This new book on the Chilean Pension System, published by the Superintendence of Pensions, provides a detailed overview of how this system operates in Chile, including the changes implemented through the Chilean Pension Reform, which entered into effect in July 2008.

We have provided a full description of both the mandatory and voluntary contribution components of the Chilean Pension System, as well as the new Solidarity Pillar, which was introduced following the Pension Reform. We have also reviewed the main results achieved and the challenges this system will face in the near future.

This publication is intended as a contribution to current knowledge on the Chilean Pension System and a reference text for the public policy debate in this field. It was made possible by the efforts of the Superintendence of Pensions and aims to provide national and international readers with a complete, accurate and up-to-date picture of our Pension System, including all recent modifications and improvements introduced through the Pension Reform.

THE CHILEAN PENSION SYSTEM

2010

SUPERINTENDENCE OF PENSIONS

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Prologue

In recent years, pension systems have been the subject of extensive analyses throughout the world. Since the early 20th century, social security has played an important role in society, and the State has been a main actor in providing old-age, disability and survivor benefits. The role of the State in this field has been justified primarily by the lack of fully developed markets, lack of planning by the economically active population, and income distribution inequalities that do not allow part of the population to deal with these contingencies. For this reason, in some cases the State provides direct benefits as a way of preventing poverty among the elderly or disabled, and in other cases it establishes mandatory contributions while regulating, supervising or directly managing the system.

Ever since they were created, these systems have traditionally been managed by the State and financed through the tax system or specific contributions as a counterpart to these benefits. The traditional formulas were “pay-as-you-go” schemes in which active workers financed the benefits of those who had moved on to the passive stage. Over the years, the sustainability of this financing mode has been questioned, mainly because of the aging of the population, which creates the need for higher and higher contributions in order to support an increasingly large population of pensioners. On the other hand, the formulas for calculating benefits generally aim to help workers maintain a standard of living similar to the one they had during their last active years, but this does not necessarily equate to an actuarially fair formula.

In the case of Chile, a pay-as-you-go scheme with the characteristics described above was replaced by an individual capitalization scheme in 1980. This system is managed by private entities called Pension Fund Administrators (*Administradoras de Fondos de Pensiones*, or AFPs). Several countries, particularly in Latin America and Eastern Europe, have implemented similar reforms. Although this type of system has a series of strengths compared to traditional pay-as-you-go schemes, they do not automatically resolve the financing of old age or disability in populations with a poor income distribution. In 2006, a diagnosis of the Chilean system revealed that a significant portion of the population lacked sufficient funds to support themselves during old age. This was primarily due to a low density of contributions. In the case of Chilean men, this may be explained by self-employed work and labor market informality. In the case of Chilean women, their exceptionally low participation in the workforce means that, on average, there were long periods of time during which they did not contribute.

In 2008, President Michelle Bachelet introduced the most important reform to the Pension System since 1980. This new reform maintains the AFP system as the key component of the pension system, but introduces a number of measures to improve the coverage of the poverty prevention pillar, increase the density of contributions, to improve gender equality in the pension system, increase the competitive intensity of the AFP industry and make more flexible the investment regime that regulates them.

This book presents the main features of the current pension system in Chile in 2010, incorporating all the amendments made by the last Pension Reform and providing therefore continuity to the six previous editions of "The Chilean Pension System." Both this issue as the past ones provided an provide an up-to-date description of the system, a performance evaluation, and an outline of the challenges being faced at each particular stage. Each of these editions included the improvements that have been introduced to the system throughout the years, including the creation of the multifunds system and the Online Pension Consultation and Bidding System (SCOMP).

As the Chilean pension system is an international reference point in this field, the Superintendence has considered it important to maintain an up-to-date version of this descriptive book, which provides a description of the system after implemented the major components of the last reform, as well of some results and discusses ongoing challenges.

The first chapter describes the new structure of three pillars: solidarity, mandatory individual capitalization contributory and contributory voluntary, showing the new pension system in Chile that integrates these pillars. The solidarity pillar, not only finances the poorest 60% of the population that have not made contributions to the mandatory second pillar but it also complements the pensions of those who participated intermittently in the formal labor market and/or had relatively low wages. This integrated system is more responsive to the needs of a population such as Chile's, providing more appropriate benefits and preventing situations of poverty during old age. In the following chapters, we shall analyze each of these pillars in further detail.

The book continues providing information on the private pension fund industry, the way it works and the results it has produced. As in the case of previous books by the Superintendence, we shall conclude with a chapter that discusses ongoing challenges.

With the publication of the seventh edition of "The Chilean Pension System" the Superintendence hopes to make a contribution for those in academia, governmental or nongovernmental organizations and the general public, who are interested in knowing in depth the current operation of our system. To do this, we have endeavour to use a simple language but without sacrificing the accuracy of the contents. We hope to have fulfilled that goal.

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CHAPTER I

BASES OF THE PENSION SYSTEM

1. Pillars of the Pension System

Pension systems around the world have been designed as mechanisms to provide income when people lose their ability to provide for themselves due to advanced age (old-age or retirement benefits), permanent disability (disability benefits) or the death of one of the main sources of family income (survivor benefits).

In Chile, the Pension System is organized into a scheme with three basic pillars: a poverty prevention pillar, a mandatory contribution pillar and a voluntary savings pillar. The combination of these components seeks, on the one hand, to guarantee that individuals may maintain a similar standard of living during their active work and retirement stages, and, on the other, to eliminate poverty among the elderly and disabled. The goal of the solidarity pillar is to prevent poverty in these situations of vulnerability. This pillar consists of a non-contributory pension called the Basic Solidarity Pension (*Pensión Básica Solidaria*, or PBS), and a complement to the contributory pension called the Solidarity Pension Payment (*Aporte Previsional Solidario*, or APS).

The mandatory contribution pillar is a single nationwide scheme of financial capitalization in individual accounts managed by single-purpose private companies called Pension Fund Administrators (AFPs).[1] This is a defined contribution scheme; in other words, the contribution rate remains constant and the benefits are calculated using actuarial formulas, according to the balance each individual has accumulated at retirement.

In order to complement the mandatory savings made through the AFP system, there are tax incentives to encourage people to make voluntary contributions through various financial instruments: voluntary pension savings accounts managed by the AFPs themselves, mutual funds, life insurance products with savings, etc. The scheme is designed so that savings that use these products are tax-exempt during all years in which deposits are made. The interests generated by these savings are also tax-exempt, but the pensions financed with these resources are considered as income for income-tax calculation purposes. Individuals may withdraw their voluntary savings before retirement, but they must pay the corresponding taxes and a surcharge for early withdrawal.

[1] Only the Armed Forces remain outside the AFP system, as they continue to manage their own pay-as-you-go systems with fixed benefits, known as CAPREDENA and DIPRECA. Also, it must be pointed out that the AFP System still coexists with the pay-as-you-go system of the former *Cajas de Previsión*, managed through the Institute of Social Security (IPS), which receives contributions and pays out benefits for contributors and pensioners who chose to remain in this system.

This chapter describes the main pillars of the Pension System as it has been implemented since 2008, as well as the institutional framework that provides public sector support for this system.[2]

1.1 The Poverty Prevention Pillar[3]

The nature of contributions under the AFP system establishes a direct relationship between an individual's contribution history –frequency, date and amount of contributions– and the benefits these contributions entail. Pensions are lower when individuals undergo long periods of time without making contributions (due to career choices or informal work), when individuals have joined the system at an older age, or when they make contributions that do not correspond to their real income (because of the maximum contribution limit or underreported income). Moreover, the actuarial nature of benefits means that growing life expectancy requires greater voluntary savings, postponed retirement from the labor market, or lower pensions. The 2008 pension reform[4] dealt with these concerns in a series of dimensions, based on a diagnosis which revealed that a significant portion of the population contributes sporadically throughout their working life, generating savings that are insufficient for retirement.[5]

Prior to the reform, the risk of poverty in old age was assumed by two basic programs: the Minimum State-Guaranteed Pension (*Pensión Mínima Garantizada por el Estado*, or PMGE), which provided a minimum pension floor for individuals with at least 20 years of contributions, and Social Assistance Pensions (*Pensión Asistencial*, or PASIS) for individuals not entitled to a pension from a pension system.[6]

The 2008 reform replaced these programs with a single nationwide scheme that guarantees that all individuals from the least affluent (poorest) 60% of the population will have access to a basic pension, regardless of their past contributions.[7] This new program provides old-age and disability subsidies, financed by the general national budget.

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2 For a description of the system in place before March 2008, please see *El Sistema de Pensiones en Chile, 6ª edición*, *Superintendencia de Pensiones (2006)*, and for a diagnosis of the 2008 Pension System Reform, see *Chile 2008: Una Reforma Previsional de Segunda Generación, Superintendencia de Pensiones (2009).*

3 For further details on Chile's non-contributive pillar, see *Fajnzylber (2005).*

4 Law No. 20,255 was published in the Official Newspaper on March 17, 2008.

5 See *Berstein, Larraín y Pino (2006).*

6 As of March 2008, the minimum State-guaranteed pension was CLP 96,390 (USD 182) for those under 70 years of age, CLP 105,395 (USD 199) for those over 70 years of age, and CLP 112,453 (USD 212) for those over 75 years of age, and the PASIS program granted retirement and physical and mental disability benefits of CLP 48,000 (USD 90) for those under 70 years of age, CLP 51,169 (USD 96) for those over 70 years of age and CLP 55,949 (USD 105) for those over 75 years of age (all figures in US dollars are based on the exchange rate valid on June 30, 2009, which was 529.07 Chilean pesos per dollar). For an analysis of this poverty prevention pillar and alternative designs, see *Fajnzylber (2006).*

7 This scheme was introduced gradually: during the first year, beginning in July 2008, the Basic Solidarity Pension was CLP 60,000 (USD 113) and limited to the poorest 40% of the population. The benefit increased to CLP 75,000 (USD 141) in July 2009, covering the poorest 45%. The system will be fully implemented starting in July 2011, covering the poorest 60% of the population. The previous calculations used the exchange rate valid on June 30, 2009, which was CLP 529.07.

Individuals not entitled to a pension from a pension system shall be entitled to a Basic Solidarity Pension (PBS) once they turn 65 years old and meet the requirements of wealth and residence.[8] Individuals that have made contributions, but whose corresponding pension falls under a certain minimum level, shall be entitled to a Solidarity Pension Payment (APS), which has the same requirements of age, wealth and residence. The residency requirement is designed to guarantee that these benefits are granted to individuals who have spent a significant period of their lives in Chile, thus preventing people from moving to the country just to claim this benefit.

The disability program offers benefits under similar conditions for individuals between 18 and 64 years of age who have been classified as disabled by a medical committee of the AFP system. Once these individuals reach the age of 65, they may be eligible for the benefits of the old-age solidarity system.

The structure and specific requirements for benefits are described in the following chapter on the solidarity pillar. However, it is important to highlight two specific elements of this design: the strong integration between the contributory system and the solidarity pillar, and the concern over possible disincentives to savings that this integration may create. The system's integration guarantees that any individual from the first three quintiles shall receive a pension equivalent to at least a PBS. If the benefit were established as the subsidy necessary to achieve a PBS (as in the case of the disability solidarity scheme), this would strongly discourage contributions by persons with small chances of accumulating a significant pension, since their old-age income would not increase –at least within a certain range– with the number of contributions. With the chosen scheme, however, the final old-age pension increases steadily with self-funded savings; in other words, each peso saved increases the individual's retirement pension.

1.2 Mandatory Contribution Pillar

The mandatory contribution pillar is a specific contribution scheme managed by single-purpose private companies. This system was established in 1981 and has been perfected since that time on several occasions, primarily in terms of the way pension funds are invested. The 2008 reform, which strengthened the solidarity pillar, also improved several aspects of the mandatory pillar in an attempt to increase the frequency of contributions.

The nature of contributions under the contributory system based on individual capitalization establishes a direct relationship between an individual's past contributions –frequency, date and amount of contributions– and the benefits these contributions entail. Pensions are lower when individuals undergo long periods of time without making contributions (due to career choices or informal work), when individuals have joined the system at an older age, or when they make contributions that do not correspond to their real income (due to the maximum contribution limit or underreported income). Moreover, the actuarial nature of benefits means that increasing life expectancy requires greater voluntary savings, postponed retirement from the labor market, or

[8] The affluence test is one way to establish that the individual does not belong to the country's highest income group. Initially, the test was applied with the Social Protection Index Form (*Ficha de Protección Social*), a mechanism used in Chile by several social programs in order to measure vulnerability. This test is based on the ability to generate income. For more information, please visit www.fichaproteccionsocial.cl.

lower pensions. The 2008 pension reform dealt with these concerns in a series of dimensions, concentrating especially on the most vulnerable sectors. Thus, in 2008 contributions became mandatory for a broad group of self-employed workers, a series of measures were established to improve gender equity within the system, incentives for contributions were created through subsidies to the formal hiring of young workers, and greater tools were provided for an effective collection of all contributions due.

The law establishes the periodical deposits that members must make to the individual capitalization system, at a rate of 10% of their monthly covered earnings, up to a maximum of 60 UF (*unidades de fomento*),[9] which, according to Law 20,255 (2008), are to be readjusted annually according to the average increase of remunerations reported by the INE (National Statistics Institute). Administrators provide Individual Capitalization Accounts (*Cuentas de Capitalización Individual*, or CCIs) into which they deposit each member's periodical contributions, and later investing these funds in representation of each member in order to obtain a certain profit.

Mandatory contributions must either be paid, or a "declaration of unpaid contributions" must be filed, within the first ten days of the month after the one during which wages were accrued.[10] In the case of arrears (delinquency), the AFP is obliged to pursue actions in order to clarify the existence of unpaid pension contributions and, when possible, collect payment for them. If the cessation or suspension of a labor relationship has not been accredited by the established deadline, for purposes of initiating collection efforts it shall be assumed that the corresponding contributions have been declared but not paid.

The part of the taxable income and wage destined to pay pension contributions is exempt from income tax.

One distinctive aspect of pension systems with defined contributions is that, due to the effect of compound interest over many years, contributions made at an early age may have a significant impact on the final pension. For this reason, and in the interest of reducing youth unemployment, the pension reform introduced a special subsidy that finances part of the cost of the contributions to the Pension System for employers who hire individuals between 18 and 35 years of age. This subsidy is described in Chapter II.

1.3 Voluntary Pillar

The voluntary pillar is one of the three fundamental pillars of the system. Workers may choose from among a broad variety of capital market institutions and financial instruments to manage the funds corresponding to their voluntary contributions and agreed deposits. Thus, the following institutions are authorized to manage Voluntary Pension Savings (*Ahorro Previsional Voluntario*, or APV): Pension Fund Administrators; Mutual Fund Administrators; Investment Fund Administrators; Housing Fund Administrators; General Fund Administrators; Life

[9] CLP 1,255,981, considering that the value of the UF on June 30, 2009 was CLP 20,933.02.

[10] Within the first 13 days of the month, in the case of online payment.

Insurance Companies; Banks; and Security Brokers with plans that have been approved by the Superintendence of Securities and Insurance. Besides encouraging greater savings, this gives individuals a wide range of investment options for their Voluntary Pension Savings, with diverse combinations of expected returns and risks.

Since the creation of the individual capitalization system, members have had the choice of making voluntary contributions to increase the amount of their pensions. However, this possibility became more relevant in March 2002, when an important change to the voluntary pillar was introduced, significantly expanding the type of products and administrating institutions while also ensuring greater liquidity for this type of savings.

From that moment on, the voluntary system has been steadily growing, but the main challenge is to extend savings towards middle-income sectors, since the original tax benefit focused this instrument on a very limited segment of the population. To achieve this goal, Law No. 20,255 (2008) introduced Collective Voluntary Pension Savings (*Ahorro Previsional Voluntario Colectivo*, or APVC) and created additional tax incentives that make this instrument more attractive for middle-income workers. Finally, in order to increase the options for individuals who have no work income during specific periods or over their entire active life, a new figure called the "voluntary contributor" was also established.

Prior to the reform, voluntary contributions by workers were deducted from the taxable base of the single second-category tax. When funds were withdrawn early at the moment of retirement, they were obliged to pay the corresponding tax plus a legal surcharge.[11] This type of tax exemption not only failed to provide an incentive for workers subject to a relatively low or inexistent marginal tax rate, but also implied a form of savings with limited liquidity due to this early retirement penalization. In this sense, the reform introduced two additional incentives for voluntary savings (individual or collective) by including a direct subsidy for those who were not previously benefitting from the exemption.

Meanwhile, APVC also establishes a scheme that provides tax incentives to companies that offer savings plans through which employers may complement the voluntary savings made by their workers.[12] According to the experience of developed countries, there is enormous potential in the savings that may accumulate for old age through voluntary plans. The creation of APVC plans represents a particularly interesting way for employers to offer a type of non-pecuniary compensation in order to attract and retain high-productivity workers, while also increasing the incentives to provide them with on-the-job training.

These savings mechanisms are analyzed in detail in Chapter IV.

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[11] The institution managing the savings retains 15% of the withdrawal as a single tax payment.

[12] APVC follows the same principles as 401(k) plans in the United States, or other work plans used in developed countries. Employers may establish contracts with any institution offering individual voluntary savings plans (AFPs, banks, mutual funds, insurance companies, etc.), which agree to pay contributions in the employer's name in accordance with the contributions made by workers themselves, which then become the property of the workers after a minimum period of time working for the company. The conditions must be the same for all workers, and under no circumstances may employers limit this benefit to a specific group of workers.

2. Institutional Framework of the Pension System

From the institutional perspective, the implementation of a solidarity pension system that complements the contributory system made it necessary to create an institutional framework capable of providing a comprehensive vision for the pension system.

For this reason, the Old-Age, Disability and Survivor Pension System is regulated and supervised by the Superintendence of Pensions, which is the legal successor to the Superintendence of AFPs. Besides maintaining its predecessor's functions and attributions, the new Superintendence is also responsible for supervising the Solidarity Pension System and the former pay-as-you-go pension system, which was in effect prior to 1980 and still serves both active and passive members. With regard to the voluntary savings pillar, the Superintendence coordinates its efforts with other public agencies that oversee the organizations authorized to provide those services. Also, in terms of the retirement stage, the law stipulates that this agency must work with the Superintendence of Securities and Insurance (SVS) to oversee the life annuities provided by insurance companies.

It must be pointed out that the Armed Forces and Police have a pay-as-you-go system managed by the Social Security Department of the Chilean Police Force (DIPRECA) and the National Defense Social Security Fund (CAPREDENA), and supervised by the General Comptrollership of the Republic.

Due to its experience and knowledge in the management of State-provided pension benefits, the new solidarity system is under the responsibility of the public administrator of the pay-as-you-go system, the Pension Normalization Institute (INP). Since the INP also manages insurance against work accidents through its Active Sector INP division, a new institution established within the INP and known as the Social Security Institute (IPS) is now responsible for the pay-as-you-go and solidarity pension systems, while all aspects managed by the Active Sector INP have been transferred to the Work Safety Institute (ISL).

The IPS pension system, which manages the former *Cajas de Previsión*, shall die out in the future when it finishes paying the pensions of the last workers who decided to remain in the Old System when the AFP system was created.

The individual capitalization pillar is managed by the Pension Fund Administrators. Insurance Companies also participate as suppliers of Disability and Survivor Insurance within the mandatory contribution system, and also play a role in supplying retirement products.

2.1 Functions of the Superintendence of Pensions

Due to the specialization and magnitude of the supervisory agency's responsibilities, Chile has considered it necessary to create a specialized, independent institution to conduct this work. This has helped concentrate the institution's efforts on supervising the system, optimizing its processes and adapting its original legislation in a dynamic environment. It was believed that an autonomous supervisory agency would lead to greater efficiency, since it would specialize in overseeing the pension fund system. At the same time, this avoids potential conflicts of interest that might arise if these functions were delegated to an already existing supervisory body dedicated to overseeing other industries. In addition to this increased efficiency, specialization also allows decisions to be based on criteria that may strengthen the Pension System over and above all other objectives.

The key functions of the Superintendence of Pensions (SP) include regulating and supervising the Pension System and the Unemployment Insurance System. The latter is not a topic of this book, but it is important to mention that this system combines insurance and individual accounts that are managed by private entities and supervised by the Superintendence of Pensions.

One of the main goals of the SP is to effectively, efficiently and preventively regulate all aspects that require principles or guidelines for carrying out activities correctly. This includes managing and maintaining an up-to-date record of all rules, standardizing and harmonizing these rules, ensuring that the different laws work together in harmony, etc.

Its supervisory duties are focused on overseeing the operations of all corresponding entities, in terms of their risks and risk management processes, and determining any corrections that are necessary. This includes identifying areas of greater risk and possible mitigating factors, verifying legal compliance, performing inspections and assessments, overseeing non-periodic events (such as entries, exits, mergers, etc.), issuing supervisory reports and ordering corrective actions, among others.

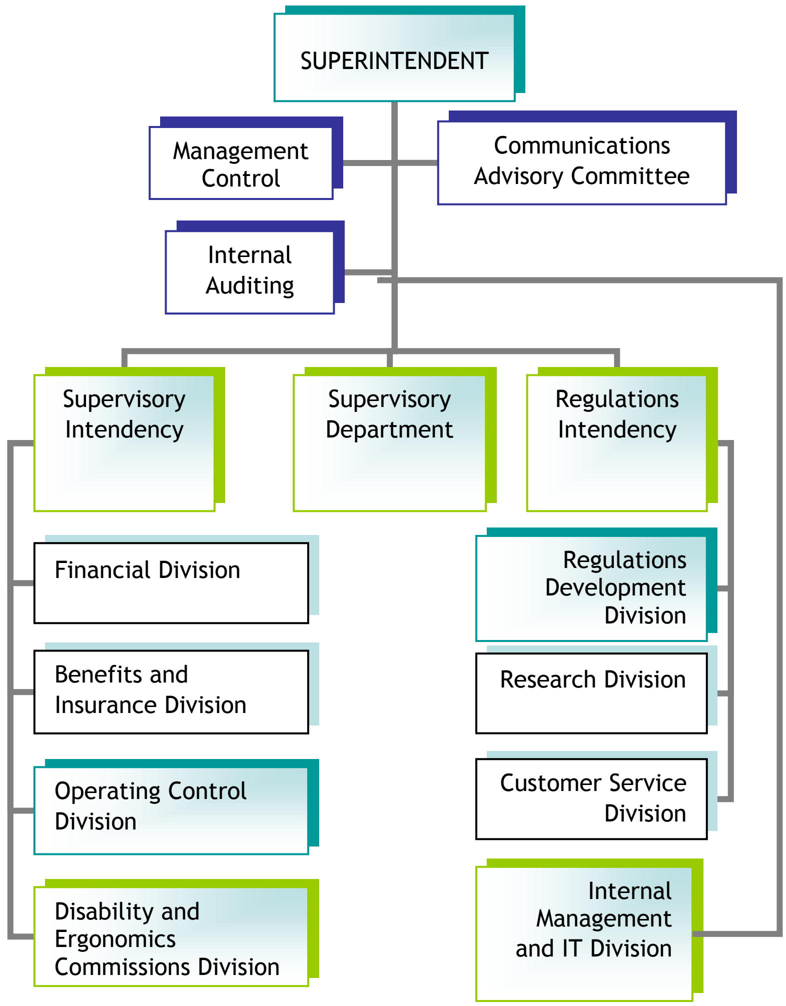
Along with these key functions, there are other actions that represent a high value added or are extremely pertinent to the main mission of the SP. These include:

- **Conducting prospective studies and strategic planning**. It is believed that prospective exercises which help visualize system trends are an important tool for performing key functions. This includes identifying high-level strategic implications for the country, the industry or the SP, maintaining a profound knowledge of the best regulatory and supervisory practices of other agencies (both at the national and international level), among others.

- **Disseminating and orienting the Integrated Pension System**. Because of the experience accumulated at the Superintendence of AFPs, the SP is one of the entities with the most knowledge of the system and with clear interests in terms of the communication and orientation of its characteristics. This includes informing beneficiaries of the key elements for making decisions, explaining the virtues of regulation, promoting the strategic agenda among relevant audiences, and managing the relationship of the SP with the corresponding government agencies.

- **Providing services stipulated in the current legislation and regulations**. Although the function of providing services, whether it be for the industry or its beneficiaries, is not a typical function of supervisory agencies, the high degree of specialization of the matters involved and the mandatory nature of the system have created a demand for a series of services requested of the SP (for example, valuation of financial assets, processing and customer service regarding international agreements, calculation of State guarantees, calculation of system parameters, among others). Due to the nature of these tasks, the provision of these services has been considered one of the key functions of the SP.

Organizational Structure of the Superintendence of Pensions



2.2. Private Administration of the Mandatory Contribution Pillar

2.2.1 Pension Fund Administrators

During the stage of accumulation of funds, the savings component of the mandatory contribution pillar is managed by Pension Fund Administrators (AFPs). Also, during the retirement stage, if a member should choose to keep his/her funds in an AFP, this institution shall continue managing these funds. AFPs are single-purpose institutions that charge a management commission as a percentage of a worker's taxable wage. These entities must collect pension contributions, take action in case of delinquency, invest resources, manage pension processes and, in some cases, pension disbursement. They are also generally responsible for all processes that are requested by members involving their own funds. Chapter V describes how this industry operates.

2.2.2 Insurance companies

Pension Fund Administrators must purchase disability and survivor insurance from a life insurance company that covers disability and survivorship risks for its members. In addition, when workers receive an old-age, disability or survivor pension, they may choose the life annuity pension option, which is contracted with the life insurance company of their preference.

Chapter III describes disability and survivor insurance, as well as the role of insurance companies in this field. That chapter also presents the different pension options and the role of insurance companies in providing these products.

2.3 Advisory Committees

2.3.1 Pension Advisory Committee

The Pension Reform Law established the Advisory Pension Committee, which is responsible for counseling the Minister of Labor and Social Security and the Minister of Finance on matters concerning the Solidarity Pension System; for example, proposals for legal amendments to the its parameters. This Committee is composed of: a) A Member designated by the President of the Republic, who chairs the Committee, and b) Four Members designated by the President of the Republic and ratified by the Senate.

In addition, the Committee must produce an annual report which is presented to the Ministers of Labor and Social Security and the Minister of Finance, as well as the National Congress. This report must present the Committee’s opinion on how the Solidarity Pension System regulations have been working.

2.3.2 User Committee

The Pension System User Committee is composed of a worker’s representative, a pensioner’s representative, a public institution representative, a private institution representative, and a member of the university that chairs the Committee.

The function of this Committee is to inform the Undersecretary of Social Security (and other public agencies in this sector) regarding how their users are evaluating the Pension System, as well as proposing strategies for education and dissemination of information on this system.

2.3.3 Technical Investment Committee

In order to establish regulations on pension fund investments that provide greater flexibility and adaptability to financial markets, and to give Administrators the ability to make better investment decisions while also ensuring the security of pension funds, the law includes a fundamental but simplified structure of investment eligibility and limits. This leaves the more detailed regulation of pension fund investments to the Investment Regime, which was created by a resolution issued by the Superintendence of Pensions and subscribed by the Ministry of Finance, in consultation with a Technical Investment Council (CTI).

Thus, the CTI plays a relevant role in the new regulatory framework for pension fund investments, and is responsible for permanently advising the Superintendence of Pensions regarding the investment of funds.

The CTI includes one member designated by the President of the Republic, one member designated by the Board of the Central Bank of Chile, one member designated by the AFPs, and two members designated by the Deans of the Departments of Economy or Business and Management of the universities accredited in accordance with Law No. 20,129.

2.4 Classification Committees

2.4.1 Ergonomics Committee

The mission of the National Ergonomics Committee is to classify "heavy work," which leads to a higher contribution rate for those types of jobs, allowing workers in these fields to retire early. There is also an Appeals Committee which responds to requests for reconsideration concerning a particular classification.

These Committees are overseen by the Superintendence of Pensions, which also provides administrative support. The Chair of the National Ergonomics Committee is a Medical Doctor specializing in occupational medicine, and other members include a Medical Doctor specializing in orthopedics and trauma surgery; a civil engineer with expertise in professional risk prevention; a civil engineer with expertise in industrial hygiene; a professional university expert in ergonomics; a worker designated by the country's most representative labor federation; and a businessperson designated by the country's most representative business association. Meanwhile, the Appeals Committee has three members from one of the same professions and specializations as the members of the National Ergonomics Committee.

The members of the National Ergonomics Committee, except for those who participate in representation of labor and business organizations, and those who serve on the Appeals Committee, shall be designated by the Superintendent of Pensions, who shall select them –as established in the regulations– from a Public Registry kept by the Superintendence for this purpose. Meanwhile, the member who chairs the National Ergonomics Committee shall be designated by the Minister of Labor and Social Security, following a proposal by the Superintendent of Pensions.

2.4.2 Disability Committees

Disability pensions shall be available to members of the individual capitalization system who are not pensioners and have not reached the age requirements for an old-age pension, but who have suffered permanent damage to their work capacity as a consequence of an illness or deterioration of physical or intellectual strength. These pensions shall be assigned as follows: total disability pensions for members with a loss of at least two-thirds of work capacity, and partial disability pensions for members with a loss of one-half to two-thirds of work capacity.

The solidarity pillar also considers the possibility of obtaining a disability pension, in other words, a Disability Basic Solidarity Pension, which may also be partial or total according to the same conditions described above. Besides being classified as a disabled person, individuals must also meet additional residence and targeting requirements. As in the case of old-age pensions, there is a Disability Solidarity Pension Payment for those who meet the aforementioned requirements and obtain a small contributory disability pension. This benefit is described in further detail in the next Chapter.

Disabilities are qualified by Medical Committees that meet in each region of the country and include three Medical Doctors designated by the Superintendent of Pensions. These committees independently review and classify disabilities submitted to them for consideration. The Superintendence oversees these committees and issues operating guidelines for classifying disabilities. There is also a Central Medical Committee which reviews appeals to the rulings of the Regional Medical Committees.

In order to quantify the degree of disability, the Regional Medical Committees and the Central Medical Committee abide strictly by the "Rules for the evaluation and classification of the degree of disability of workers under the new Pension System." These rules were created by the Technical Disability Commission, established in the regulations for DL 3,500 (1980), approved by absolute majority of its members and published in the Official Newspaper. They correspond to what is known in the international terminology as a Disability Scale, a graduated reference chart which lists categories or "classes" of disabilities, in ascending order.

CHAPTER II

DESCRIPTION OF THE FIRST PILLAR: NEW FIRST SOLIDARITY OR PUBLIC PILLAR

One of the main modifications introduced to the Chilean Pension System by Pension Reform Law No. 20,255 was the reinforcement of the first pillar through the creation of the new Solidarity (or Public) Pillar, known as the Solidarity Pension System. Prior to the implementation of this Reform, the benefits of the first pillar included the Minimum State-Guaranteed Pension (PMGE) and the Social Assistance Pensions (PASIS).

The Solidarity Pillar is undoubtedly an essential component of the Chilean Pension System, both in terms of its coverage and the security it provides for the population approaching retirement to be guaranteed some type of protection in old age.

1. Bases of the First Solidarity Pillar

The fundamental aspects of the first pillar are:

i. *Poverty prevention*: One of the main goals of the Solidarity or Public Pillar is to prevent poverty among the elderly and disabled. This Solidarity Pillar considers that, despite important efforts to increase the coverage of the contributory pillar with individual pension capitalization, it is still estimated that, in the future, part of the population will require government support to prevent the risk of poverty at the end of their working lives or in the event of a disability. Therefore, this pillar acts as an insurance policy that reduces uncertainty for a significant segment of the population.

ii. *Solidarity*: The benefits provided by the Solidarity Pillar are financed using the country's general income, which gives this benefit an aspect of solidarity, especially considering that it focuses on the lowest-income sectors.

iii. *Contribution incentives*: While the main aim of creating the Solidarity Pillar was to reduce the risk of poverty in the elderly or disabled population, it was always clear that the system must continue providing incentives for workers to contribute to the individual capitalization pillar during their active life.

iv. *Fiscal sustainability*: Another basic element that justifies the creation of the Solidarity Pillar of the Chilean Pension System is the fiscal sustainability of the benefits granted. An important premise of the Pension Reform was to establish benefits that are sustainable over time and may ensure long-term financing. Some of the measures adopted to achieve the financial sustainability of the Solidarity Pillar were to limit coverage of these benefits to the poorest 60% of the population and to establish graduality in this coverage and in the amounts of the benefits.

2. Benefits of the New Solidarity Pillar

2.1 Old-Age Basic Solidarity Pension

The Old-Age Basic Solidarity Pension (*Pensión Básica Solidaria de Vejez*, or PBSV) is a monthly payment financed with government resources, which is available for all individuals who are not entitled to a pension from a pension system and meet the corresponding legal requirements.

The requirements for obtaining an Old-Age Basic Solidarity Pension are as follows:

a) Being 65 years old at the time of application;

b) Being part of a family group that belongs to the poorest 60% of the population;[13]

c) Accrediting at least 20 years of continual or intermittent residence in Chile after the age of 20, and also at least 4 years of residence during the 5 years prior to the application. This calculation may also consider as "years of residence" any time spent living abroad due to the political exile of individuals listed in Article 2 of Law No. 18,994 and registered with the National Office for Return, as well as time spent abroad in fulfillment of diplomatic missions, consular representation and all other official functions of the Chilean government;

d) Not being entitled to a pension from any pension system.

For purposes of determining whether an applicant for a PBS meets the requirement of belonging to the poorest 60% of the population, the system shall consider both the individual's income and that of his/her family unit. For these purposes, a family unit is composed of the following individuals: (i) the pension applicant; (ii) his or her spouse; (iii) all children under the age of 18; (iv) all children between 18 years and 24 years of age, as long as they are still students. Applicants may also include as part of their family units: (i) the mother or father of children born out of wedlock; (ii) disabled children between 18 and 65 years of age, and parents over 65 years of age, provided that they themselves are not receiving benefits of the Solidarity Pillar. In order to include or exclude any of these groups, the system may require proof that these individuals share a single family budget.

The current PBSV is 75,000 Chilean pesos (CLP), equivalent to USD 141.8,[14] and is readjusted automatically by 100% of the variation to the Consumer Price Index (CPI) reported by the National Statistics Institute, between the month before the latest readjustment and the month in

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[13] This coverage scheme shall be implemented gradually, reaching the poorest 60% of the population in July 2011. Currently, this coverage is available to the poorest 50%; in July 2010 it shall expand to the poorest 55%; and finally to 60% in July 2011.

[14] From July 1, 2008 to June 30, 2009, the value of this pension was CLP 60,000. The exchange rate valid on June 30, 2009 (CLP 529.07) was used to calculate the value in US dollars.

which this variation reaches or surpasses 10%. Furthermore, if 12 months have passed since the last readjustment without the CPI variation reaching 10%, the PBS shall be readjusted by the percentage of variation of this index for that period. If the latter is applied, the first readjustment of this payment shall be made in July 2010.

All individuals entitled to a PBS according to the conditions described above, and considered to have scarce resources according to the criteria established in the regulations, shall be granted an additional benefit in the case of death. This benefit shall cover mortuary expenses for a sum of 3 minimum salaries (according to the minimum salary as of the individual's date of death). This benefit shall be paid to the person who accredits having paid the funeral expenses, regardless of whether or not he/she was married or had other family ties to the deceased. If the person paying for these expenses is a person other than a spouse, child or parent of the deceased, this person shall only be entitled to a benefit equivalent to the total funeral expenses, with a maximum limit of 3 minimum salaries, and the remaining balance shall be granted to the surviving spouse, or alternatively to the children or parents of the deceased.

2.2 Old-Age Solidarity Pension Payment

All workers who have contributed to the contributory pension system and generated a self-funded pension lower than the so-called Maximum Pension with Solidarity Contribution, shall be entitled to a government-subsidized monetary benefit that will increase the pension they receive.

