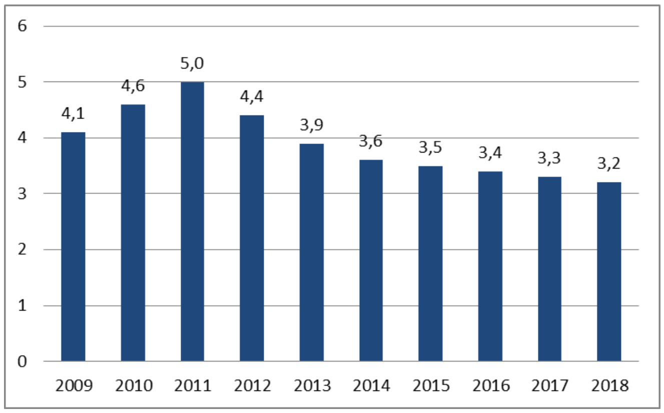
The average number of children per PBS beneficiary of *bono por hijo* increased until 2011, when it reached an average of five children per beneficiary, consistent with the incorporation of women over 65 into the AFP system. As of 2011, the trend is downward, reaching an average of 3.2 children per beneficiary in 2018 (Figure 2.2).

The average individual monthly amount reached its peak in 2009 ($CLP 16,118) and has shown a downward trend since 2012, averaging $CLP 10,148 in 2018. The average monthly expense paid by

[4] A diciembre 2018, 208.047 beneficiarias del bono por hijo dejaron de recibir pagos de este beneficio, un 72% de ellas porque agotaron su saldo al ajustar su pensión de vejez o invalidez en retiro programado al monto de la PBS, y un 28% por fallecimiento de la beneficiaria.

type of benefit reached its maximum of $CLP 11.154 billion in 2011; decreased to $CLP 3.270 billion in 2013; and increased steadily afterward, reaching $CLP 7.328 billion in 2018 (Figure 2.3). The main component of the total Dependent Benefit expenditure is “transfers to the mandatory funded individual account (CCICO)”. Transfers to the CCICO represent 84% of the total expenditure for the period 2009-2018.

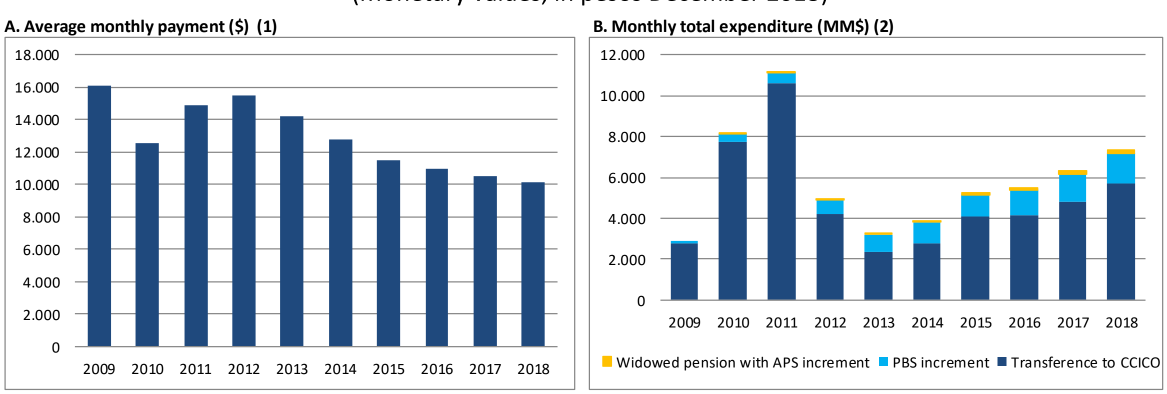
Figure N° 2.2: Average number of children per beneficiary *Bono por Hijo*



Source: Superintendence of Pensions

Figure N° 2.3: *Bono por Hijo*, average amount and total expenditure

(Monetary values, in pesos December 2018)



(1) Transfers to the CCICO include a monthly amount estimated similarly to that made for PBS and Widowed pension beneficiaries with APS, as provided for in the Compendium of Pension System Regulations, Book III, Title VII, Chapter VII, paragraph 3.

(2) Includes transfers of resources to the CCICO made in the month, plus increases in PBS and Widowed pension with APS.

Source: Superintendence of Pensions

3. Coverage of the pension system

3.1 Obligatory contribution of independent workers

The pension system reform made it compulsory for independent workers who receive income taxed under Article 42 No. 2 of the Income Tax Law (*Ley sobre Impuesto a la Renta*, LIR) to pay social security contributions. As of January 1st, 2012 (or tax year 2013), 10% of income tax withheld from workers who issue fee slips (*Boletas de Honorarios*, BHE) would be utilised to pay social security contributions for the year in which the income was generated. These contributions are destined to the mandatory individual capitalization account (CCICO), in addition to payment of the commission for administration of the respective AFP and the premium associated with disability and widowed insurance (SIS).

The obligation to contribute was established annually, and the contribution rate was applied to a percentage of the taxable income (80% of the gross income generated in the calendar year). The effective amount to be paid would be calculated by the Internal Revenue Service (*Servicio de Impuestos Internos,* SII) during the corresponding tax year, in the annual income tax return process.

By means of this provision, contributions are made on an annual basis. Notwithstanding, independent workers may make Monthly Social Security Payments (*Pagos Previsionales Mensuales,* PPM) to his/her AFP during any year in which they generate income. These payments are discounted from the contribution amount to be paid in the respective tax year.

This measure was designed to be implemented gradually, both in terms of the taxable base and in terms of its obligatory nature. The law established that the percentage of the taxable income on which the independent worker must contribute would increase over time and there would be the possibility of waiving the obligation to contribute only until tax year 2015.

The law came into force gradually, with an information period of three years after the reform of the system was approved in 2008, that is, during the period 2009-2011. Subsequently, a three-year period of mandatory "default payments" began, in which independent workers were to be obliged to contribute to the pension system unless they expressed their wish not to contribute through an affidavit, from January 2012 to December 2014. From 2015 onwards, the obligation to contribute was not to be waivable. The gradual approach was meant to allow self-employed workers to contribute only a percentage of their taxable income. For the first year (2012), this percentage corresponded to 40% of taxable income; for the second year (2013), 70%; and the third (2014), 100%. Finally, from 2018 onwards, the compulsory nature of the contribution was to be extended to the health system.

However, Law No. 20,894 was enacted in January 2016, and extended the obligation for independent workers to pay contributions for three years. Additionally, this law disassociated the contribution for the pension system from the contribution for the health system. It was also established that independent workers should compulsorily contribute on 100% of the taxable income as from 2018, through Operation Income in April 2019[5].

Table 3.1 summarizes the main characteristics of the mandatory contribution of independent workers under the 2008 reform and subsequent amendments of January 2016 (Law No. 20,894). In addition to changes in taxable income, the minimum and maximum values of taxable income subject to the measure are shown. The minimum corresponds to the minimum wage of each year in which the income was generated, and the maximum wage is equivalent to the taxable cap multiplied by 12, that is, the annual amount of the monthly taxable cap.

Independent workers were passively enrolled in the compulsory contribution measure until fiscal year (*Año Tributario,* AT) 2017. In other words, the default was that the individual was contributing. However, persons were excluded from this measure if they fulfilled at least one of the following conditions:

- Be affiliated to other institutions of the welfare system: Capredena (militars), Dipreca (police) or IPS (old pension system).
- Women 50 years of age or older, and men 55 years of age or older, as of January 1, 2012.
- Have expressed their option not to contribute on the SII website.
- Pensioners for old age, early old age, or total disability.
- Had contributed monthly as a dependent for the maximum monthly limit.
- Had an annual taxable income lower than a minimum monthly income.

Since the first year of the law's enforcement, about one million independent workers have been subject to mandatory contributions for the measure each year. Of these, about 250,000 individuals per year have contributed to the measure. In other words, the average coverage in this period was 26%, with a maximum of 33% in the first year of application (Figure 3.1).

[5] In January 2019 a reform modifying the rules for the incorporation of independent workers into the social protection systems was approved by Congress (Law 21,133). This reform confirms the obligation for independent workers to contribute to the entire social security system (labor insurance, health and pensions) as of Operation Revenue 2019, also increasing the contribution rate from 10% to 17% over a nine-year period. To reduce the impact on the net income of these workers, the option of gradually reducing the tax base over a nine-year period was established.

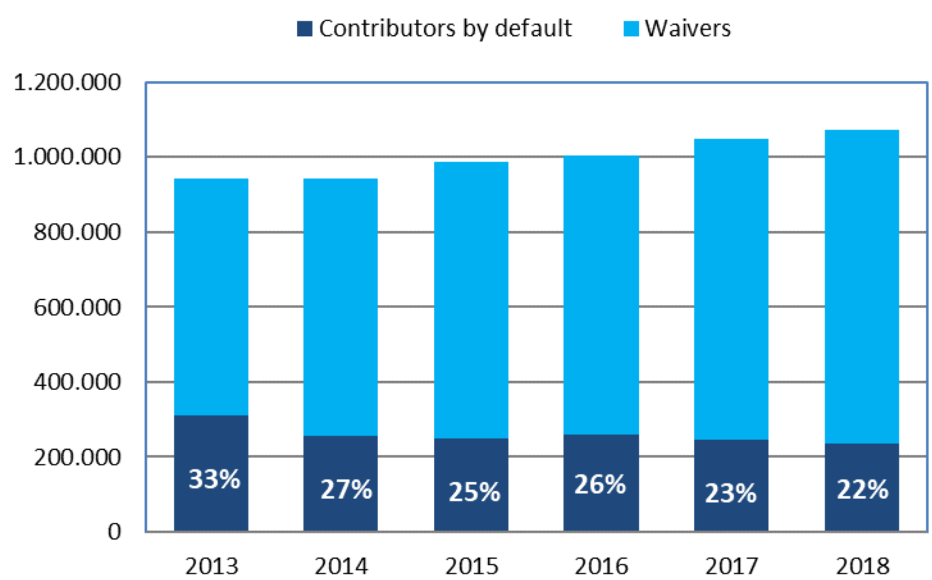
Table N° 3.1:
Summary of characteristics of the compulsory contribution for self-employed workers

Year, wages	Fiscal Year	Taxable income (RI) 80% of gross income	Taxable rate (% RI)	Nature
2012	2013	$ 193,000 - $ 18,473,599	0.4	Voluntary
2013	2014	$ 210,000 - $ 19,663,945	0.7	Voluntary
2014	2015	$ 225,000 - $ 21,366,472	1	Voluntary
2015	2016	$ 241,000 - $ 22,512,593	1	Voluntary
2016	2017	$ 257,000 - $ 23,491,859	1	Voluntary
2017	2018	$ 264,000 - $ 24,343,303	1	Voluntary

Note: The values are expressed in current currency. However, the taxable ceilings are defined in UF and the values presented are approximate. The maximum taxable income in UF corresponds to: year 2012: 67.4*12UF; year 2013: 70.3*12UF; year 2014: 72.3*12UF; year 2015: 73.2*12UF; year 2016: 74.3*12UF; year 2017 75.7 UF*12.