The requirements to obtain an Old-Age Solidarity Pension Payment (*Aporte Previsional Solidario de Vejez*, or APSV) are as follows:

a) Being 65 years old at the time of application;

b) Being part of a family unit belonging to the poorest 60% of the population. This criterion shall be applied in the same way and with the same graduality as in the case of the Old-Age or Disabled Basic Solidarity Pensions;

c) Accrediting residence in Chile, under the same conditions as established for the Old-Age Basic Solidarity Pension, with the exception that this requirement shall also be considered fulfilled if the beneficiary has contributed for at least 20 years in one or more of the Chilean pension systems. Also, the calculation shall consider as "years of residence" all time spent living abroad due to the political exile of individuals listed in Article 2 of Law No. 18,994 and registered with the National Office for Return, and all time spent abroad in fulfillment of diplomatic missions, consular representation and all other official functions of the Chilean government;

d) Having a base pension that is lower than the Maximum Pension with Solidarity Contribution (PMAS). For this purpose, a base pension is defined as the pension resulting from the sum of the applicant's reference self-funded pension plus any survivor pensions the applicant may be receiving under DL 3,500 (1980).[15] On the other hand, the self-funded pension is calculated as an immediate life annuity under DL 3,500 (1980), with no special coverage conditions, considering the age, family unit and total amount accumulated in the beneficiary's individual capitalization account at retirement, including any allowances for children born, in the case of women, plus their capitalization;

e) This benefit shall be available to all individuals who meet the aforementioned requirements: (i) individuals with old-age, disability and survivor pensions under DL 3,500; (ii) individuals with old-age or retirement pensions, disability pensions or survivor pensions from the Pension System of the Social Security Institute; (iii) contributors of the Pension System of the Social Security Institute who in the future may obtain a pension from that system; (iv) individuals entitled to a survivor pension as established in Law No. 16,744 on Work Accidents and Professional Illnesses.

The Solidarity Pension Payment shall be calculated according to the following formula:

$$APS = \begin{cases} PBS + \left(1 - \dfrac{PBS}{PMAS}\right) * PB - \sum pensions \quad received, & if \quad PB < PBS \\ PBS - \dfrac{PBS}{PMAS} * PB, & if \quad PB \geq PBS \end{cases}$$

Where,

PBS: Basic Solidarity Pension
PMAS: Maximum Pension with Solidarity Contribution
PAFE: Reference Self-Funded Pension, which is calculated as an immediate life annuity, with no special coverage conditions, using the average interest rate implicit in old-age or disability life annuities, as the case may be, over the last six months.
PB: Base Pension, which is the result of the sum of the applicant's PAFE plus any survivor pensions the applicant may be receiving under DL 3,500 (1980), plus any pensions received from IPS systems (whether as a member or a beneficiary of a survivor pension), and any survivor pensions under Law No. 16,744.

If the PB is greater or equal to the PBS and the person chooses programmed withdrawals, the amount of the APS shall be adjusted according to an actuarially fair formula. In this range, the law establishes the option of contracting an immediate life annuity or a programmed withdrawal adjusted by an actuarially fair formula such that this pension is never less than the PBS. This implies that, for individuals who enter the solidarity pillar in this range, the law establishes a lifetime protection against longevity equivalent to the amount of the PBS. Those with a PB higher than the Maximum Pension with Solidarity Contribution (PMAS) would not have the lifetime protection against longevity when choosing programmed withdrawals.

[15] It is important to mention that the calculation of the amount of self-financed pensions does not consider: voluntary contributions, voluntary pension savings deposits, collective voluntary pension savings deposits, or agreed deposits under Decree-Law No. 3,500 (1980).

The actuarially fair formula is calculated so that, when members choose programmed withdrawals, the current value of government contributions is equal to those that would be made if he/she had chosen a life annuity. These contributions may vary in one case or another, since a life annuity remains at a constant value, whereas the decreasing profile of programmed withdrawals means that eventually the amount of the final pension may be less than the PBS. To avoid this situation, the State must make additional contributions to the amount of the solidarity complement during those periods in which the programmed withdrawal plus the pension contribution is less than the amount of the PBS.

The following chart shows the values of these variables, according to the graduality with which they are applied.

TABLE II.1
EVOLUTION OF MAXIMUM PENSION AND COVERAGE

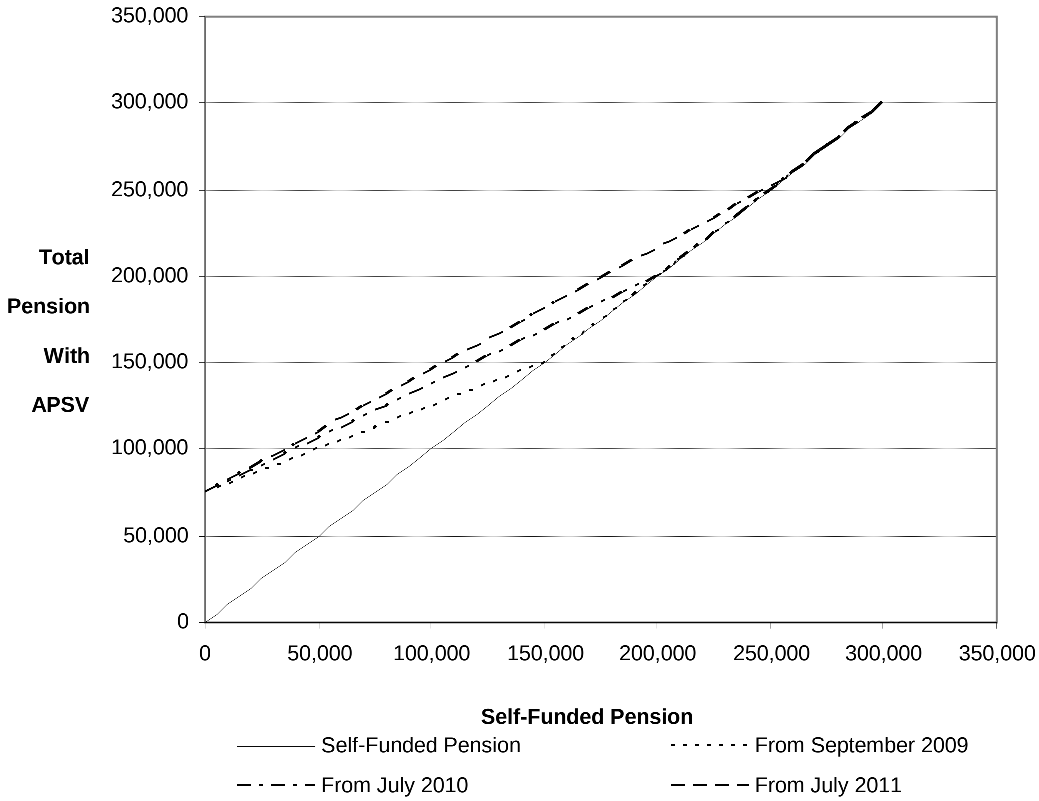
Period	**Maximum Pension with APSV**	**% of the poorest population covered**
July 1, 2008 – June 30, 2009	CLP 70,000	40%
July 1, 2009 – August 31, 2009	CLP 120,000	45%
September 1, 2009 – June 30, 2010	CLP 150,000	50%
July 1, 2010 – June 30, 2011	CLP 200,000	55%
July 1, 2011 – present	CLP 255,000	60%

The value of the PMAS is readjusted automatically by 100% of the variation in the Consumer Price Index as reported by the National Statistics Institute, between the month prior to the last readjustment made and the month in which this variation reaches or surpasses 10%. In addition, if 12 months have passed since the last readjustment without the CPI variation reaching 10%, the PMAS is readjusted by the percentage of variation in this index during that period. If the latter should occur, the first readjustment of this payment shall be made in July 2012.

The APS was designed with two important characteristics in mind. First, there is a strong integration between the contributory pension system and the solidarity pillar, which ensures that any individual from the first three quintiles will receive a pension equivalent to at least a PBS. Second, it maintains the incentives for contributors, since the final pension received by the member will be no less than the PBS, but will also increase with worker contributions and is complemented by the corresponding APS.

In order to better understand the application of the Old-Age Solidarity Pension Payment, the following graph shows the total pension received with this benefit, compared to a self-funded pension. It also shows the graduality which shall be applied until July 2011, when it will be fully implemented.

GRAPH I.1
TOTAL PENSION WITH OLD-AGE SOLIDARITY PENSION PAYMENT



2.3 Disability Basic Solidarity Pension

This benefit is a monthly allowance financed by the State, which is available for all individuals that have been classified as disabled, are not entitled to a pension from a pension system, and meet the legal requirements.

The Basic Solidarity Pension for totally or partially disabled persons has a value equivalent to the one established for the Old-Age Basic Solidarity Pension described earlier (CLP 75,000 monthly as of July 2009), and follows the same gradual implementation as the previous benefit, both in terms of value and coverage.

The requirements for obtaining a Disability Basic Solidarity Pension (*Pensión Básica Solidaria de Invalidez*, or PBSI) are as follows:

a) Being between 18 and 65 years of age;

b) Being part of a family unit belonging to the poorest 60% of the national population.

This test of wealth shall follow the same procedures as for the Old-Age Basic Solidarity Pension;

c) Accrediting residence in Chile for a period of at least 5 of the last 6 years immediately preceding the application;

d) Having been classified as disabled by the Medical Disability Committee (dependent on the Superintendence of Pensions) in the member's region of residence, except for contributors to the Social Security Institute (formerly *Cajas de Previsión*), who shall continue being classified by the Preventive Medicine and Disability Committees (COMPIN), as they were prior to the pension reform;

e) Not being entitled to a pension from any pension system.

It must be mentioned that the beneficiaries of the Disability Basic Solidarity Pension shall receive this payment until the last day of the month they turn 65 years old. From that moment on, they may obtain an Old-Age Basic Solidarity Pension, provided that they follow the application process and meet all legal requirements for this type of pension.

In case of death, there is also a mortuary benefit for disability pensioners with the PBS and scarce resources.

2.4 Disability Solidarity Pension Contribution

This additional State-funded contribution shall be granted to individuals who have been classified as disabled, according to the same criteria established for receiving a Disability Basic Solidarity Pension who are members of the Pension System created by DL 3,500 (1980), who do not receive a pension from another pension system, and who meet the following requirements:

a) Being between 18 and 65 years of age;

b) Being part of a family unit belonging to the poorest 60% of the national population. This test of wealth shall follow the same procedures as for the Old-Age Basic Solidarity Pension;

c) Accrediting residence in Chile for a period of at least 5 of the last 6 years immediately preceding the application;

d) Being entitled to a disability pension, according to DL 3,500 (1980), provided that the amount of this pension plus any other benefits perceived from this system is lower than the Disability Basic Solidarity Pension.

The effect of the APSI is that beneficiaries will receive a final pension equal or greater to the current Disability Basic Solidarity Pension.

Once individuals receiving an APSI turn 65 years old, they may be eligible for the Old-Age Solidarity Pension Payment.

If the beneficiary of a Disability PBS or Disability Solidarity Pension Payment begins or resumes work activities, these benefits shall be reduced if the monthly work income is more than one monthly minimum wage. If the monthly wage is more than one minimum monthly wage and less than or equal to two times the monthly minimum wage, the benefit shall be reduced by the result obtained from multiplying the current pension amount by the difference between one and the result of subtracting the monthly wage (ILM) of the beneficiary minus half of one monthly minimum wage (IMM), divided by the amount of this wage. If the monthly wage is more than two times the monthly minimum wage, the Basic Solidarity Pension or Solidarity Pension Payment shall be reduced by 100%.

These provisions shall not be applied during the first two years in which individuals begin to receive work income, during which period they shall receive 100% of the benefit. During the third year, only 50% of the reduction shall be applied. Beginning in the fourth year, 100% of the reduction described in the previous paragraph shall be applied.

3. Allowance per Child

This benefit consists of a State-funded allowance that mothers are granted for each child born alive or adopted, equivalent to 10% of eighteen minimum monthly wages (as established for workers between 18 and 65 years of age in the month the child was born). This allowance shall be capitalized at a rate equal to the average annual nominal yield of Type C Pension Funds, discounting the percentage above the pension fund amount of the total income of the Pension Fund Administrator from commissions, except for the part used to pay the disability and survivor insurance premium.

The requirements for obtaining this allowance are:

a) Having lived in Chile continually or intermittently for at least 20 years after the age of 20; and for 4 of the last 5 years immediately preceding the application.[16]

b) Currently being in one of the following situations:
   i. Affiliated to a Pension System under DL 3,500 (1980).
   ii. Receiving an Old-Age Basic Solidarity Pension.
   iii. Not affiliated to a pension system, and receiving a survivor pension in accordance with DL 3,500 (1980) or from the Social Security Institute.

c) Starting to receive a pension after July 1, 2009.

d) Being at least 65 years old.

[16] The number of years of residence shall also include time that Chilean women spent living abroad while serving on diplomatic missions, consular representations and other official functions of the Chilean State. The same shall apply to all periods of time spent abroad while in political exile.

It must be mentioned that being a member of an AFP overrides any of the other conditions listed in letter b) above. Therefore, provided that she fulfills this condition, any woman who also meets the other requirements will always receive this allowance as a member of the system, regardless of whether or not she receives a survivor pension under DL 3,500, the former *Cajas de Previsión* managed by the IPS, CAPREDENA, DIPRECA, or any other system.

It is also important to clarify that, in the case of adopted children, the allowance shall be granted to both the biological and adoptive mothers.

The effect of this benefit will depend on a series of factors, such as, for example, the number of children, the age of the woman at the time the child was born, the current minimum monthly wage, the future evolution of the Pension System's yield, and her life expectancy at retirement.[17]

This allowance shall be paid to all women who are entitled to it and request it when they turn 65 years old. It is not paid out when a child is born, however, on that date the amount is calculated and begins to generate returns. In the case of women who are affiliated to an AFP, the allowance(s) shall be deposited in her individual capitalization account, increasing her pension. If the resulting pension is less than the current Basic Solidarity Pension, and she is not eligible for the Solidarity Pillar, she may request that her pension be increased to this amount and receive the equivalent of the Basic Solidarity Pension until that amount expires. On the other hand, if she is entitled to the Solidarity Pension Payment, the amount deposited in her account shall be added to her pension.

For all women beneficiaries of the Old-Age Basic Solidarity Pension, the Social Security Institute (IPS) shall calculate a reference self-funded pension, considering as their current amount their allowance(s) for each child born alive. The result of this calculation shall increase their Old-Age PBS.

For women who receive a survivor pension and are not affiliated to an AFP or the IPS, a reference self-funded pension is calculated, considering as the balance their corresponding allowance(s) for each child born alive. In this case, the resulting amount shall be added to their Solidarity Pension Payment.

4. Pension Subsidy for Young Workers

Since the Contributory Pension Pillar is based on the capitalization of resources deposited into individual accounts, the funds contributed by members at an early age are more important for increasing pensions than those contributed during later stages. There are also other variables that affect the low accumulation of resources in individual accounts at a young age, such as: lower density of contributions, higher unemployment rates and lower covered earnings.

17 To see the possible effects of this benefit on women's pensions, see *"Chile 2008: A Second-Generation Pension Reform", Superintendence of Pensions, 2009.*

Considering these facts, the Pension Reform introduced a new State-funded benefit: a pension subsidy for young workers. The beneficiaries of this subsidy are all workers and employers who meet the following requisites[18]:

a) Workers between 18 and 35 years of age;

b) Wages equal to or less than 1.5 times the minimum monthly wage.

c) Being within the first 24 months of contributions, continual or intermittent, since affiliation to the Pension System, as established in DL 3,500 (1980).

d) In the case of employers, they must have paid all contributions by the legal deadline (first 10 days of the month after the month when wages were accrued, or until day 13 if the contributions are paid electronically).

This benefit is aimed to workers and their employers, and is equivalent to 50% of the mandatory pension contribution established in Article 17 of DL 3,500 (1980) (10% of covered earnings, with a maximum limit of 64.7 UF[19]), calculated using the minimum monthly wage. This benefit shall be received during the first 24 months of continual or intermittent contributions made by the worker. Both worker and employer shall receive an equal amount through this benefit, and in the case of workers, these resources shall be added directly to their individual capitalization account.

Also, workers who see an increase in their covered earnings during the period of this benefit, shall also continue receiving it if this increase is less than 2 minimum monthly wages and occurs on the thirteenth month of the benefit or later.

The worker or his/her employer must request this benefit through the Social Security Institute.

[18] The benefit for employers is valid beginning in October 2008, and the benefit for workers shall enter into effect in July 2011.

[19] Maximum contribution limit for 2010.

CHAPTER III

DESCRIPTION OF THE SECOND PILLAR: MANDATORY SAVINGS

The second pillar of the Chilean Pension System, which involves mandatory savings based on individual capitalization, was established by DL 3,500 (1980). Affiliation and contribution to this system is mandatory for employees and voluntary for self-employed workers[20] and individuals without wages or income who choose to contribute (these are called "voluntary members"). The main goal of this pillar is to contribute to an appropriate standard of living for workers who have concluded their working lives, striving to keep their pensions reasonably comparable to their income during the active stage.

1. Bases of the Second Pillar

The main bases of the second pillar are:

i. ***Individual capitalization*****:** The Pension System is based on individual capitalization. Each member has an individual account in which his/her pension contributions are deposited. These are capitalized and earn the yield on the investments made by the Administrators with the resources of the Funds. At the end of active life, this capital is returned to the member or his/her surviving beneficiaries in the form of some kind of pension. The amount of the pensions will depend on the amount of savings, so there is a direct relation between personal effort and the pension obtained.

ii. ***Mandatory Contributions:*** Affiliation to the Individual Capitalization Pension System is mandatory for all employees entering the workforce for the first time and optional for workers who were in the pay-as-you-go system when the AFP system was first implemented. For self-employed workers, affiliation is voluntary; however, in line with the increase in coverage implicit in the introduction of the new Solidarity Pension System, the 2008 pension reform obliges self-employed workers who receive covered earnings to make contributions to the mandatory system based on their annual income. The introduction of this mandatory contribution shall be gradual, beginning with a three-year "information" period, followed by another three-year period during which pension contributions shall be deducted from the income tax returns of workers, unless they have explicitly stated their desire to not contribute. In other words, during this period, the default option shall be to contribute to the system, which shall maintain the voluntary nature of the contribution, but oblige the member to make an active decision.[21]

iii. ***Private Administration of Funds*****:** The Pension System is managed by private institutions known as Pension Fund Administrators (AFPs).

[20] According to Law No. 20,255, self-employed workers are obliged to contribute beginning on January 1, 2012. See chapter on Ongoing Challenges for further details.

[21] The chapter on Ongoing Details describes the main aspects of the mandatory contribution for self-employed workers.

These are private companies, whose exclusive purpose is to manage different Pension Funds and pursue other activities strictly related to social security, as well as granting and managing the services and benefits established by law.

Administrators collect pension contributions, deposit them in the personal account of each member and invest the resources in order to provide the corresponding benefits later on. Through a public tendering process, they also take out an insurance policy to cover any disability and survivor pensions to which their members may be entitled.

Administrators are entitled to receive payment for their management of Pension Funds, and this is established on the basis of fees paid by their members. These fees are determined freely by each Administrator and are standard for all members.

iv. ***Assigning new members to a lower-cost AFP:*** The Pension Reform Law of 2008 establishes that workers entering the workforce shall become members of the AFP offering the lowest fee per contribution deposit. These workers must become affiliated to the entity that is selected through a public tendering process. Each tender shall award this service to the entity offering to charge the lowest fee per periodical contribution deposited during the tendered period by dependent workers contributors, self-employed contributors and voluntary contributors.[22]

v. ***Free choice of AFPs and Funds:*** Any worker may change Administrators at any time, except those who have been assigned to the most inexpensive AFP as new members of the system, who may change their Administrator when they have remained in the selected AFP for a minimum period of time, or when this AFP is in any of the situations established by the law as exit clauses. Workers may also freely choose the type of Pension Fund in which they wish to place their pension savings, with some limitations in choosing funds with greater relative risk in the case of pensioners and members who are approaching retirement.

vi. ***Supervision****:* Through the Superintendence of Pensions, the State shall establish regulations and oversee the performance of the public and private providers of the Pension System.

2. Legal Coverage

Affiliation to the Individual Capitalization Pension System is mandatory for all employees who are entering the workforce for the first time, but voluntary for self-employed workers.[23] As of October 2008, the Pension System is also open to individuals who do not perform paid work but decide to make voluntary pensions contributions through an Administrator.[24]

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22 This issue is treated in greater detail in the chapter on Ongoing Challenges.

23 See footnote No. 1.

24 The following chapter describes the characteristics of voluntary affiliation and savings.

The category of “member” is granted to all individuals who join the Individual Capitalization Pension System. All members who transferred from the old pay-as-you-go system and who meet the legal requirements may request their disaffiliation from the Capitalization System, and must once again contribute to the old Pension System.[25]

On the other hand, the category of “contributor” identifies all members who actually contribute each month for wages accrued the previous month, excluding pensioners of the AFP system who continue contributing.

The law stipulates that members must make periodical deposits to the individual capitalization system at a rate of 10% of their monthly covered earnings and income, with a maximum limit of 60 UF (CLP 1,255,981.20),[26] readjustable each year, considering the variation of the Real Wage Index as determined by the National Statistics Institute, between November of the year before the previous year and November of the previous year, for the year in which this readjustment shall begin to apply.[27] The Administrators must create individual capitalization accounts to deposit the periodical contributions of their members and, at the same time, invest these funds on behalf of these members in order to obtain a yield.

Mandatory contributions must be made, or non-payment declared, within the first ten days of the month after that in which wages were accrued, or within the first thirteen days in case of electronic payment. If the employer does not pay contributions or declare non-payment, and has not communicated the termination of a employment relationship by the legal deadline, and after the Administrator has taken all actions necessary to clarify the existence of unpaid contributions, it shall be assumed that the corresponding contributions have been declared and not paid, and the Administrator must begin collection procedures and apply the corresponding fines and interests.

The portion of covered earnings and wages destined to pay pension contributions is exempt from income tax.

3. Multifunds

Since August 2002,[28] mandatory savings has been managed through a scheme that includes multiple funds; specifically, five types of funds with different proportions of their portfolios invested in equities. The assumption behind this differentiation is that the greater the investment

[25] Not all members may choose to return to the Old System, since the following requirements must first be met: not being entitled to a Recognition Bond, or being entitled to a Recognition Bond for contributions paid to a pension institution between July 1, 1979 and the date on which the member switched over to the new Pension System, with at least 60 months of contributions prior to July 1979.

[26] Considering that the value of the UF on June 30, 2009 was CLP 20,933.02.

[27] The readjusted maximum contribution limit enters into effect on the first day of each year, and is determined by a resolution by the Superintendence of Pensions. However, the law stipulates that this maximum limit shall be readjusted whenever the variation of the aforementioned Index is positive. If it is negative, the maximum limit shall maintain its value in UF and shall only be readjusted when a positive variation occurs. In 2009, Superintendency Resolution No. 1 established that, based on the Index variation, there would be no change in the maximum contribution limit, which would remain at 60 UF.

[28] The Multifund system was introduced by Law No. 19,795 on February 28, 2002.

in equities, the greater the risk and expected return.

The main goal of creating a multiple fund (or “multifund”) scheme in the Pension System is to increase the expected value of the pensions that members will receive. The possibility of investing in a portfolio of financial assets with risk associated to the investment horizons of members helps increase the expected value of their pensions. This allows the Pension System to achieve its fundamental objective more efficiently, providing its members with an income that can adequately replace the one obtained throughout their active lives.

The creation of a multifund system also allows members to achieve a portfolio distribution more aligned with their preferences and needs, in terms of risk and yield. Different members may have different preferences concerning the composition of their Pension Fund portfolio, and these are reflected in various degrees of risk aversion. The creation of multifunds allows members to exercise their own preferences, thereby producing increased well-being. For example, younger members may prefer a Pension Fund with a higher level of risk and expected return, in order to increase the expected value of their pensions, while older members or pensioners may prefer a fund with minimal risk, in order to minimize fluctuations in the value of their pensions.

The main characteristics of the multifund system are as follows:

i. Choice of Funds by Members

With regard to mandatory contributions, there is a free choice of Pension Funds for all members of the Pension System except pensioners, male members over 55 years of age and female members over 50 years of age. Pensioners may choose one of the funds with the least relative risk (C, D and E) for these mandatory contribution balances. Meanwhile, older members who are not pensioners may choose any of the four mandatory funds for these balances (B, C, D and E). However, both groups are free to select any of the five funds for any portion of their balances in excess of the amount necessary to finance a pension equal or greater to 70% of the average taxable wage received and income declared (which is calculated according to the law). This pension must also be equal or greater to 150% of the minimum pension.[29]

TABLE III.1
POSSIBILITIES FOR CHOOSING FUNDS BY AGE RANGE

Type of Fund	Men up to 55 years old Women up to 50 years old	Men over 56 years old Women over 51 years old	Pensioners with programmed withdrawals and temporary annuity
Fund A – Most Risky			
Fund B – Risky			
Fund C – Intermediate			

[29] Beginning in July 2012, the pension would be equal or greater than 80% of the Maximum Pension with Solidarity Contribution.

Fund D – Conservative			
Fund E – Most Conservative			

The reason for these restrictions is to prevent pensioners or members approaching retirement age from taking high risks on investments made with their mandatory resources, since this may produce irreversible damage to the amount of their pensions and affect the State-guaranteed minimum pensions or solidarity pensions involved.

All members who do not select a type of fund when joining the Pension System shall be assigned to one according to their age. In order to assign members to one of the funds, members are separated into three age ranges: younger members are placed in a fund with more equities and older members are placed in a fund more intensive in fixed income. This rule applies to both active members and pensioners.

Members are assigned to funds according to the following table:

TABLE III.2
ASSIGNMENT BY AGE RANGES FOR MEMBERS WHO DO NOT SELECT A FUND

Type of Fund	**Men up to 35 years old Women up to 35 years old**	**Men from 36 to 55 years old Women from 36 to 50 years old**	**Men from 56 years old Women from 51 years old and pensioners**
Fund A – Most Risky			
Fund B – Risky			
Fund C – Intermediate			
Fund D – Conservative			
Fund E – Most Conservative			

These ranges were determined considering the investment horizons of members, that is, the time remaining until they reach the legal retirement age, and their likelihood of recovering from periods of low returns, in order to direct them towards the funds that are considered better suited to their needs.

Also, as they move into new age ranges, members are gradually assigned to the corresponding pension fund, transferring 20% of their balance at the time of the change, and 20% per year over a four-year period until all resources are transferred.

ii. Differentiation of the Types of Pension Funds

The differentiation between different types of Pension Funds is established primarily according to the maximum and minimum limits on investment in equity instruments that are allowed by each type of Fund.

The limits on investment in equity instruments, by type of Fund, determined by law and in the Investment Regime, are as follows:

TABLE III.3
MAXIMUM AND MINIMUM LIMITS ON EQUITY

Type of Fund	Maximum Limit	Minimum Limit
Fund A – Most Risky	80%	40%
Fund B – Risky	60%	25%
Fund C – Intermediate	40%	15%
Fund D – Conservative	20%	5%
Fund E – Most Conservative	5%	0%

A range was established between the minimum and maximum limits on investment in equity instruments, within which the administrator of the portfolio may maximize its investment. In effect, the limits established give AFPs the flexibility required to structure the most adequate portfolios possible for each type of Fund, considering the profile of the members assigned to each of them.

For the investment of pension funds abroad, the maximum limit on investment of all pension funds in a single Administrator is equal to the global limit established by the Central Bank of Chile for the sum of Type A, B, C, D and E Funds (30% to 80%),[30] or the maximum investment limits established by the Central Bank of Chile for each type of Fund (A: 45%-100%, B: 40%-90%, C: 30%-75%, D: 20%-45%, E: 15%-35%),[31] whichever is greater.

iii. Mandatory Creation of Funds

The creation of the four funds of lower relative risk is mandatory for all AFPs. The creation of Type A funds, which are the most intensive in equity securities, is voluntary. To date, all current Administrators offer their members Type A funds.

iv. Transfers between Funds

Members may freely transfer their balances from mandatory contributions between Funds. If they transfer more than twice during one calendar year, the Administrator may charge an exit

[30] The Central Bank of Chile has currently fixed the limit at 60% of the value of Funds.

[31] The limits for each type of Fund are fixed by the Central Bank of Chile, according to the following rates:
Type A Fund: 50% of the value of the Fund
Type B Fund: 40% of the value of the Fund
Type C Fund: 35% of the value of the Fund
Type D Fund: 25% of the value of the Fund
Type E Fund: 15% of the value of the Fund

fee, which may not be discounted from Pension Fund, and which is designed to avoid excessive administrative costs and eventual negative effects on the capital market.

v. Separation of Balances

Balances from mandatory contributions, voluntary contributions, agreed deposits and voluntary savings accounts may be placed in different Funds.[32] Nonetheless, the Compensation Savings Account, described in Law No. 19,010, must remain in the same type of Fund as the mandatory contributions.

vi. Distribution of Balances between Funds

Members and AFPs may agree that the balance from mandatory contributions be assigned to two types of Pension Funds. Administrators must offer their members different options for distributing their balances between Funds:

- Members who have their resources in two types of Funds may choose which of these shall be the Fund used to collect their contributions after selecting the distribution of balances.
- Members may request that all contributions deposited in their individual account after the date of a distribution of balances be divided by the percentages they establish. This division of contributions is a service that Administrators may offer voluntarily.
- Members may request their Administrator to establish a periodical adjustment of balances in their personal accounts that are kept in two types of Funds, so that the proportion they initially selected for each Fund is maintained in the balances of their personal accounts. This option, as in the previous case, is a service the AFP may choose to offer voluntarily.

vii. Contracts between AFPs and Members

AFPs and members may subscribe contracts to agree on future transfers of balances from personal accounts between different types of Funds. The goal of creating these possibilities is to achieve a better approximation of each member's risk-return preferences, based on their individual characteristics.

viii. Minimum Yield

The minimum yield of each type of Fund is measured based on a range that considers the real average yield of the System for each one. In any case, the measuring range of the minimum yield for the two Funds with the greatest percentage of investment in equity instruments (Funds A and B) is greater than for the three Funds with a lesser proportion in this type of instrument (Funds C, D and E).[33]

ix. Fee Structure

[32] Voluntary savings is described in Chapter IV.

[33] The minimum yield mechanism is explained in greater detail in number vii of Section 5, in this chapter.

The fee structure is uniform for all members, regardless of the Fund they choose. This aims to avoid further complexity of the System for members and to simplify the payment of contributions by employers.[34]

x. Transactions of Financial Instruments between Pension Funds

AFPs are allowed to make direct transfers of financial instruments between the different Funds of a same Administrator, that is, without making them through a formal secondary market, but only for amounts equivalent to the transfers of members between Funds of a single Administrator. This measure is designed to avoid unnecessary operating costs in the Pension System, given the greater portfolio movements with the multifund system.

However, in order to prevent potential conflicts of interest, AFPs are obliged to clearly report to the Superintendence all direct transfers of instruments between the different Funds managed by a single Administrator. This helps ensure the safety of investments made with pension resources.

Also, AFPs may make transactions with financial instruments between different Funds of a single Administrator through a formal secondary market, but they must also clearly report any such transactions to the Superintendence.

In order to reinforce the supervision of these transactions in security markets, the Superintendence of Pensions has the authority to oversee all transactions involving Pension Funds, Administrators and individuals who, due to their job or position, have access to information regarding Pension Fund transactions.

4. Benefits

i. Types of Benefits

The main benefits created through the Individual Capitalization System are its three types of pensions:

a. ***Old-Age (or Retirement)*:** Guarantees the right, but not the obligation, to receive an old-age pension for all members who reach the required legal age, that is, 65 years of age for men and 60 years of age for women. Obtaining this benefit has no other requirements.

b. ***Early Retirement:*** The law permits early retirement, provided that members are capable of financing a pension equal or greater to a percentage of their average covered earnings over the last 10 work years[35] and of the minimum State-guaranteed pension.[36] Law No. 19,934 of February 21, 2004 increased the requisites for early retirement from 50% to 70% of the

[34] The fee structure is described in Section 6 of this chapter.

[35] Readjusted for inflation (IPC variation).

[36] Beginning on July 1, 2012, the requirement for the minimum pension is replaced by 80% of the Maximum Pension with Solidarity Contribution.

average covered earnings. This increase has been applied gradually; the current required percentage is 67%, and it shall be 70% as of August 19, 2010.

This same law increased the reference percentage from 110% of a minimum pension to 150%. This increase was also applied gradually, and was fully implemented in August 2007.

c. ***Disability and Survivorship*****:** Since workers generally face the risk of disability or death, Pension Administrators are obliged to collectively purchase an insurance policy for their members, which is called Disability and Survivor Insurance, and is financed by employers.[37] AFP members who are not covered by the insurance must finance their pension exclusively with the funds accumulated in their individual capitalization account.

Non-pensioner members who are under 65 years of age are entitled to a disability pension if they meet the following requisites:

- Loss of at least two-thirds of their work capacity (right to a total disability pension);
- Loss of between one-half and two-thirds of their work capacity (right to a partial disability pension).

It should be noted that members who are dependent workers and are unemployed at the time of the incident are entitled to Disability and Survivor Insurance, as long as the disability occurred within a twelve-month period of the last contribution, and that the worker contributed at least six months during the year before the first month of unemployment. In the case of self-employed workers, these requirements are stricter: the worker must have contributed during the calendar month prior to the incident.

Survivor pensions are granted to beneficiaries who survive the death of a member (spouse, child or parent). If there are no beneficiaries of a survivor pension, the remaining balance in the member's individual capitalization account is added to the total inheritable goods of the deceased. If a member dies, the reference pension for his/her legal beneficiaries is calculated based on a certain percentage of the reference pension of the deceased, which is established by law.

For members who are entitled to disability and survivor insurance, the reference pension is equivalent to:

- 70% of the base earnings, in the case of members who die or are entitled to a total disability pension.
- 50% of the base earnings, in the case of members who are entitled to a partial disability pension.

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[37] According to Pension Reform Law No. 20,255, the percentage destined to the insurance premium shall be paid by the employer starting in July 2009, for companies that pay contributions for 100 workers or more, and starting in July 2011 for all other companies.

The base earnings corresponds to an average of the covered earnings received over the last 10 years, duly updated.[38]

ii. Financing of Pensions

Pensions are financed with resources accumulated in the individual capitalization accounts of each member. The balance accumulated consists of the sum of mandatory contributions, voluntary contributions, agreed deposits and collective voluntary pension savings contributions[39] made during the member's active life; optionally, the transfers of funds from the voluntary savings account to the individual capitalization account, if any; the yield obtained by the Funds from AFP investments; the Recognition Bond, if the worker is entitled to one; the additional contribution of the AFP in the case of disability and survivor pensions; the contributions derived from the system of minimum guaranteed yield; the allowance per child in the case of mothers; the subsidy for young workers; and transfers from the spouse's account in case of divorce. The cost of fees charged to the Fund must be deducted from these sums.

The Recognition Bond is the instrument that recognizes contributions made to the Old System by members who chose to switch Pension Systems. This bond may be requested when members reach the legal retirement age or in case of disability or death of the member; however, if they wish to retire before the legal age, members may trade the bond on formal secondary markets, endorse them to an Insurance Company in order to finance the premium for an immediate life annuity, or request that the AFP value the bond to calculate the pension. It should be noted that these transactions do not imply that the State must pay this bond before the corresponding date.