Source: Superintendence of Pensions.

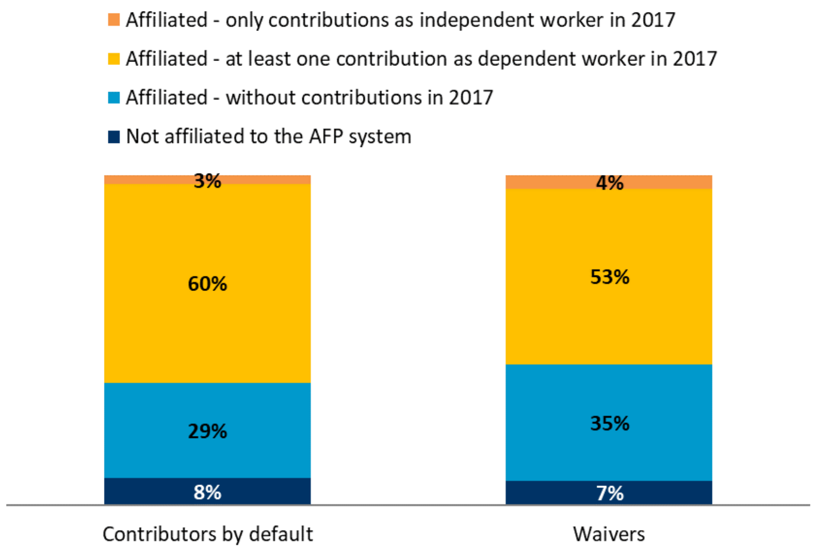
Figure N° 3.1: Contributions, Ratio of Default and Waived with respect to Total Eligible
(By fiscal year)



Source: Calculations based on information from Superintendence of Pensions and SII.

Figure N° 3.2: Contributors, Default and Waived, according to AFP system affiliation status

(Fiscal year 2018)



Source: Calculations based on information from Superintendence of Pensions and SII.

For the 2018 tax year, of the total individuals who contributed by default and those who waived their contributions, only 8% of the default contributors and 7% of those who waived their contributions were not affiliated to the AFP system (Figure 3.2). The vast majority of those already affiliated registered contributions as dependent workers in the year in which the income was generated (60% of default contributors and 53% of waived contributors) and a significant proportion did not register contributions during 2017 (29% of default contributors and 35% of waived contributors).

Table N° 3.2:
Comparison of relevant characteristics by interest group, tax year 2017

	Age (years)	Women (%)	Contribution density (%)	Accumulated pension fund ($ December 2018)
Eligible self-employed workers	37	50%	53%	$11,401,798
Default contributors	35	43%	54%	$10,188,150
Waivers (1)	38	52%	52%	$11,744,482
Contributors to AFP (2)	37	41%	67%	$12,444,128

(1) Only waivers who are affiliated to the AFP system are included (93% of total waivers).

(2) Contributors to the AFP system are those members who were not eligible to contribute to the measure and who registered at least one contribution during the year in which the independent workers subject to the measure generated income. In addition, the same age restrictions apply to those eligible to contribute to the measure.

Source: Superintendence of Pensions.

Table 3.2 compares characteristics (age, sex, contribution density and accumulated pension fund) of the self-employed workers subject to the measure with respect to a comparable group of contributors to the pension system, who were not subject to contributions for the measure in tax year 2017.

The group of contributors to the AFP system were on average of similar age to that of eligible independent workers (37 years). However, when distinguished by choice of contribution, the default contributors are, on average, younger (35 years old). In terms of the proportion of women in each group, more than half the women have waived, while men dominate both the group of contributors to the AFP system and the group of default contributors. Finally, contributors to the AFP system have a much higher contribution density and accumulated pension fund than independent workers eligible to contribute to the measure.

3.2. Voluntary individual and collective social security savings

Voluntary pension savings represent an important complement to savings in the mandatory pillar. The initiative of making more flexible the Voluntary Pension Saving (APV) from 2002 on was quite successful in terms of the increase in the number of participants in this form of saving. However, this success was strongly related to the associated tax incentives, benefiting to a large extent higher-income workers, which made it necessary to extend the advantages of voluntary savings to medium- and low-income groups.

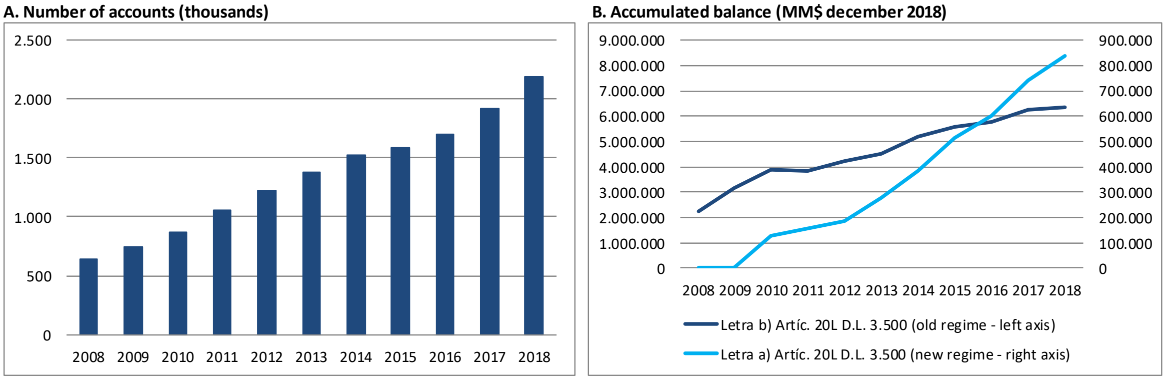
The 2008 reform established that contributions made to voluntary pension savings plans without tax benefits could be withdrawn tax-free. The worker was allowed to choose the regime that would affect these resources, in consideration of the payment or exemption of taxes at the time of contribution or withdrawal of the resources. Consequently, the affiliate was allowed to choose one of the following tax regimes for each deposit:

a) **New Regime:** no tax benefit when contributing voluntary savings resources, and no tax payments in withdrawing the funds for the amount equivalent to the contributions made (letter (a) article 20L). Voluntary savings under this modality only pay taxes on the yield obtained when they are withdrawn. In addition, workers who opt for this mode and who use these savings to increase or their pensions or pensions earlier than the legal age, will be entitled to a tax credit equivalent to 15% of the amount saved, with a maximum of 6 UTM per year, which will be deposited annually. The benefit and its return are tax exempt as long as they are not withdrawn.
b) **Old Regime:** enjoy the tax benefit when contributing resources, and paying taxes upon retirement (letter (b) article 20L), as was the case until the 2008 reform.

The number of APV accounts has increased steadily since the beginning of the 2008 reform, reaching 2,187,911 accounts (old and new regimes) in 2018. In terms of the accumulated balance according to the tax regime, the accumulated balance under the old regime largely predominates, and is 7.6 times higher than the accumulated balance under the new regime in 2018 (old regime $MMCLP 6,358,525 versus $MMCLP 840,970 under the new regime). However, the accumulated balance under the new regime has been more dynamic, with average annual growth rates of 27% versus 11% under the old regime (Figure 3.3).

Figure N° 3.3: Changes in APV

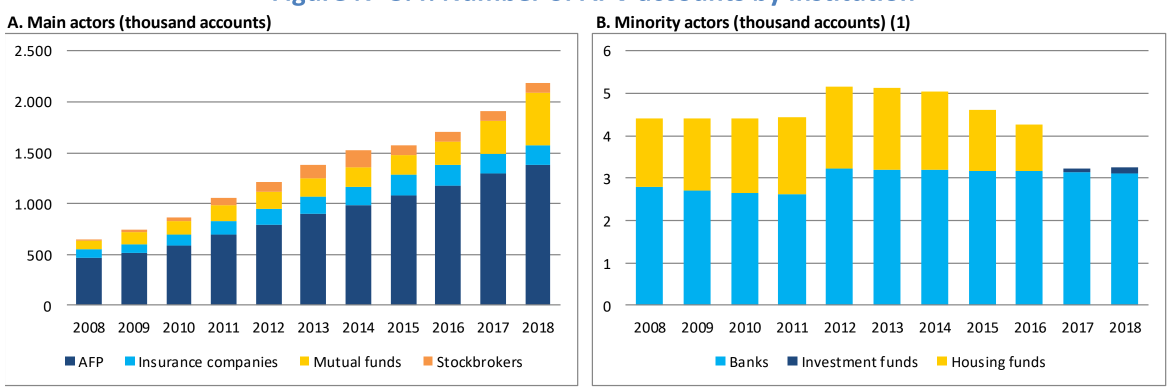
(Number of accounts and accumulated balance according to tax regime)



Source: Superintendence of Pensions

As for the composition of the industry, most accounts are concentrated in AFPs, mutual funds and insurance companies. By 2018, 63% of APV accounts were recorded in AFPs, 24% in mutual funds, 9% in insurance companies, another 4% in stockbrokers, 0.14% in banks and 0.01% in investment funds (Figure 3.4).

Figure N° 3.4: Number of APV accounts by institution



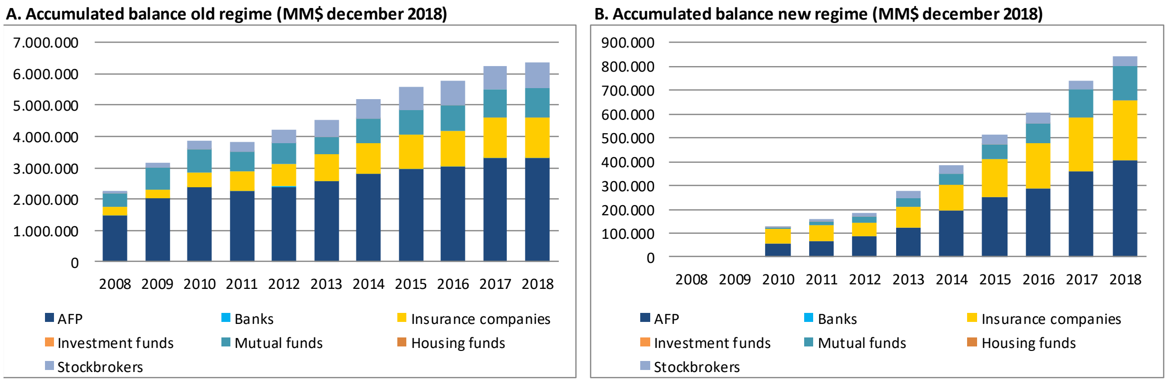
(1) As of 2016, there are no housing funds managed by APV. The resources previously under their administration were withdrawn and/or transferred to other institutions authorized to administer such plans.

Source: Superintendence of Pensions

As regards the composition of the accumulated balances of each investment regime, in both cases the AFPs account for the largest proportion of the accumulated balance. However, the participation of insurance companies and mutual funds is greater in the case of the new regime (Figure 3.5).

Figure N° 3.5: Accumulated APV balances according to investment regime, by institution

($MMCLP December 2018)



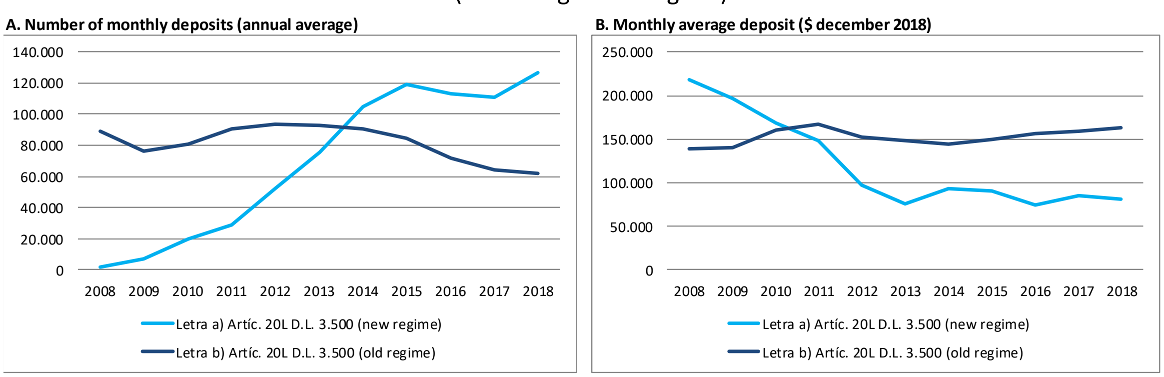
Source: Superintendence of Pensions

With regard to the number of APV deposits according to the tax regime, we observe that since 2014 the average number of deposits under the new regime exceeds those under the old regime for the first time since the reform. Deposits related to the new regime increased steadily from its inception until 2015, stabilizing at around 110,000 deposits per month until 2017, and increasing again in 2018, reaching 126,448 average monthly deposits per year.

Deposits related to the old regime, while showing a rather stable trajectory of around 80,000 thousand deposits per month, have registered a slightly decreasing trajectory since 2014, reaching 62,058 in 2018. Regarding the average monthly amount destined to the APV, the new regime registered a decreasing trajectory from $ 217,663 in 2008, to $ 75,432 in 2013, then stabilizing at around $ 84,000 per month. On the other hand, the old regime has remained relatively stable since 2008, reaching a monthly average of $ 163,505 in 2018 (Figure 3.6).

Figure N° 3.6: Number of APV deposits and average monthly amount per deposit

(According to tax regime)



Source: Superintendence of Pensions

Law 20,255 also created the figure of Collective Voluntary Social Security Savings (APVC), a scheme that provides tax incentives to firms that provide savings plans in which the employer complements the voluntary savings made by its workers. Following the experience of developed countries, there is potential in savings that could be accumulated for old age through plans of this type. It was hoped that the creation of APVC schemes would represent an interesting alternative for employers to offer a form of non-pecuniary compensation to attract and retain high-productivity workers, while also increasing on-the-job training incentives.

APVC follows the same principle as the 401(k) schemes in the United States and/or other occupational schemes in developed countries. Employers can enter into contracts with any institution that provides voluntary individual savings plans (AFPs, banks, mutual funds, insurance companies, etc.) and commit to make contributions in the name of the employer based on the worker's own contributions, which become the property of the worker after a minimum period of stay in the company. Conditions must be the same for all workers and under no circumstances may employers restrict benefits to certain groups of employees.

Table N° 3.3:
APVC Contracts, Accounts and Balance by Industry
(As of December 2018)

Industry	Number APVC Contracts	Number APVC Accounts	Total in MM$ ($ december 2018)		
			Employer	Worker Art. 20L sub. a)	Worker Art. 20L sub. b)
AFP	13	765	421,479	474,643	589,525
BANKS	0	0			
INSURANCE COMPANIES	0	0			
INVESTMENT FUNDS	0	0			
MUTUAL FUNDS	82	610	283,802	394,702	735,148
HOUSING FUNDS	0	0			
SECURITIES INTERMEDIARIES	0	0			
SYSTEM	**95**	**1,375**	**705,281**	**869,345**	**1,324,673**

Source: Superintendence of Pensions and Financial Market Commission.

However, the performance of the APVC has been limited. As of December 2018, there are only 95 contracts in force with a total of 1,375 accounts (Table 3.3), which are managed by AFPs (60%) and by mutual fund administrators (40%). The total balance of these savings at the same date corresponds to $MMCLP 2,899,299, which is equivalent to 0.04% of the total accumulated balance of the APV in 2018. In relation to the composition of the balance, in 2018, 24% was contributed by the employer, and the remaining 76% by the worker. In the latter case, 40% of the resources contributed by the workers were covered by the new regime (sub. a art.20L) and 60% by the old regime (sub. b) art.20L).

A possible explanation for the low use of the APVC could be related to the timing of its entry into force (October 2008), which coincided with the most acute period of the "subprime" financial crisis, significantly affecting both the demand and supply of savings products, especially in cases such as the APVC which was set up as a new alternative. However, no significant increase in this type of plan has been observed after the recovery of 2009. The reasons could be linked to operational difficulties and legal and regulatory requirements that are very restrictive.

4. Competition in the pension system

4.1 Bidding Process for new affiliates

In order to increase competition in the pension industry, the 2008 reform established a price tender for a specific group of affiliates. This bidding mechanism consists of assigning, for a limited period, all new affiliates to the AFP that offers the lowest commission, which must be less than the lowest in the market at the time of the bidding. The firm that wins or is awarded the tender shall maintain the price of the tender for a minimum period, called the "award period" (*período de adjudicación*), which has been set at a maximum of two years. This AFP shall comply with all regulations existing in this market, among them the requirement of minimum profitability and legal reserve. In addition, if the bidding is awarded to a non-incorporated AFP, such AFP shall comply with the requirements to be formed as an AFP as provided under the law and shall submit a prospectus to the Superintendence of Pensions, which shall approve it.

As a corollary, new affiliates shall undertake to remain in the AFP that has been awarded the contract for a minimum number of months as from its incorporation, known as the "term of stay" (*plazo de permanencia*), which may not exceed 24 months. Tendered affiliates may change their AFPs before the end of the term if the AFP does not meet the requirements of minimum profitability, minimum assets, is declared in a state of insolvency or bankruptcy, or is in the process of being liquidated. In addition, members may switch to any AFP that charges a cheaper commission than the one bid on for two consecutive months. Likewise, in order to protect the asset interests of members, affiliates may switch to an AFP that obtains a higher return during the period of their stay, such that it is sufficient to compensate for the higher cost charged by that AFP.

In order to avoid possible adverse results from the bidding process, the measure also contemplates that the firms participating in the process must offer a lower commission than the lowest commission in the market. Furthermore, it has been established that the price awarded in the tender cannot be modified upwards during the "award period".

With respect to the level of prices that the AFP in the bidding process may charge to its affiliates not in the bidding process, the AFPs are not allowed to discriminate against prices. Therefore, if a firm in operation is awarded the bidding, it must charge the commission offered to all its affiliates.

Table 4.1 shows the AFPs participating in each bidding process together with the bids made and ordered from lowest to highest commission (that is, the first position indicates the winner in each process).

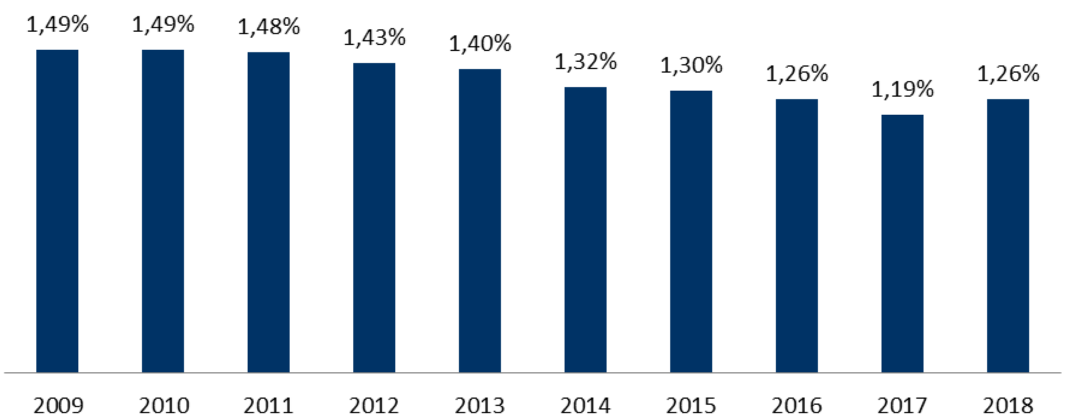
Table N° 4.1:
Offers made in each bidding process

	Participants	Bid
First period: August 1, 2010 to July 31, 2012	Modelo	1.14%
	PlanVital	1.19%
	Habitat	1.21%
	Cuprum	1.32%
Second period: August 1, 2012 to July 31, 2014	Modelo	0.77%
	PlanVital	0.85%
	Regional	1.04%
Third period: 1 August 2014 to 31 July 2016	PlanVital	0.47%
	Modelo	0.72%
Fourth period: 1 August 2016 to 31 July 2018	PlanVital	0.41%
Fifth period: August 1, 2018 to July 31, 2020	None	-
Sixth period: 1 October 2019 to 31 September 2021	Uno	0.69%

Source: Superintendence of Pensions

The number of participants has decreased in each process, going from a total of four participants in the first tender to only one in the fourth; no AFPs submitted in the fifth tender process for the administration of the portfolio of new affiliates for the period August 2018- July 2020. For the sixth bidding period, a new administrator (AFP Uno) participated, with a commission offered of 0.69%. The award period covers October 1, 2019 to September 31, 2021. It should be noted that the first tender also allowed the entry of a new administrator to the market (AFP Modelo).