Meanwhile, additional contributions are payments that must be made by Insurance Companies to the accounts of all members that have been declared disabled or deceased and are entitled to Disability and Survivor Insurance. This contribution is equal to the amount, expressed in UF (*Unidades de Fomento*), resulting from the difference between the resources necessary to finance the reference pension and the sum of the balance accumulated in the member's account and the Recognition Bond, if any, at the moment of death or a definitive ruling in the case of a total disability pension or a second ruling in the case of partial disability pension. When the aforementioned difference is negative, the additional contribution shall be equal to zero. The calculation of the additional contribution shall exclude all balances from voluntary contributions, agreed deposits and collective voluntary pension savings contributions.

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[38] In order to calculate the average, the total covered earnings received and income declared over the last 10 years prior to the month of the death, the first ruling of partial disability or the declaration of total disability, as the case may be, is divided by 120.

For workers who have been members of the System for less than 10 years and whose death or disability was caused by an accident, the total covered earnings and income declared is divided by the number of months from the date when the member joined the System until the month prior to the accident.

For workers who joined before they turned 24 years of age and who suffered the accident before their 34th birthday, their base earnings shall be either the amount resulting from applying the formulas described in the previous two paragraphs, or the amount resulting from considering the period between the month during which the member turned 24 years old and the month prior to the accident, whichever value is greater.

[39] The following chapter describes the characteristics of voluntary savings.

All voluntary contributions, agreed deposits, collective voluntary pension savings contributions and voluntary savings accounts are accumulated in the voluntary pillar, which will be explained later.

iii. Pension Options

DL 3,500 created the following pension options that shall be available to members, each with its own type of financing and management:

a. ***Programmed Withdrawal***: Upon retirement, workers maintain their individual capitalization account in their AFPs, withdrawing annuities which are determined by dividing the balance accumulated in their accounts by the necessary capital.[40] These annuities are divided into monthly payments, which are readjusted according to the variation of the Consumer Price Index (CPI) and recalculated every twelve months.

In order to calculate programmed withdrawal pensions, all members or beneficiaries who do not meet the requirements for joining the Solidarity Pension System are subject to an adjustment factor, which implies a percentage of reduction in their annual programmed withdrawals. This factor aims to soften the changes in the amounts of programmed withdrawals, establishing an adjusted programmed withdrawal pension. The adjustment of the amount of the programmed withdrawal allows the system to create a special registry to reserve the balance necessary to finance a pension of at least 30% of the reference programmed withdrawal of the member or beneficiary, until the maximum ages established in the regulations of the Superintendence.

Under this option, AFPs manage the resources and members assume the longevity risk and financial risk, while maintaining ownership of their funds. This option allows members to revoke their decision on the chosen pension option at any time in order to select a life annuity.

Pensioners with programmed withdrawals may maintain their mandatory balances in funds C, D or E. This prohibition from selecting Funds A or B does not apply for any portion of the mandatory balance that exceeds the amount necessary to finance a pension greater or equal to 70% of the average taxable wage of the last 10 years and greater or equal to 150% of the minimum pension.[41]

[40] This is an actuarial calculation that depends on the life expectancy of the family group which is entitled to a pension and the discount rate applied by AFPs. Supreme Decree No. 79 of November 14, 2008, establishes the formula for calculating the discount rate used to calculate programmed withdrawals and temporary annuities, which must be equal for all Funds and Pension Fund Administrators and must correspond to an interest rate vector. This vector is calculated each year, and is the result of adding the value of the temporary structure of interest rates (in real terms) and an excess return over and above the risk-free return. The temporary structure of real interest rates is the so-called “Real Zero Curve,” which is determined based on the transactions made with instruments issued by the State and the Central Bank of Chile over a period of at least 20 years. The excess return over and above the risk-free return shall correspond to the average of the daily excess returns obtained for fixed-income instruments with risk classifications equal to AA, for the period between January and November of the year prior to the application of the discount rate.

[41] In accordance with Law No. 20,255, in June 2012 the reference to 150% of the minimum pension will be replaced by 80% of the Maximum Pension with Solidarity Contribution.

b. ***Life Annuity*****:** Members may contract a Life Insurance Company of their choice to pay out their pensions through a constant, lifetime monthly allowance in real terms, including survivor pensions for their beneficiaries. This transfers the member's resources to the Life Insurance Company, which assumes the financial and longevity risk of pensioners and their family units.

Once members choose this option and sign the contract, the decision is irrevocable, since they relinquish property of these resources.

c. ***Programmed Withdrawal with Immediate Life Annuity:*** This option allows members who meet the conditions for retirement to use part of the balance of their individual capitalization account to contract a life annuity greater or equal to the Old-Age Basic Solidarity Pension, while maintaining the remaining mandatory balance in a Type C, D or E Pension Fund of their choice, and selecting the programmed withdrawal option.

All members who have contracted a life annuity greater or equal to 70% of the average taxable wage of the last 10 years and greater or equal to 150% of the minimum pension,[42] may assign the remaining mandatory balance of their individual capitalization account to Type A or B Funds.

The pension in this option corresponds to the sum of the amounts received through programmed withdrawals and the life annuity. It should be noted that this option was created in 2004.[43]

d. ***Temporary Allowance with Deferred Life Annuity*****:** In choosing a temporary allowance, members contract a Life Insurance Company to ensure them a fixed monthly payment (readjustable in UF), beginning on a date after they retire. Between the date on which this option is requested and the date on which they begin to receive the life annuity, members receive a monthly pension financed with funds retained specifically for this purpose in their AFP capitalization accounts. This way, members maintain ownership and assume the financial risk for only the portion of their funds that remains in the AFP and for a limited period of time, but not the longevity risk, which is assumed by the Insurance Company offering the deferred life annuity, along with the financial risk for that period. The deferred life annuity may not be less than 50% of the first payment of the temporary payment, nor may it be more than 100% of this payment.

iv. Other Benefits

a. ***Available Surplus:*** For all the options described above, if workers obtain a pension greater than 150% of the minimum State-guaranteed pension[44] and greater than 70% of the average monthly taxable wage over the last ten years, they may use the available surplus; in other words, the funds remaining in the individual capitalization account after

[42] In accordance with Law No. 20,255, in June 2012 the reference to 150% of the minimum pension will be replaced by 80% of the Maximum Pension with Solidarity Contribution.

[43] Law No. 19,934 of February 21, 2004.

[44] This percentage was increased from 120% to 150% by Law No. 19,934 and entered into effect on August 19, 2004.

calculating the amount necessary to obtain the pension and discounting the balance accumulated. This surplus may be withdrawn by the member and assigned to any purpose he/she esteems convenient.

The available surplus, which is established when a member decides to retire, may be withdrawn tax-free up to a maximum annual amount equivalent to 200 UTM (*Unidades Tributarias Mensuales*, or monthly tax units,),[45] equivalent to CLP 7,358,400, and the total exemption may not exceed 1,200 UTM (CLP 44,150,400). If members choose to withdraw the entire surplus in one year, the maximum exemption is 800 UTM (CLP 29,433,600). This exemption applies to all savings done at least 48 months prior to retirement, but does not apply to the portion of the available surplus which corresponds to resources originated by agreed deposits.

b. ***Funeral Allowance:*** If a member dies, a benefit for funeral expenses shall apply, consisting of a withdrawal of 15 UF from the corresponding individual account of the person who, regardless of whether or not he/she was married or related to the deceased member, can accredit having paid for the funeral expenses.

c. ***Heavy Work Protection:***[46] The law establishes the possibility of early retirement for all workers who perform heavy work, such as miners, truck loaders for municipalities or cleaning companies, paramedics, etc. For this purpose, heavy work is defined as a job which accelerates physical, intellectual or psychic deterioration in most of those who perform it, causing premature aging although not necessarily a professional illness.

Considering these factors, a contribution over and above 10% of the monthly wage is established, in order to allow for early retirement of workers who perform heavy work. This additional contribution is mandatory, bipartite (worker-employer) and equal for both workers and employers. The law stipulates that this contribution shall be equal to 2% of the taxable wage (a total of 4% considering the contributions of the worker and the employer). However, when the National Ergonomics Committee classifies a task as heavy work, it may reduce the contribution established by law, fixing it at 1% for both employers and workers (a total of 2% between both contributions).

The National Ergonomics Committee was created to determine what jobs qualify as heavy work. This Commission classifies the jobs which are considered heavy work due to their nature and the conditions in which they are performed. The Superintendence of Pensions supervises and provides administrative support for the Ergonomics and Appeals Committees.

Workers who have made contributions for heavy work at a rate of 2% have the right to lower their retirement age at a rate of 2 years for each 5 years of extra contributions, with a maximum of 10 years, provided that they have at least twenty years of demonstrable contributions or services in any Pension System at the moment of retirement. Meanwhile,

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[45] The figures in Chilean pesos mentioned in this paragraph consider the value of the UTM (*Unidad Tributaria Mensual*) as of June 2009, which was CLP 36,792.

[46] Law No. 19,404 (1995).

for extra contributions at a rate of 1%, they may discount 1 year for each 5 years of extra contributions, up to a maximum of 5 years.

As of June 2009, there were a total of 27,432 members in the category of heavy work with extra contributions at 4%, of which 24,931 were contributors. Meanwhile, on this same date, the total number of members with extra contributions at 2% was 60,171, of which 49,433 were contributors.

v. Pension Commercialization System

In order to retire, all members must consult with the Online Pension Consultation and Bidding System (*Sistema de Consultas y Ofertas de Montos de Pensión*, or SCOMP). This system grants members, providers and intermediaries of pension products –insurance companies, pension advisors and Pension Fund Administrators– access to more and better information for making decisions, which ultimately leads to greater transparency.

To implement the SCOMP, AFPs and Life Insurance Companies have developed an interconnected, online information system, in order to respond to members' consultations regarding pensions and to transmit bids made by insurance companies for life annuities and pension payments under the programmed withdrawal option for each AFP in the system. In this way, members may simultaneous receive and compare all available retirement bids.

Consultation with this system is mandatory for any member wishing to choose a life annuity and receive a pension, as well as for all pensioners in the programmed withdrawal option who wish to switch pension options.[47] However, this consultation system is only informative; in other words, it provides members with information on the bids made by Insurance Companies and the estimated programmed withdrawals they would be entitled to in each of the existing AFPs, with no restrictions in terms of the bids that members may choose, or any obligation to accept any of them. Once they review these bids, members have five choices: accepting one of them, submitting a new consultation, requesting external bids, requesting an auction on the system, desisting from retirement, or switching pension options.

External bids, that is, those in which members may consult with an insurance company outside of the consultation system, must meet the following requirement: the amount of the bid must be higher than the bids received on the system by the same Company for the same type of life annuity.

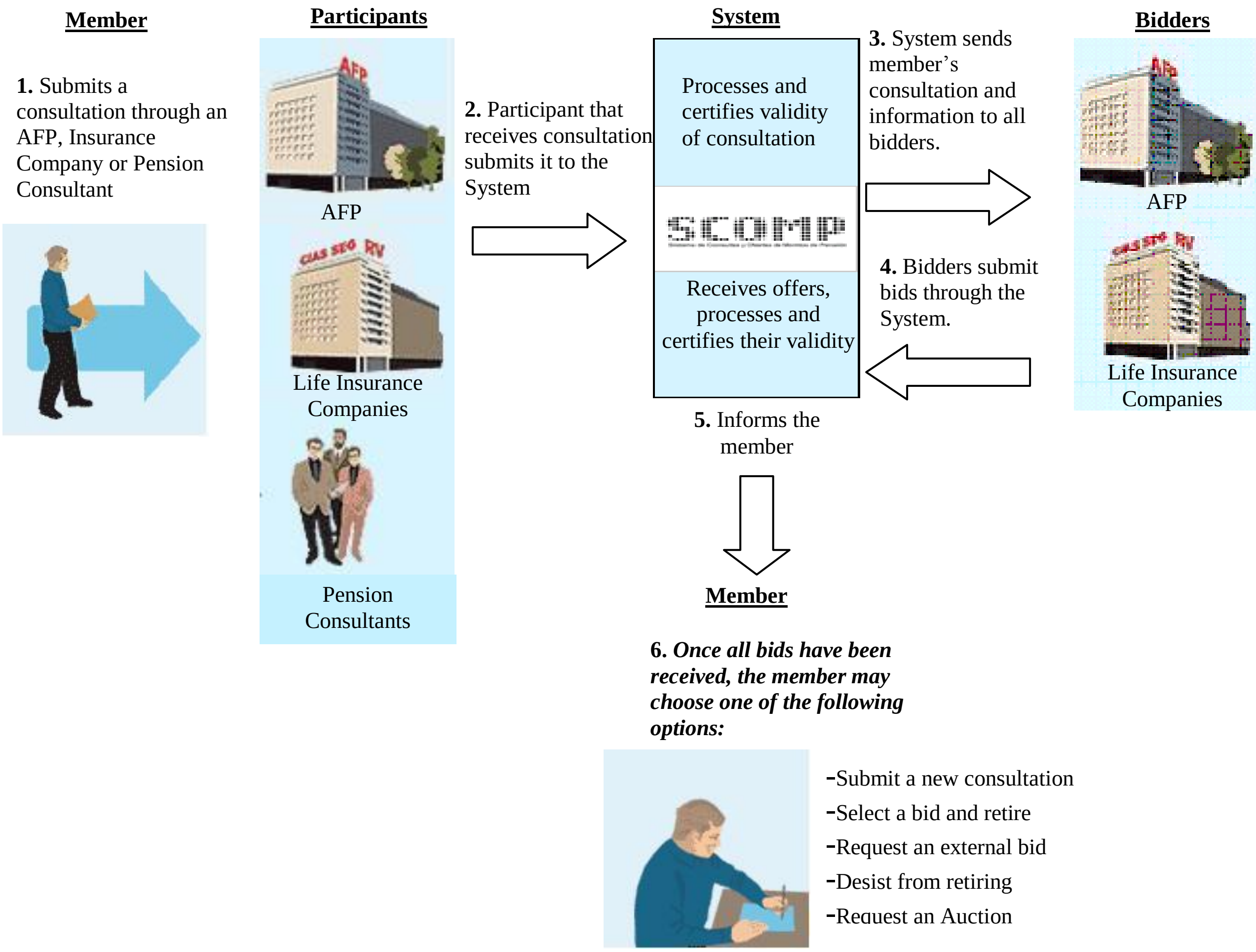
To set up an auction through the SCOMP, members take the following steps:

- Select the type of life annuity;
- Indicate at least three Life Insurance Companies that may participate, and
- Establish the minimum position for bids received through the system.

[47] All members whose balance is insufficient to obtain a life annuity will receive their pension under the programmed withdrawal mode and may not consult with the SCOMP.

Provided that more than one bid is presented in the auction, members shall be obliged to subscribe to a pension with the Company that made the highest bid.

The following diagram illustrates the commercialization system established by law.



vi. Economic Pension Compensation in Case of Annulment or Divorce

With regard to economic compensation between spouses, the Civil Marriage Law[48] stipulates that the existence of economic detriment and the amount of compensation must be determined by considering, among other factors, the pension benefits of spouses who terminate their marital ties through divorce or annulment.

In this context, Pension Reform Law No. 20,255 regulated economic compensation for pensions in case of annulment or divorce, using a portion of the funds accumulated in the individual capitalization accounts maintained by Pension System members.

According to these laws, if, after considering the pension situation, a judge rules that there has been total or partial economic detriment towards one of the spouses that justifies compensation, a transfer of funds may be ordered from the individual capitalization account of the spouse that must compensate the individual capitalization account of the compensated spouse, regardless of the marital property regime.

We must also note that the Superintendence of Pensions, as a general rule, has established that only the mandatory pension contributions accumulated during the marriage are subject to economic compensation, including the corresponding returns that have been added to the individual mandatory contribution account of the compensating spouse on the date when the annulment or divorce is legalized.

It also establishes economic compensation for a spouse who is an active member, that is, who has not received a pension in the Pension System as of the date when the annulment or divorce is legalized.

Once a competent judge has established the existence of economic detriment towards one of the spouses (compensated spouse), the judge must determine the percentage of funds accumulated in the individual mandatory contribution account of the other party (compensating spouse), which must be transferred to the account of the compensated spouse.

To execute this sentence, the Court must send the spouse's AFP a transfer order, which must proceed according to the regulations of the Superintendence of Pensions.

The natural effect of this transfer of is that the self-funded pension in the contributory pillar of the compensating spouse shall be reduced, and the compensated spouse's pension shall increase.

5. Investment of Pension Fund Resources

This section explains the regulations established for the correct operation of the System, concerning the process of investing Pension Funds.

[48] Civil Marriage Law No. 19,947, Chapter VII, paragraph 1.

The Pension Reform Law[49] introduced a series of modifications to DL 3,500, which in the case of Pension Fund investments were designed to perfect and flexibilize the legislation, while also determining certain matters that are regulated by a complementary text called the "Pension Fund Investment Regime." Thus, under the new regulatory framework, DL 3,500 provides general eligibility guidelines that describe the financial instruments in which pension resources may be invested, the structural limits on pension fund investment, and the limits that prevent a significant participation of Pension Funds in the decisions made by issuers. Meanwhile, the Investment Regime regulates specific matters concerning Pension Fund investments which, due to their nature, require greater flexibility, such as: eligibility requirements for financial instruments, indirect investment, investment limits designed to favor an appropriate diversification of pension resources, and investment abroad.

The Investment Regime is established by a resolution of the Superintendence of Pensions, following a report by the Technical Investment Council (*Consejo Técnico de Inversiones*, or CTI).

The CTI must rule on all matters contained in the Investment Regime, submitting technical opinions and proposing improvements. This Council has five members, one of them designated by the President of the Republic, another by the Board of the Central Bank of Chile, another by the Pension Fund Administrators (AFPs) and two of them by the Deans of the Departments of Economy or Business and Managements of accredited universities.[50]

i. Eligible Instruments

Pension Fund resources may only be invested in instruments that are specifically mentioned in the law and authorized by the Superintendence of Pensions, following a report by the Central Bank of Chile.

There is currently authorization to invest in government bonds issued by the Central Bank of Chile and the General Treasury of the Republic, as well as Pension Recognition Bonds; instruments issued by financial institutions, such as fixed-term deposits, promissory notes, mortgage bonds, stocks and bonds; public and private company bonds; exchangeable bonds; open joint-stock company stocks; investment fund and mutual fund shares; foreign capital investment fund shares; negotiable instruments issued by private companies; and foreign instruments.

Foreign instruments include credit bonds issued or guaranteed by foreign governments, foreign central banks, foreign or international banking institutions; credit bonds issued by municipalities, states, regions or local governments; securities or negotiable instruments issued by foreign banking institutions; short-term deposits issued by foreign banking institutions; stocks; bonds and exchangeable bonds issued by foreign companies; shares issued by foreign mutual and investment funds; structured notes; securities representing financial indexes; and others

[49] Law No. 20,255, published in the Official Newspaper on March 17, 2008.

[50] In accordance with the provisions of Law No. 20,129.

authorized by the Superintendence, following a report by the Central Bank of Chile and under the conditions established in the Investment Regime.

This also allows Administrators to use Pension Fund resources for transactions with derivatives, with both hedging and investment goals, and to subscribe contracts for asset-based loans in the national and international markets.

The goal of this regulation is to limit the types of assets in which pension resources may be invested to those defined as financial assets for public offering, which have greater liquidity and are more easily valued compared to other types of assets (such as real assets).

ii. Risk Rating

The goal of the Pension System's risk rating process is to create a measurement of risk which may limit the composition of the Pension Fund portfolio according to the risk category of securities. In this sense, the better the risk rating, the greater the limits on pension fund investments.

Financial instruments issued by private institutions are subject to different rating processes, depending on their characteristics.

For national debt instruments, risk rating is carried out by two private companies.[51] The law authorizes the Risk Rating Commission (*Comisión Clasificadora de Riesgo*, or CCR) to request a third risk rating for national debt instruments in which Pension Funds may be invested, and, once this formality is completed, possibly to reject the ratings presented (with the votes of a majority of its members) or reject the lower risk rating (with the votes of five members). In the case of foreign debt instruments, risk ratings must be carried out by internationally acknowledged rating entities, provided that the Central Bank of Chile considers them for purposes of investing its own resources.

The risk categories that are allowed for Pension Funds are N-1, N-2 and N-3 for short-term instruments and AAA to BBB for long-term instruments. It is possible, however, for Pension Funds to invest in debt instruments with lower risk ratings, but this implies more restrictive investment limits. Private risk-rating companies were formally introduced into the risk-rating process of Pension Fund instruments by the so-called Capital Market Reform Law of 1994, which modified the Pension Fund Law. Its fundamental aim was to improve the evaluation of financial risk, which was formerly conducted by the CCR and only applied to Pension Funds. This process was expanded in the Pension Reform Law of 2008, which made it extensive to national stocks.

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[51] Risk rating agencies are under the supervision of the Superintendence of Securities and Insurance, and use the following ratings, according to the type of instrument:

– Short-Term Debt Instruments: From N-1 to N-5; where instruments rated N-1 have the lowest risk and instruments rated N-4 have the highest.

– Long-Term Debt Instruments: AAA to E, where instruments rated AAA have the lowest risk and instruments rated D have the highest.

Categories N-5 (for short-term instruments) and E (for long-term instruments) are reserved for instruments whose issuers do not submit enough information to receive a rating, or do not offer sufficient guarantees.

Pension Funds may purchase national stocks once they meet the minimum requisites established in the Investment Regime; if they fail to meet these requisites, they must be classified in the first group by at least two risk rating entities. In this sense, stocks shall be directly eligible in the general category when they possess a stock market presence greater or equal to 25%. This requirement also applies to stocks that have registered, within the last 180 business days, transactions on the formal secondary market for at least 200 UF (or its equivalent in Chilean pesos), over at least 25% of the corresponding period. Pension Funds may also be invested in stocks that do not meet these requirements, but the investment limits are more restrictive. Foreign stocks must be approved by the CCR, which considers the stock exchange in which they are traded.

Investment fund and mutual fund shares are approved by the CCR considering the characteristics of their regulations, the information submitted in the risk rating reports for these shares, the characteristics of the fund, and other factors. The CCR must approve foreign mutual and investment fund shares, following a request submitted by an Administrator, considering the following: the country risk; the characteristics of its regulatory, supervisory and sanctioning systems for issuers and their securities and the administrating company and its central office in the corresponding home country; the characteristics of the administrator and its central office; the policies and characteristics of the fund; the liquidity of the instrument in the corresponding secondary markets; and the existence of additional factors. It must be noted that the shares for funds approved by the CCR have greater investment limits than those for unapproved instruments.

iii. *Investment Limits*

The composition of the Pension Fund investment portfolio is determined by several types of investment limits, which are established by the legislation and the Investment Regime.

In general terms, the law stipulates that Pension Fund resources must be invested with the aim of ensuring an appropriate yield and security. This definition is implemented through investment limits, among other rules. Currently, the law establishes five structural limits per instrument, while the other investment limits –by instrument or group of instruments– are determined by the Investment Regime.

a. ***By instrument*****:** The goal of limits by instrument is to achieve an appropriate diversification of Pension Fund portfolios, reducing the combinations of risk and return that these may possess.

The five structural limits established by law are:

- Limits on government instruments.
- Limits on maximum investment in equity instruments for each type of Fund.
- Limits on investment abroad.
- Limits on investment in an uncovered foreign currency.

- Global limit on instruments of greater risk, such as high-risk debt, national stocks of low liquidity or which do not meet minimum requirements, and foreign stocks and shares of funds not approved by a Risk Rating Committee.

Meanwhile, the law allows the Investment Regime to set additional maximum limits on instruments or instrument groups. These are some of the main limits on instrument groups established by the Investment Regime:

- Bonds from public and private companies, exchangeable bonds from public and private companies, and negotiable instruments.
- Stocks in publicly traded corporations.
- Transactions or contracts for loans or mutuum through national financial instruments.
- Foreign instruments on loan.
- Instruments with a rating equal or less than BB and N-4 or with less than two risk ratings.
- Promissory notes for the subscription and payment of investment fund shares.
- Shares of Foreign Capital Investment Funds (*Fondos de Inversión de Capital Extranjero*, or FICE).
- Other public-offering instruments authorized by the Superintendence following a report by the Central Bank of Chile.

In order to differentiate the multifunds, the law also allows the Investment Regime to set minimum limits on capital instruments, including limits for Funds A, B, C and D.

b. ***By issuer:*** In this case there is a dual objective. The limit established as a percentage of the value of the Fund means that the concentration of Pension Fund investment in instruments issued or guaranteed by a single entity is kept within bounds, thus privileging diversification. As far as the limit established as a percentage of the assets or net worth of the issuer, the goal is to prevent Pension Funds from acquiring a significant weight in the decisions of the issuer. For example, in the case of a joint-stock company, the goal is to prevent a Pension Fund from acquiring a controlling interest in the company.

There are also different limits by issuer, depending on the economic sector involved. These may include the financial sector (banks and leasing companies), the external sector, investment and mutual funds, the State and private companies. At the same time, there are different limits within each of these sectors, depending on the type of instrument involved.

The limits placed on issuers in terms of Pension Funds are established in the Investment Regime, while the limits on the net worth or assets of the issuer are established by law.

c. ***Limits on issuers related to the Administrator:*** As of October 1, 2008, Pension Fund resources may not be directly or indirectly invested in bonds issued or guaranteed by the Administrator of the corresponding Fund, or in instruments issued or guaranteed by individuals related to this Administrator.

The following tables show the limits by instrument, group of instruments and issuer, for each type of Pension Fund.

TABLE III.4
LIMITS ON STRUCTURAL INVESTMENTS
(As a percentage of the value of Pension Funds)

INSTRUMENT	FUND A		FUND B		FUND C		FUND D		FUND E	
	MAXIMUM LIMIT RANGE		MAXIMUM LIMIT RANGE		MAXIMUM LIMIT RANGE		MAXIMUM LIMIT RANGE		MAXIMUM LIMIT RANGE	
	Min.	Max.	Min.	Max.	Min.	Max.	Min.	Max.	Min.	Max.
Issued by the General Treasury of the Republic, Central Bank of Chile, Ministry of Housing, Recognition Bonds and Other Government Securities.	30%	40%	30%	40%	35%	50%	40%	70%	50%	80%
Shared Limit: Foreign Instruments + indirect investment abroad through investment and mutual funds.	Maximum Limit Range: Minimum 30% VF (A + B+ C + D + E) ; Maximum 80% VF (A + B+ C + D + E)									
Limit per Fund: Foreign Instruments + indirect investment through investment and mutual funds.	45%	100%	40%	90%	30%	75%	20%	45%	15%	35%
Investment in foreign currency without exchange rate coverage	30%	50%	25%	40%	20%	35%	15%	25%	10%	15%
						Limit FUND B > FUND C > FUND D > FUND E				
Restricted Securities: Restricted ACC + [ACC+CFI+PFI] low liquidity + [CFI+CFM+CME+CIE] non-approved CCR + [DEB+BCA+ACC+ECO+ OAC] less than three years +[FIN+LHF+DEB+BCA+ECO+EXT+OAC] less than BBB and N-3 or with less than 2 ratings. Superintendence of Pensions may exclude letter K) instruments.	10%	20%	10%	20%	10%	20%	10%	20%	---	---
Variable Income (maximum limit): [National securities + foreign securities] if they are capital + other public-offering instruments that are capital instruments under the supervision of SVS or SBIF and authorized by the Superintendence of Pensions.	80%		60%		40%		20%		5%	
	FUND A > FUND B > FUND C > FUND D > FUND E									
Variable Income (minimum limit): definition same as for 5.	40%		25%		15%		5%		---	

TABLE III.5
MAXIMUM LIMITS ON INVESTMENT BY INSTRUMENT AND GROUP OF INSTRUMENTS
(As a percentage of the value of Pension Funds)

INSTRUMENT	FUND A	FUND B	FUND C	FUND D	FUND E
	MAXIMUM LIMIT	MAXIMUM LIMIT	MAXIMUM LIMIT	MAXIMUM LIMIT	MAXIMUM LIMIT
Public and Private Company Bonds + Exchangeable Public and Private Company Bonds + Negotiable Instruments	60%	60%	60%	60%	60%
National and Foreign Exchangeable Public and Private Company Bonds	30%	30%	10%	10%	3%
Open Joint-Stock Company Shares	60%	50%	30%	15%	5%
Operations or contracts for loans or mutuum of financial letter M) instruments (national)	15% of national portfolio	15% of national portfolio	15% of national portfolio	15% of national portfolio	15% of national portfolio
Instruments on Loan (Foreign)	1/3 Foreign Investment A	1/3 Foreign Investment B	1/3 Foreign Investment C	1/3 Foreign Investment D	1/3 Foreign Investment E
Restricted ACC + [ACC+CFI+PFI] low liquidity + [CFI+CFM+CME+CIE] non-approved CCR + [FIN+LHF+DEB+BCA+ECO+EXT+OAC] less than BBB and N-3 or with less than 2 ratings.	Same as for restricted instruments (CA line 4)	Same as for restricted instruments (CA line 4)	Same as for restricted instruments (CA line 4)	Same as for restricted instruments (CA line 4)	----
Instruments with a rating equal or les than BB and level N-4 or with less than 2 risk ratings	5%	4%	3%	2%	-
Contributions from promises of subscription and payment of investment fund shares	2%	2%	2%	2%	2%
Foreign Capital Investment Fund (FICE) Shares	1%	1%	1%	1%	---
Each type of letter K) instrument	1%	1%	1%	1%	1%

Capital Instruments
ACC: *Open Joint-Stock Company Shares.*
ACI: *Banking and Financial Shares.*
CFI: *Investment Fund Shares.*
CFM: *National Mutual Fund Shares.*
CME: *Foreign Mutual Fund Shares.*
CIE: *Foreign Investment Fund Shares.*

Debt Instruments
LHF: *Letters of Credit issued by Financial Institutions.*
ECO: *Negotiable Instruments.*
DEB: *Public and Private Company Bonds.*
FIN: *Fixed-Term Deposits and Other Securities representing Deposits by Institutions and Securities guaranteed by Financial Institutions.*

Others
BCA: *Exchangeable Bonds.*
OAC: *Other Instruments whose Issuers are overseen by the SVS and SBIF and authorized by the Central Bank of Chile.*
EXT: *Securities from Foreign Issuers.*

TABLE III.5 (Continued)

INSTRUMENT	FUND A	FUND B	FUND C	FUND D	FUND E
	MAXIMUM LIMIT	MAXIMUM LIMIT	MAXIMUM LIMIT	MAXIMUM LIMIT	MAXIMUM LIMIT
Total resources delivered as margins in hedge fund transactions of letter l), number II.1	2% National and 2% Foreign	2% National and 2% Foreign	2% National and 2% Foreign	2% National and 2% Foreign	2% National and 2% Foreign
Transactions with derivatives of letter l.2), number II.1 (investment derivatives)	3%	2%	2%	1%	----
Transactions with derivatives of letter l.2), number II.1 (investment derivatives)	Measurement of exposure: add the exposure in the asset subject to all relevant limits and subtract the corresponding “financing” of debt instruments.				
Investment Fund Shares + Amount of contributions committed through promises of subscription and payment of Investment Fund + Mutual Fund shares	40%	30%	20%	10%	5%
National Mutual Fund Shares	5%	5%	5%	5%	5%
Overnight + Time Deposit	2%	2%	2%	2%	2%
Structured Notes issued by foreign institutions.	4%	3%	2%	2%	---

TABLE III.6
MAXIMUM LIMITS ON INVESTMENT BY ISSUER

Instruments	INDIVIDUAL FUNDS	SUM OF FUNDS	
Sectors	**% FUND**	**% COMPANY**	**% SERIES**
I- Financial Sector			
- Deposits in current and fixed-term accounts, and Debt Securities, issued by banks, financial institutions and its subsidiaries, or guaranteed by them	10% VF x FR	MU1 x Net worth	---
- Stocks (when appropriate) + deposits in current and fixed-term accounts + Debt Securities issued or guaranteed	7% VF	---	---
II- Foreign Sector			
Stocks	1 % VF		
Debt securities	5% x VF x FR		
Mutual and Investment Funds	5 % VF		
Freely available stocks traded in national markets	0,30%xVF	7% x Stocks	
Investment Fund Shares of letter J) from a single issuer that does not require CCR approval	0,30%xVF		
Mutual Fund Shares of letter J) from a single issuer that does not require CCR approval	0,30%xVF	35% x Shares	
Structured Notes issued by foreign institutions	1% x VF x FR		
Short-term Deposits (Overnight + Time Deposit)	0.5% VF		
III- Derivatives Sector			
National derivative instruments OTC Foreign derivative instruments OTC	4% VF		
IV- Company Sector			
A Bonds and negotiable instruments			
Debt securities from leasing companies Bonds and negotiable instruments	7% VF x FR	0.7 x net worth	
Individual companies Bonds and negotiable instruments issued or guaranteed by individual companies	7% VF x FR	0.12 x assets of issuer	35% series
Central Offices and Subsidiaries Bonds and negotiable instruments issued or guaranteed	7% VF x FR	0.12 x net assets of consolidated issuer	
Securitizing Companies Bonds and negotiable instruments issued or guaranteed	7% VF x FR		35% series
Companies with less than 3 years' experience Bonds and negotiable instruments issued or guaranteed	---	---	---
B Business Groups			
Stocks, bonds and negotiable instruments issued or guaranteed	15% x VF		
C Stocks			
Joint-Stock Company Stocks	5% x VF x FC	7% x Stocks	20% new issuance
Stocks that do not meet eligibility requirements	0,30%xVF	7% x Stocks	
Bank or Financial Institution Stocks	2,5% x VF x FC	2.5% x Shares	
D Investment Fund and Mutual Fund Shares			
Investment Fund Shares + amount of contributions committed	5% x VF x FD	35% x Shares	35% new issuance
Mutual Fund Shares	1% x VF	35% x Shares	
Investment Fund Shares of letter H) that do not require CCR approval	0,30%xVF		
Mutual Fund Shares of letter H) that do not require CCR approval	0,30%xVF		
Contributions committed through promises of subscription and payment	0,5% x VF		
Foreign Capital Investment Fund Shares	1% x VF		
E Shares + Bonds + Negotiable instruments			
Individual companies (Funds A, B, C, D and E)	7% VF		

VF: *Value of the Pension Fund.*

FR: *Corresponds to the Average Weighted Risk Factor, obtained by adding the products of: the risk factor of the instrument or series issued or guaranteed by the institution, and the proportion of the corresponding Fund's investment in each instrument over the total value of the Fund's investments in different debt securities of the same issuer. Risk factors are determined according to the instrument's rating. Categories AAA and N-1 have a factor of 1, category AA has a factor of 0.9, category A has a factor of 0.8, categories BBB and N-2 have a factor of 0.6, and category N-3 has a factor of 0.3.*

MU1: *Corresponds to the Single Multiple for all financial institutions. Its value varies between 0.5 and 1.5. It has been set at 1.0 by the Central Bank of Chile.*

FD: *Corresponds to the Diversification Factor, which is calculated based on the proportion of the total assets of an investment fund that are invested directly and indirectly in instruments issued or guaranteed by a single issuer:*

Direct and Indirect Investment in the same Issuer	**Diversification Factor**
Inv. ≤ 20% of Total Fund Assets	1
20% < Inv. ≤ 25% of Total Fund Assets	0.8
25% < Inv. ≤ 1/3 of Total Fund Assets	0.6
1/3 < Inv. ≤ 40% of Total Fund Assets	0.2
Inv. > 40% of Total Fund Assets	0

FC: *Corresponds to the Concentration Factor, which is calculated based on the maximum concentration of effective property or the concentration permitted in the company's bylaws, and its compliance with Title XII of DL 3,500:*

Participation of Majority Shareholder		**Concentration Factor**
Subject to Title XII	≤ 32%	1
	> 32% < 50%	0.8
	≥ 50% ≤ 65%	0.6
Not subject to Title XII	≤ 32%	0.6
	> 32% < 50%	0.5
	≥50% ≤ 65%	0.4
	> 65%	0.3

iv. Authorized Markets

Transactions of financial instruments which involve Pension Fund resources may only be carried out in markets that have been expressly authorized for this purpose and that meet certain minimum requirements. These refer mainly to: the simultaneous presence of buyers and sellers of instruments in order to set prices, publicly available information, mechanisms for negotiating instruments, required infrastructure, and internal regulations. This is justified by the need to ensure that Pension Fund transactions are both fair and transparent.