Figure N° 4.1. Average commission per year
(Weighted average by number of contributors, as of August each year)



Source: Superintendence of Pensions

The tenders also resulted in a reduction of both the average commission and the minimum commission in the market. The former decreased steadily until 2017 (Figure 4.1) due to two factors. On the one hand, new affiliates in each award period joined the AFP with the lowest fee in the system, increasing their market share and decreasing the average fee weighted by the number of contributors. On the other hand, and as an indirect effect of the tender, the two AFPs with the highest number of contributors (Habitat and Provida) decreased their commissions during the period observed. In particular, AFP Habitat reduced its commission from 1.36% to 1.27% as of June 2012, while AFP Provida reduced its commission from 1.54% to 1.45% as of May 1, 2017. As of January 2018, 48% of active contributors were concentrated between the two AFPs.

It is worth mentioning that once the fifth allocation period ended in August 2018, PlanVital increased its commission from 0.41% to 1.16%, which not only stopped being the cheapest in the market, but also increased the weighted average commission to 1.26% by 2018.

Tabla N° 4.2:
Commissions in each bidding process

Tender	AFP Selected	Lowest Commission	Average System Commissions	Difference with Lowest Commission	Difference with average Commisison
Before bidding	-	1.36%	1.49%	-	-
Tender 1 (2010-2012)	Modelo	1.14%	1.48%	-16%	-0.7%
Tender 2 (2012-2014)	Modelo	0.77%	1.40%	-32%	-5.5%
Tender 3 (2014-2016)	PlanVital	0.47%	1.30%	-39%	-7.5%
Tender 4 (2016-2018)	PlanVital	0.41%	1.19%	-13%	-8.2%
Tender 5 (2018)	None (Modelo)	0.77%	1.26%	88%	5.8%

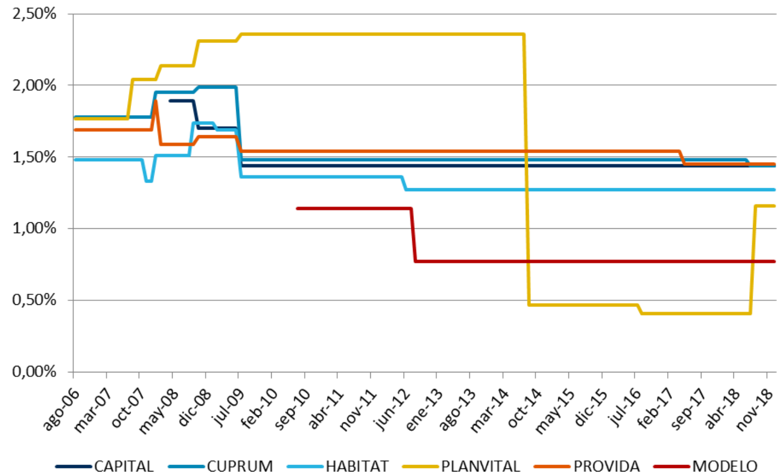
Source: Superintendence of Pensions

As it can be seen in Table 4.2, the lowest fee in the market has been reduced considerably in each process (between 13% and 39%), while the average fee has experienced a less pronounced decrease. However, as the fifth bidding process received no bids, and given the subsequent increase in PlanVital's commission, the AFP with the lowest commission as of August 1st, 2018 was Modelo, which meant that the lowest commission increased by 88% with respect to that in force on July 31st, 2018, and the average commission of the system increased by 5.8%.

In summary: (1) until July 2018, the bidding mechanism allowed the commission charged to new affiliates to be reduced to 0.41% of its taxable income, an amount considerably lower than the average observed before bids; (2) due to the effect of the first bidding process in 2010, a new AFP entered the market, Modelo, with a commission of 1.14% (16% lower than the lowest commission charged before the bidding); and (3) there is a decreasing interest in participating in the bidding processes, which is explained by a low minimum commission, unattractive for administrators with a greater number of contributors and higher prices.

If we look at a longer term, prior to the reform, we can see the decrease in fees for each AFP, as shown in Figure 4.2**.**

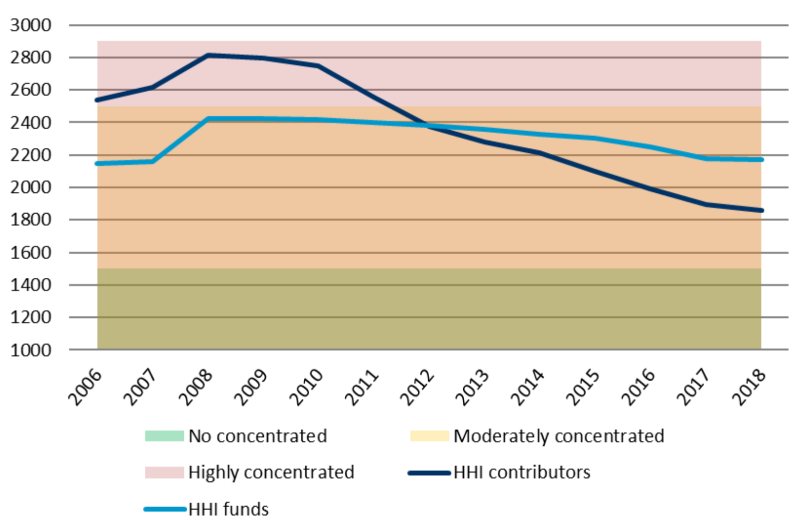
Figure N° 4.2. Commissions by AFP 2006-2018



Source: Superintendence of Pensions

The most relevant changes were the decrease in prices in general and the stability in the price of some AFPs over time, despite minor changes. These changes, with the consequent increase in the size of the portfolios of the smaller AFPs (in number of contributors and size of the funds managed), meant a decrease in market concentration according to the Herfindahl-Hirschman Index, from 2,813 points in 2008 to 1,859 points in 2018 in the case of contributors, and from 2,426 points in 2008 to 2,173 points in 2018 in the case of funds (Figure 4.3). Under the US legal system[6], with values above 2,500, the market is considered too concentrated.

Figure N° 4.3. Market concentration (Herfindahl-Hirschman index) 2006-2018



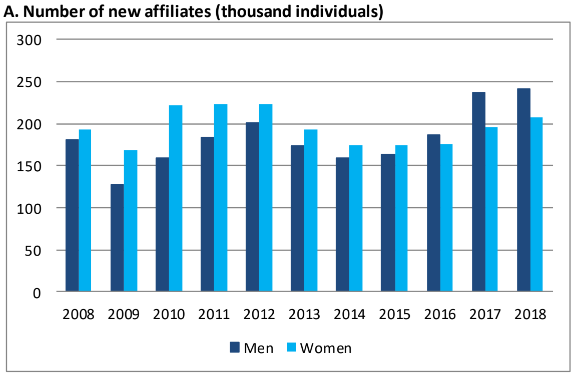
Source: Superintendence of Pensions

[6] http://unclaw.com/chin/teaching/antitrust/herfindahl.htm

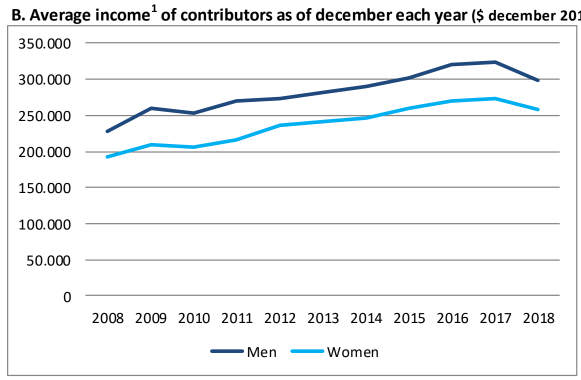
Figure N° 4.4. New affiliates and total number of affiliates in the system

New affiliates to the system

A. Number of new affiliates (thousand individuals)



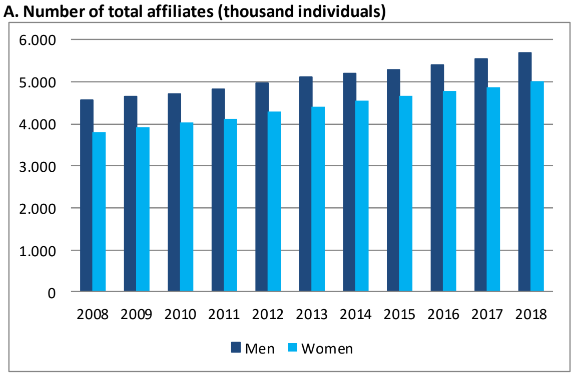
B. Average income[1] of contributors as of december each year ($ december 2018)



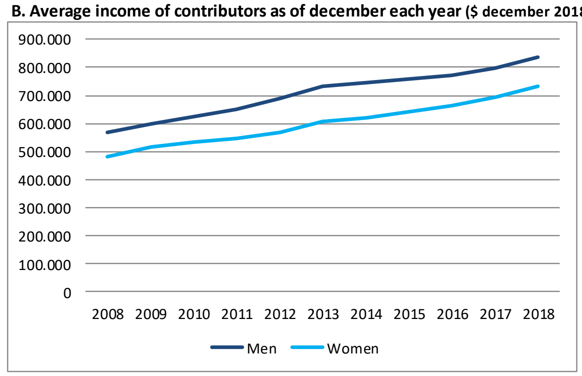
(1) New members' average taxable income for a period of 24 months from the date of affiliation. If the period of affiliation is less than 24 months, the period from the affiliation date is considered. In all cases, the average taxable income is calculated considering only the periods actually contributed.