Normally, all transactions involving Pension Fund resources must be carried out in the formal secondary market. However, debt and capital instruments being offered to the public for the first time may be acquired in primary markets, provided that they meet the conditions established in the Formal Primary Market Regulations. The Central Bank of Chile and the General Treasury of the Republic are also considered formal primary markets.

Another exception to the rule on formal secondary markets is made in the case of investments in single instruments (fixed-term deposits or certificates of deposit) issued by national and foreign financial institutions and which have not previously been traded. These investments may be carried out directly with the issuer. Stocks owned by Pension Funds may also be sold in public stock offers carried out under Title XXV of Law No. 18,045, and Pension Funds may participate in the voluntary redemption of the bonds mentioned in Article 130 of the same law.

Also, investments in mutual fund shares may be bought and sold directly from the company managing the fund. Meanwhile, all transactions or contracts concerning the loan or mutuum of financial instruments from national or foreign issuers, and derivative transactions carried out with clearing houses that meet the requirements established by the Risk Rating Committee are also exempt from the secondary markets rule.

The Superintendence of Pensions is empowered to oversee all transactions carried out with Pension Fund resources in the authorized markets, as well as those made by AFPs or individuals who, because of their job or position, have access to information about Pension Fund investments.[52]

v. Custody of Securities

Securities representing at least 98% of the value of the Pension Funds that must remain in custody are to be held by the Central Bank of Chile, in authorized foreign institutions or private securities deposit companies. At the same time, 100% of the securities representing investment abroad that must remain in custody are to be held by the aforementioned foreign institutions. This service must be provided by institutions with the necessary infrastructure and oversight to perform these activities. These requirements intend to provide safekeeping for the securities representing the Pension Fund investments.

At present, custody of financial instruments owned by Pension Funds in the local market is in the hands of the Central Securities Deposit, a privately owned body governed by Law No. 18,876. Also, investments representing foreign securities are held by two foreign custody entities.

Meanwhile, in order to improve the safekeeping of Pension Fund investments, financial instruments for all transactions made by Pension Funds in a national formal secondary market must be held by the Central Securities Deposit, except for the first transaction of Recognition Bonds and other securities authorized by the Superintendence of Pensions. In practice, this has meant that virtually all Pension Fund resources are currently in custody.

vi. Regulation of Conflicts of Interest

The current regulations[53] have established a series of limits on the performance of Administrators, their stockholders, executives and others, in situations where there is a conflict

[52] This power does not affect the ability of the Superintendence of Securities and Insurance to exercise its supervisory authority in these markets.

[53] Regulations introduced by the 1994 Capital Market Law, which modified Decree-Law No. 3,500 for issues of conflicts of interest, and by Pension Reform Law No. 20,255.

of interest between them and the Pension Funds they manage. The most important provisions on this subject are as follows:

a. Prohibition of direct and indirect investment in instruments issued by companies related to the AFP.

b. Obligation to invest resources from the Administrator’s cash reserve in shares of the Pension Fund that it manages, in order to eliminate the conflict of interests implicit in managing two separate investment portfolios, one belonging to the Administrator and the other to the members.

c. Rules that prohibit confidential information regarding Pension Fund investment decisions from being disseminated or used.

d. Description of the types of conduct that are prohibited for Administrators, whenever they may have an adverse effect on Pension Funds or bring wrongful benefit to third parties.

e. Inclusion of provisions designed to regulate the vote of AFPs in selecting the Board of Directors of companies in which the Pension Funds own stock. The rules encourage Administrators to vote for the most suitable and independent directors, that is, those who are not related to the controllers of the company. In this sense, the goal of elected directors must be to maximize the value of the company for all stockholders, while also constituting a stabilizing factor on the Board of Directors.

All individuals elected with a majority of votes of the AFPs to hold the position of director in companies whose stocks have been acquired with Pension Fund resources, must be registered with the Superintendence of Pensions. To join this registry, all candidates wishing to become directors must present a sworn statement that they are not legally ineligible to join the Board of Directors of the company or receive the vote of AFPs in representation of the Pension Funds, and must also accredit university or technical studies and an address in Chile.

f. Regulation of the election of the Boards of Directors of AFPs, so that those elected may be concerned only with achieving the best possible management of the Fund.

g. Obligation for the Board of Directors of all AFPs to include at least five directors, two of whom must be independent. An independent director shall be defined as one with no ties with the AFP, the other companies in the business group it belongs to, its controller, or with the main executives of any of these, any of which could potentially generate a conflict of interest or otherwise threaten their independent judgment.

h. Regulation of transactions carried out with instruments that are eligible for Pension Funds by individuals who, due to their job or position, possess knowledge about decisions adopted by the Pension Funds regarding the purchase, maintenance or sale of securities.

i. Implementation of internal control systems within AFPs, which must be audited externally in order to ensure compliance with rules on conflicts of interest.

j. Obligation for Administrators to inform the Superintendence of Pensions on financial instrument transactions in the formal secondary market between the different Funds managed by a single Administrator.

k. Obligation for Administrators to inform the Superintendence of Pensions on financial instrument transfers between the different Funds managed by a single Administrator. This rule allows AFPs to use multifunds to make direct transfers of securities between the different Funds it manages, for amounts equivalent to the transfers by members between Funds of a single Administrator.

l. Incompatibility between the function of marketing the services offered by AFPs with the function of marketing products or services offered or rendered by any of the entities of the business group to which the Administrator belongs.

m. Prohibition for general, commercial and investment managers; executives in commercial and investment departments; and sales agents of an Administrator to simultaneously hold similar positions in any entity belonging to the same business group as the Administrator.

n. Prohibition of sharing customer service facilities between Administrators and the entities of the business group to which it belongs.

o. Prohibition for Pension Fund Administrators to provide any of the entities of the business group to which they belong with information from the personal databases of its members.

p. Prohibition of making discounts on the benefits paid to their members or beneficiaries for purposes other than those of social security or those established by law, and which arise from obligations acquired with any entity of the business group to which the Administrator belongs.

vii. Minimum Yield

Every month, Pension Fund Administrators are responsible for ensuring that the annualized real yield during the previous 36 months, for each of the Pension Funds under their management, is no less than the lower of the following values:

a. The average real annualized yield over the previous 36 months of all Funds of the same type, minus four percentage points for Type A and B Funds and two percentage points for Type C, D and E Funds.

b. The average real annualized yield over the previous 36 months of all Funds of the same type, as the case may be, minus the absolute value of 50% of that yield.

If a Fund was created less than 36 months ago, the yield is measured only for the period during which it has been operational, and the fluctuation for the specific requisite in letter a) above is increased to six percentage points for Funds A and B and four percentage points for Funds C, D and E.

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For example, if in a given month the average real annualized yield over the previous 36 months for all Type C Funds is 3%, when a Pension Fund of this type has a real yield of less than 1% over the previous 36 months, the mechanisms established by law for safeguarding minimum yield will apply. On the other hand, if the average real annualized yield for the previous 36 months for all Type C Funds is 10%, when a Pension Fund of this type has a real annualized yield of less than 5% for that period, the mechanisms established in the law for safeguarding minimum yield will apply.

The safeguarding mechanisms mentioned above are as follows:

a. ***Cash Reserve*****:** This is an asset equivalent to 1% of the value of each Pension Fund, paid with resources belonging to the Administrator and invested in shares of the corresponding fund.

b. ***State Guarantee:*** If the minimum yield is not achieved, even after applying the resources of the cash reserve of the corresponding Pension Fund, and the AFP does not have access to additional financial resources, the State makes up the difference and proceeds to liquidate the Administrator.

viii. Investment Abroad

The accumulated resources of Pension Funds grow at a high rate and this make it necessary to provide new investment alternatives for these Funds on a permanent basis, both as regards to national and foreign securities. The existence of more investment alternatives makes it possible to satisfy the growing demand for financial assets, as well as the risk diversification needs of these institutional investors.

The maximum limit for investment abroad has been increasing since 1990, the year when it was first allowed. Currently, Pension Funds may invest their resources in foreign instruments under the following conditions:

a. ***Eligible Instruments:*** Current regulations authorize Pension Funds to invest in credit instruments, securities or negotiable instruments issued by foreign States, central banks or foreign or international banking institutions; stocks and bonds issued by foreign companies, foreign mutual fund and investment fund shares, that are commonly traded in international markets and meet at least the characteristics established in the Pension Fund Investment Regime. At the same time, for purposes of investment abroad, the Administrators may invest Pension Fund resources in securities representing financial instrument indexes, short-term deposits and foreign securities of Title XXIV of Law No. 18,045, that are traded on a national formal secondary market, and they may also subscribe contracts for asset loans. All of this must be done according to the conditions in the aforementioned Scheme. AFPs may also invest in other securities and financial instruments, perform financial transactions and subscribe financial contracts that have been authorized by the Superintendence following a report by the Central Bank of Chile, and under the conditions laid out in the Investment Regime.

b. ***Maximum Limits on Investment:*** The maximum limit on investment abroad for Pension Funds belonging to a single Administrator is the limit established for the sum of Pension Fund Types A, B, C, D and E, or the maximum investment limits established for each type of Fund.

By law, the Central Bank of Chile must set the maximum limit on the sum of investments abroad for the Type A, B, C, D and E funds of a single Administrator, within a range of 30% to 80% of the value of these Funds.[54] It must also set the maximum limits on investment abroad for each type of Fund within the ranges listed in the following table:

TABLE III.7
RANGE FOR THE LIMITS ON INVESTMENT ABROAD, BY TYPE OF FUND

Type of Fund	Minimum	Maximum
Type A Fund	45%	100%
Type B Fund	40%	90%
Type C Fund	30%	75%
Type D Fund	20%	45%
Type E Fund	15%	35%

Meanwhile, the maximum limits for Administrators on investments in foreign currency without currency hedging, for each type of fund, are fixed by the Central Bank of Chile, within the following ranges:

TABLE III.8
RANGE FOR THE LIMIT ON INVESTMENT IN FOREIGN CURRENCY WITHOUT CURRENCY HEDGING, BY TYPE OF FUND

Type of Fund	Minimum	Maximum
Type A Fund	30%	50%
Type B Fund	25%	40%
Type C Fund	20%	35%
Type D Fund	15%	25%
Type E Fund	10%	15%

In any case, the maximum limit set by the Central Bank of Chile for Fund Type E must be less than that of Fund Type D; and the latter must be less than Fund Type C, which must also be less than that of Fund Type B.

c. ***Formal secondary market:*** All trading of foreign securities made with resources belonging

[54] The limit is currently set by the Central Bank of Chile at 60% of the value of Funds.

to the Pension Funds must take place in a formal secondary market authorized by the Central Bank of Chile. However, single instruments issued by financial institutions which have not been traded previously may be purchased directly from the issuer. Also, investments in foreign mutual fund shares may be purchased and sold directly from the issuer. Transactions or contracts involving the loan or mutuum of financial instruments and transactions with derivatives are also excluded from the secondary market rule.

d. ***Investment Modes:*** Administrators may carry out investments abroad by buying or selling directly from brokers (or through brokers on Stock Exchanges), from clearing houses, or from other institutions authorized to operate in the formal secondary market, according to the requirements established by the Central Bank of Chile. Otherwise, this may be done through a foreign agent that must comply with the requirements of the Investment Regime.

e. ***Instrument Eligibility Requirements:*** Pension Funds may invest in foreign securities that comply with certain eligibility requirements or have been approved by the CCR, as follows:

- **Foreign Debt Securities:** The rating required to invest Pension Fund resources in foreign debt securities must be made by international rating entities that the Central Bank of Chile has approved for making its own investments. If these instruments are traded on the national market, they may use ratings generated by national rating entities.

- **Stocks:** Stocks issued by foreign companies are approved according to the market in which they are traded, after assessing country risk, regulatory, supervisory and sanctioning systems for issuers and their securities, the liquidity of the instrument in the corresponding secondary markets, and other factors. The country risk is assessed according to the risk rating of the country[55] of the stock exchange in which stocks or negotiable certificates are listed; a rating equal or greater to Category AA is required. If a formal secondary market meets the requirements established by the CCR, all stocks and negotiable certificates representing capital of foreign institutions shall be approved, with the exception of those belonging to Chilean companies. However, if a particular market fails to comply with the liquidity requirements, this may be analyzed for that specific instrument.

- **Foreign Investment Fund and Mutual Fund Shares:** The CCR is responsible for approving mutual fund and investment fund shares after evaluating a request submitted by an Administrator and considering the country risk; the characteristics of its regulatory, supervisory and sanctioning systems for issuers and their securities, as well as the administrating firm and its central office, in the corresponding countries of registry; the characteristics of the administrator and its central office; the policies and characteristics of the fund; the liquidity of the instrument in the corresponding secondary markets, and other factors.

[55] The country risk rating is the rating of long-term instruments issued by the foreign State or its central bank in foreign currency.

The CCR requires at least a Category A risk rating for the country where mutual or investment funds, their administrating firms and central office are located. The risk rating for the country whose regulations will be applicable to the mutual or investment fund, the administrating firm and its central office, and the stock exchange in which the investment fund shares may be traded, must be equal to or higher than Category AA.

The existence of regulatory, supervisory and sanctioning systems for the administrating firm, its head office and the mutual or investment fund is also assessed, as well as the liquidity of its securities in the corresponding secondary markets. The management company is required to possess a minimum sum of USD 10 billion being managed for third parties, and at least five years of experience managing this type of asset. Meanwhile, the mutual or investment fund must have at least USD 20 million in net assets of the value of contributions made by the administrating firm or related institutions, and five contributors not related with them. In addition, the policies of a mutual or investment fund must be approved by the CCR considering that the issuance of shares, bylaws and all other official documents must specify its policies on delinquency, granting of guarantees and use of derivatives, all of which must be coherent and consistent with the fundamental aspects of the fund, such as its objectives, policies and identification.

In the case of mutual funds, the liquidity of the instrument in the corresponding secondary markets must be approved by the CCR considering, among other aspects: the regulations that apply to the fund in terms of the liquidity and dispersion of share ownership, the share redemption periodicity, the frequency and characteristics of the determination of share redemption value, the liquidity of its investment portfolio, its asset liquidation policies, the characteristics of the authority of the administrating company to suspend the redemption of shares in order to safeguard the interests of contributors, the dispersion of share ownership among contributors, the characteristics of contributors, that the fund must have at least five contributors not related among themselves nor to the administrating firm or related entities, the authority of contributors to move shares between funds and the public, and the international dissemination of the redemption price of its shares.

f. ***External Custodians:*** According to current regulations, all foreign instruments acquired by Pension Funds and which are subject to being in custody must be held in custody. The Central Bank of Chile establishes the requirements for custodial institutions, which it has defined as all foreign banks or institutions located abroad which provide custody services, have at least five years of experience in these services, and have a short-term or long-term risk rating of at least A- for both the institution and its securities. Custody is also permitted for institutions established overseas in which securities may be deposited and held in custody, and which are devoted exclusively to custody services, as long as they are regulated and supervised in the country in which they are located, have at least five years of experience, and do not issue public-offering debt securities.

In any case, deposit and custodial institutions may subcontract all pertinent services with third party institutions, which shall be considered subcustodians. This subcontracting of services may only be carried out with institutions that have complied with at least the same requirements as custodial institutions and that commonly do business with the custodian. However, subcustodians that are subsidiaries of the deposit and custodial institutions are exempt from the risk rating requirement described in the previous letter, provided that they remain as subsidiaries, but this does not in any way limit the responsibility of the custodian, as established according to the generally applicable rules, and it express implies its direct responsibility in the performance of the services contracted with the Administrator in terms of Pension Fund investments, regardless of the terms of the current relationship with the custodian to this effect.

ix. ***Derivatives:***

Pension Fund resources may be used to carry out derivative transactions with the goal of hedging pension fund risk, or with other objectives. The Investment Regime outlines the types of transactions with derivatives (and their underlying assets) that are authorized for Pension Funds. These Regulations also condition the authorization of derivative transactions to the adoption of policies, procedures, controls and other restrictions capable of providing sufficient safeguards.

In light of the above, Pension Funds may use derivatives with hedging objectives and with investment objectives under the following terms and conditions:

a. ***Hedging derivatives:*** Administrators are authorized to hedge pension funds using derivatives such as options, futures, forwards and swaps with underlying assets in currency, stocks, bonds, interest rates or indexes. Hedging transactions shall be defined as the position in the derivative instrument that allows pension funds to partially or totally compensate for variations in the value of the underlying asset or group of assets, as previously determined by the Administrator.

The sum of the risk hedging operations made with Pension Fund resources, measured in net terms according to the underlying asset of this operation or its exposure, may not exceed the value of the investment maintained by the Fund in the instrument being hedged.

All national or foreign clearing houses that meet the requirements established by the Risk Rating Committee and have been approved by this entity are eligible for these types of operations.

b. ***Investment derivatives:*** Pension Funds are authorized to make investments using derivatives such as options and futures traded on the stock exchange with underlying assets in currency, stocks, bonds, interest rates or their corresponding indexes. They are also authorized to invest through forward and swap transactions with underlying assets in currency and interest rates. Derivatives with investment goals shall be defined as those which do not correspond strictly to the definition for hedging transactions in letter a) above.

Investments in options and futures must be made in Stock Exchanges with clearing houses that have been approved by the Risk Rating Commission. Similarly, this Commission must approve the clearing houses trading in forwards and swaps. Authorized derivatives with investment objectives must submit information on prices to the systems established by the Superintendence of Pensions. All losses of investments in these instruments must be evaluated daily by the Administrator, except when the nature of the risk justifies a different periodicity, in which case the frequency of evaluation may be stated in the risk management policy associated to these derivatives, which must be maintained by the Administrators and approved by the Board and the Investments Committee.

In any case, Administrators are prohibited from assuming short positions or net seller positions for these types of instruments.

x. ***Freely Available Instruments:***

Freely available securities shall be defined as those which are not required to comply with risk rating requirements. Currently, the purchase of both national and foreign freely available capital and debt securities is permitted, as long as it remains within the limits established by the Investment Regime, which are more restrictive than those required for rated instruments.

xi. ***Instrument Valuation:***

According to the terms of DL 3,500, the value of the accounting unit of each Pension Fund is set each day based on the economic or market value of investments. The valuation methods for the different instruments in the pension fund investment portfolio are therefore based on this principle, in order to avoid unintentional transfers of wealth between members of the System as a result of resources flowing in and out of the individual accounts.

For these purposes, the instruments that are eligible for the Funds may be divided into four groups: financial intermediation, fixed income, capital and derivatives.

a. ***Financial Intermediation Instruments:*** Financial intermediation instruments, with amortization and interest payment at term, are valued each day according to their economic value, considering the Internal Rate of Return (IRR) obtained from the transactions carried out in formal secondary markets. In order to determine the relevant rate, in the case of national issuers these instruments are grouped by category, with all national financial intermediation instruments of the same type, risk rating, term conditions and systems of readjustment or currency belonging to a single category.

In the case of financial intermediation instruments with interest paid prior to term, these are valued in a manner similar to that used for instruments in series, which is described below.

Some of the instruments valued by applying these methods include the deductible promissory notes of the Central Bank of Chile, fixed-term deposits or certificates of deposits from financial institutions, and negotiable instruments issued by national companies.

b. ***Fixed Income Instruments:*** Fixed income instruments are valued daily at the current value of future cash flows for the instrument, discounted at the relevant market rate. In the case of instruments from national issuers, the relevant rate is the average weighted IRR of all valid transactions in instruments belonging to a single category. All national fixed income instruments of the same type and issuer belong to the same category, and generally have similar conditions regarding term, nominal issuance rate, system of readjustment or currency, guarantees, etc. Meanwhile, the relevant market rate or price for instruments traded abroad corresponds to the IRR observed in international markets for this same instrument.

This valuation method for national instruments applies mainly to bonds of the General Treasury of the Republic, readjustable promissory notes, bonds and zero coupon bonds of the Central Bank of Chile, letters of credit issued by financial institutions, bonds of companies and financial institutions. In the case of foreign instruments, this method applies mainly to the bonds and zero coupon bonds of foreign issuers.

c. ***Capital Instruments:***

- **Capital instruments of national issuers**

Capital instruments of national issuers include shares, investment fund shares, mutual fund shares, and foreign capital investment fund shares. Shares are valued daily at the average weighted price of the last day of valid transactions, weighted according to the percentage representing the number of units traded in each of the transactions, compared with the total number of shares traded in the day. Valid transactions on a given day are defined as those where the amount involved in that day’s transactions in each formal secondary market is greater than or equal to 150 UF.

There are two methods of valuation for investment fund shares:

- When their annual presence on the stock exchange is less than 25%, shares are valued daily on the basis of the average weighted value of the transactions carried out up to the date of valuation. Thereafter, this price is periodically adjusted to the book value of the share, determined in accordance with the Annual or Four-Month Financial Statements of the investment fund. The first adjustment to book value is carried out twelve months after the start of the investment fund’s operations, and may be carried out earlier when these funds conduct an economic or market valuation of their assets, which is included in the Financial Statements. In the case of investment funds with investment portfolios consisting entirely of public-offering national securities, the first adjustment to book value shall be after the first four-month financial statement. This also applies to investment funds with investment policies that consider only the purchase of instruments that are registered as public-offering securities abroad.

- When their annual presence on the stock exchange is equal to or greater than 25% and they have been trading for at least three months, they are valued in a manner similar to that used for private company shares.

- Notwithstanding, in the case of investment funds that calculate the value of shares and publish this value daily, the regulations of the Superintendence of Securities and Insurance[56] stipulate that the price must be updated.

Meanwhile, mutual fund shares are valued according to the latest available price (redemption value) obtained from databases established by the Superintendence of Pensions.

- **Capital instruments of foreign issuers**

Capital instruments of foreign issuers are classified as shares, share certificates, investment fund shares, mutual fund shares and securities representing stock indexes.

Stocks, share certificates, investment fund shares and securities representing stock indexes are valued daily at the available closing price on the stock exchanges in which they are traded, obtained from the Bloomberg L.P. and Reuters databases.

Also, mutual fund shares are valued in accordance with the latest price available on the aforementioned databases.

d. ***Derivatives***: The valuation of transactions with derivatives carried out by Pension Funds is done differently, depending on whether they involve options, futures or forwards.

Options are valued daily, according to the average weighted value of the last day of transactions in national formal secondary markets or the observed closing price in international markets.

The average weighted value of the corresponding options is obtained from the average price of each valid transaction made on the last day of transactions, weighted by the percentage represented by the number of options traded in each transaction, compared to the total number of options traded. Only transactions greater or equal to 50 UF are considered for this purpose.

Options are valued independently for each series; in this sense, it is understood that options of the same type, with the same underlying asset, the same exercise price and the same date of expiration are part of the same series, "type" in this case meaning call or put options.

In the case of futures contracts, the valuation formula is not applied when the daily profits or losses from these contracts are received or paid through the daily variation margins determined by the clearing house acting as a counterpart for the Pension Funds in these

[56] Memorandum No. 1603 of the Superintendence of Securities and Insurance.

transactions. If these contracts do not involve margin compensation, the valuation is conducted in a manner similar to the case of forwards contracts.

In the case of forwards, the market value of a forward contract on day *t* is to be understood as the difference between the purchase or sale price of an asset at a specific future date, as established in the contract, and the existing valuation of the forward purchase or sale price of the same underlying asset on day *t*, on the same future date established in the contract.

6. Fee Structure

The Pension Fund Law lays down the following principles for the fees used by AFPs to finance their operations:

i. Administrators set fees freely, within the structure established in the law.

   Since fees are simply the price of a service, it is assumed that the freedom of members to choose their AFP, plus the competition between these institutions, will produce an appropriate level of fees from the point of view of the overall assignment of resources.

ii. Fees are uniform for all members[57] and for all Funds managed by a single AFP.

The following table shows the basis on which fees are applied and the way they are calculated.

TABLE III.9
FEE STRUCTURE

	Mandatory Contribution Individual Capitalization Account (CCICO)	
	Active Members	Pensioners
Item	Contribution Deposits	Temporary Allowance or Programmed withdrawal
Structure	Percentage on Covered Earnings	Percentage on Withdrawal

It must be pointed out that currently no AFP charges a fee for managing Compensation Savings Accounts.

The fee on contribution deposits, expressed as a percentage of the wages of contributors, is known as the additional contribution. It is important to mention that additional contributions paid to AFPs for management purposes also finance the cost of the disability and survivor insurance that they purchase along with the Life Insurance Companies selected through the corresponding tender, thus providing protection against these risks for their contributors.

57 The fee on contribution deposits includes the premium for disability and survivor insurance, and therefore is different for members who are not entitled to this insurance.

In addition, members who transfer any of their mandatory contribution balances more than twice in one calendar year between the Funds of a single Administrator must pay an exit fee. This fee cannot be deducted from the Pension Fund, that is, if a charge for such a fee exists the member must pay it directly. Currently no Administrator charges this type of exit fee.

With regard to programmed withdrawal fees, Administrators only charge a fee consisting of a percentage of the withdrawal.

7. Information for Members

The Pension System derived from individual capitalization offers workers a series of choices. First, upon entering the System, workers must choose the type of Fund they wish to be assigned to. Later, if they wish to do so, they may choose a new Fund. Also, when the period of mandatory assignment for new members in the Administrator that was awarded the tender has concluded, or when this Administrator is in any of the situations established by law as exit clauses, members may choose a new Administrator.[58] Second, there is no fixed age for retirement from active life, and in fact it is possible to retire early or postpone retirement. Finally, once the requirements for retirement are met, members may decide between four different pension options.

Nonetheless, for members to benefit from these options, they must have access to all necessary information, so that each time an opportunity for choice arises they can decide on the option that best matches their preferences. For this reason, both the current legislation and the regulations of the Superintendence of Pensions are oriented towards producing objective, timely information for members.

In the first place, the advertising used by Administrators is governed by specific regulations contained in memorandums issued by the Superintendence of Pensions. This is based on the fact that the Pension System is complex and that Administrators could misinform their members through advertising. It aims especially to ensure that the advertising is truthful and does not give rise to errors or confusion about the Administrator's institutional or capital position, or about the goals and bases of the Pension System. If an Administrator fails to comply with the conditions and requirements explained above, the Superintendence will request that the Administrator modify or suspend it and will apply sanctions in certain cases. The way in which this oversight is exercised consists in analyzing the advertisements used by each Administrator in both mass media and other channels: magazines, radio, television, pamphlets and other forms of advertisement.

In second place, the Administrators are obliged to provide all members with the following information:

i. ***Four-month Summarized Statement:*** Three times a year, in the months of February, June

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[58] See chapter on Ongoing Challenges, in regards to the tender for the management of individual accounts.

and October, all members whose capitalization account has shown some movement during the previous four-month period receive a summary, at their home address, of the movements in their mandatory contribution account during the last four months: deposits, charges and balance, both in Chilean pesos and in units (shares). The Superintendence of Pensions regulates the content of this statement, which makes it easier to understand the contents even when the member changes from one Administrator to another.[59]

ii. ***Information on Yield of Shares:*** In order for members to compare the performance of the different types of AFP Funds to which they are affiliated, and also with the rest of the industry, Administrators provide their members with a report listing the yield of shares in each type of Pension Fund, in all Administrators, over periods of 12, 36 and 60 months. This yield reflects only the yield from investments made by the AFP with Pension Fund resources. Therefore, it does not depend on the balance accumulated or the fees charged, and so it is equal for all members affiliated to a specific type of fund in an AFP. This information is sent out with the four-month summarized statement.

iii. ***Information on Yield of Individual Capitalization Account:*** With a similar goal to the previous paragraph, the law requires the Superintendence of Pensions to issue a four-month indicator of the yield of individual capitalization accounts. This indicator shows the yield of the account for the average member of each Administrator, and must also be sent out by AFPs to their members along with the four-month summarized statement. Members receive a comparative table with the yield of the individual capitalization account obtained for the average member of each AFP and Fund, during the last 12 months.

One of the main features of this indicator is that it is calculated after deducting all the fees that members must pay to the AFP, even though the percentage fee does not directly affect the balance of the account. In this way, the cost of providing the service offered by the AFPs is reflected along with the yield.

Therefore, the yield of the account measures the real profit or loss which a hypothetical member would have obtained in a mandatory contribution account if he/she had stayed in an AFP for a one-year period, deducting the pension cost.

iv. ***Information on Fee Structure and Pension Cost:*** In addition to the above, AFPs must send their members, together with the statement, a table with the personal pension cost for employees, self-employed or voluntary contributors without the right to disability and survivor insurance, and pensioners, as the case may be, and the annual difference in cost compared to the most inexpensive Administrator. To customize this statement, this calculation considers the level of covered earnings of each member. This information is sent out with the four-month summarized statement.

v. ***Personalized Pension Projection (PPP):*** Pension Fund Administrators must provide each member with a pension projection based on the total funds accumulated and the years remaining for the member to reach the legal retirement age, plus a series of suppositions on

[59] All System members receive at least one statement each year, even if their account has had no movement.

the yield of funds, the sum of future contributions, and the density of these contributions. This information must be sent out with the statements for the period between September and December of each year. The goal is for this projection to provide members with sufficient information to estimate the amount of the pensions they would obtain at retirement. It must be noted that this personalized projection is sent out beginning at age 30; members under this age are sent an annex that is not personalized and which encourages them to contribute at an early age.

Thus, for members over 30 years of age the following pension scenarios have been projected:

- Members who are more than 10 years under the legal retirement age, that is, women between 30 and 50 years of age and men between 30 and 55 years of age, receive a personalized annex which projects their pension under two extreme scenarios: in the first, the person contributes every month until the legal retirement age, using the average wages of the last six contributions; in the second, the person stops contributing and retires at the legal age with the funds accumulated up to that point. Then, members are presented with a series of recommendations to increase the value of their pension, such as APV, contributions as self-employed workers, or contributions for the total wages.

- Members that will reach the legal retirement age in 10 years or less, that is, women between 51 and 59 years of age and men between 56 and 64 years of age, receive an annex describing the advantages of postponing their decision to retire. Two projections are made for each member: one in which they contribute half of the months until they reach the legal age, and retire at that point, and another in which they contribute half of the months until they reach 3 years more than the legal retirement age (63 years for women and 68 for men) and retire at that point.

vi. ***Information about being assigned to a Fund:*** In order to provide information to members about transfers of resources between Funds, when they have not made a choice, Administrators must send, along with the four-month statements, information regarding the transfer of their resources to the Fund which corresponds to his/her age group.[60] This must be sent together with the four-monthly statements, sixty months before the first transfer of funds and up to twelve months after the last transfer. Also, in the case of members whose pension resources are totally or partially in a type of fund other than the one corresponding to their age, the Administrator must warn them of this situation on the four-month statement.

vii. ***Pension Booklet:*** AFPs must provide all newly affiliated members with a pension booklet, in which workers may ask for the balance in their CCI, in units and Chilean pesos, whenever they desire.

viii. ***AFP Information Board:*** All AFPs must have an information board on display in all

60 See Table III.2.

offices that are open to the public. The organization, size, content and distribution of these are regulated by the Superintendence of Pensions. Each board must show:

- Fees that members will be charged.
- Details of each Pension Fund: real annual yield of the share, value of the Pension Fund, composition of the portfolio, and value of the Pension Fund share.
- Details of the Administrator: subscribed capital, paid capital, cash reserve, net worth, name of the executive director and other directors, agencies, address, website, etc.

ix. ***Informative Leaflets:*** AFPs must produce information leaflets available to the public on different aspects of the Pension System. Since their main goal is to answer members' queries, these must be worded in simple language. The main subjects are: Pension Funds, Benefits of the System, Types of Pensions, Solidarity Pension Payment, Basic Solidarity Pension, Recognition Bond, Complaints, Individual Account, Fees, Transfers, Multifunds, Pension Consultation and Bidding System for Annuities and Withdrawals, etc.

x. ***Website:*** All AFPs must maintain a website containing, at least, the information included on the information board and in the information leaflets mentioned above. The Superintendence has described the operations that members must be allowed to perform on the website of their AFPs, including: request to transfer personal account to another Administrator, request to switch Funds, selection of APV and APVC, accessing four-month statement, obtaining certificates, submitting complaints and requesting passwords.

Complementarily, every four months the Superintendence of Pensions publishes an AFP Service Quality Index (*Índice de Calidad del Servicio de las AFP*, or ICSA), which measures the quality of services offered by each Pension Fund Administrator and allows them to be compared to the competition. The four-month measurements of the ICSA periodically reflect this performance in three areas: Pension Process, Relationship with Members and Account Management. Through the Superintendence of Pensions website, members may view the results of each variable included in this measurement; thus, all members interested in a particular service may compare the quality of this service in different AFPs.

In addition, the Superintendence publishes a Statistical Bulletin consisting of the following sections. The first three sections contain information on Memorandums, Sanctions and Rulings issued by the Superintendence. The fourth section contains information on fees, pension cost, the composition of additional contributions, and the yield of the account. The fifth section is dedicated to the System's demographic and economic statistics, such as members and contributors by sex, AFP, region of residence, CCI balance, covered earnings, etc. The sixth section is dedicated to financial information about Pension Funds, such as their assets and liabilities, the diversification of the portfolio by instruments, and the yield of Pension Funds. The seventh section consists of information about Administrators, specifically providing a list of directors and shareholders and the half-yearly balance and operating statements of AFPs. The eighth section provides information about economic indicators of interest, such as taxable income by region and economic activity, amount of the minimum pension and minimum income.

Finally, the ninth section provides information on unemployment insurance, including statistics on members, financial statistics, balances and results of the Unemployment Fund Administrator.

The Superintendence also has customer service offices in Santiago, Antofagasta, Concepción and Puerto Montt, as well as a website (www.spensions.cl) which provides members and the general public with greater access to information and orientations on the Pension System.

Finally, besides the information provided by the Administrators and the Superintendence, members or beneficiaries may contract pension advice services during their active life, which is provided by entities or individuals who help them with information and advice on the services and benefits considered in DL 3,500, so that members and beneficiaries of the system may make better decisions. These pension advisers must be listed in a registry created by the Superintendence of Pensions and the Superintendence of Securities and Insurance, which are also responsible for ensuring that this advice is delivered independently and without conflicts of interest. Members may request such advice while they are accumulating funds or when the time comes for them to choose a pension option. Members must pay for advice received during their active life with resources different from their pension savings and for advice received upon retirement with their individual capitalization accounts, subject to limits established by law; specifically, the total sum of pension advice fees during this stage may not exceed 2% of the individual capitalization account funds of each member that are destined to pensions, or more than 60 UF.

8. Delinquency

DL 3,500 stipulates that employers must retain the pension contributions for employees and make the deposit in the AFP to which the worker belongs. Pension contributions must be paid by employers within the first 10 days of the month following that in which the wages accrued, or until day 13 of each month if the payment is made online. If an employer does not pay the contributions, he/she must declare them within that same period of time or present the corresponding termination notice. The law states that when the employer makes the retention but not the corresponding payment, the debt must be paid with readjustments and penalty interest. When this occurs, Administrators are obliged to take all administrative and legal actions needed to ensure that the contributions due are indeed collected.

If the contributions are not declared within the corresponding period, employers have until the last working day of the second month after their expiration to prove to the corresponding Administrator their exemption from contributing for their workers, due to termination or suspension of the employment relationship.

During this same period, Administrators must take all actions needed to clarify the existence of unpaid pension contributions and, if necessary, to obtain payment. For this purpose, when an Administrator has no record of the termination of an employment relationship for workers who have unpaid pension contributions, it must ask the Unemployment Fund Administrator to provide information about this situation.

If termination or suspension of an employment relationship has not been duly accredited by the established deadline, it is presumed that the corresponding contributions were declared and not paid. A contribution declaration without payment is automatically generated, and the AFP must initiate payment collection.

Contributions that are not paid on time are readjusted according to the CPI. At the same time, for each day of delayed payment, the readjusted debt accrues penalty interest equivalent to the current interest rate for readjustable transactions in local currency, increased by 50%.[61] If, in a given month, the readjustment and penalty interest, increased as stated, is less than the interest for non-readjustable transactions as fixed by the Superintendence of Banks and Financial Institutions, or the nominal average yield of all Pension Funds over the last twelve months, all increased by 50%,[62] the higher of these two rates is applied, in which case the readjustment is not applied.

Readjustments and interest are paid, together with the contributions, into the member's individual capitalization account. However, the interest surcharge, equivalent to 20% of the interest which would have been payable if applying simple interest on the readjusted debt, is for the benefit of the AFP.

Also, if an employer does not declare the contributions, or if the declaration is incomplete or false, he/she is subject to a fine of 0.75 UF for each worker,[63] payable to the Treasury. It is the responsibility of the Labor Department to oversee employer compliance with social security obligations and also to apply sanctions.

If an employer makes a declaration and does not pay, or if there is no payment or declaration of pension contributions and this omission is not justified through a termination notice sent by the employer, the information on contributions sent to a member in his/her Statement may not be interrupted, but rather must highlight the corresponding debt or delinquency. If an Administrator suspends this delivery of information, it must communicate to the member, at least once a year, the status of his/her individual capitalization account.

The concept of delinquency is defined in the law as unpaid contributions. The amount of declared and unpaid contributions (including automatic declaration without payment), is reflected in the financial statements and accounting of the Pension Fund in memorandum accounts. This is a way of representing the Administrator's responsibility to actually charge the employers for these contributions, which, once paid, will be added to the Pension Fund's net worth and consequently to the individual fund of any member affected by the non-payment. The balance of declared and unpaid contributions (including automatic declaration without payment) records the amount for which no payment has been received from the employer at the close of a given financial year, but this has been recognized as debt through the declaration of these contributions, or it has been presumed that the contributions were declared and not paid after a termination notice was not submitted, as the case may be.

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[61] As of March 1, 2006, Law No. 20,023 increased this percentage, which was previously 20%.

[62] As of March 1, 2006, Law No. 20,023 increased this percentage, which was previously 20%.

[63] As of March 1, 2006, Law No. 20,023 increased the amount of the fine from 0.5 UF to 0.75 UF.

The breakdown of these memorandum accounts is as follows:

i. ***Declared Unpaid Contributions:*** This item includes contributions to the Pension Fund that have not been paid by the established deadline and for which the employer made a Declaration without Payment. In other words, in this case the employer, by means of a form which he/she has signed, recognizes the debt with regard to his/her employees.

ii. ***Automatically Declared Unpaid Contributions:*** These are Pension Fund contributions which have not been paid by the established deadline, and for which the employer has not made a Declaration without Payment, nor accredited, within the legal period and before the corresponding Administrator, any exemption from the obligation to pay the pension contributions of his/her workers due to termination or suspension of the employment relationship. In other words, in this case the employer's debt has been automatically accredited and the payment collection process may begin.

iii. ***Unpaid Contributions resulting from Non-Tallying Payrolls:*** These correspond to contributions to the Pension Fund which are unpaid because of errors committed by employers, in the sense of having paid an AFP less in contributions than the total listed in the payrolls.

Delinquency caused by declarations without payment and automatic declarations without payment creates a debt of employers towards their members. This debt generates civic and possibly criminal responsibilities,[64] which are dealt with in Courts of Justice.

The prejudicial collection stage begins on the date when contributions were declared and not paid, and considers a maximum period of 180 days. During this stage, AFPs must take all extrajudicial or administrative actions in order to collect payment: letters to the employer, personal and telephone contact, etc. If payment has not been received when this period expires, the judicial collection stage begins. This is characterized by the issuance of an executive order for judicial collection (court ruling).

5 years after the date of the termination of the employment relationship, all collection actions for pension contributions, fines, readjustments and interests shall be prescribed.

Law No. 20,022 and Law No. 20,023 were published in May 2005; the former created the Labor and Pension Collections Courts, while the latter modified the regulations on judicial collection of pension contributions.

Law No. 20,023 entered into effect on March 1, 2006, simultaneously with the opening of the Labor and Pension Collections Courts, which are specialized courts with the technical capacity to oversee all collection processes for unpaid contributions and which are exclusively dedicated to

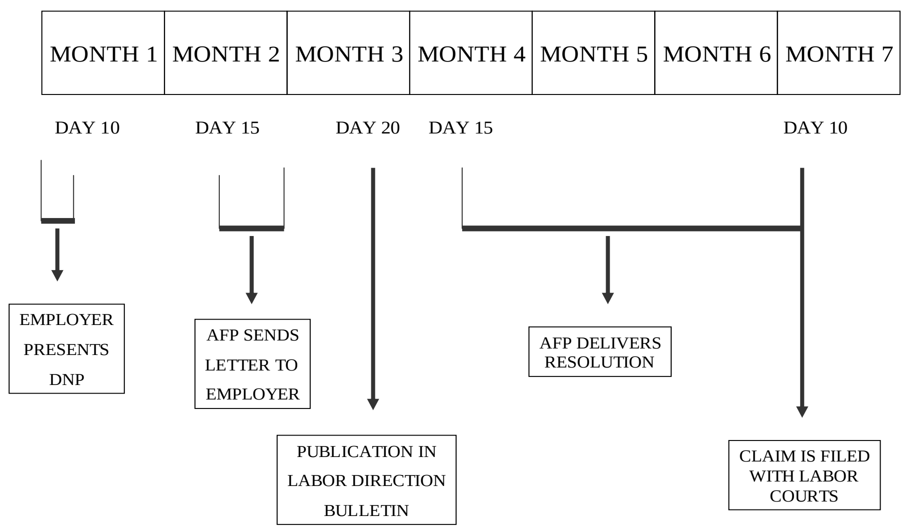
[64] Article 13 of Law No. 17,322 establishes the crime of unlawful appropriation of pension contributions: "Without detriment to the provisions of Articles 12 and 14 of this law, the punishments listed in Article 7467 of the Penal Code shall be applied to those who, in detriment of a worker or his/her legal heirs, appropriates or diverts moneys from contributions discounted from the worker's wages."

this task. Throughout most of the country, this measure has relieved the Labor Courts of this function, as they had previously been burdened with many of these cases.[65]

The legal changes in terms of judicial collection of contributions, besides increasing the readjustments, interests and fines for delinquent employers, has simplified the collection procedure, making it faster and more efficient and offering more guarantees and rights for workers in these trials.

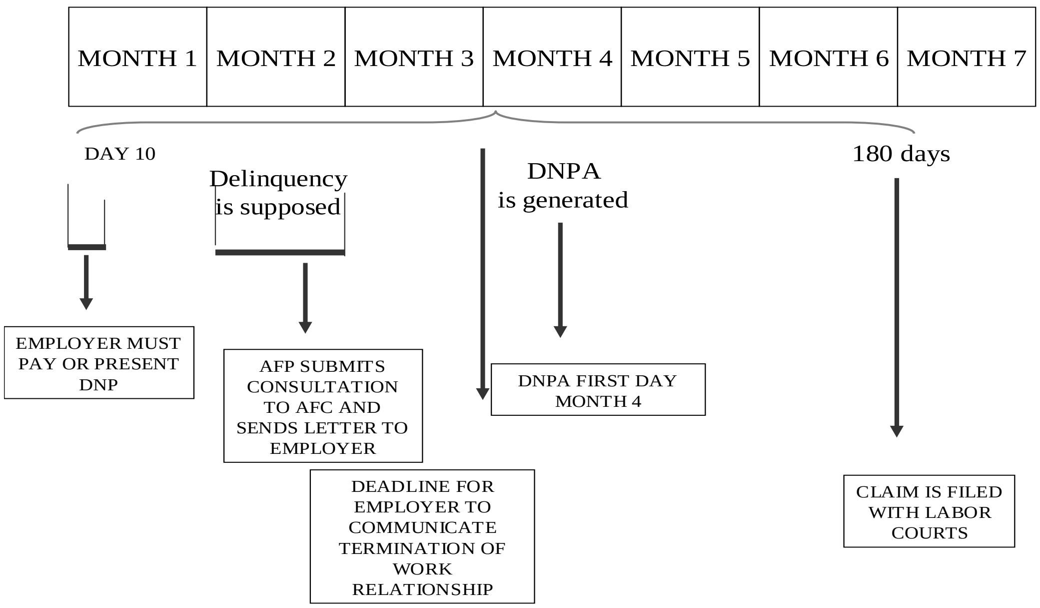
One important reform introduced by Law No. 20,023 is the possibility of workers, trade unions and business associations to directly demand that AFPs pursue collection actions for pension contributions in court, without having to hire an attorney.

TABLE III.10
CALENDAR OF THE PAYMENT PROCESS
Calendar of Statement and Non-Payment (DNP)



[65] Labor and Pension Collections Courts were established only in some of the country's jurisdictions. For those in which no such Courts have been established, the new Collection Procedure shall be applied by Labor Courts or by Circuit Courts with local jurisdiction.

Calendar of Automatic Statement and Non-Payment (DNPA)



9. Pension Services by Internet

In the last few years, the development achieved by the Internet in the electronic exchange of information and funds has made it possible to carry out transactions with appropriate levels of security, integrity and confidentiality. Since 2001, this technological progress has allowed the Superintendence of Pensions to authorize the payment of pension contributions and compensation payments via Internet.

This method of collecting contributions has reduced the transaction costs incurred by companies and self-employed workers in paying their pension contributions.

As a means of safeguarding the efficiency and security of the online collection service, this may only be carried out by companies that manage websites which comply with the technical standards required by the Superintendence.

Under this scheme, employers may pay their pension contributions and compensation payments using a method which includes the design of a totally online system, or a mixed system which combines online transfers of information with a physical form of payment through an agency belonging to the Administrator or some other institution with which it has subscribed a collection agreement.

On the other hand, in order to allow Pension Fund Administrators to extend their customer service coverage and make their services more efficient for members and employers, there are regulations governing the standards of quality and security in all services provided by these institutions on their websites. AFPs are also allowed the freedom to provide other services that they decide to include voluntarily on the website.

The services which Administrators are legally obliged to provide via the website are:

a) Requesting the transfer of personal accounts from one AFP to another.
b) Submitting the form for Changing Pension Funds.
c) Submitting the form for Pension Fund Surplus Option.
d) Issuing and delivering a detailed, four-month summarized statement, according to the current regulations. At the request of the worker, online delivery of this statement may replace mail delivery.
e) Requesting and providing certificates of membership, movement and balance of personal accounts. All certificates of membership must indicate the date of affiliation to the system and the particular AFP.
f) Reviewing complaints submitted by members through the website and resolving them according to the procedures and within the terms established in the current regulations.
g) Requesting security passwords.

On their websites, Administrators may also offer members and employers other pension services such as affiliation, pension processing, withdrawal of funds, issuance of certificates other than those listed in the previous paragraph, updating personal information of members and beneficiaries, etc.

In all operations involving transfers of funds, users must be provided with security mechanisms, consisting of a simple or advanced security password or electronic signature. These mechanisms will allow users to prove their identity when carrying out transactions.

These provisions are designed to improve the quality of the services that Administrators offer their members. Meanwhile, the possibility of changing AFPs on the website creates a new marketing channel which allows members to switch from one AFP to another with lower transaction costs.

10. System Supervision and Regulation

Considering the mandatory nature of contributions to the Pension System, the State is committed to guaranteeing the security of resources accumulated in Pension Funds. The government guarantees for the first pillar also imply a future use of public resources, making it important to control Pension Fund transactions so that these resources are granted only when members lack the means to obtain a minimum pension or a Solidarity Pension Payment, or for reasons beyond their control and not caused by inefficiency or mishandling by the system or the corresponding AFP. Furthermore, since Pension Funds are a source of funding for investments in various economic sectors of the country, it is important to guarantee appropriate supervision of these resources. Supervision of this system is the responsibility of the Superintendence of Pensions.[66]

[66] The functions and organizational structure of the Superintendence are described in Chapter I.

11. Transferability of Individual Accounts

Chile has subscribed a series of bilateral pension agreements with other States which, in general terms, allow members of the AFP System who have made contributions in both Chile and the other contracting State to receive parallel pensions in both countries, using the total of the periods covered where this is necessary to complete the minimum number of years contributed, or, in the case of Chile, to be eligible for the State-Guaranteed Minimum Pension. Members of the Pension System are eligible for pension agreements in force with the following countries: Argentina, Australia, Austria, Belgium, Brazil, Canada, Czech Republic, Denmark, Ecuador, Germany, Finland, France, Luxembourg, the Netherlands, Norway, Peru, Portugal, Quebec, Spain, Sweden, Switzerland, the United States, and Uruguay. However, except for the agreement with Peru, these agreements have not considered the possibility of transferring the resources accumulated for pension purposes from one State to another, mainly because in most cases they have been subscribed with countries using pay-as-you-go pension systems.

Given the increasing mobility of workers between countries, it seems convenient to allow the transfer of balances accumulated in Pension Funds, when a worker belonging to an Individual Capitalization System changes his/her country of permanent residence; in others words, establishing the “transferability” of individual accounts. However, to achieve this purpose, agreements must be subscribed between Chile and all countries interested in implementing transfer mechanisms for individual accounts, since transferability of accounts between countries must be based on general principles that are accepted by both countries.

Under this premise, in August 2002 a bilateral pension agreement was subscribed with Peru, which authorizes members of Individual Capitalization Pension Systems from both countries to voluntarily transfer the balances accumulated in their individual accounts from one country to another, to be managed by their chosen AFP. This agreement was submitted to Congress in both countries; Chile approved it and published it in the Official Newspaper on April 29, 2004. Meanwhile, the administrative decision to apply the agreement was subscribed on August 23, 2005 and in May 2006 a Complementary Agreement for the Transfer of Pension Funds was subscribed. This agreement has been in effect since October 1, 2006.

These are the main characteristics of the agreement on transferability of individual accounts:

- It allows the transfer of pension funds deposited in individual capitalization accounts to a Pension Fund Administrator in the other country where the member has established permanent residence. In order to guarantee the pension nature of the transfer, they must accredit contributions to an individual capitalization system for at least 60 months or be receiving a pension in the country to which funds are to be transferred.

- The pension fund transfer must consider all mandatory contributions which the member maintains in his/her individual account on the date of the transfer. These funds will be deposited as mandatory contributions into the individual account of the worker.

- If the member wishes, voluntary contributions paid in Chile may also be included in this transfer, provided that they comply with all Chilean tax rules on withdrawals of contributions from individual capitalization accounts.

- All pension benefits granted in Chile and financed with Peruvian Pension Funds will be subject to Chilean tax rules for the part corresponding to contributions paid in the Chilean Pension System and for the yield obtained from transferred funds.

- The transfer of individual account resources includes the Recognition Bond, as long as it meets the requirements of the corresponding country. The Recognition Bond shall be liquidated only in cases which have fully accredited all requirements, according to the law of the country in which the Bond was issued. If, according to the legislation of the country from which Pension Funds are withdrawn, the Recognition Bond may not be liquidated, the member will have the right to trade the document on that country's formal secondary market in order to carry out the transfer.

- Disability and survivor insurance and funeral expenses or fees for workers affiliated to the Individual Capitalization System are governed by the laws of the country in which the corresponding Administrator has established its address. For this purpose, workers transferring their individual capitalization account are considered new or recently incorporated workers.

- All members who, at the date of entry into effect of the Agreement, are receiving a pension under the Chilean or Peruvian legislations, have the right to request the transfer of their Pension Funds to the country where they are receiving such a pension. Once the funds are transferred to the destination country, the amount of this benefit must be recalculated or added onto, as the case may be, according to the provisions of the law.

CHAPTER IV

DESCRIPTION OF THE THIRD PILLAR: VOLUNTARY SAVINGS

The third pillar of the Pension System, known as the "voluntary pillar," includes several voluntary savings plans: Voluntary Pension Savings, Collective Voluntary Pension Savings and Voluntary Savings Accounts, which provide additional protection for individuals who wish to obtain a pension greater than what they might be entitled to under the mandatory pillar alone. These savings are also managed by private institutions, including but not limited to the Pension Fund Administrators.[67]

The main goal of the third pillar is to increase the balance accumulated in individual capitalization accounts and the amount of pension obtained; alternatively, it creates the possibility of early retirement. These voluntary contributions may also compensate for periods when no contributions were made due to unemployment or other causes, or they may simply be used as savings for whatever purposes members determine. Some of these alternatives are also available for workers who are still contributing in the Social Security Institute, allowing them to obtain an additional pension upon retirement.

The different types of voluntary savings plans are described below.

1. Voluntary Pension Savings[68]

i. Voluntary contributions:

This alternative allows members to deposit a higher percentage of their income than the mandatory 10% in their individual capitalization accounts. Members may freely contribute up to 50 UF per month, which is equivalent to 1,046,651 Chilean pesos (CLP).[69] This contribution represents a tax benefit for the member, because it is tax-exempt up to the maximum given; in other words, these payments have the same tax advantages as the mandatory contribution but are not taken into account when deciding entitlement to the State-guaranteed minimum pension, calculating additional contributions for disability and survivor pensions, or granting Solidarity Pension Payments from the Solidarity Pension System. Furthermore, workers may withdraw these contributions at any point by paying a surcharge fee over the corresponding global complementary tax, or withdraw them as freely-usable surpluses, if applicable.

[67] In the AFP System, both voluntary savings and mandatory savings are managed under the multifunds scheme described in Chapter III.

[68] The voluntary pension savings mechanism was modified by Law No. 19,768, in effect since March 1, 2002. This law introduces tax changes to the capital market and flexibilizes the voluntary savings mechanism.

[69] This considers the UF value on June 30, 2009.

Voluntary contributions possess an alternative tax benefit designed mainly for lower-income workers who are not obliged to pay taxes.[70] This option aims to eliminate tax payments on withdrawal of funds, when a worker not subject to taxation did not therefore receive a tax benefit at the time contributions were made. Using this alternative mode, members may choose not to claim tax deductions when making voluntary pension savings and, therefore, if they later decide to withdraw these savings, they are only required to pay taxes on the yield obtained from the amount withdrawn, in a manner equivalent to the tax treatment applicable to the voluntary savings account. In this same case, when contributions made are used to finance a pension, the income tax on the amount of voluntary savings is deducted.

In addition, workers who have chosen this alternative tax benefit have the right to a State bonus if they use their savings to finance a pension. The amount of this State bonus is 15% of all voluntary savings made by the worker and used for early retirement or to increase the pension. These funds are added to the individual capitalization account each year. In any case, for each calendar year this bonus is limited to six UTM[71] (at the UTM rate determined for that same year).

The total amount of voluntary savings made by using either tax benefit –that is, by using funds as savings or withdrawing them– is limited to 600 UF (equivalent to CLP 12,559,812)[72] for each calendar year.

- **Tax Benefit**

The following table shows simulations of the tax benefit obtained at different levels of income for workers who decide to lower their taxes when making voluntary contributions. A Voluntary Pension Savings of CLP 200,000 is supposed for a specific month.

70 In October 2008, Pension Reform Law No. 20,255 expanded the tax benefits of APV. This legal modification allows voluntary pension savings to be promoted among workers whose wages or income are not subject to income tax, by equalizing the expected tax benefit between workers of different wage levels and different marginal income tax expectations.

71 This corresponds to CLP 220,752, using the UTM value in June 2009.

72 This considers the UF value on June 30, 2009.

TABLE No. IV.1
EXAMPLES FOR DIFFERENT LEVELS OF INCOME
(In June 2009 Chilean Pesos)

Gross Income	**900,000**	**1,600,000**	**2,500,000**	**3,200,000**	**6,500,000**
AFP+Health Care Deduction	177,030	247,052	247,052	247,052	247,052
Taxable Income without APV	722,970	1,352,948	2,252,948	2,952,948	6,252,948
Marginal Rate	5%	10%	15%	25%	40%
Net Income without APV	**711,557**	**1,297,357**	**2,086,322**	**2,642,542**	**4,795,235**
APV	**200,000**	**200,000**	**200,000**	**200,000**	**200,000**
Taxable Income with APV	522,970	1,152,948	2,052,948	2,752,948	6,052,948
Marginal Rate	5%	10%	15%	25%	40%
Net Income with APV	**521,557**	**1,117,357**	**1,916,322**	**2,492,542**	**4,675,235**
Net Income Reduction	**190,000**	**180,000**	**170,000**	**150,000**	**120,000**
Tax Benefit	**10,000**	**20,000**	**30,000**	**50,000**	**80,000**

Suppositions: *- AFP Contribution Rate: 12.67% (average variable commission of the System)*[73]
- Health Care Discount Rate: 7%
- Earnings are received only as an employee.

By analyzing this table, we may conclude that the tax incentives for APV increase with wages, in some cases lowering the corresponding marginal income tax rate. Thus, if a person whose income requires a marginal rate of 40% has a Voluntary Pension Savings of CLP 200,000, his/her net income only drops by CLP 120,000. Therefore, if the marginal income tax rate due is lower at the moment of withdrawal, the person would be saving money on taxes.

- **Freely Available Funds**

The law allows workers to partially or totally withdraw the balance accumulated through voluntary contributions at any moment of their working life, not only upon retirement. Before March 2002, this balance could only be withdrawn when workers retired.

If the worker used the tax benefit when making voluntary savings contributions and made withdrawals before retiring, these funds are subject to a special additional tax and are considered income for the year the withdrawals were made. This aims to encourage workers to keep their savings in order to increase their future pension or retire early, by rewarding individuals who act with foresight in terms of their need for resources in old age.

- ***Withdrawal before meeting conditions for retirement:***

The aforementioned withdrawal is subject to an additional rate of between 3% and 7% over the contributor's global complementary tax.

The following tax rate applies to withdrawals:

73 Average rate on June 30, 2009.

$$Tax\,Rate = 0.03 + \left[1.1 \times \left(\frac{ICR - ISR}{R}\right)\right]$$

Where:

ICR = Corresponds to the amount of the global complementary tax, determined based on wages for the fiscal year, including the readjusted amount of withdrawals.

ISR = Corresponds to the amount of the global complementary tax, determined based on wages for the fiscal year, not including the amount of withdrawals.

R = Corresponds to the readjusted amount of withdrawals.

- ***Withdrawals for pensioners or those who meet requirements for retirement:***

  For withdrawals by pensioners or individuals who meet the age requirements and pension amount requirements established in DL 3,500 (1980) or in DL 2,448 (1979), the tax rate will be as follows:

$$Tax\,Rate = \left(\frac{ICR - ISR}{R}\right)$$

  Where the terms ICR, ISR and R have the same definitions as above.

If the worker did not use the tax benefit when making voluntary contributions and made withdrawals before retiring, these withdrawals are not subject to the aforementioned additional tax rate; however, the yield generated by the contributions withdrawn is subject to taxes. At the same time, in the case of withdrawal of funds before retiring, the worker loses the fiscal bonus of 15% of all savings.

- **Type of institutions which may offer voluntary pension savings**

Workers may choose a broad variety of capital market institutions and financial instruments to manage their voluntary contribution savings and agreed deposits. The following institutions are authorized to manage APV: Pension Fund Administrators, Mutual Fund Administrators, Investment Fund Administrators, Housing Fund Administrators, General Fund Administrators, Life Insurance Companies, Banks and Securities Intermediaries whose plans have been approved by the Superintendence of Securities and Insurance.

This measure aims to encourage savings and provide individuals with a broad variety of investment choices for their Voluntary Pension Savings, with diverse combinations of risk and expected return.

- **Coverage**

Employees, self-employed workers who are making pension contributions,[74] and contributors in any of the pension systems managed by the Social Security Institute may all initiate Voluntary Pension Savings in any type of institution authorized to manage them.

Voluntary Pension Savings establishes the bases for expanding the coverage of the Pension System and increasing the amount of the pensions obtained by workers when they retire.

- **APV as Protection in the Event of Unemployment**

Voluntary Pension Savings may also prove useful for generating self-protection in the event of unemployment. Below is an example for a worker who uses a tax benefit when contributing towards an APV.

Example:

A worker receives a monthly wage of CLP 833,333 (equivalent to CLP 10,000,000 yearly) which withdraws APV for CLP 7,000,000 in one year.

The managing institution is obliged to retain 15% over the amount of the withdrawal, that is, the net withdrawal is CLP 5,950,000.

Scenario 1: The worker makes the withdrawal while employed.

Tax rate upon withdrawal:	11.21%
Taxes due:	CLP 784,490
Refund upon reliquidation:	CLP 265,510

Scenario 2: The worker makes the withdrawal while unemployed.

Tax rate upon withdrawal:	**3.71%**
Taxes due:	CLP 259,521
Refund upon reliquidation:	CLP 790,479

The previous example shows that there is a tax benefit of CLP 524,970 on APV withdrawals when an individual is facing unemployment.

- **Other Provisions that Regulate Voluntary Contributions**

Choice of Alternatives

Voluntary pension contributions may either be paid directly to the authorized institution or indirectly through the worker's AFP, which must transfer them to the institution the worker has

[74] For each UF contributed, members shall be entitled to make a tax-free voluntary contribution of 8.33 UF.

selected. At the same time, contributors of the Old System may make their payments to the IPS, which must transfer them to the institution the worker has selected. In both cases, the worker may make the deposit personally or request its employer to deduct it from his/her paycheck.

Fees

Both AFPs and the IPS are permitted to charge a fee for their collection and transfer services, which is a fixed sum that is equal for all destination institutions. The purpose of this provision is to guarantee the equal access of all workers to all investment possibilities.

Institutions are allowed to charge a fee for managing these types of resources. AFPs may only establish fee as a percentage of the voluntary savings balance. These fees and any modifications must be communicated to the public in the manner and on the dates established by the corresponding Superintendence.

Dissemination, Promotion and Information

In order to promote competition between savings alternatives, the yield obtained by institutions may only be presented in advertisements by yearly rates. These advertisements must also report net costs and fees, and must be based on the official information issued by the corresponding Superintendence.

Choice of Pension Funds

All workers and pensioners may make their voluntary contributions in any of the five Funds managed by their AFP, regardless of age. They may also maintain these funds in a different type of fund than their mandatory individual capitalization account.

Meanwhile, as with mandatory contributions, members may transfer their voluntary contribution balances freely between the Funds of a single AFP. The Administrator may charge members a fixed commission when more than two transfers are made in one calendar year.

In addition, members and Pension Fund Administrators may agree to assign each voluntary savings balance to two different types of funds.

Communication and information for members

- ***Four-Month Summarized Statement:*** Administrators are obliged to inform all members who have opened a Voluntary Pension Savings Account, Collective Voluntary Pension Savings Account and Compensation Savings Account of the status of these accounts, through an individual Four-Month Summarized Statement for each account. These statements must have the same characteristics as the statement for Mandatory Contribution Individual Capitalization Accounts.

- ***Information Leaflets:*** Administrators must provide the public with information leaflets on diverse aspects of the Pension System, including those that refer to voluntary savings.

- ***Website:*** The Superintendence has established the minimum voluntary savings operations that members must be allowed to perform on the website of their AFPs, which include: selecting and recalling APV and APVC, requesting a change of Fund, requesting a change of tax regime for voluntary contributions and collective voluntary pension savings, affiliation to APVC plans, and suspension or renewal of these plans.

ii. Agreed Deposits:

This savings mode is an alternative within voluntary pension savings. In this mode, workers may come to an agreement with their employers to deposit amounts into their individual capitalization account in order to increase the capital to finance an early retirement pension or increase the amount of their pension. These sums are called agreed deposits and are deposited into an agreed deposit individual capitalization account. These values are independent from mandatory and voluntary contributions, and may be deposited just like voluntary contributions, in any of the institutions authorized to offer this type of savings. In the case of Pension Fund Administrators, these savings may be deposited in any type of fund.

The agreed sums may correspond to a fixed, one-time deposit paid by the employer at a monthly percentage of the taxable wage or a fixed monthly amount. These sums are unlimited in relation to taxable wages and are not considered income for the worker. Therefore, they are not subject to taxation and are not considered in deciding entitlement to a State-guaranteed minimum pension, calculating additional contributions for purposes of disability and survivor pensions, or granting a Solidarity Pension Payment. Law No. 19,768 also allows these resources to be withdrawn as part of the freely-usable surplus, but requires payment of the corresponding global complementary tax.

Unlike the voluntary pension savings, funds accumulated through agreed deposits may not be withdrawn before retirement.

Fees

The fees that may be charged by Administrators for this type of savings are the same as those established for voluntary contributions.

Choice of Pension Funds

In this case, workers and pensioners may also make agreed deposits in any of the five Funds managed by AFPs, regardless of age, and may maintain them in a different type of fund than their mandatory individual capitalization account.

Just as in the case of voluntary contributions, members may transfer their agreed deposit balances freely between the Funds of a single AFP, and the Administrator may charge members a fixed commission if more than two transfers are made in one calendar year.

In addition, members and Pension Fund Administrators may agree to assign the agreed deposit balance to two different types of funds.

2. Collective Voluntary Pension Savings

Collective Voluntary Pension Savings (APVC) is a savings contract subscribed between an employer, on behalf of itself and in representation of its workers, and a Pension Fund Administrator or another institution authorized to manage this type of savings, that is: Life Insurance Companies, Banks and Financial Institutions, Mutual Fund or Investment Fund Administrators, and Housing Fund Administrators.[75]

This savings mechanism for voluntary contributions made by workers is complemented by their employer, which may offer each and every one of its workers the possibility of joining one or more APVC contracts, which must all have the same terms and conditions.

The characteristics of this type of savings, as far as choice, transfer and distribution of balances between Funds, are the same as in the case of voluntary contributions and agreed deposits.

APVC Contract Requirements

In order to guarantee that voluntary savings plans offered by employers have broad coverage and do not discriminate arbitrarily between different workers within a company, the minimum number of workers that must subscribe to any of the contracts offered by the employer must be at least 30% of all company workers and 300 workers, whichever number is less. This minimum requisite must be fulfilled during the entire period of the contract(s) maintained by the employer. If it drops below this number, the employer has 12 months to once again reach the minimum number or percentage.

In addition, the APVC contract may require workers to remain in the company for a minimum period of time in order to acquire definitive property of the contributions made by the employer. This minimum retention aims to guarantee that employer contributions are compensated by a longer retention of workers in their company. In any case, these contracts may not establish a retention period of more than 24 months, and the resources derived from employer contributions are the property of the worker if the work contract is terminated under Article 161 of the Labor Code.

Meanwhile, the contract may establish a minimum period of retention in the Administrator or authorized institution, during which the worker must continue paying contributions. This period may not exceed 12 months and is valid as long as workers maintain their employment relationship with the company.

Fees

The fees for managing these savings may be freely agreed upon between the employer and the administrating entity, and different fees may be established for different contracts. At the same

[75] In accordance with Law No. 20,255, published in the Official Newspaper on March 17, 2008, these entities may agree to establish APVC plans with employers starting on October 1, 2008.

time, a single contract may establish different fees according to the number of company workers that subscribe to the plan.

AFPs are permitted to charge a commission for transferring deposits of this type of savings to another Administrator or authorized institution. This commission corresponds to a fixed sum per operation, which is discounted from the deposit and must be equal for any institution selected by the member.

3. Voluntary Savings Account:

The voluntary savings account, also known as the "second account," was created in August 1987 as a complement to the individual capitalization account, in order to build an additional source of savings for members. Voluntary savings accounts are independent from all other accounts managed by the AFP. In this account, members may choose to make regular deposits, either regularly or not, and these must remain freely usable, although the regulations of the Superintendence establish that no more than six withdrawals may be made each year.

Self-employed members may authorize their corresponding Administrator to transfer funds from their voluntary savings account to their individual capitalization account, in order to cover the corresponding pension contributions. Furthermore, both employees and self-employed may transfer all or part of their funds to their individual capitalization account when they retire, in order to increase the amount of their pension or meet the conditions for retirement.

Funds accumulated in the voluntary savings account are not considered in the decision to grant a Solidarity Pension Payment, nor the additional contribution for purposes of disability and survivor pensions. Also, the balance of the voluntary savings account of a deceased member increases his/her total estate.

Administrators are entitled to payment, established on the basis of fees charged to members who hold savings accounts. These fees are fixed freely by each Administrator as a percentage of the balance maintained in them, and must be equal for all members who possess this type of account.

With regard to taxes, all withdrawals made from voluntary savings accounts, with the exception of those used to increase the balance of individual capitalization accounts, are subject to income tax. Until 1993, the calculation of this tax was based on the balance held (wealth tax) and not on the earnings obtained (income tax), and in the majority of cases this tax was not charged because the balance held in the savings account had to be very large in order to be taxable. This tax scheme was altered by the modification introduced to DL 3,500 by Law No. 19,247,[76] which stated that as of January 1, 1994 the tax scheme governing the voluntary savings accounts should be changed, the special system based on a single tax being replaced by the general regime contemplated in the Income Tax Law.

[76] Published in the Official Newspaper on September 15, 1993.

The general tax scheme contained in the Income Tax Law aims to tax the real yield received by the member in a calendar year. To do this, a factor is applied to the withdrawals from voluntary savings accounts, which weights the real profit or loss in relation to the balance in existence at the date of the operation and which makes it possible to obtain the fraction of the withdrawal corresponding to the taxable profit or the loss to be deducted from his/her annual taxable base. This value is updated at the end of the financial year on the basis of the variation in the Consumer Price Index and the member is notified by means of a certificate issued annually by the AFP before January 31 of the corresponding tax year, which must contain enough information for tax purposes. This certificate is designed to allow members to prepare their annual income tax statements.

Members who are affiliated to the general tax scheme may choose to change their taxation mechanism to the one established in letter B, Article 57 of the Income Tax Law. Members who have a voluntary savings account and choose to take advantage of this tax scheme for the amounts deposited in it, will be entitled to a credit which is attributable to the global complementary tax or the single tax on work income, whichever is applicable, or, if appropriate, must consider a debit against the aforementioned taxes under the conditions and in the manners described in this rule.

Despite what is stated above, the current form of taxing “second accounts” establishes an exemption from the global complementary tax for members who are subject to the general tax scheme and obtain a sum equal to or less than 30 UTM[77] in real yield and whose income consists only of remunerations from work (wages, bonuses, etc.) or from activities such as small-scale mining, street trading, newspaper selling and ownership of handicraft workshops.

Choice of Pension Funds

The balances of voluntary savings accounts may remain in any of the five Funds managed by AFPs without restrictions of age or status, and may be kept in a different type of fund than the mandatory individual capitalization account. Also, members may transfer the balance of this account freely between Funds within an AFP, and for this service the Administrator may charge a fixed commission if more than two transfers are made in a calendar year.

In addition, like all other types of voluntary savings described previously, members and Pension Fund Administrators may agree to assign the balance of voluntary savings accounts to two different types of funds.

Fees

Administrators may charge a commission percentage over the balance for this type of savings.

4. Compensation Savings Account

[77] This corresponds to CLP 1,103,760, using the UTM value in June 2009.

Compensation Savings Accounts (CAI) were created in November 1990.[78] The creation of these accounts had two objectives: on the one hand, to provide a compensation mechanism to replace the traditional one for employees, and on the other, to give domestic workers a compensation benefit in case the work relation comes to an end. In both cases this is unconditional compensation.

CAIs are managed by the AFP to which the worker belongs. An account may also be opened in any AFP by any worker, even if he/she is not a member of the AFP System or belongs to the Old System. Workers may later transfer their accounts to another Administrator whenever they wish to do so.