Total affiliates to the system

A. Number of total affiliates (thousand individuals)



B. Average income of contributors as of december each year ($ december 2018)



Source: Superintendence of Pensions

Finally, the total number of new members in 2018 was 4.2% of the total number of members. The trajectory of the number of members over time has shown a dynamic that is consistent with the economic cycle, registering a minimum in 2009 for both men and women, and maximums in 2017 and 2018 for men and 2010-2012 for women. In addition, the dominance of women over men has been lost since 2016, with a majority of new members being men. Although the average taxable income of men is higher than that of women for both total and new members, new members have average taxable income 65% lower than the total in the system. There is also a drop in the average income of new members in 2018, for both men and women, possibly triggered by the incorporation of the immigrant population into the system (Granados, Toledo y Rivera, 2019). Finally, the wage gap between men and women for new members was 19.1% on average for the 2008-2018 period and 17.8% for the system as a whole (Figure 4.4).

4.2 Bidding Process for Disability and Widowed Insurance (SIS)

The 2008 pension reform imposed a new modality for the SIS contract, through a joint tender among all the AFPs offering the service to the best economic offers while covering the risk of 100% of the members. Life insurance companies (*Compañías de Seguros de Vida,* CSV) that were constituted at the time of the tender could participate. The insurance is awarded in order to minimize the price. In addition to the centralized contracting, insurance must be contracted with a fixed premium rate without adjustments for accidents, which implies that the CSVs that are awarded the tender will be effectively covering the implicit risk in this insurance.

Insurance is tendered in separate groups according to gender. For each group, the CSVs bid by fractions previously defined, corresponding to the percentage they will have to pay of the value of the benefits for members claiming insurance. All offers made by CSVs are binding. Each one is obliged to accept an award at a lower fraction number than the maximum it had applied, for the same rate of premium offered. The awarding of the groups is made by choosing the set of offers that allows for 100% coverage of the members of each group and that implies the lowest average premium.

The additional contribution needed to pay the insurance begun to be paid by employers. Although award prices are different for each CSV, all employers pay the same insurance´s cost for their workers. Thus, there are very simple contracts, a single price publicly reported annually, and a contract bidding scheme that facilitates competition among CSVs. The AFPs must transfer the contribution for financing the insurance to the companies that are awarded the contract. The difference in premium, based on the sex of the members, between the contribution allocated to financing the insurance and the premium required to finance, it must be reported by the AFPs in each of the accounts of members who paid a contribution in excess of that premium.

Table 4.3 shows the results of the six SIS tenders that have taken place since 2008 to date. It is worth noting the increase in the number of CSVs participating in the tenders over time, from nine companies for men and eight for women in the first tender, and to a maximum in the third tender of 14 and 16 bidding companies for men and women, respectively. In the last tender, 10 companies for men and 14 for women were submitted for the 2018-2020 period. It is also noted that the average rate registered a significant fall until the fourth tender (period 2014-2016), increasing in value over the last two tenders to 1.53% for the period 2018-2020, still well below the first rate after the reform of 2008 (1.87%).

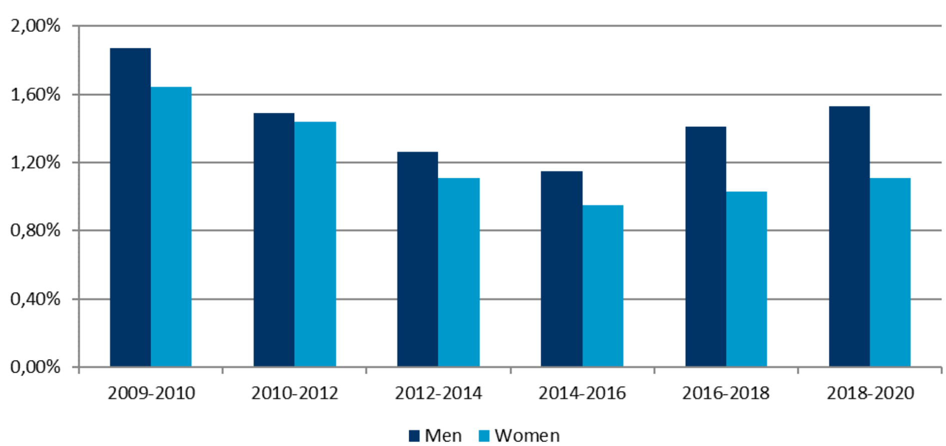
Table N° 4.3:
Summary of SIS bids

Process	Fractions tendered		Bidding companies		Rate for men	Rate for women	Rate charged	Variation	Duration of contracts
	Men	Women	Men	Women					
2009-2010	7	4	9	8	1,87%	1,64%	1,87%	N/A	1 year
2010-2012	7	4	11	11	1,49%	1,44%	1,49%	-20,32%	2 years
2012-2014	7	4	16	14	1,26%	1,11%	1,26%	-15,44%	2 years
2014-2016	9	5	13	12	1,15%	0,95%	1,15%	-8,73%	2 years
2016-2018	9	5	12	11	1,41%	1,03%	1,41%	22,61%	2 years
2018-2020	9	5	14	10	1,53%	1,11%	1,53%	8,51%	2 years

Source: Superintendence of Pensions

Finally, with respect to the SIS premium by sex (Figure 4.5), the difference between men and women has grown significantly over time, benefiting women. In the first tender, the rate for women was 12% lower than that for men. However, this difference decreased to only 3% in the second tender. Since then, the gap has increased significantly in favour of women, peaking at 23% lower than that of men in the last tender.

Figure N° 4.5. SIS Premiums by sex
(Percentage of taxable income)



Source: Superintendence of Pensions

5. Pension fund investments

5.1 Investment Regime

The 2008 reform maintained five structural limits per instrument, relating to: government instruments, equity per fund, a limit on investment abroad, a limit on unhedged foreign currency investment, and an overall limit for higher risk instruments. Limits per issuer that depended on the fund (diversification) were transferred to the Investment Regime. Meanwhile, the limits based on the issuer's equity or assets and the series were maintained in the Law.

The Investment Regime is issued by regulation of the Superintendence of Pensions, which gives greater flexibility to adapt it to changes in financial market conditions. This regime establishes limits per instrument, in order to have an adequate diversification of the pension funds and thus limit the risks to which they could potentially be exposed.

The limit for foreign investment was significantly increased in 2008, reaching up to 80% of the funds. This responds to the growing size of pension fund resources, which leads to a greater demand for investment instruments with local financial markets that have only been able to respond to a limited extent in their supply, with the consequent risk of affecting the prices of such instruments. The law established a gradual increase in this limit, giving the Central Bank the power to set it within the range established by law. In line with the above, the limit for investment abroad is extended again in 2010.

Another aspect that increased flexibility in the 2008 reform was that operations with derivative instruments were extended beyond hedging purposes. Specifically, when the fund possessed a sufficient number of the target asset or when losses were limited to the amount of the premium (in the case of options). From 2012, derivatives cover foreign exchange risk for up to 100% of holdings in external investment debt instruments; up to 70% of holdings in external non-investment debt instruments; and up to 50% of holdings in foreign equity instruments.

Finally, in 2017, instrument diversification was reinforced by the inclusion of alternative assets as a possible type of investment.

Table 5.1 summarizes all changes to the investment regime from 2002 to date.

Table N° 5.1:
Summary of changes to investment regime

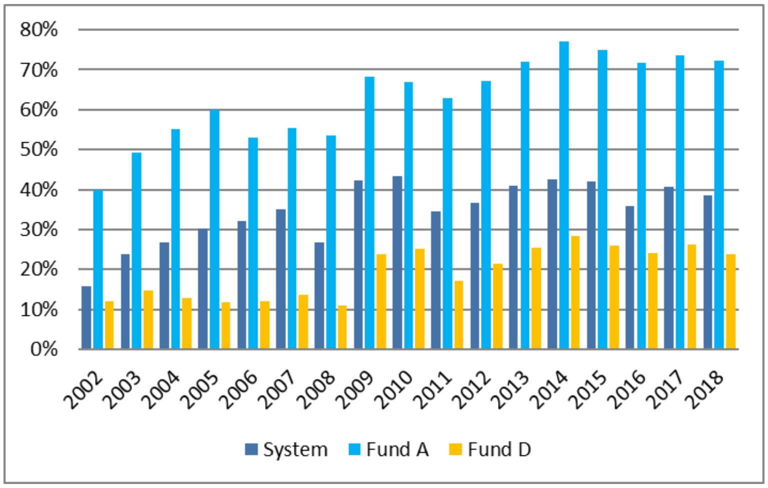
2002	Chilean pension funds must offer five different funds with different risk/return profiles: Fund A, with up to 80% equity participation. Fund B, with an equity participation of up to 60%. Fund C, with an equity stake of up to 40%. Fund D, with an equity stake of up to 20%. Fund E, with no equity exposure.
2007	The overall limit of investments in foreign assets is gradually increased from 30% to 45%, and mutual fund and investment fund shares are not considered in the variable limit as long as they do not invest any of their holdings in shares.
2008	Law 20.255 on investments eliminated an important group of restrictions defined by the law, which contains only the structural limits for multi-funds and the limits that avoid obtaining control interest. Detailed regulation is defined by the new Investment Regime, a document issued by the Superintendence of Pensions and approved by the Ministry of Finance and the Technical Council. The Technical Council is a new independent institution, whose objective is to advise the Superintendence of Pensions on investment issues. Other main changes are as follows: - AFPs required to issue an Investment Policy Document in order to disclose AFP investment rules to the general public. - The 2008 Pension Reform increased the maximum limit for equity securities in Fund E to 5%. Previously the maximum limit was 0%. - A range is established as a general rule for the Central Bank to set the maximum overall limit of foreign investment of all funds between 45% and 80%. The Central Bank gradually lowered the global limit on foreign investment to 60% by August 2009. 2. Establishment of new limits by type of Pension Funds for investments abroad. In August 2009, the Te Central Bank established these limits at 80%, 70%, 60%, 30%, and 25%, for Funds A, B, C, D, and E, respectively - AFPs authorized to invest a limited portion of pension assets in relatively risky instruments (as investments, illiquid and high-risk instruments) - Authorized derivative instruments (apart from hedging) subject to certain limits and the implementation of a risk management policy - Include the limits of indirect investments in securities issued through certain investment vehicles - Simplified analysis to authorize investment in national equities - Possibility of introducing requirements for portfolio risk management techniques
2010	The Investment Regime changed the definition of coverage in January 2010. Until 2009, coverage was in relation to the currency of denomination of mutual funds and investment funds. Since 2010, hedging can be performed in relation to the currency of denomination (only up to 50% of foreign investments) or in relation to the currency of the underlying assets of mutual funds and investment funds. Also during 2010, the Central Bank increased the limit of global investments in foreign assets to 65% and the limits of each type of fund to 85% (Fund A), 75% (Fund B), 65% (Fund C), 35% (Fund D), and 30% (Fund E). As of September 1st, 2011, the global limit was increased to 80%, and the limits per fund were increased to 100% (A), 90% (B), 75% (C), 45% (D), and 35% (E). Since January 1st, 2012, the treatment of derivatives used to cover currency risk has changed. Derivatives are considered to cover this risk for up to: 100% of holdings in investment grade external debt instruments; up to 70% of holdings in non-investment grade external debt instruments; and up to 50% of holdings in foreign equity instruments.
2016	The government introduced new investment alternatives for pension funds in Law No. 20,956. In particular, this investment includes "alternative assets", such as instruments, operations, and contracts related to real estate; private capital and debt; infrastructure; and other assets established by the Investment Regime. The maximum limits were established between 5% and 15%, depending on the type of funds.
2017	The investment regime established the conditions for eligibility and supervision of investment in alternative assets. Specific maximum limits were established by the Central Bank for each type of Fund as follows: 10% (Fund a), 8% (Fund b), 6% (Fund C), 5% (Funds D or E). In addition, there are specific limits for Private Equity: 7%, 6%, 4%, 3%, and 2% for Funds A, B, C, D, and E, respectively.

Source: authors, Superintendence of Pensions.

The Investment Regime in the 2008 reform extends the limits of investment abroad, both globally and by type of fund. For example, if we look at changes in foreign income investment (public bonds, private bonds, and foreign shares), the proportion of the system's entire portfolio increased from an average of 27% for the 2002-2008 period to an average of 40% for the 2009-2018 period. By type of fund, although Fund A reaches a higher percentage invested in foreign income (71% on average in the period 2009-2018), the increase applies to more conservative funds as well, such as Fund D (Figure 5.1).

Figure N° 5.1 Investment in foreign income of pension funds[1]

(As a proportion of the entire portfolio as of December of each year)



(1) Corresponds to the sum of foreign shares and foreign public and private bonds.

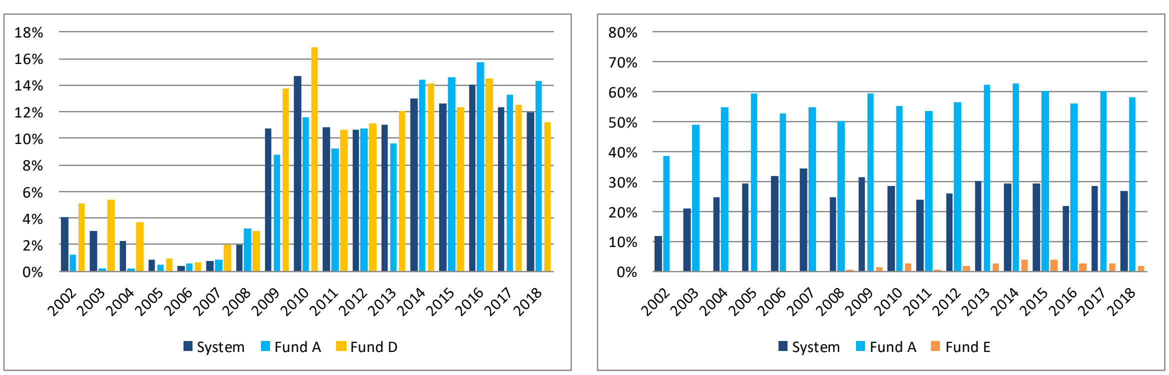
Source: Superintendence of Pensions

If we break down foreign investment into equity and fixed income, we see a significant increase in the proportion invested in fixed income for all the funds in the system since 2009. In terms of foreign equities, even the most conservative fund has been participating since 2009 (Figure 5.2).

Figure N° 5.2 Composition of foreign investment by pension funds

(As a proportion of the entire portfolio as of December of each year)

A. Investment in foreign fixed income[1] (%) **B. Investment in foreign equities[2] (%)**



(1) Corresponds to the sum of foreign public and private bonds.
(2) Corresponds to the sum of foreign stocks.

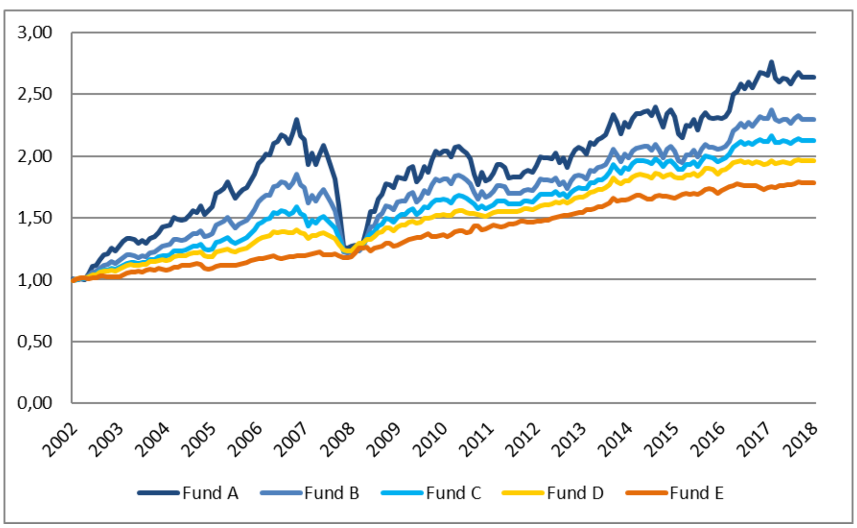
Source: Superintendence of Pensions

On the other hand, it is important to note that the performance of pension funds since the beginning of the system is the result of both investment strategies and the performance of the global economy. After the legal change in 2008, for example, the performance was significantly determined by the international financial crisis in the same year that it took effect. This makes it impossible to analyse the impact of the legal changes in isolation.

Figure 5.3 shows the current value (as of December 2018) of a $1 investment made in September 2002, if that investment had been made in each of the funds. Thus, for example, $1 invested in Fund A would have amounted to $2.64 in December 2018, or an accumulated return of 164% over a period of just over 15 years (an average of 6.11% real per annum). The same $1 investment in Fund E would have been worth $1.78 in December 2018, or a cumulative return of 78% over just over 15 years (average of 3.61% real per annum). Furthermore, although the 2008 financial crisis had a significant impact on pension funds, especially those of higher risk, the associated losses had been recovered in each of the existing types of funds by December 2018.

Figure N°5.3. Accumulated real return on pension funds

(Index September 2002=1)



Source: Superintendence of Pensions

5.2 Technical Investment Board (CTI)

Inder this context of greater flexibility, the 2008 pension reform included the creation of a Technical Investment Council (CTI) as an advisory body to the Superintendence of Pensions in the preparation of the Investment Regime. The objective of the CTI is to make reports, proposals and pronouncements regarding the investments of pension and unemployment funds in order to ensure adequate profitability and security for the funds. The Technical Investment Council is composed of one member appointed by the President of the Republic, who would preside over it, in addition to a member appointed by the Central Bank, one appointed by the pension fund administrators, and two appointed by the deans of Economics of the accredited universities in accordance with the provisions of Law No. 20,129.

In accordance with the provisions of article 167 of Executive Decree No. 3,500 of 1980, the Technical Council on Investment has the following functions and powers:

- To give its opinion on the content of the Investment Regime referred to in Article 45 of the aforementioned decree and on the amendments that the Superintendence of Pensions proposes to make to it. For these purposes, the board must issue a report containing its technical opinion prior to the issuance of the resolution approving or modifying said regime.

- To issue a technical opinion on all matters relating to investments of pension funds contained in the Investment Regime, and especially with respect to the structure of investment limits of pension funds, mechanisms for measuring the risk of investment portfolios and operations with derivative instruments carried out by pension funds.

- To make proposals and issue reports in matters of improvement of the Investment Regime of pension funds in those cases in which the board deems it necessary or when so requested by the Superintendence.

- To make pronouncements on matters related to pension fund investments that are consulted by the Ministry of Finance, and the Ministry of Labor and Social Welfare.

- To submit a public annual report to the President of the Republic, corresponding to the previous year's fiscal year, at the latest within the first quarter of each year. A copy of said report must be sent to the Chamber of Deputies and the Senate.

- To commission technical studies in relation to the investments of pension funds.

- To decide on the content of the general regulation to be prepared by the Superintendence, establishing the basic criteria for registration and maintenance in the Register of Directors, referred to in the first paragraph of Article 155 of Legislative Decree No. 3,500 of 1980, as well as the regulation of the procedure for registration in the same.

The CTI[7] was formally declared by the Superintendence of Pensions on June 11, 2008, and began to meet in June 2008, with an urgent mission in giving its opinion on the first Investment Regime that should come into force in October of that year. In addition to reviewing the Investment Regime, which was previously approved by the Ministry of Finance, the Superintendence's Rule defining the criteria for considering an AFP director as autonomous was analysed, an aspect that the law also considered as an attribution of the CTI.

It is worth mentioning that the council has been an instance of technical debate where various issues of interest have been discussed and analysed, a discussion that has been oriented towards providing an impartial and competent opinion to the Superintendence of Pensions, with the aim of ensuring that the latter has all the views at the time of establishing the regulation of pension and Unemployment funds in terms of investments.

During 2017 relevant changes were made for the pension system in terms of investments. In November of that year, the amendments to Decree No. 3,500 of 1980, introduced by Law No. 20,956, came into force. This law incorporated the so-called "alternative assets" for pension and unemployment funds, establishing the specific assets that could be invested, defined through the Pension and Unemployment Fund Investment Regime, as well as the conditions that such investments must meet.

With respect to the above, special attention was given to the implementation of the regulations on alternative assets by the AFPs during 2018, analysing possible improvements together with the Superintendence of Pensions, particularly with respect to the calculation of indirect investment in alternative assets made through national investment funds for the purpose of calculating structural limits of alternative assets and variable income assets, and with respect to the prohibition of investment in hedge funds.

Furthermore, in 2018, the CTI agreed to pronounce in favour of the proposal of modification of the Pension and Unemployment Funds Investment Regimes presented by the Superintendence of Pensions, allowing such funds covered call options on currencies, interest rates, bonds, shares and indexes, both in the local and foreign markets.