Opening a CAI and paying the corresponding contributions is mandatory for all persons employing domestic workers. An amount equivalent to 4.11% of the monthly taxable wage must be paid by such employers to the Administrator at their own expense for a period of 11 years. This sum must be used to finance compensation that shall be payable in any event leading to the termination of the work contract, whatever the cause. Beginning in the seventh year of the employment relationship and up to the eleventh, other workers whose employment relationships are governed by the Labor Code may to agree to substitute the corresponding legal compensations by an “unconditional” replacement compensation, which becomes effective with the termination of the work contract. If a compensation agreement is made official, the employer is obliged to make a monthly contribution of at least 4.11% of the worker’s taxable wage.

The taxable wage has an upper limit of 60 UF[79] for domestic workers and 90 UF for other workers, and the contributions are the employer’s legal responsibility. Payment of contributions for compensation is governed by the same rules as the contributions for individual capitalization accounts.

For these accounts, Administrators are permitted to charge a commission percentage over the deposit, but to this date no Administrator has charged this commission.

Neither the contributions lower than 8.33% of the taxable monthly wage nor the yield obtained from them constitute income for tax purposes.

In the event of the worker’s death, these contributions provide his/her family with a certain degree of pension coverage, since his/her beneficiaries may withdraw up to 5 UTAs[80] from the CAI, , while the remainder goes to increase the total estate of the deceased. This payment is made directly to the spouse, children or parents of the deceased, in that order of precedence.

Finally, in terms of the choice of Funds, compensation savings accounts must remain in the same type of fund as mandatory contributions.

[78] Law No. 19,010, published in the Official Newspaper on November 29, 1990.

[79] Readjustable as established by Article 16 of DL 3.500 (1980).

[80] This corresponded to CLP 2,207,520 in June 2009. The amount was fixed in Annual Tax Units (*Unidades Tributarias Anuales*) in order to preserve its constant purchasing power.

CHAPTER V

GENERAL CHARACTERISTICS OF PENSION FUND ADMINISTRATORS AND DESCRIPTION OF THE INDUSTRY

1. General Characteristics

1.1 Legal Aspects

Pension Fund Administrators are private institutions whose exclusive aim is to manage five Pension Funds and grant and manage the benefits established in DL 3,500, the body of law which regulates them. This law defines the AFPs as private companies and they are therefore governed by the rules contained in Law No. 18,046, as long as these do not contradict the provisions contained in the Decree-Law mentioned earlier. The creation of an Administrator requires the authorization of the Superintendence of Pensions.

A description of the main legal aspects referring to the Pension Funds Administrators is given below:

i. They are institutions under the supervision of the Superintendence of Pensions.

ii. Each AFP is allowed to manage five Pension Funds. These are differentiated by the proportion of their resources that is invested in equities.

iii. The Administrators may not, under any circumstances, whether directly or indirectly, grant their members other pensions, services or benefits than those indicated in the law; in other words, they are single-purpose companies.

iv. The minimum capital necessary to establish an AFP is five thousand UF, which is gradually increased as the number of members belonging to the Administrator increases. When a membership of 5,000 is reached, the required net worth is ten thousand UF. With 7,500 members, this increases to fifteen thousand UF and when membership reaches 10,000, the minimum required capital is twenty thousand UF.

    If the Administrator falls below the minimum capital, it has a period of six months in which to correct this situation. Failure to do so implies the revocation of its authorization to exist and the liquidation of the company.

v. The net worth of the Administrator is independent of that of the Pension Fund, and these institutions must keep the accounts of the Pension Fund net worth separately.

vi. The Boards of AFPs must include at least five directors, two of which must be independent, which means they may not have any business interest with the AFP or with the companies of its business group, controller, or the main executives of any of these, which may create a potential conflict of interest or affect his/her independent judgment.

vii. The Administrator is authorized to charge its members fees, which may be deducted from the monthly wage, the withdrawals or the balance, depending on the situation. These fees must be standard for all the members of a particular Administrator[81] and are fixed freely by AFPs on the basis of the structure stipulated in the law.

viii. All AFPs, whether they have already been established or are in the process of being established, may participate in tenders for workers joining the pension system for the first time. This tender will be organized by the Superintendence of Pensions every 24 months. The tender is awarded to the entity offering to charge the lowest fee per periodical contribution deposit when all bids have been submitted.[82]

ix. All AFPs must comply with a minimum yield rule with regard to the Pension Fund that they manage. This is measured on the basis of the average real yield on all Funds of the same type. AFPs must maintain a Cash Reserve equivalent to 1% of the managed Fund, financed with its own resources. This asset is invested in Pension Fund shares and constitutes a back-up for the minimum yield required.[83]

x. Despite its exclusive aim, Administrators are authorized to constitute subsidiary private companies in the country to complement their corporate purpose, with the prior authorization of the Superintendence of Pensions, provided that they offer services to individual persons or legal entities operating abroad, or that they invest abroad in Pension Fund Administrators or foreign companies whose corporate purpose is related with pension matters. The activities that complement the corporate purpose of an Administrator as regards investments abroad are: management of Pension Fund portfolios; custody of securities; collection of contributions, payments and deposits; management and payment of benefits; digital processing of information; rental and sale of computer systems; training; management of individual accounts and pension savings; promotion and sale of pension services and consultancies.

xi. AFPs may also, with the prior authorization of the Superintendence, set up subsidiary private companies in the country, whose sole aim must be to manage pension resource portfolios of their own or of other Pension Fund Administrators.

xii. AFPs are also authorized to invest in private companies constituted as securities deposit companies. An Administrator may purchase up to 7% of the shares of one of these companies, either directly or indirectly.

xiii. AFPs are authorized to subcontract services related to their corporate purpose, such as: management of individual accounts; management of the pension fund portfolios; information and customer services for consultations on the operation of the Pension System; and reception and forwarding of pension requests to their Administrators for

81 AFPs are authorized to establish differentiated fees for Collective Voluntary Pension Savings plans.

82 See Section 2 of Chapter VII on Ongoing Challenges.

83 See Section C.5 vii of Chapter III.

processing. This subcontracting figure is subject to the safeguards established by the Superintendence of Pensions, in order to guarantee an appropriate supervision of these operations.

xiv. By law, Administrators are obliged to take appropriate action to collect contributions, both mandatory and voluntary, which are owed to members of the System, as well as any readjustments and interest.

xv. AFPs must collectively manage and finance the Regional Medical Committees and the Central Medical Committee, excluding the cost of hiring medical personnel, which corresponds to the Superintendence of Pensions. The function of these Committees is to assess the degree of disability of Pension System members and applicants to the Disability Basic Solidarity Pension. As for the latter, the Social Security Institute also contributes funds to the Medical Committees.

1.1 Main Activities of Administrators

The main activities carried out by the Pension Fund Administrators in order to fulfill their corporate purpose, may be summarized as follows:

i. ***Administration of Individual Accounts:*** One of the key tasks of AFPs is the management of their members' individual accounts (capitalization, voluntary savings, and compensation savings), in which they must register the pension contributions of workers, both mandatory and voluntary. The documentation generated as a consequence of the management of individual accounts is held in a pension file that is used to record member information.

There are two procedures for collecting contributions: the first is based on paper documents and payments by check, while the second involves online payment. In the first case, contributions may be collected in AFP offices or in subcontracted institutions. AFPs may sign contracts for the collection of pension contributions with banks, Family Allowance Compensation Funds (*Cajas de Compensación de Asignación Familiar*, or CCAFs), or other institutions expressly authorized by the Superintendence of Pensions.

In the online pension payment system, employers or self-employed workers send two simultaneous electronic transfers to a website: the first is the payment spreadsheet (which is immediately transmitted to the receiving AFP) and the second is the payment order addressed to the bank (which has an agreement with the institution providing the internet service) in which the payer has a debit arrangement from his/her current account. In order to implement this system, many websites have been set up to receive payments at different pension institutions, such as: AFP, Isapres, CCAFs, Employee Benefit Societies (*Mutuales de Seguridad*), AFC, IPS and FONASA.[84]

[84] The *PreviRed* website is a service for declaring and paying pension contributions online, and it belongs to the five AFPs currently operating in the industry.

In regards to the management of individual accounts, AFPs must also carry out a series of other activities: they are obliged to take the necessary steps to collect mandatory and voluntary contributions owed to their members by employers, and must carry out all the tasks involved in operating the individual accounts, such as accrediting contributions and clarifying delayed payments.

Meanwhile, Administrators with a net worth of 20,000 UF or more may offer their services to other AFPs in terms of collecting contributions and depositing them in the corresponding individual accounts, according to the instructions given by each institution.

ii. ***Pension Fund Investment****:* The Administrators must decide how to invest the resources of their members and then implement such decisions by investing in financial instruments authorized in DL 3,500 or by the Superintendence of Pensions.

Administrators must comply with the provisions contained in the current regulations, which are designed to protect yield and security in the investment of workers' funds. These provisions involve, for example: acquiring only securities which are specifically authorized by the law and current regulations, complying with the limits per instrument and per issuer established by law and in the Regulations on Pension Fund Investments,[85] complying with the regulations on conflicts of interest in such investments, maintaining the Administrator's Cash Reserve Ratio, which guarantees the mandatory minimum yield, implementing policies on investment and resolution of conflict of interest for each type of Pension Fund they manage, among others.

iii. ***Granting and Managing Benefits****:* AFPs must grant their members the pensions established by law as soon as they meet the requirements that entitle them to receive them. In this sense, the current regulations oblige Administrators to process these pension benefits in a timely manner.

AFPs must also take out a Disability and Survivorship policy with an Insurance Company and may carry out the procedure for obtaining the Recognition Bond and its complement on behalf of their members. A public tender is conducted to select one or more Insurance Companies that may provide this service.

iv. ***Service and Information:*** In order to provide a good service and attract members, Administrators maintain a national network of branches; at present the number of branches in the industry amounts to 230 agencies, of which 13% are in the Metropolitan Region. The law stipulates that the customer service offices of AFPs may not be shared with other institutions of the business group to which they belong, in order to avoid conflicts of interest and distortions that may contradict the goals of the pension system.

AFPs also have specially trained agents for jobs involving direct contact with members, who process transfers from one AFP to another, provide information on-site and help members resolve pension problems, among other functions.

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85 Established by Resolution No. 24 of the Superintendence of Pensions on September 9, 2008.

AFPs also send written information to their members, some of which is mandatory (such as the four-monthly statement), or distribute it through their network of branches or the internet.

All AFPs must provide a website containing the most essential information on the specific Administrator: its general balance in the last fiscal year, its net worth, Pension Funds and Cash Reserve, the value of the shares of each Pension Fund, fees and additional contribution charged, and the composition of the investment portfolio of each Pension Fund. They are also obliged to maintain an information board with this information at each customer service office.

v. ***External Activities:*** Finally, it is worth mentioning the advising activities and investments in pension matters that some Administrators are carrying out abroad with their own resources, within the legal framework that allows them to set up subsidiaries in the country to provide services or to invest abroad.

In June 2009, the participation of Chilean AFP subsidiaries in Pension Fund management companies abroad was as follows:

TABLE V.1
INVESTMENT IN AFP BRANCHES ABROAD
(As of June 2009)

AFP	Country	Share
AFP Provida	Mexico: AFORE Bancomer S.A.	7.5%
	Peru: AFP Horizonte S.A.	15.9%
AFP Capital	Peru: AFP Integra S.A.	29.5%

Source: AFP Financial Statements

1.2 Creation and dissolution of AFPs

The creation of a new AFP must be authorized by the Superintendence of Pensions. According to the provisions of Article 130 of Law No. 18,046 on Public Limited Companies, and the Organic Law of the Superintendence of Pensions, contained in DFL 101 (1980) issued by the Ministry of Labor and Social Security, the procedure for establishing a new Administrator includes sending the Superintendence a prospectus describing the key aspects of the new company and the way in which it will perform its activities. This must be approved or rejected by the Superintendence of Pensions.

According to the memo issued by the Superintendence of the area, which contains the procedure for setting up an AFP, the specific details that must be included in the prospectus consist of a letter of presentation, a feasibility study and the draft of the company's legal act of constitution (including its bylaws).

The prospectus must include, among other information, a list of individuals that will participate in the constitution of the Administrator as organizers and professionals in charge of the project, a list with the names of its stockholders, and a petition requesting that the Superintendent grant it a provisional certificate of authorization after analyzing the project.

The feasibility study must contain information such as:

i. Identification of the owners and structure of capital contributions.
ii. Definition of the organizational structure and description of key functions.
iii. Strategic business analysis.
iv. Information on subcontracting.
v. 10-year projection of: number of members and contributors, value of each type of Pension Fund, yield of funds and fees, etc.
vi. Creation of financial statements.
vii. Sensibility of projections to favorable and unfavorable changes in the main suppositions.
viii. Economic assessment.
ix. Calendar of activities.
x. Conclusions.
xi. Annexes.

The company's legal act of constitution must consider the rules governing AFPs concerning: name of company, exclusive corporate purpose, minimum capital and deadline to accredit it, and liquidation of the company and Pension Funds, among others.

Once the prospectus is presented, it is analyzed by the Superintendence of Pensions, which by virtue of the powers established in Article 130 of Law No. 18,046 and Article 3 of DFL 101 (1980), must submit any observations to the project, evaluating the advisability of setting up the AFP, or rejecting the constitution of the company and communicating the bases for its decision.

If the Superintendence has no observations regarding the prospectus or if these are corrected, and it considers that setting up the AFP is indeed advisable, it grants the provisional certificate of authorization which allows the organizers to carry out all procedures necessary to obtain authorization for the company's existence and all administrative actions necessary to prepare its constitution and future operation. For these purposes, it becomes a legal entity on the date when the certificate is issued.

Once this certificate is issued, the future Administrator has a period of 10 months to request authorization of the company's legal existence and approval of its bylaws. For this purpose, the organizers must prepare a presentation with the legal constitution containing the company bylaws and a certificate issued by a bank or financial institution accrediting the deposit of the funds collected through the subscription of shares. The Superintendence must then authenticate the capital deposit and study the company bylaws.

If there are no observations, and if the future Administrator is prepared to begin operations, the Superintendence issues a resolution authorizing the existence of the AFP and approving its bylaws.

Once the Superintendence has verified fulfillment of the minimum requirements that permit the Administrator to begin operations with total normality and without interruption, it shall issue a resolution enabling the newly formed Administrator to begin the member affiliation process.

The law stipulates the following situations as factors that may provide cause for dissolution of a Pension Fund Administrator:

- Deficit of the minimum capital not paid by the legal deadline.
- Deficit of the cash reserve not accrued by the deadline established in DL 3,500.
- Non-fulfillment of the obligation to obtain the amount of funds necessary to guarantee the minimum yield in any of the Funds managed by the Administrator, as may correspond.
- Deficit of custody of more than 2% of the total value of the corresponding Pension Funds and Cash Reserves, more than twice in a three-month period, without the AFP having repaid the difference on the day after it is required.
- Bankruptcy of the administrating company.

Once an AFP has been dissolved for any reason, the Superintendence of Pensions is responsible for liquidating the company and managing its Pension Funds.

The liquidation of an AFP only affects the company and not the Pension Funds it manages, and the individual accounts are transferred to a new Administrator chosen by each member.

If a member fails to choose a new AFP by the deadline established in the current regulations, the liquidator will transfer the balances of his/her individual accounts to an Administrator with an address or offices in the city where that member works and to the same types of funds in which his/her balances were previously kept. If there are two or more AFPs that meet this condition, the liquidator must choose the AFP that obtained a greater yield in the two calendar years before the dissolution. If no Administrator has an office in the city where the member works, the liquidator will apply this rule to the region in which the member works, and, if none exist there, to the closest region where an AFP exists.

2. Financial Information on AFPs

2.1 Balance Sheets

In June 2009, the value of the total assets of Pension Fund Administrators was CLP 1.079 trillion (USD 2.040 million), which represents a decrease of 0.72% compared with the previous financial year. The main item of the assets corresponds to the Reserve which the Administrators are bound to hold, this being equivalent to 1% of the value of the Pension Funds they are managing. This reserve represents 48.6% of their total assets.

As of June 2009, a second important item among the assets of Administrators was the item "other assets." This adds up to CLP 364.6 billion (USD 689 million), representing 33.8% of the System's total assets. 76% of this item corresponds to the accounts of "investments in related companies" and "lower value investments."

In third and fourth place, current assets and fixed assets represent 12.7% and 5.0% of the industry's total assets, respectively.

With regard to the total liabilities of the Pension Fund Administrators as of June 2009, approximately 87.6% of these correspond to the equity of AFPs, which amounted to CLP 945.2 billion (USD 1.78 million) in June 2009. In terms of industry debt, there is a greater volume of current liabilities as opposed to long-term liabilities; at that same date these represented 9.6% and 2.9% respectively of all the Administrator liabilities.

It is important to observe the evolution of the cash reserve among the assets of Pension Fund Administrators for the period between 1990 and June 2009. In 1990, the cash reserve represented 45% of total assets, whereas in 2007 it was 70%. In December 2008, the cash reserve represented a proportion of AFP assets similar to the one registered in 1990. In June 2009, this item represented 49% of total AFP assets. It must be noted that the cash reserve ratio varies with the growth of Pension Funds, due to the contributions of workers and the yield of the Pension Funds.

On the other hand, there has been a decrease in the participation of the fixed assets in the total assets of Administrators during this period, since AFPs have not made relevant investments in fixed assets in recent years. Meanwhile, the considerable increase in the participation of "other assets" (34% of total assets in June 2009) is caused by investments in related companies, mainly foreign subsidiaries, and lower value investments resulting from fusions observed during the period in this industry.

TABLE V.2
EVOLUTION OF CONSOLIDATED BALANCES OF AFPs
(As percentage)

	Dec-90	Dec-92	Dec-94	Dec-96	Dec-98	Dec-00	Dec-02	Dec-04	Dec-06	Dec-07	Dec-08	Jun-09
ASSETS												
Current Assets	31.6%	23.4%	17.4%	23.5%	12.1%	9.9%	11.5%	13.3%	10.2%	7.6%	11.6%	12.7%
Cash Reserve	45.4%	46.3%	51.8%	49.0%	50.0%	44.5%	50.3%	57.0%	65.0%	69.6%	45.0%	48.5%
Fixed Assets	21.8%	28.0%	25.7%	22.5%	17.9%	11.3%	10.0%	8.5%	7.3%	6.6%	5.4%	5.0%
Other Assets	1.2%	2.2%	5.0%	5.0%	20.1%	34.3%	28.2%	21.1%	17.5%	16.2%	38.0%	33.8%
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
LIABILITIES												
Current Liabilities	20.7%	20.9%	21.1%	20.9%	16.7%	22.4%	15.0%	21.8%	18.3%	14.8%	13.1%	9.6%

Long-Term Liabilities	2.5%	2.6%	2.5%	2.0%	9.2%	7.6%	7.3%	3.3%	7.1%	7.8%	3.1%	2.9%
Net Worth	76.8%	76.5%	76.4%	77.1%	74.1%	70.0%	77.6%	74.9%	74.6%	77.4%	83.8%	87.6%
Total Liabilities	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2.2 Results

In the financial period between January and December 2008, Pension Fund Administrators collectively lost CLP 3.11 billion as of December 2008 (USD -4.9 million). Meanwhile, the results for the same period during 2007 produced profits of CLP 151.9 billion (USD 204.3 million), measured in Chilean pesos as of December 2008. These figures reflect a reduction of 102% in the net profits of AFPs in the period of one year.

During 2008, Pension Fund Administrators obtained operating income for a total of CLP 516.7 billion (USD 820 million), of which 116.3% corresponded to fees charged from workers contributing to the System and pensioners receiving programmed withdrawal or temporary allowance . It should be noted that during that year, the cash reserve of Administrators had operating losses of CLP 95.5 billion (USD 152 million).

In the same year, AFPs incurred operating expenses totaling CLP 490.8 billion (USD 325.4 million), of which 56% corresponded to the cost of the insurance which covers members for risks of disability and death during their active working life. Meanwhile, 12.3% of the total operating costs correspond to the wages of administrative staff, 11.6% to the wages of sales personnel, and the remaining 9.3% to other expenses.

It is important to remember that in July 2009, Pension Reform Law No. 20,255 entered into effect, and Disability and Survivor Insurance ceased to be considered as part of the operating expenses of Administrators and all insurance premiums collected from members are transferred directly to the corresponding Insurance Company, which must cover the entire risk of disability and death of Pension System members.

The following Table shows the development of the composition of operating income and expenses for the AFP industry as a whole, between 1990 and 2001. It may be observed that in the mid-1990s there was a change in the composition of this industry’s operating income and expenses; in effect, there was an increase in income from AFP fees and the costs from sales personnel wages. In 2008, income from fees represented more than twice the income for this item during the early 90s.

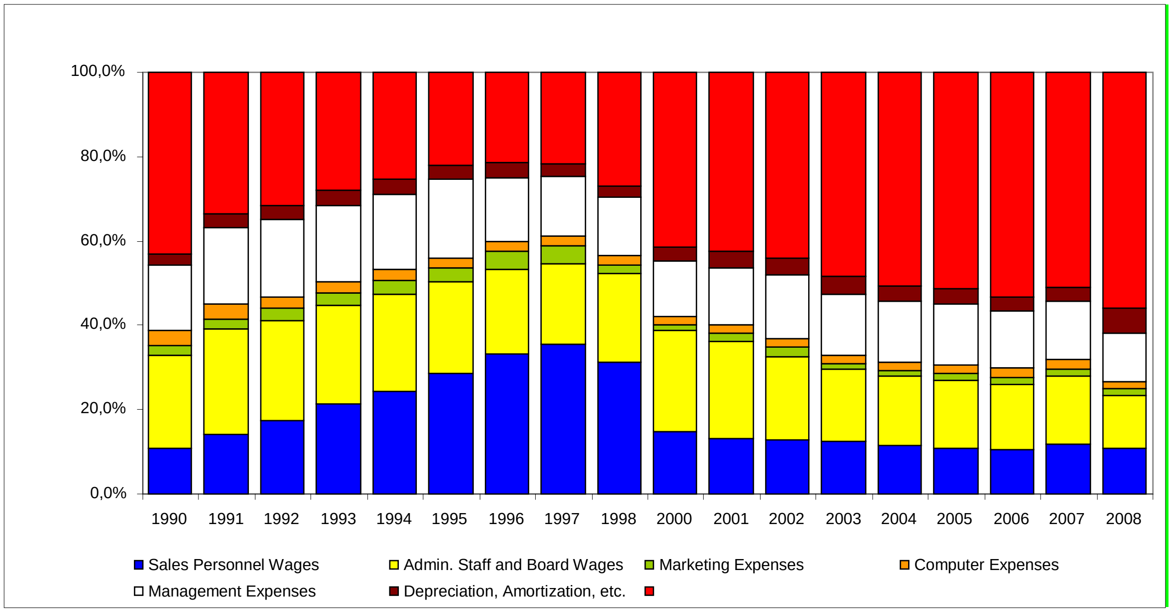
TABLE V.3
COMPOSITION OF INCOME AND EXPENSES OF AFPs
(In millions of Chilean Pesos, December 2008)

	Dec-90	Dec-92	Dec-94	Dec-96	Dec-98	Dec-00	Dec-02	Dec-04	Dec-06	Dec-08
OPERATING INCOME	266,306	293,072	364,271	383,652	396,820	479,652	405,449	463,615	583,711	516,099
Income from commissions	225,416	264,470	318,350	357,514	374,320	363,906	376,735	411,049	489,665	600,364
Cash Reserve profits	20,724	16,009	28,880	12,687	7,704	22,281	19,521	41,923	85,159	-95,547
Premium Fund profits	3,638	1,405	1,072	745	-	-	-	-	-	-
Profit (loss) – Complementary Field Companies	-	-	-	-	5,729	84,440	-	-	-	-
Profit (loss) – Security Deposit Investment Companies	-	-	-	-	-9	200	-	-	-	-
Other Operating Income	16,527	11,188	15,970	12,706	9,075	8,825	9,193	10,643	8,887	11,281
OPERATING EXPENSES	-210,442	-231,748	-298,991	-322,232	-327,273	-284,287	-277,819	-327,529	-389,041	-490,899
Staff Remunerations	-45,594	-54,190	-67,644	-62,930	-67,328	-66,536	-53,842	-53,736	-58,188	-60,602
Sales Personnel Remunerations	-23,158	-40,488	-72,912	-107,512	-102,548	-42,399	-35,766	-37,195	-41,371	-53,167
Board Remunerations	-608	-837	-1,099	-1,171	-956	-1,152	-1,093	-1,050	-1,431	-519
Marketing Expenses	-5,003	-6,293	-9,405	-13,778	-7,327	-4,028	-6,600	-4,392	-6,357	-7,948
Computer Expenses	-7,284	-6,569	-8,090	-7,442	-6,576	-5,180	-5,407	-5,489	-8,648	-8,382
Management Expenses	-32,857	-42,202	-53,531	-48,818	-45,210	-37,662	-41,825	-47,829	-53,421	-56,927
Depreciation	-4,258	-5,946	-7,322	-7,625	-6,761	-6,046	-5,409	-5,359	-5,167	-5,868
Amortization	-230	-686	-2,181	-1,808	-972	-1,000	-1,210	-811	-2,683	-17,324
Disability Insurance Premiums (1)	-90,538	-73,292	-75,460	-69,324	-87,886	-117,493	-122,113	-165,675	-207,707	-274,755
Other Operating Expenses	-912	-1,244	-1,347	-1,824	-1,709	-2,791	-4,554	-5,994	-4,068	-5,407
OPERATING PROFITS	55,864	61,324	65,281	61,420	69,547	195,365	127,630	136,086	194,670	25,200
NON-OPERATING PROFITS	-7,485	-11,598	-14,496	-8,029	-8,102	-11,614	3,693	-2,778	-76,110	-50,646
FISCAL YEAR PROFITS	46,399	44,197	40,063	43,812	54,986	174,329	113,782	113,560	157,319	-3,113

(1) In September 1996 the rules relating to the premium reserve to be held by the Administrators were repealed.

(2) Prior to 1997, the results in the category of investments in companies which complement the corporate purpose or in securities deposit companies were included for accounting purposes in the "Profit (Loss) on Investment in Related Companies" account, corresponding to a non-operating account in the Statement of Results. Beginning in 2002, the results for these items were once again included as part of non-operating accounts.

GRAPH V.1
COMPOSITION OF OPERATING EXPENSES OF AFPs



2.3 Main Financial Indexes

Several financial indicators representing the situation of the industry were calculated on the basis of the consolidated Financial Statements of Pension Fund Administrators:

i. ***Debt:*** In June 2009, AFPs had a debt-equity ratio of 0.14, which indicates that the companies in this industry have been financed mainly with their own capital. With regard to the composition of the debt of AFPs at that date, 77% corresponds to short-term debt and the remaining 23% to long-term debt. It is worth mentioning that the debt ratio of the industry in June 2008 was 0.20.

ii. ***Liquidity****:* The liquidity index of Administrators, measured as current assets over current liabilities, was 0.59 in June 2008 and 1.33 in June 2009.

iii. ***Average Monthly Expenses per Contributor:*** If an analysis is made of the performance of the operating result of AFPs in relation to the number of contributors in the System, it may be observed that in 2007 the average operating costs per contributor were CLP 7,762 per month (in Chilean pesos of December 2008), increasing to CLP 8,947 per contributor per month in 2008.

iv. ***Yield:*** In the period between January and December 2008, the return over equity (ROE)[86]

[86] Corresponds to the percentage of return (profit after taxes) obtained by the company over its net worth, excluding profits or losses during the fiscal year in question and adding dividends declared during this period.

for AFPs in the System was -0.36%. The results for 2008 compared negatively with those for the same period in the previous year, where the ROE reached 28.99%, a decrease of 101%.

By analyzing the evolution of the ROE of AFP for the 1991-2008 period, it may be observed that the industry's lowest yields during the 1990s came in 1994, 1996 and 1997, at 18%, 16.6% and 17.7%, respectively. During those years, a significant number of AFPs had negative or very low yields, caused by a great increase in marketing costs. On the other hand, in 2000 the System had the greatest ROE of the entire period (50.2%), caused by the high transitory yield obtained by AFP Santa María, which sold a subsidiary abroad that year. Since 2001, there was an observable reduction in the yield of the industry, which may be explained primarily by the low profits obtained by AFP Magíster and, later, Planvital, its legal successor. During 2006 and 2007, there were considerable increases in ROE caused by the good results obtained mainly by AFPs Cuprum, Bansander and Habitat. In 2008 the industry registered the lowest ROE of the period, reaching -0.36% due to the fall of the cash reserve that Administrators must maintain, which went from CLP 69.6 billion in 2007 (in Chilean pesos as of December 2008), equivalent to USD 111 million, to CLP 95.5 billion (USD 152 million) in 2008 because of the lower growth of Pension Funds during this period.

In 2008, disability and survivor insurance premiums increased by 34% over the previous year, which also contributed to this negative result.

TABLE V. 4
AFP RETURN OVER EQUITY EVOLUTION
(As of December of each year[87] - percentage)

AFP	1991 (%)	1992 (%)	1993 (%)	1994 (%)	1995 (%)	1996 (%)	1997 (%)	1998 (%)	1999 (%)	2000 (%)	2001 (%)	2002 (%)	2003 (%)	2004 (%)	2005 (%)	2006 (%)	2007 (%)	2008 (%)
Aporta (9)			3.37	-10.02	-32.27	-13.41	4.93											
Aporta Fomenta								0.33	-2.02	3.26								
Armoniza (10)			3.69	-24.63	-29.59													
Banguardia (3)		-45.09	-45.31	-58.18														
Bansander								-16.05	31.20	36.19	25.58	22.00	23.38	23.65	26.87	32.53	44.00	-
Bansander (4)		-69.78	-37.65	16.61	35.35	36.56	28.80											
Capital																-	-	0.87
Concordia	34.72	34.95	17.02	-28.99	-73.63													
Cuprum	55.11	77.08	98.20	59.12	44.22	80.73	69.53	50.46	60.76	57.39	60.36	43.17	40.03	47.52	37.67	63.56	55.53	4.26
El Libertador	25.69	14.56	15.26	8.70														
Fomenta (5)		-17.46	-29.09	-5.97	22.80	31.20	-38.12											
Futuro	47.29	27.69	29.56	-8.91	-19.54													
Genera (11)			-33.64	-67.47														
Habitat	67.60	41.65	38.25	29.25	26.58	20.92	23.08	22.92	40.26	31.18	45.89	31.34	32.96	33.35	29.61	36.34	35.31	3.51
Invierta	31.26	45.53																
Laboral (6)		-26.01	---															
Modelo																-	-9.30	-11.82
Magister (16)	18.20	17.95	31.98	16.63	13.04	-8.54	-10.20	-14.88	14.33	12.88	9.83	-4.28	-76.34					
Planvital (12)	56.38	35.29	14.25	9.16	5.87	-10.31	12.15	23.37	34.74	40.35	41.54	37.22	14.61					
Planvital														9.30	-25.71	-2.46	5.92	-12.34
Previpan (7)		-42.03	-73.48	-59.22														
Protección	75.85	37.69	104.34	68.09	85.49	65.54	43.02	0.39										
Provida (15)	46.66	29.42	31.46	22.95	24.93	21.99	25.85	30.13	20.31	26.22	23.73	22.32	21.52	17.48	21.65	26.23	22.64	-4.38
Qualitas		-15.17	-40.46	-58.59														
Qualitas (17)						-67.22	-64.00											
Santa María (14)	39.97	29.02	32.47	28.72	23.00	10.15	6.33	15.92	27.54	209.80	37.67	26.07	28.04	23.15	8.95	28.30	11.82	-
Summa	30.06	22.95	18.80	2.38	-6.89	-17.92	-12.26											
Unión	89.44	42.40	31.26	-50.72	-8.37	-61.88	-48.90											
Valora (13)			-25.90	-68.91	-32.79													
SYSTEM	**49.01**	**26.39**	**27.85**	**18.00**	**22.08**	**16.60**	**17.66**	**20.46**	**30.31**	**50.19**	**33.77**	**26.54**	**25.57**	**24.80**	**22.22**	**31.95**	**28.99**	**-0.36**

3. Description of the Industry

[87] The yield is calculated for the period of one calendar year or for the period of operations during the calendar year for the corresponding AFPs. The evolution of the number of AFPs in the industry for the corresponding period is shown in the next section.

3.1 Evolution

The Individual Capitalization System began in 1981 with twelve Pension Fund Administrators: Alameda, Concordia, Cuprum, El Libertador, Habitat, Invierta, Magister, Planvital, Provida, San Cristóbal, Santa María and Summa.

The number of Administrators remained unchanged until 1985, when AFPs Alameda and San Cristóbal merged, resulting in the formation of AFP Unión.

In 1983 and 1987 two legal reforms were introduced, modifying DL 3,500 and to a certain extent helping to lower the legal obstacles which had discouraged AFPs from entering the industry. In 1983 the amount that Administrators were required to hold as a Reserve was reduced from 5% to 1% of the Pension Funds being managed. In 1987 the minimum net worth requirement for setting up an AFP was reduced from 20,000 to 5,000 UF.

The changes in the number of AFPs since that time have occurred in the following way:

i. In the years 1986, 1988 and 1990 respectively, AFPs Protección, Futuro and Bannuestra entered the industry; however the last of the three was dissolved in 1991 for failing to comply with the minimum net worth requirement.

ii. In 1992 six new Administrators went into operation: Banguardia, Bansander, Fomenta, Laboral, Previpan and Qualitas.

iii. In 1993 AFPs Aporta, Genera and Norprevisión went into operation, the last of these later changing its corporate name to Valora. The merger of AFPs Invierta and Planvital also took place that year.

iv. In 1994 AFP Armoniza was set up, and AFP Laboral was liquidated due to non-compliance with the minimum net worth requirement.

v. Meanwhile, in 1995 AFP Provida merged with AFP El Libertador, AFP Santa María with AFP Banguardia and AFP Valora with AFP Qualitas and AFP Previpan. In addition, AFP Genera was liquidated that same year when the company was declared bankrupt.

vi. In March 1996 AFP Planvital merged with AFP Concordia. In November of the same year two more mergers took place: AFP Magister with AFP Futuro –the latter ceasing to exist– and AFP Valora with AFP Armoniza (the new company was called AFP Qualitas).

vii. In June 1998, AFP Provida took over AFP Unión; in August AFPs Summa and Bansander merged; in September AFP Magister took over AFP Qualitas; and in October AFPs Aporta and Fomenta merged.

viii. In January 1999 AFP Provida took over AFP Protección.

ix. In January 2001, AFP Aporta Fomenta merged with AFP Magister, and the latter was named the legal successor of the former.

x. In March 2004, AFP Magister merged with AFP Planvital, and the latter was named the legal successor of the former.

xi. In March 2008, the bylaws of AFP Santa María were modified, changing its name to AFP Capital.

xii. In April 2008, AFP Bansander merged with AFP Capital, and the latter was named the legal successor of the former.

At present there are five Pension Fund Administrators competing in this industry: Capital, Cuprum, Habitat, Planvital y Provida.

3.2 Market Share and Concentration

In December 2008, the AFP with the greatest market share in the industry had 40.05% of all contributors in the System and 30.66% of all the resources under management. At that same date, 86.69% of contributors in the System belonged to the three largest AFPs, which in turn held 77.74% of all pension resources.

TABLE V.5
MARKET SHARE BY NUMBER OF CONTRIBUTORS (1)

AFP	Number of Contributors (2)	% of Market	% Accumulated
Provida	1,749,170	40.05%	40.05%
Habitat	1,138,259	26.06%	66.11%
Capital	898,836	20.58%	86.69%
Cuprum	428,740	9.82%	96.51%
Planvital	152,620	3.49%	100.00%
TOTAL	**4,367,625**	**100.00%**	-

(1) Data as of March 2002.
(2) Corresponds to the number of active members who contributed in June 2009 for wages accrued in previous months.