[7] Members, minutes of their meetings, annual reports and the pension and unemployment insurance investment schemes can be consulted at:
https://www.spensiones.cl/portal/institucional/594/w3-propertyvalue-6440.html

6. Pension benefits and pension consulting

6.1 SIS Reform: elimination of transitional disability period and extension of coverage to women between the ages of 60 and 65.

Elimination of transitional period for total disability qualifications

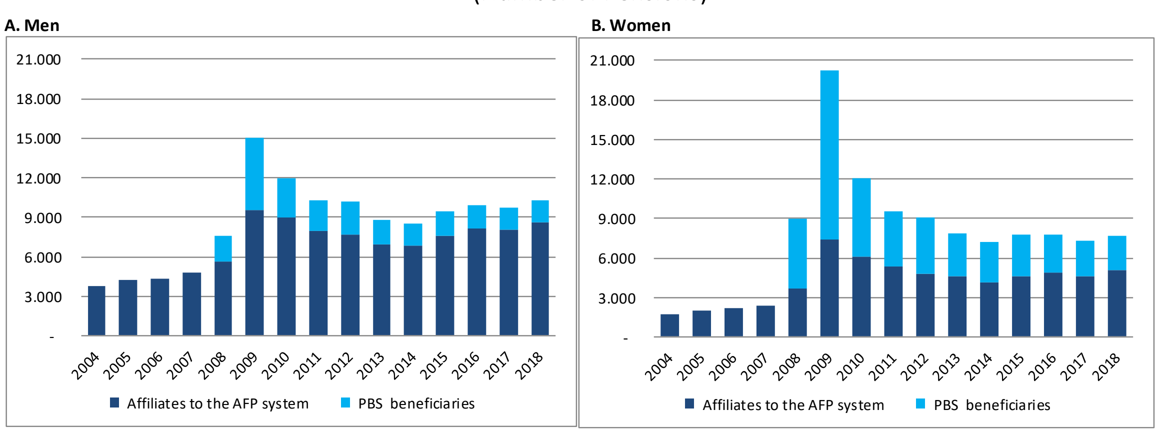
The 2008 pension reform established that, in the event that a disability is declared as total at first examination, it would become definitive.

The total disability pensions granted increased significantly with the reform for women and men. Prior to the 2008 reform, an average of 2,000 and 5,000 total disability pensions were granted to women and men, respectively. These figures increased to 10,000 on average for men and women in the period 2009-2018 (Figure 6.1).

Men affiliated to the AFP system receive more total disability pensions than women. For example, in 2018, 8,587 total disability pensions were granted to men versus 5,058 to women. However, women beneficiaries of the PBS receive more disability pensions: in 2018, 2,636 were granted to women and 1,702 to men.

Figure N° 6.1: Approved applications for complete disability at first ruling, by type of beneficiary and sex

(Number of Pensions)



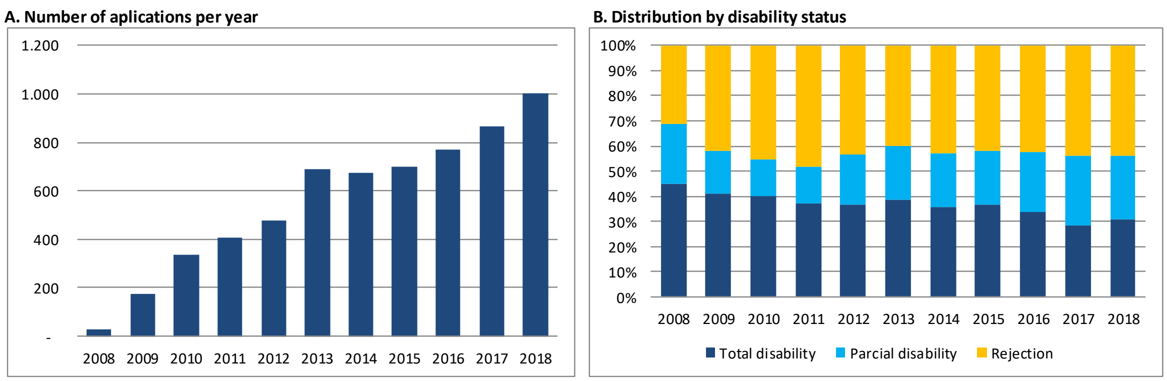
Source: Superintendence of Pensions

Extension of SIS coverage to women up to the age of 65

This measure was introduced to maintain coverage for disability or widowhood for women who contribute to the system beyond the age of 60. The number of female contributors between 60 and 65 years of age has increased steadily over the last 10 years, from 13,192 women in 2009 to over 27,000 in 2017. Due to the legal modification introduced by the 2008 reform, these women are covered by the Disability and Widowed Insurance (SIS).

Applications for disability classification have increased steadily since 2009, reaching a cumulative total of 6,121 applications at the close of the second half of 2018. Partial disability pensions have been gaining ground over total disability pensions, with a fairly stable percentage of rejected applications since 2012, around 55% (Figure 6.2). In percentage terms of the eligible population, i.e., of the total number of female contributors aged 60-65, SIS applications increased from 1.3% in 2009, to 3.6% in 2018.

Figure N° 6.2: Applications by disability status submitted to Medical Committees by women aged 60-65 covered by the SIS

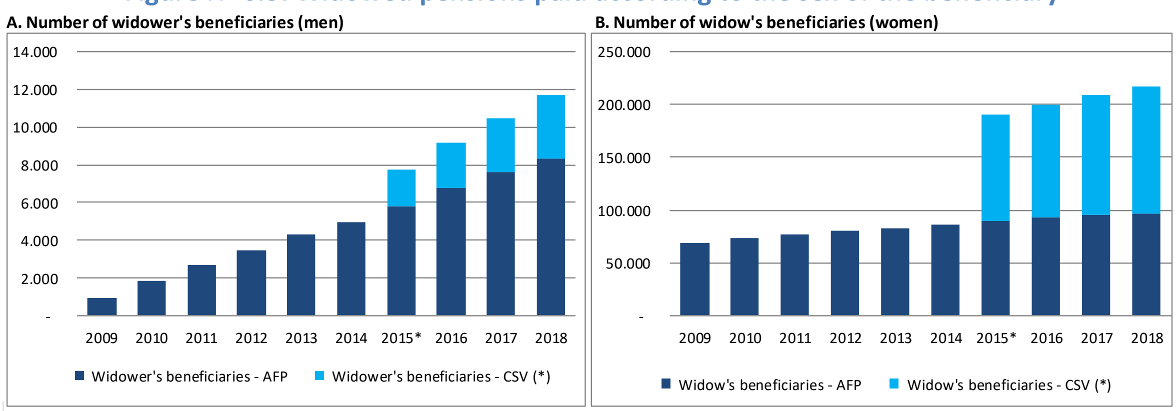


Source: Superintendence of Pensions

6.2 Incorporation of non-disabled male spouses as a beneficiary of the windower's pension.

The number of beneficiaries of this measure has grown continuously since its implementation, reaching 11,678 male beneficiaries in 2018. However, of the total number of widowed pensions[8] generated each year, males are still a much smaller proportion, reaching only 5% in 2018. The number of widowed pensions received by women reached 216,877 in the same period (Figure 6.3).

Figure N° 6.3: Widowed pensions paid according to the sex of the beneficiary



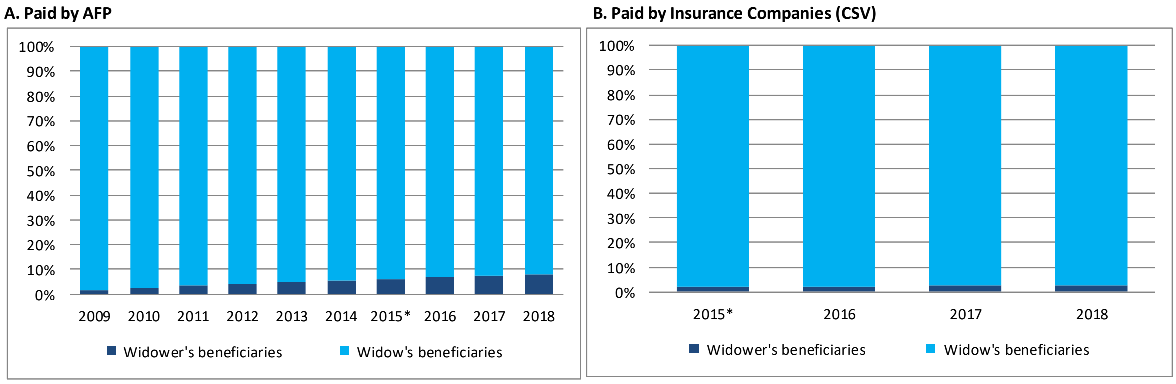
(*) Only since 2015 has information broken down by the sex of the person responsible for the Widowed pension been available from insurance companies (CSV).

Source: Superintendence of Pensions

Although the number of beneficiaries has increased since 2009, they still represent a much smaller proportion of the total number of widowed pensions received. Widowed pensions to male beneficiaries represented only 8% of total widowed pensions paid by the AFPs and only 3% of those paid by life insurance companies in 2018 (Figure 6.5).

[8] Includes both widowed pensions received by women/men and by mothers/fathers of non-marital children.

Figure N° 6.4: Distribution of Widowed Pensions according to the sex of the beneficiary and the paying entity
(Percentage)

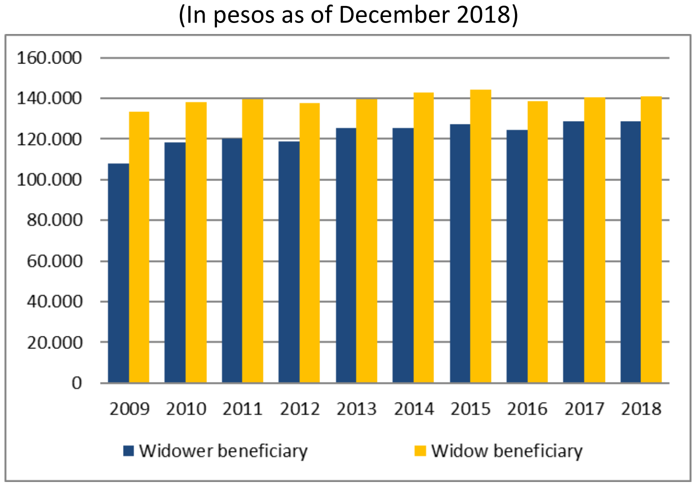


(*) Only since 2015 has information been available from insurance companies broken down by the sex of the person responsible for the Widowed pension.

Source: Superintendence of Pensions

The average amount paid by the AFPs to the male spouse has shown a slightly increasing trajectory since the 2008 reform: $CLP 104,742 in 2009, and $CLP 128,676 in 2018 (Figures in $CLP December 2018). The average benefit to the female spouse was $CLP 140,989 in 2018. This is consistent with the lower taxable remuneration of women throughout their working life, which results in a lower benefit for their spouse (Figure 6.5).

Figure N° 6.5: Average monthly widowed pension according to the sex of the beneficiary paid by AFP
(In pesos as of December 2018)



Source: Superintendence of Pensions

6.3 Compensation for Divorce or Annulment of Marriage

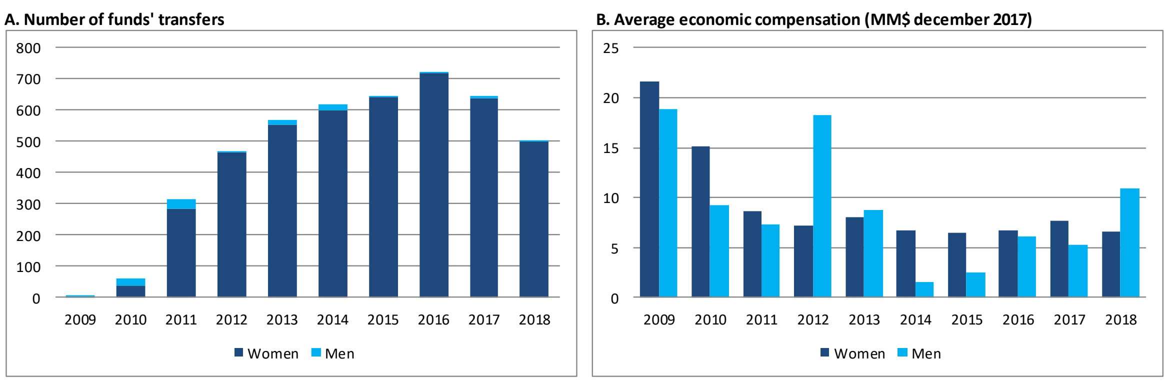
The 2008 reform introduced the legal concept of a social security financial compensation in the event of divorce or marriage annulment. Under this figure, a judge may instruct, if he or she so deems, a transfer of social security funds between individual accounts as a form of economic compensation to the party who has suffered impairment during the period of marriage. Such transfer may not exceed 50% of the resources accumulated by the spouse to be compensated during the period they were married. The compensation shall be paid into the capitalization account of the compensated spouse or, if no such account exists, into a voluntary capitalization account.

Since the implementation of the measure and up to December 2018, a total of 4,549 transfers of funds have been made, mostly to female spouses. The trend in the number of transfers was up to 2016, with a reversal beginning in 2017 (Figure 6.6).

With respect to the average amount transferred (i.e., total balance of sanctioned spouses divided by the total number of spouses to be compensated), it can be seen that, except for 2012[9], transfers to female spouses have been higher than those to men. Furthermore, for compensated women, the average amount has stabilized at around $7,000,000 over the last seven years, while the average compensation for men has fluctuated much more (Figure 6.6).

Figure N° 6.6: Compensation for divorce or annulment

(According to the sex of the compensated spouse)



Source: Superintendence of Pensions

Of the total amount of transfers accumulated until 2018, $MMCLP 32,116,002 (98%) corresponded to a female compensated spouse and $MMCLP 796,710 (2%) to a male compensated spouse.

[9] In 2012, only four men were compensated with this measure, with a total balance of U.F. 2,646.

6.4 Pension Consulting

The 2008 reform created the figure of the Pension Advisor. Pension consulting is given as a continuous process throughout the life of the member, since it may be required during fund accumulation or when deciding a pension modality. The purpose of pension advice is to provide information to members and beneficiaries of the pension system, taking into account all aspects related to their particular situation as necessary to make an informed decision in accordance with their needs and interests, in relation to the benefits provided by the pension system.

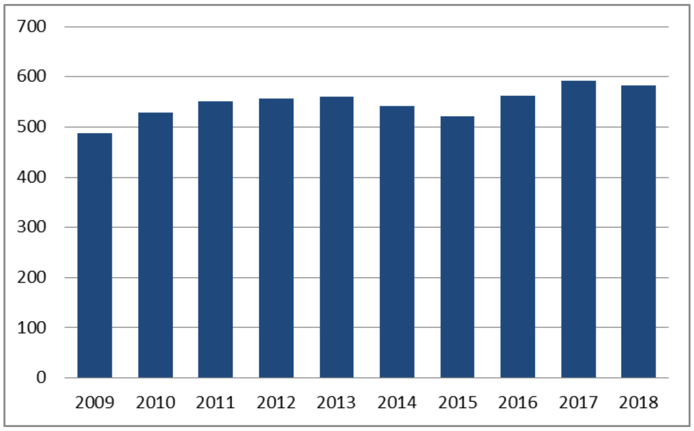
The pension advice provided by the law supports members both in the decisions they must make during their active life to incur a lower pension cost and maximize the accumulated capital - choosing the most convenient AFP, taking advantage of the tax incentives provided by the system, planning the level of future pension - and in the decisions that lead to the most appropriate pension for each member, evaluating personal preferences, as well as investment and risks. Pension advice during active life is generally financed with resources other than pension savings, while advice at the time of pension is financed with a percentage of the balance allocated to pension, the maximum of which is established by law.

Prior to the 2008 reform, the maximum commission rate for the then "life annuity brokers" was 2.5% of the accumulated balance at the time of the pension. The 2008 reform, in addition to incorporating the concept of the Pension Advisor, eliminated life annuity brokers. From October 1, 2008, to date, the maximum fees for pension advice cannot exceed 2% of the funds allocated to pension, nor can they exceed 60 U.F. in the case of the life annuity (RV), with commissions for programmed retirement (RP) being lower than those for RV. Thus, the maximum rate in the case of RP is 1.2% of the referred balance, with a maximum of 36 U.F.

The Superintendence of Pensions (SP) and the Commission for the Financial Markets (CMF) are the bodies responsible for supervising pension advice. For this purpose, both institutions jointly maintain a register of pension advisors. To be part of this register, individuals must comply with the requirements established by law and prove their knowledge of pension and insurance matters. The average number of pension advisors reached 582 in December 2018 (Figure 6.7).

Figure N° 6.7: Number of current Pension Advisors

(As of December each year)



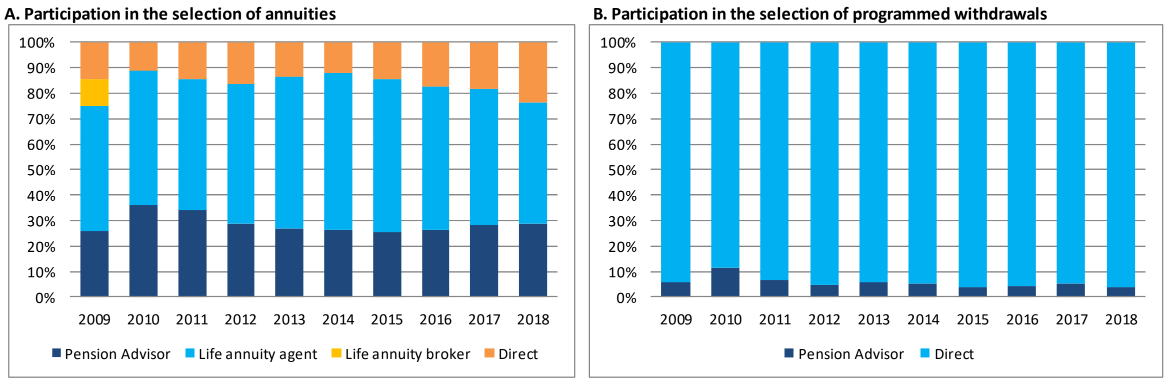
Source: Superintendence of Pensions

In carrying out this function, the SP and the CMF must monitor:

- The quality of the advice given.
- The way in which payment is made.
- Adequacy of the amounts of the payments deducted from the individual capitalization account of the affiliate with respect to the maximums established by law and regulations.
- The non-payment of incentives or commissions to pension advisors by the AFPs, due to the fact that the latter receive commissions for the administration of the funds during the affiliate's active life or through the administration of the programmed retirement.
- Compliance with the legal requirements for the exercise of the pension advisory activity.

The participation of pension advisors in the selecting annuities has remained at around 27%, with the exception of 2010 and 2011, when their participation increased to 36% and 34%, respectively. With respect to the participation in the programmed withdrawals, it has remained close to 5%, except in 2010, which was 11% (Figure 6.8).

Figure N° 6.8: Participation of intermediaries in the choice of modality

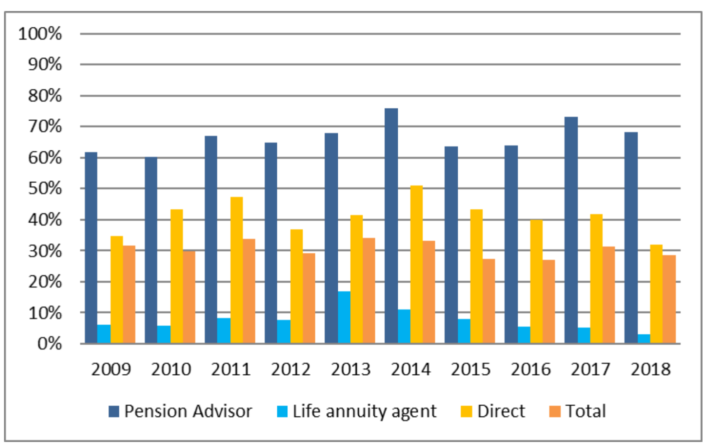


Source: Superintendence of Pensions

Finally, pensioners who are intermediated by a Pension Advisor choose a higher pension amount offered by the insurance companies compared to those who are intermediated by agents or are not intermediated (Figure 6.9).

Figure N° 6.9: Selection of higher pension amount offered by annuities

(Percentage of selected annuities with highest amount offered, by type of intermediary)



Source: Superintendence of Pensions

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