TABLE V.6
MARKET SHARE BY PENSION FUND ASSETS
(Million USD as of June 2009)

AFP	Pension Fund Assets	% of Market	% Accumulated
Provida	30,740	30.66%	30.66%
Habitat	24,703	24.64%	55.30%
Capital	22,492	22.44%	77.74%
Cuprum	19,175	19.13%	96.87%
Planvital	3,135	3.13%	100.00%
TOTAL	**100,245**	**100.00%**	**-**

As may be observed in the tables above, the System has a higher concentration of contributors per AFP than the Pension Fund assets themselves.

If one takes a measure of concentration such as the Herfindahl index[88] and the index of Dominance,[89] calculated as a percentage of the Fund, it is possible to see that from the beginnings of the AFP System until the mid-1990s there was a reduction in concentration of Pension Funds, which meant an increase in the level of competition within the industry. A clear downward trend in the concentration index began in 1986. At the same time, the increase in the number of AFPs which took place between 1992 and 1993 produced a reduction in concentration effect among Pension Funds. However, this trend was reversed beginning in 1995, with an increase in concentration as a result of a large number of AFP mergers and take-overs. From 2001 on, the concentration index has remained relatively stable.

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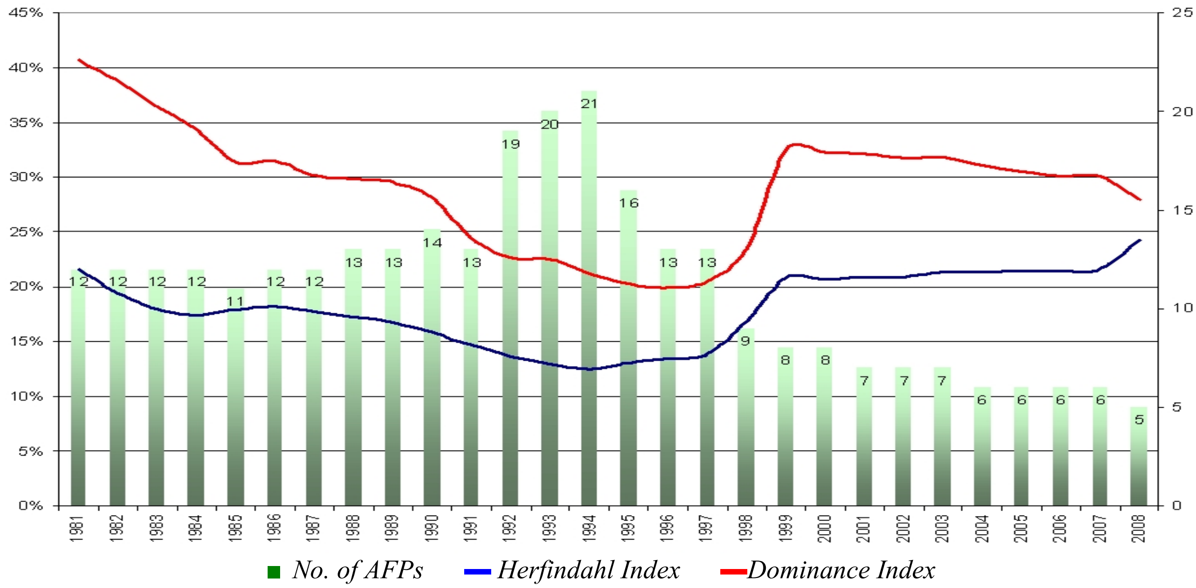
88 The Herfindahl Index is defined as $\sum S_i^2$, where S_i is equal to the average participation of each Administrator, according to the size of the Fund. The maximum value of 100 is observed only in the case of a monopoly. If there are *n* Funds of equal size, their value would be (100/n); in the case of AFPs, this value is 20 (considering the five AFPs currently in existence).

89 The Dominance Index is defined as $\sum (Q_i^2/H)^2$, where H is the Herfindahl Index and Q_i is the participation of the Pension Fund in comparison to the total. This index is a measurement of the concentration that is different from the Herfindahl Index, which does not increase with mergers of companies that are smaller than the others, but does increase with mergers between relatively large companies.

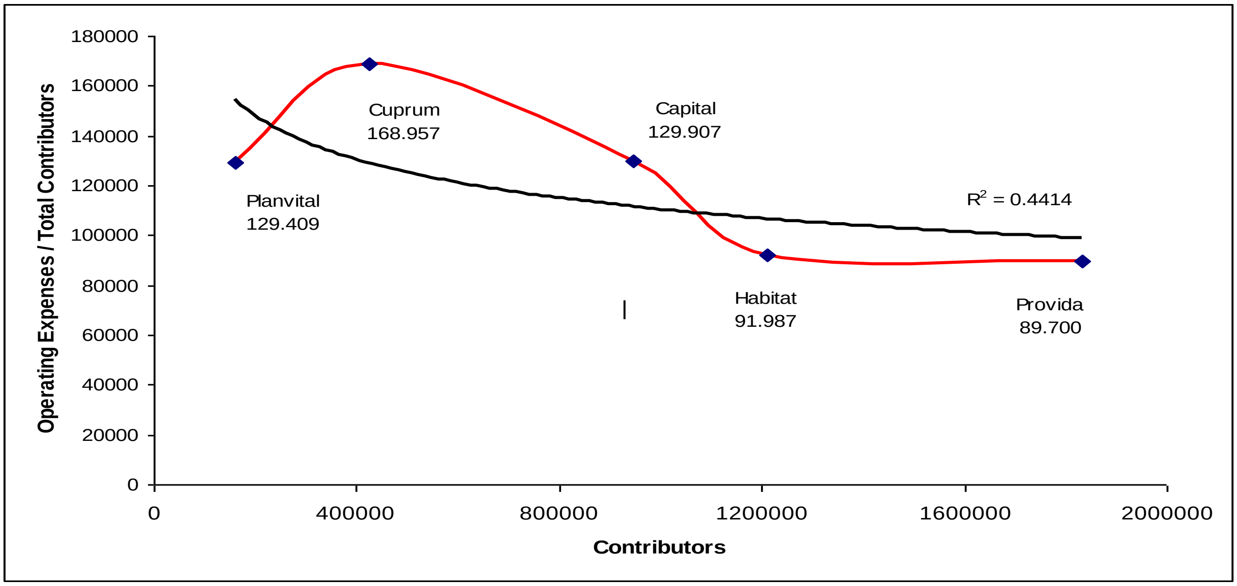
GRAPH V.2
Evolution of Indexes of Industry Concentration and No. of AFPs
(As % of Fund)



3.3 Presence of Economies of Scale

The level of concentration among Pension Funds may be related to a considerable extent with the existence of economies of scale within the industry. In this sense, an initial analysis of the average costs of AFP must include a definition of the variable that is most relevant for measuring the size of each AFP. For example, if the number of contributors is used as the indicator that best reflects the amount of products and services provided by each AFP, and this indicator is then used to calculate average expenses, there seems to be a significant presence of economies of scale, which would favor a high concentration in the sector. Under this interpretation, the following graph shows average expenses per Administrator that are approximately 30% greater than those of AFPs with a greater number of contributors. At the same time, in general terms there is a negative relationship between the number of contributors and the average operating costs.

GRAPH V.3
OPERATING EXPENSES PER TOTAL CONTRIBUTORS IN AFPs
(DECEMBER 2008)



However, this analysis may be conducted considering that the most relevant measure of size is the number of members, with which the average expenses are more similar between all AFPs. Also, another factor that strongly influences expenses are marketing costs (agencies, sellers, marketing expenses *per se*), which explain a large part of the difference in expenses between AFPs. At the same time, these marketing costs are strongly influenced by aspects other than the "size" of the Administrator; for example, the level of differentiation of their products and the effort to meet commercial goals. In this sense, the following table suggests an important degree of product segmentation and differentiation in the industry.

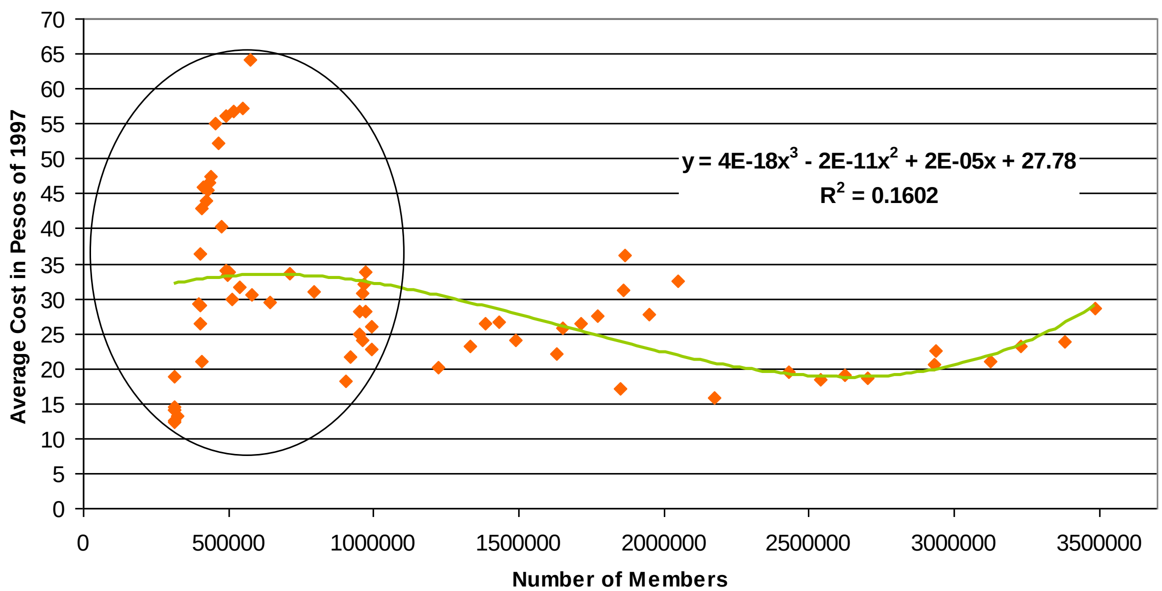
TABLE V.7
ALTERNATIVES INDICATORS OF MARKET PARTICIPATION

	Indicators of size		**Indicators of differentiation**	**Indicators of strategic investment**
	Members	Income	High income portfolio *	No. of sellers
Provida	41.64%	39.96%	27.95%	21.73%
Habitat	24.46%	25.91%	26.56%	12.66%
Capital	22.28%	20.93%	20.08%	32.42%
Cuprum	6.87%	9.77%	23.74%	23.25%
Planvital	4.75%	3.44%	1.68%	9.93%

** Portfolio of clients whose monthly taxable wages are over CLP 500,000.*
Source: Statistics published on www.spensiones.cl.

In this sense, an interesting case to observe is AFP Cuprum, which in spite of having only 7% of all members, has almost 10% of the salary mass and more than 23% of contributors with a taxable monthly income of over CLP 500,000. For this reason, if we consider the relationship between average costs (calculated using the number of members as a variable of size) and size during a period longer than the one shown in Graph V.3, we may observe that the differences in expenses are greater between AFPs with different average monthly wages of members than between AFPs of different sizes, as observed in the following graph:

GRAPH V.4
AVERAGE COST AND NUMBER OF MEMBERS (1997-2008)



Note: The average cost is calculated as the quotient between: a) total operating expenses (discounting marketing costs and wages of sales personnel) and b) the number of members. Information as of December of each year.

This evidence suggests that the differences in expenses observed between different AFPs may be explained more by the differences in the portfolios they hold and the services they provide than by differences in scale.

It is estimated that the productive economies of scale found do not appear to justify the sector's high concentration, since they are exhausted very rapidly, and it is necessary to study other elements to understand the low entry rate. One possibility is that the low demand elasticity does not allow entering AFPs to achieve even a minimally efficient scale, forcing these companies to use very aggressive policies which also promote greater competition on the part of the companies already present in the market.

The next section analyzes the dynamics of transfers between the different AFPs that have operated in the market and the effect of this phenomenon on their marketing costs.

3.4 Evolution of Transfer between AFPs

One of the bases of the Individual Capitalization System is that members have freedom to choose their own AFP. In order to regulate the exercise of this choice, procedures have been established by which workers can transfer the balance of their individual accounts between Administrators, and these have had a significant impact on the evolution of transfers. These transfers play an extremely important role as a sign of competition between AFPs, but they are expensive for the System and may also be damaging for members if carried out without proper information.

It is possible to identify the following stages with regard to the evolution of the regulations concerning transfers between Pension Fund Administrators:

i. The period from May 1981 to February 1982 was marked by the creation of the new Pension System, with the resulting lack of knowledge on the part of the workers and very little regulation in terms of transfers. This was reflected in a great movement of members.

ii. Later, between March and October 1982, the first rule entered into effect, organizing a basic cycle of transfers with a duration of three months, and establishing the delivery of a pension book as a pre-requisite for requesting transfers.

iii. Between November 1982 and November 1987, a change in the current regulations extended the cycle of transfers from three to four months and made it mandatory for workers to present themselves at an AFP office in order to formalize the transfer request. These regulations remained in effect for five years, during which time the number of transfers rose from 134,720 per year in 1984 to 181,048 in 1987. This represented an annual growth rate of 10.35%, and the average number of transfers during this period was 169,792 per year.

iv. In December 1987, the rule requiring workers to personally go to an AFP office to request a transfer was eliminated. In the 1988-1997 period, the average number of transfers was 834,227 per year. There was a dramatic growth in the number of transfers during this period, increasing from 306,819 transfers per year in 1988 to 1,462,681 in 1997—an average annual growth of 19%, almost twice the rate observed in the period described in number iii. above.

    The response of Administrators to more flexible transfer regulations was to increase the size of their sales forces and consequently their marketing costs. In 1983, the System's marketing costs per active member (which include the wages of sales personnel) were CLP 8,538.[90] These costs fell over the years, reaching a low of CLP 3,921 in 1987. However, in 1988, coinciding with the elimination of the requirement to carry out transfers personally at an AFP office, these expenses rose to CLP 5,762 per active member. Between 1988 and 1997, marketing costs increased at a real annual rate of 15.4%, and in 1997 they were CLP 20,854 per member. This increase was mainly a result of the increase in expenditure on

[90] All monetary values mentioned in this letter are expressed in Chilean pesos as of December 2008.

wages for the sales force. In 1988, marketing costs represented 22.8% of operating costs,[91] increasing to 50.7% in 1997.

At the same time, the number of sales agents in the System rose at a rate of 22.9% per year between December 1988 and December 1997

v. In order to reduce fraudulent transfers and enable members to transfer between Administrators with more adequate information, a rule was introduced in October 1997 which obliged workers to submit photocopies of their ID Cards and their latest pension statement from their AFP when signing a transfer order.

In this latest stage, the marketing costs of AFPs have fallen substantially and steadily, from CLP 18,984 per member in 1997 to CLP 6,315 per member in December 2002. At this latter date, marketing costs represented 15.2% of the industry's total operating costs. If the premiums of disability and survivor insurance are not considered part of operating expenses, marketing costs represent 27.2% of these expenses.

The number of sales agents in the industry has also decreased steadily, from 17,448 in December 1997 to 2,667 in December 2002.

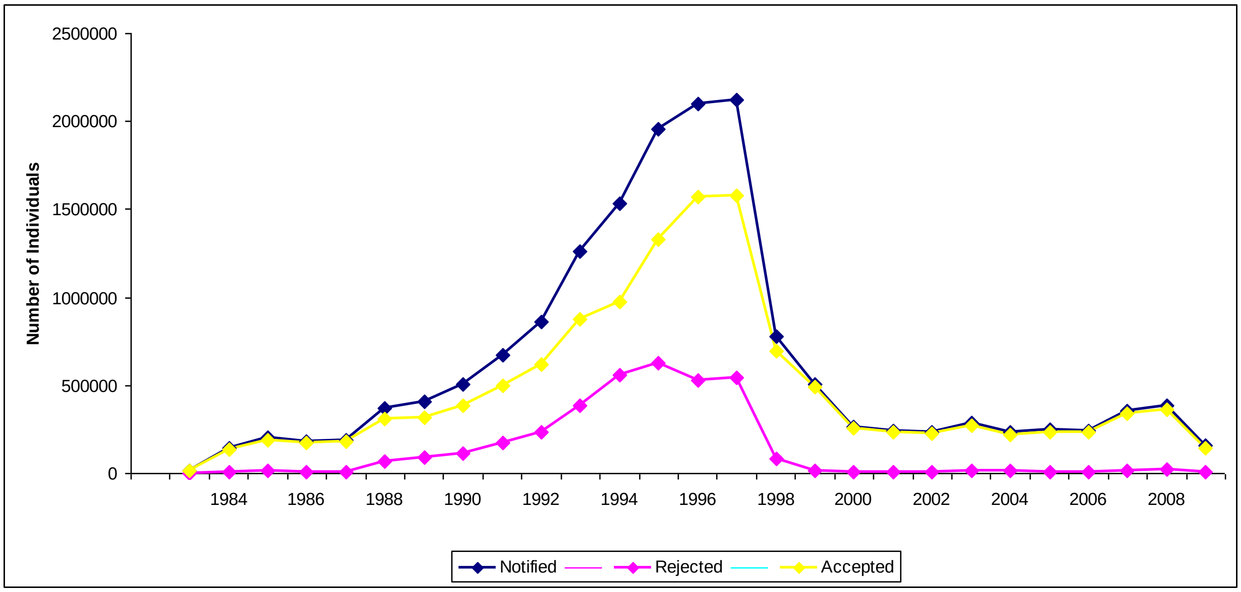
vi. In August 2002, members were authorized to request Administrator transfers online, using an Online Transfer Order and entering their security password or providing an electronic signature for the document.

vii. In October 2008, members subscribing a Transfer Order were required to attach a signed copy of the document explaining the pension cost, as well as a print of their thumbprint and signature.

From the above information, it may be deduced that the number of transfers in the AFP industry is affected by variables such as the number of Administrators, the number of sales agents, the number of members and the regulations currently in force. Graph V.2 shows the evolution of transfers from the year 1983 to the present.

[91] Operating costs used do not consider the premiums for Disability and Survivor Insurance.

GRAPH V.6
EVOLUTION OF TRANSFERS



CHAPTER VI

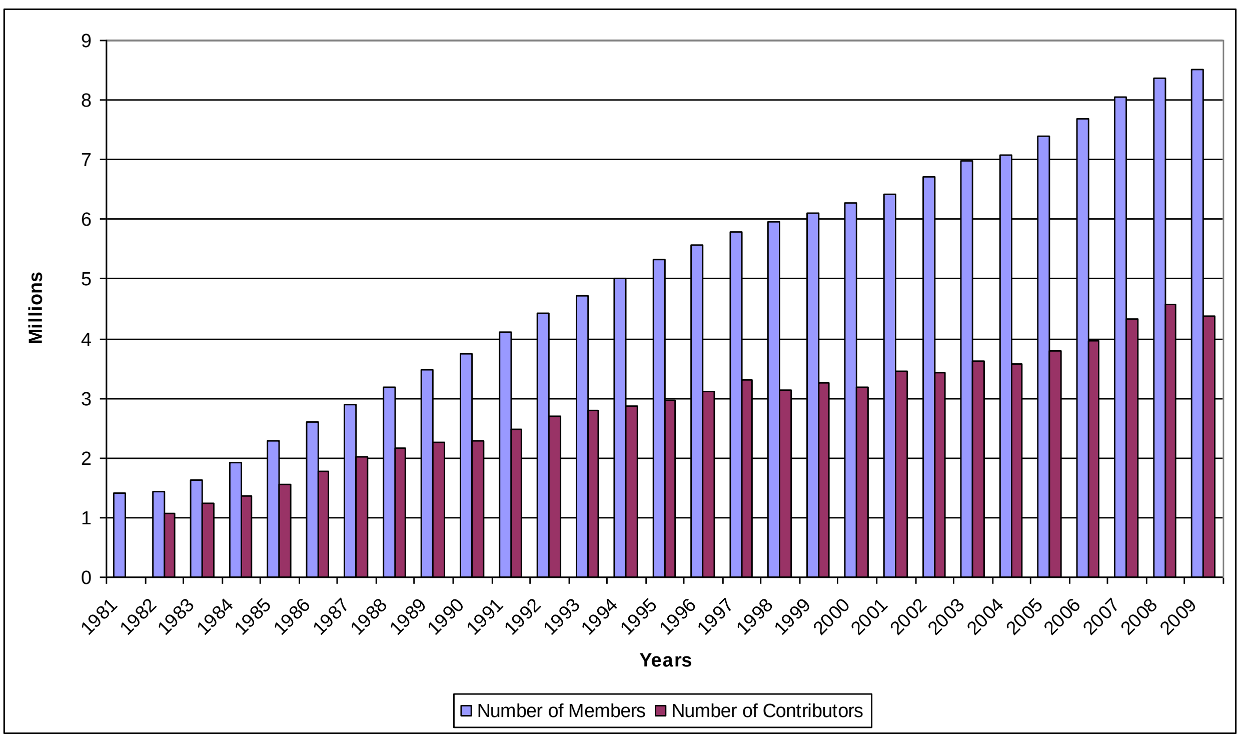
Main Results

1. AFP Pension System

1.1 Coverage

The number of members in the Individual Capitalization Pension System has grown from 1.4 million in December 1981 to 8.5 million in June 2009, an average increase of 7% per year. Meanwhile, between December 1982 and June 2009, the number of contributors increased from 1.1 to 4.4 million, an average increase of 5.4% per year.

GRAPH VI.1
EVOLUTION OF CONTRIBUTORS AND MEMBERS
(December 1981 – June 2009)



Among other factors, the difference between active members and contributors reflects job loss, members leaving the workforce, delays in the payment of contributions to Administrators because they are withheld by employers, delays in the declaration of contributions due mainly to mistakes in information, and non-payment of contributions by self-employed and voluntary members.[92]

The coverage of the Individual Capitalization System has been an issue of permanent interest, partly because of the difference between the figures for members and contributors. It is considered that neither the ratio of members with regard to the total workforce, nor the proportion of contributors with regard to the workforce, constitute appropriate ways to measure coverage. In fact, considering the active membership as a measure of coverage would be an overestimation of actual coverage, because this measurement would include all individuals that joined the System at some point in their working lives but are neither receiving a pension nor deceased, and thus are not necessarily receiving the total benefits of the System, which are directly related to the contributions paid.

On the other hand, if the statistics for contributors are used, this would underestimate the actual coverage, because it would include only members who contributed in a particular month for wages accrued in the previous months and would possibly exclude employed workers who would be entitled to the benefits of the System, even though they had not contributed in that particular month.

To obtain an indicator of the coverage of the Chilean Pension System, it is important to analyze the percentage of the workforce represented by the total number of workers covered by the Individual Capitalization System. The following table shows the coverage, including both members and contributors, while also giving a measurement that approximates the actual coverage. This includes members with less than 12 months without movement in their accounts; in other words, those who have made contributions within the past year.[93]

[92] None of the situations described implies losing membership status.

[93] All dependent members who are unemployed when an accident occurs maintain their right to disability and survivor insurance, provided that the disability or death occurs within twelve months of the last contribution, and that the worker had contributed at least six months during the year prior to the first month of unemployment.

TABLE N° VI.1

COVERAGE OF THE AFP SYSTEM IN WORKFORCE AND EMPLOYED WORKERS (December 1982 – June 2009)

Years	Contributors / Workforce	Contributors / Employed Workers	Covered Members (1) / Workforce
1982	29.0%	36.0%	N/A
1983	33.5%	38.2%	N/A
1984	35.0%	41.6%	N/A
1985	38.8%	44.1%	N/A
1986	41.1%	45.9%	N/A
1987	45.7%	50.6%	N/A
1988	46.6%	50.6%	N/A
1989	47.2%	50.8%	56.8%
1990	46.8%	50.6%	58.9%
1991	49.9%	53.7%	61.8%
1992	51.8%	55.3%	63.8%
1993	51.1%	54.6%	63.8%
1994	51.8%	56.2%	65.1%
1995	53.5%	57.2%	67.0%
1996	55.7%	58.9%	68.1%
1997	58.0%	61.3%	68.7%
1998	53.4%	57.6%	67.8%
1999	54.0%	59.5%	65.4%
2000	52.9%	58.1%	66.6%
2001	55.9%	61.2%	66.5%
2002	54.6%	59.8%	69.3%
2003	55.8%	61.0%	66.8%
2004	52.6%	57.7%	58.7%
2005	55.5%	60.3%	63.1%
2006	58.0%	61.7%	66.3%
2007	61.2%	65.9%	70.3%
2008	62.8%	67.8%	71.4%
Jun/2009	59.9%	67.0%	71.4%

(1) Covered Members: corresponds to members with less than 12 months without movement in their accounts.

It is worth emphasizing that the measurement of coverage described above includes only workers covered by the Individual Capitalization System. However, in order to measure total pension coverage it is also necessary to consider contributors who belong to the Old Pension System. The latter system only includes information on contributors, so adding them to the members covered by the New System will result in a slight underestimation of total coverage.[94]

[94] It is considered that total coverage has been underestimated due to the fact that the contributors of the Old System represent approximately 2.5% of the workforce. Also, the total Pension System coverage has been underestimated, since it does not include information on the Armed Forces or the Police Force (*Carabineros*), which are counted as part of the workforce and as employed workers, but not as contributors, even though they are covered by their own pension systems.

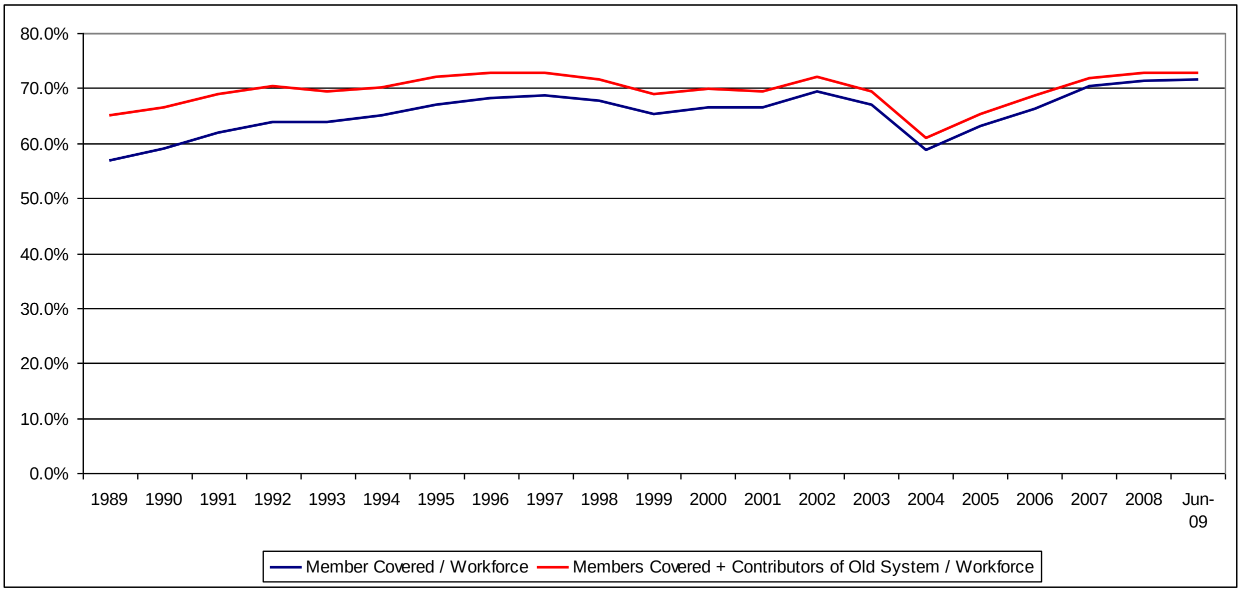
TABLE VI.2
PENSION SYSTEM COVERAGE
(December 1989 – June 2009)

Years	Covered Members / Workforce	Contributors of Old System / Workforce	Covered Members + Contributors of Old System / Workforce
1989	56.8%	8.1%	64.9%
1990	58.9%	7.5%	66.4%
1991	61.8%	7.0%	68.9%
1992	63.8%	6.5%	70.3%
1993	63.8%	5.7%	69.5%
1994	65.1%	5.0%	70.1%
1995	67.0%	5.1%	72.1%
1996	68.1%	4.6%	72.7%
1997	68.7%	4.0%	72.7%
1998	67.8%	3.7%	71.5%
1999	65.4%	3.4%	68.8%
2000	66.6%	3.4%	69.9%
2001	66.5%	2.9%	69.4%
2002	69.3%	2.7%	72.1%
2003	66.8%	2.6%	69.4%
2004	58.7%	2.3%	61.0%
2005	63.1%	2.2%	65.3%
2006	66.3%	2.3%	68.6%
2007	70.3%	1.5%	71.9%
2008	71.4%	1.4%	72.8%
Jun-09	71.4%	1.4%	72.8%

The coverage measured between December 1989 and June 2009, including workers covered by both systems, has varied between 65% and 73% of the workforce.

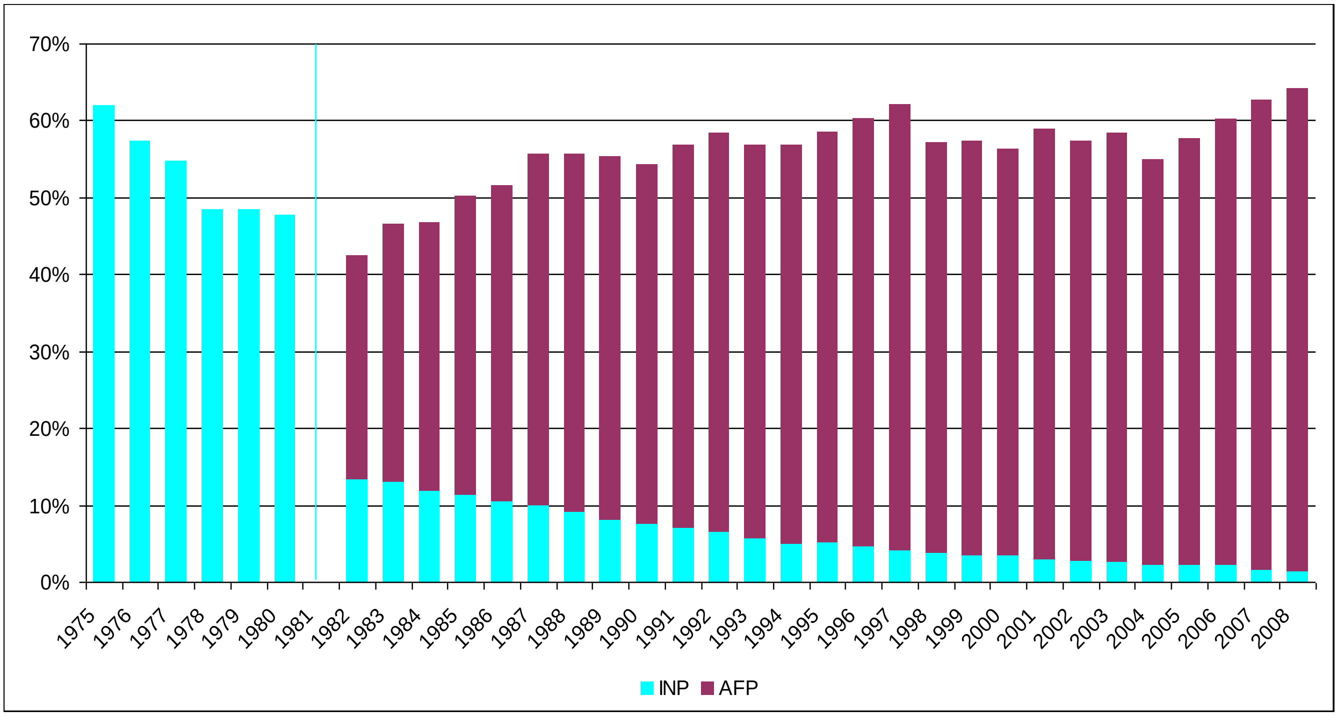
Using the measure of coverage with regard to the workforce, it may be observed that the current coverage is slightly greater than that of the Old System in its last four years, before the Individual Capitalization System was implemented. Statistics indicate that from 1976 to 1980, the coverage of the Pension System then in existence, that is, the pay-as-you-go system, averaged 67% of the workforce, with a clear downward trend. By contrast, over the past five years (2003-2008) the Pension System has averaged a total coverage of 67.9% of the workforce.

GRAPH VI.2
EVOLUTION OF PENSION SYSTEM COVERAGE
(As of June 2009)



By observing the evolution of the ratio of the number of contributors of the civilian systems in regards to the workforce, for the periods before and after the reform, we may conclude that the coverage for 2008 represented an increase of approximately 15% over the coverage observed in 1980, the year before the reform was implemented. However, this level is similar to those registered in the mid-1970s, as shown in the following graph:

GRAPH VI.3
EVOLUTION OF COVERAGE BEFORE AND AFTER PENSION SYSTEM REFORM
(Number of Contributors compared to Total Workforce)



Note: Includes only the civilian (non-military or police force) pension system.
Source: Based on information from Arellano (1988), Arenas de Mesa (2000) and updated with data from the National Statistics Institute (INE), the Social Security Institute (IPS) and the Superintendence of Pensions.

1.2 Benefits

Pensions by Type

For the December 1991-June 2009 period,[95] it may be seen that the early retirement pension was the type which developed most rapidly, with an average increase of 16.4% per year. This may be explained, among other factors, by the fact that as time went by, the balances accumulated in the individual capitalization accounts grew, allowing members to more easily meet the requirements for early retirement. It must also be considered that, beginning in 1987, members were allowed to entrust their Recognition Bonds to Insurance Companies, choosing to receive a Life Annuity in the case of early retirement.[96]

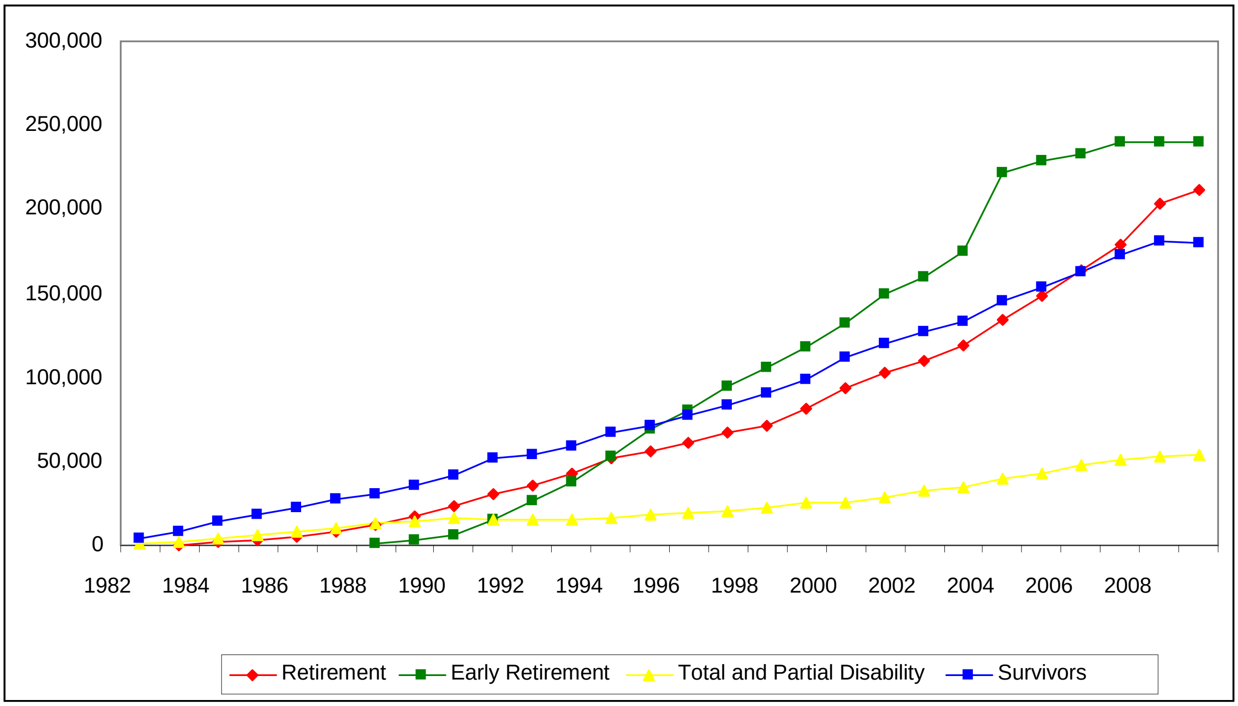
During the same period, retirement pensions grew by 601%, with an average increase of 11% per year. Disability pensions displayed the lowest rate of growth, with an average of 7% per year.

[95] This period was chosen because the legal modifications introduced in 1990 and 1991 affected early retirement and disability pensions, making it impossible to compare data from these years with data from previous years.

[96] Law No. 18,646 of August 29, 1987. In addition, since 1991 members have been allowed to request their AFP to sell their Recognition Bonds on the Stock Market.

The evolution of the number of pensions paid each year by the System is shown in the following graph.

GRAPH VI. 4
NUMBER OF PENSIONS
(As of December of each year)

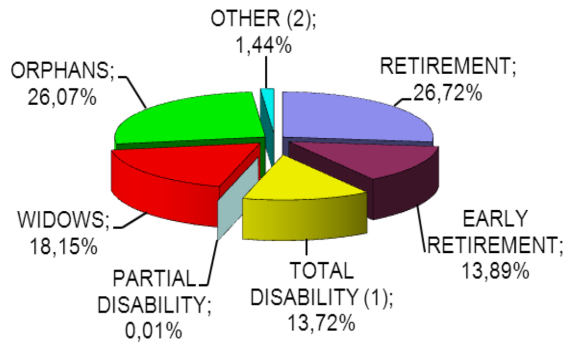


(1) Excludes pensions corresponding to first payment.
(2) Does not include temporary disability pensions.
(3) Corresponds to pensions of mothers of children born out of wedlock and parents of members.
(*) Beginning in 2004, the number of pensions paid under the life annuity mode is reported; until 2003 the cumulative number of life annuities immediately contracted was reported.

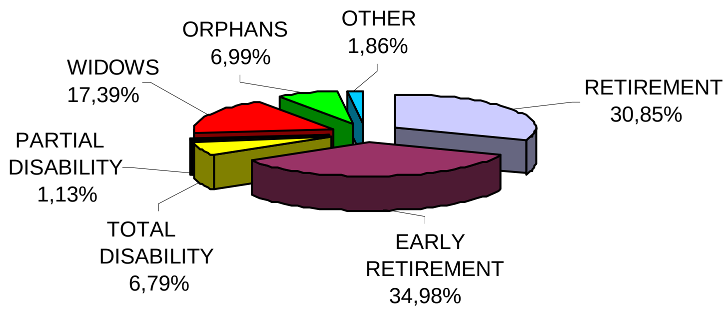
The distribution of pensions in December 1991 and June 2009 may be observed in the following charts. Of the total number of pensions paid in the System as of December 1991, the largest percentage corresponds to retirement pensions claimed by individuals reaching the legal retirement age (26.7%), while second place is held by orphans' pensions (26.1%). On the other hand, in June 2009 the greatest percentage corresponded to early retirement pensions (34.9%), followed by retirement pensions (30.9%).

GRAPH VI.5
DISTRIBUTION OF PENSIONS PAID BY TYPE

DECEMBER 1991



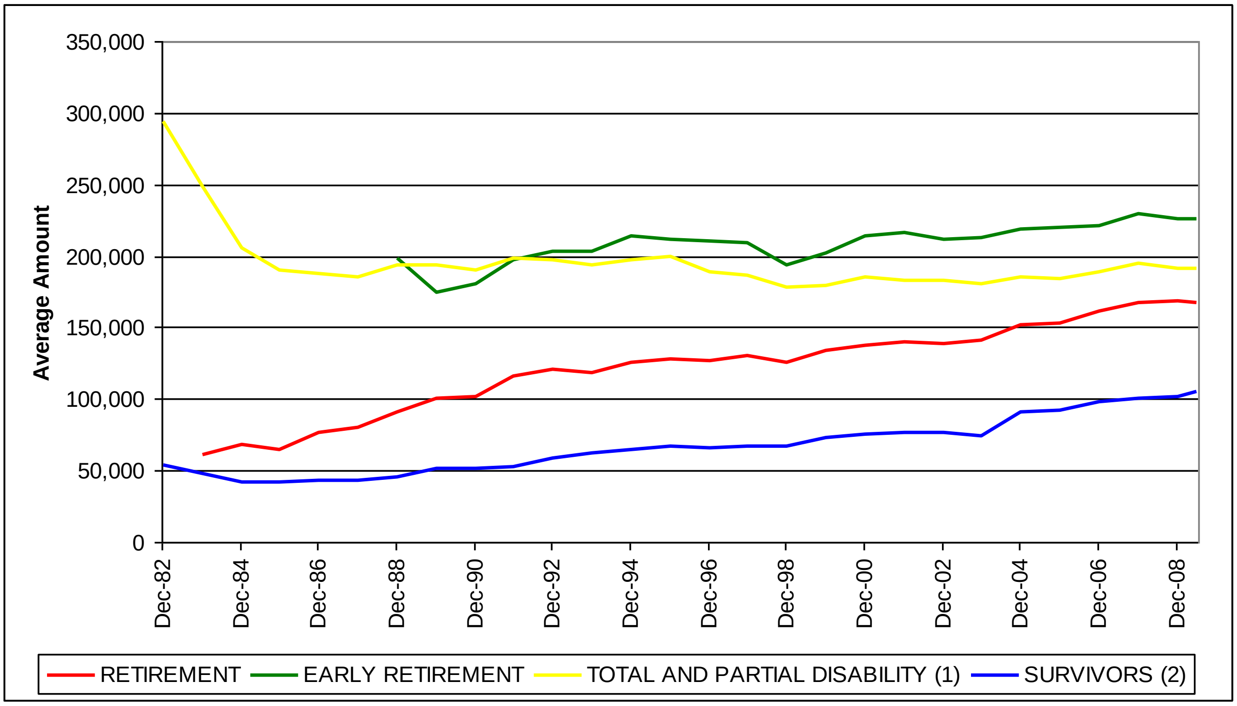
JUNE 2009



(1) *Does not include temporary disability pensions.*
(2) *Corresponds to the pensions of mothers of children out of wedlock and parents of member.*

Meanwhile, the following graph reveals that the average amount of pensions paid has not varied greatly. Between December 1991 and June 2009, the average retirement pension has had a real annual growth of 2%. Early retirement pensions began to be claimed in 1988, and their average amount has remained practically constant. Disability pensions, on the other hand, showed a decrease in the average amount until 1987, and have remained practically constant since that time. Finally, it may be observed that, on average, the amount for survivor (widower and orphan) pensions has had an annual real increase of 4% over the same period.

GRAPH VI. 6
AVERAGE AMOUNT BY TYPE OF PENSION
(In Chilean pesos as of June 2009)

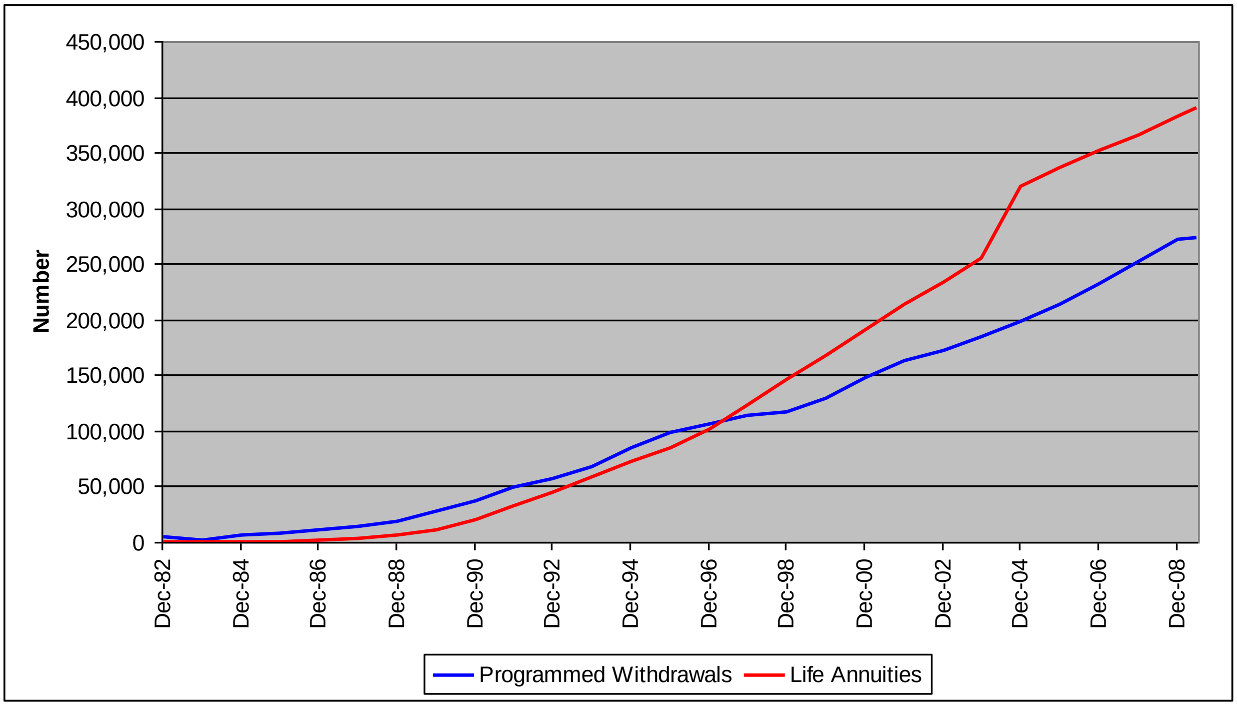


(1) Does not include temporary disability pensions.
(2) Corresponds to the pensions of mothers of children born out of wedlock and parents of member.

Pensions by Pension Option

The two main pension modes, programmed withdrawals and life annuities, have grown steadily and their evolution is shown in the following graph.

GRAPH VI. 7
NUMBER OF PENSIONS BY MODE
(As of December of each year)



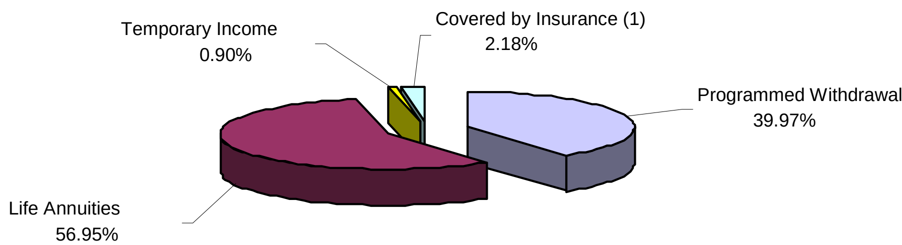
Life annuities have shown a more rapid growth since 1988, which goes hand-in-hand with the early retirement pensions' evolution. The average annual growth rate in life annuities between 1987 and June 2009 has been 25%, while in programmed withdrawals the rate has been 15% for the same period. According to the regulations, not all workers may choose between the different pension modes, since an amount equal or greater than the Basic Solidarity Pension must already be financed in order to choose a Life Annuity. This means that the average pension amounts tend to be much higher in the Life Annuity mode and much lower in the programmed withdrawal mode. Of the total number of individuals who accepted a pension mode in the SCOMP system between August 2004 and June 2009,[97] 63% selected the Life Annuity mode.

Beginning in 1997, life annuities have seemed to overtake programmed withdrawals in terms of the number of people receiving pensions in each mode. In June 2009, 390,163 people were receiving pensions by life annuity and 273,794 people by programmed withdrawal. The distribution of pension modes may be observed in the following graph.

[97] 130,696 people accepted some form of pension during this period.

GRAPH VI.8
PENSIONS BY MODE

(June 2009)



(1) *Corresponds to pensions being paid under the "Insured" mode that was in existence before the modifications introduced to DL 3,500 by Law No. 18,646 of August 29, 1987.*

Freely-Usable Surplus

As mentioned in Chapter III, whatever the pension mode chosen by the member, he/she may request the Freely-Usable Surplus, provided that the following conditions are met: the pension obtained is greater than 150% of the minimum State-guaranteed pension and over 70% of his/her average monthly taxable income over the past ten years.[98] This surplus may be withdrawn by the member to be used for whatever purpose he/she considers appropriate.

During 2008, a total of 10,314 members withdrew Freely-Usable Surpluses. The average amounts of these withdrawals are shown in the following table:

TABLE VI.3
NUMBER AND AVERAGE AMOUNT PAID IN FREELY-USABLE SURPLUSES
(2008)

TYPE OF PENSION	NUMBER	AVERAGE AMOUNT IN UF
Retirement at Legal Age	1,605	318.60
Early Retirement	8,525	96.02
Total Disability	180	230.57
Partial Disability	4	20.38

[98] Beginning in August 2004, Law No. 19,934 increased the requirement for the percentage of the minimum pension from 120% to 150%. In addition, this same date marked the beginning of a new way of calculating average taxable income, which basically limits the maximum number of months without contributions (considered as "zero income") to 16.

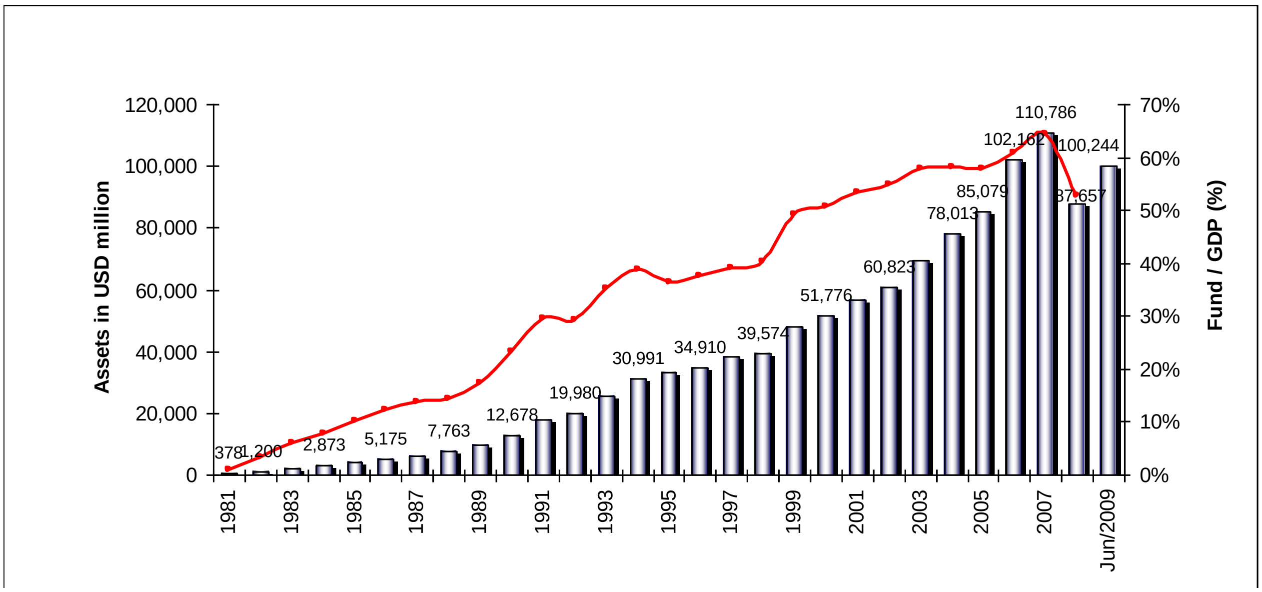
1.3 Investments

Financial Structure of Pension Funds

i. Assets

Since the System was established, Pension Funds have grown on average at a real annual rate of 22%, reaching a value of CLP 53 trillion in June 2009, equivalent to USD 100.2 billion. In the past five years, these Funds have grown at an average rate of 6% per year in real terms.

GRAPH VI.9
EVOLUTION OF PENSION FUNDS
(In millions of USD as of June 2009)

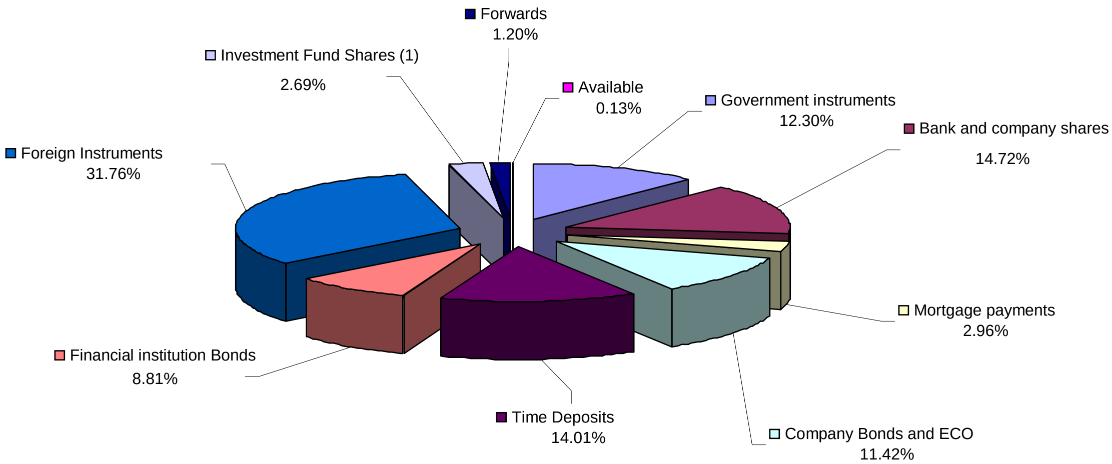


Bars: Pension Fund Assets
Line: Funds/GDP

Pension Funds have also increased their share compared with the size of the Chilean economy, representing 53% of the GDP in December 2008.

Regarding the composition of the Pension Fund portfolio by instrument, as of June 2009, 31.8% of this portfolio is invested in foreign securities, 27.4% in national securities from the financial sector, 28.4% in national companies and approximately 12.3% in Chilean government securities.

GRAPH VI.10
COMPOSITION OF PENSION FUND PORTFOLIOS
(June 2009)



(1) Includes investment fund shares, mutual fund shares and FICE.

In the government sector, which concentrated 12.3% of all pension resources, that is, USD 12.2 billion, the most significant group are instruments issued by the Central Bank of Chile (6.29% of the value of Funds) and investments in General Treasury of the Republic bonds (3.15% of the value of Funds).

In the national financial sector, which concentrated 27.4% of the pension resources, USD 27.4 billion, most investment takes place in time deposits and mortgage bonds, with 14% and 2.9% of the total value of Pension Funds, respectively. Other financial sector securities acquired by Pension Funds are bonds, shares and forwards in currencies.

Meanwhile, Pension Fund investment in the private company sector, which is 19% of the total, equivalent to USD 28.4 billion, is distributed in the following manner: 14.3% of the value of Funds is invested in company shares, 11.4% in bonds and negotiable instruments, and 2.7% in investment fund shares, mutual fund shares and foreign capital investment funds.

Finally, in terms of investment in foreign securities, which amounts to 31.8% of the value of Pension Funds, that is, USD 31,836 million,[99] this is oriented primarily to equities, with debt securities representing only 0.11% of the Fund.

[99] This value includes indirect investment abroad, made through national investment fund shares.

ii. Liabilities

The liabilities of Pension Funds are made up almost entirely of net worth—98.9% of Pension Fund liabilities in June 2009. The net worth of Pension Funds is made up primarily of individual capitalization accounts, voluntary savings accounts and compensation accounts, as well as unpaid contributions and payments being collected from personal accounts.

The main payable liabilities include the revenue for the month which, once classified, is transferred to the respective personal accounts of the Fund's net worth, the amount corresponding to benefits accrued by members and fees accrued by the AFPs, and the cash reserve which must be held by Administrators and invested in Pension Fund shares. As of June 2009, liabilities due corresponded to 1.1% of the System's total liabilities.

As of June 2009, 94.7% of all Pension Fund liabilities corresponded to the mandatory individual capitalization accounts of active and passive members, 1.3% to voluntary individual capitalization accounts, 1.2% to agreed deposit accounts, 1% to voluntary savings accounts, 0.2% to unpaid contributions, 0.002% to contributions being accredited, 0.1% to compensation savings accounts and 0.3% to other accounts.

TABLE VI.4
PENSION FUND LIABILITIES
(As of June 2009, in millions of USD and by percentage)

AFP	PAYABLE	FUND NET WORTH											TOTAL LIABILITIES
	Payable Liability	CCICO	CCIAV	CCICV	CAPVC	CCIDC	CAV	CAI	Voluntary Pension Savings For Other Entities	Collection in Process of Accreditation	Arrears	Other Net Worth Accounts	
CAPITAL	230	21,191	0	332	0	382	183	38	0	0	48	89	22,492
CUPRUM	217	17,830	0	424	0	332	300	4	0	1	5	61	19,175
HABITAT	253	23,280	0	384	0	333	322	28	0	1	53	49	24,703
PLANVITAL	33	3,041	0	5	0	2	7	7	0	0	23	17	3,135
PROVIDA	320	29,614	0	200	0	192	159	61	0	0	92	101	30,740
TOTAL	1,053	94,956	0	1,345	0	1,243	971	137	0	2	221	316	100,244

AFP	PAYABLE	FUND NET WORTH											TOTAL LIABILITES
	Payable Liability	CCICO	CCIAV	CCICV	CAPVC	CCIDC	CAV	CAI	Voluntary Pension Savings For Other Entities	Collection in Process of Accreditation	Arrears	Other Net Worth Accounts	
CAPITAL	1.0%	94.2%	0.0%	1.5%	0.0%	1.7%	0.8%	0.2%	0.0%	0.0%	0.2%	0.4%	100.0%
CUPRUM	1.1%	93.0%	0.0%	2.2%	0.0%	1.7%	1.6%	0.0%	0.0%	0.0%	0.0%	0.3%	100.0%
HABITAT	1.0%	94.2%	0.0%	1.6%	0.0%	1.3%	1.3%	0.1%	0.0%	0.0%	0.2%	0.2%	100.0%
PLANVITAL	1.0%	97.0%	0.0%	0.2%	0.0%	0.1%	0.2%	0.2%	0.0%	0.0%	0.7%	0.5%	100.0%
PROVIDA	1.0%	96.3%	0.0%	0.7%	0.0%	0.6%	0.5%	0.2%	0.0%	0.0%	0.3%	0.3%	100.0%
TOTAL	1.1%	94.7%	0.0%	1.3%	0.0%	1.2%	1.0%	0.1%	0.0%	0.0%	0.2%	0.3%	100.0%

CCICO: *Individual Capitalization Accounts – Mandatory Contributions*
CCIAV: *Individual Capitalization Accounts – Voluntary Member*
CCICV: *Individual Capitalization Accounts – Voluntary Contributions*
CAPVC: *Collective Pension Savings – Individual Accounts*
CCIDC: *Individual Capitalization Accounts – Agreed Deposits*
CAV: *Voluntary Savings Accounts*
CAI: *Compensation Savings Accounts*

Risk Rating of Investment Portfolio Debt Instruments

As was mentioned in the description of the System, in the case of fixed-income instruments, Pension Fund resources can only be invested in instruments rated as Category N-3 or higher, for short-term instruments, and BBB or higher where long-term instruments are involved. These minimum categories are applicable for both national and foreign instruments. Nonetheless, as pointed out in Chapter III, Pension Funds may be invested in lower-risk debt instruments, but with more restrictive investment limits: 5%, 4%, 3% and 2% for Type A, B, C and D Funds, respectively.

Within these eligible categories, investments are strongly concentrated in lower-risk instruments. As of June 2009, the average distribution of fixed-income instruments by risk category was as follows:

TABLE VI.5
PENSION FUND INVESTMENTS BY RISK CATEGORY
(Percentage in relation to total Pension Funds as of June 2009)

	AAA-AA and N-1		A and N-2		BBB and N-3	
	National	**Foreign**	**National**	**Foreign**	**National**	**Foreign**
Fund A	17.49	0.00	1.46	0.02	0.02	0.00
Fund B	34.19	0.00	2.78	0.04	0.06	0.00
Fund C	49.82	0.01	5.08	0.11	0.18	0.00
Fund D	65.48	0.00	6.94	0.21	0.23	0.00
Fund E	87.29	0.00	8.18	0.37	0.19	0.00
System Total	**44.99**	**0.00**	**4.38**	**0.11**	**0.13**	**0.00**

The following table shows the distribution by type of instrument, according to the average duration of fixed-income Pension Fund investments:

TABLE VI.6
AVERAGE DURATION OF PENSION FUND INVESTMENTS
(In days as of June 2009)

Instruments	Fund A	Fund B	Fund C	Fund D	Fund E
Central Bank of Chile Securities	2,393	2,258	2,006	2,020	2,004
General Treasury	4,702	4,544	4,501	4,432	4,320
INP	1,212	1,031	1,050	1,225	1,590
Time Deposits	548	471	438	366	370
Letters of Credit issued by Financial Institutions	1,891	1,736	1,754	1,734	1,649
Bank Bonds	1,304	1,192	1,382	1,496	1,551
Subordinate Bonds issued by Financial Institutions	3,202	2,971	2,620	3,291	3,241
Private and Public Company Bonds	3,065	2,871	2,794	2,727	2,621
Negotiable Instruments	13	13	36	92	99
Debt Securities from Foreign Issuers	1,617	1,570	1,542	1,592	1,619

Evolution of Investment Portfolios

Since the creation of the Individual Capitalization Pension System, the composition of the investment portfolios of Pension Funds has been affected by three factors: the evolution of investment regulations, the growth of Pension Funds and the development and maturity of the domestic capital market. These three forces operate in a context in which the main objective of the supervisor is to facilitate the achievement of adequate yield/risk combinations for the composition of investment portfolios.

Evolution of Investment Limits and Investment Options

a. The Beginnings of the System:

During the first stage, Pension Funds were only allowed to be invested in fixed-income instruments, in other words, government securities, instruments from financial institutions and company bonds.

The relatively low development of the capital market and the small size of Pension Funds during the early 1980s were compatible with the following maximum investment limits by type of instrument: government securities, 100% of the value of the Fund; time deposits at over one year, 40% of the Fund; mortgage-backed securities, 80% of the Fund; company bonds, 60% of the Fund, and shares of other Pension Funds, 20% of the Fund. The Investment Regime at that time had a remarkably high maximum investment limit in government instruments and a total absence of instruments representing capital.

b. Authorization of Equitiy Investment:

In early 1985, an important change took place in eligible instruments and their respective limits: for the first time Funds were authorized to invest up to 30% of their resources in the shares of public companies that were being privatized: Enersis, Chilectra Quinta Región, Chilectra Generación, Entel, Laboratorio Chile, Soquimich, Cía de Teléfonos de Chile, Endesa and Empresa Eléctrica Pilmaiquén.

Later, between 1986 and 1990, the greater maturity achieved by the capital market as a result of the opening and privatization of these public companies and the rapid growth of Funds led to a gradual growth of investment in the shares of private corporations which met conditions of openness and de-concentrated ownership, among other things. Other important changes took place in 1989 when Pension Funds were authorized to invest in the shares of companies with concentrated ownership, and in 1990, when shares in investment funds were authorized.

c. Investment Abroad :

In 1990, foreign instruments were authorized as eligible securities for Pension Funds, in response to the need to introduce new investment options for pension resources. Through a legal modification, investment of Pension Funds in foreign fixed-income securities became possible, with a maximum limit to be fixed by the Central Bank of Chile, which may not exceed 10% of the value of the Fund. In this first stage, priority was given to the safety of Pension Funds, with authorization being given to instruments with a very low level of risk: governments , central banks and banks securities.

Moreover the foreign instruments that could be acquired by Pension Funds had to be approved by the Risk Rating Committee and meet the conditions established in the relevant regulations.

d. First Reform to the Capital Market Law:

An important change in investment rules for Pension Funds is included in Law No. 19,301, known as the Capital Market Law, which was passed in 1994 and modified investment limits, increasing the number of eligible instruments.

As far as DL 3,500 is concerned, the Capital Market Law introduces the following modifications:

- ***New investment alternatives are allowed for Pension Funds:***

  The aim was to incorporate new, duly regulated investment options, which, with an appropriate yield-risk combination, would allow pension resources to be invested efficiently and safely, and at the same time create suitable channeling of resources from savings into investment.

  The following financial instruments were incorporated by this law: Recognition Bonds, debt instruments and convertible bonds for funding projects (instruments with no history); freely available shares of open corporations, which do not require the approval of the Risk Rating Committee and which comply with minimum eligibility requirements; shares of corporations with little stock market presence; foreign capital instruments (company shares and fund shares); foreign corporate debt instruments and credit-backed bonds. Also, foreign debt instruments with risk rating below A- and down to BBB were approved, In addition, risk-hedging operations were approved for both international and domestic markets.

- ***Modification to the investment limits structure of Pension Funds:***

The structure of investment limits was modified both in terms of issuers and instruments, promoting a greater diversification of investment portfolios and a greater universe of issuers in which resources could be located. At the same time, it introduced portfolio restrictions in terms of risk class and instrument, in an attempt to limit the exposure of Funds in high-risk instruments and produce a greater diversification of their portfolios.

- **Regulation of conflicts of interest:**

The Capital Market Law introduces specific rules to DL 3,500 to reduce potential conflicts of interests which may occur in the administration of Pension Funds and to encourage greater transparency in the capital market. This is a fundamental requirement for increasing the flexibility of investment possibilities for pension resources.

e. Multifunds Law

Law No. 19,795 of February 28, 2002 (Multifunds Law) established five types of funds to be managed by each Administrator (See Chapter VI). Also, this same Law expanded the global investment limits for Pension Funds abroad, establishing for this purpose a range between 20% and 30% of the value of all types of Funds in an AFP (the Central Bank of Chile is responsible for setting the definitive limit).

Meanwhile, the Multifunds Law improved the limits for foreign fixed-income instruments by issuer and included a risk factor to differentiate between issuers with greater and lower relative risk, as had previously been applied to national instruments. In accordance with the global limit increase, it also raised the limits per issuer in the case of issuers with better risk ratings, and incorporated new investment options abroad, such as newly issued instruments, operations and contracts. This increased the variety of instruments available for investing Pension Fund resources, seeking to allow investments to adjust to the dynamic evolution of international financial markets.

f. **Pension Reform Law**

Law No. 20,255 (2008) introduced a series of modifications to DL 3,500 (1980) in terms of investments (see Chapter III), which were designed to improve and flexibilize the legislation, while also defining certain matters that would be regulated by a complementary text called Pension Fund Investment Regime (heretofore known as the "Regime").

In this way, under the new regulatory framework, DL 3,500 provides the general guidelines for the eligibility of instruments, the limits on issuers that avoid ownership concentration, and participation in the control of Pension Funds.

Meanwhile, the Investment Regime regulates specific Pension Fund investment issues which, due to their nature, require greater flexibility and details, and also establishes investment limits designed to generate an appropriate diversification of Funds.

The following table shows the evolution of the investment limits established by law for the main financial instruments eligible for Pension Fund investments.

TABLE VI.7
EVOLUTION OF INVESTMENT LIMITS BY INSTRUMENT

<table>
<tr><th rowspan="2">INSTRUMENTS</th><th colspan="4">1981</th><th colspan="4">1985</th><th colspan="4">1989</th><th colspan="4">1990</th></tr>
<tr><th colspan="2">Lower Limit</th><th colspan="2">Upper Limit</th><th colspan="2">Lower Limit</th><th colspan="2">Upper Limit</th><th colspan="2">Lower Limit</th><th colspan="2">Upper Limit</th><th colspan="2">Lower Limit</th><th colspan="2">Upper Limit</th></tr>
<tr><td>Government Securities</td><td colspan="4">100%</td><td colspan="4">50%</td><td colspan="4">50%</td><td colspan="4">45%</td></tr>
<tr><td>Mortgage Bonds</td><td colspan="2">40%</td><td colspan="2">100%</td><td colspan="2">40%</td><td colspan="2">100%</td><td colspan="2">40%</td><td colspan="2">100%</td><td colspan="2">40%</td><td colspan="2">100%</td></tr>
<tr><td>Time Deposits, Bonds, other securities representing deposits and guaranteed by Financial Institutions</td><td colspan="2">40% if at least ¼ has an expiration date ≥ 1 year

30% if expiration date is < 1 year</td><td colspan="2">100%</td><td colspan="2">40% if at least ¼ has an expiration date ≥ 1 year

30% if expiration date is < 1 year</td><td colspan="2">100%</td><td colspan="2">40% if at least ¼ has an expiration date ≥ 1 year

30% if expiration date is < 1 year</td><td colspan="2">100%</td><td colspan="2">40% if at least ¼ has an expiration date ≥ 1 year

30% if expiration date is < 1 year</td><td colspan="2">100%</td></tr>
<tr><td>Private and Public Company Bonds</td><td colspan="2">60%</td><td colspan="2">100%</td><td colspan="2">30%</td><td colspan="2">100%</td><td colspan="2">30%</td><td colspan="2">100%</td><td colspan="2">30%</td><td colspan="2">100%</td></tr>
<tr><td>Open, non concentrated Company Stocks</td><td colspan="4" rowspan="3">UNAUTHORIZED</td><td colspan="2">10%</td><td colspan="2">30%</td><td colspan="2" rowspan="3">10%</td><td>-</td><td rowspan="3">30%</td><td>10%</td><td rowspan="3">20%</td><td>30%</td><td rowspan="3">40%</td></tr>
<tr><td>Real Estate Company Stocks</td><td colspan="4">UNAUTHORIZED</td><td>-</td><td>10%</td><td>30%</td></tr>
<tr><td>Open, Concentrated Company Stocks</td><td colspan="4">UNAUTHORIZED</td><td>10%</td><td>10%</td><td>30%</td></tr>
<tr><td></td><td colspan="4" rowspan="5">UNAUTHORIZED</td><td colspan="4" rowspan="5">UNAUTHORIZED</td><td colspan="4" rowspan="5">UNAUTHORIZED</td><td>10%</td><td rowspan="3">10%</td><td>20%</td><td rowspan="3">20%</td></tr>
<tr><td>Real Estate Investment Fund Shares</td><td>10%</td><td>20%</td></tr>
<tr><td rowspan="2">Business Development Investment Fund Shares</td><td>0%</td><td>5%</td></tr>
<tr><td colspan="4">UNAUTHORIZED</td></tr>
<tr><td>Securitized Credit Investment Fund Shares</td><td colspan="4">UNAUTHORIZED</td></tr>
<tr><td>Foreign Investment Fund Shares</td><td colspan="4">UNAUTHORIZED</td><td colspan="4">UNAUTHORIZED</td><td colspan="4">UNAUTHORIZED</td><td colspan="4">UNAUTHORIZED</td></tr>
<tr><td>Foreign Fixed-Income Securities</td><td colspan="4">UNAUTHORIZED</td><td colspan="4">UNAUTHORIZED</td><td colspan="4">UNAUTHORIZED</td><td colspan="4">10% (1)</td></tr>
<tr><td>Foreign Variable Income Securities</td><td colspan="4">UNAUTHORIZED</td><td colspan="4">UNAUTHORIZED</td><td colspan="4">UNAUTHORIZED</td><td colspan="4">UNAUTHORIZED</td></tr>
<tr><td>Other Instruments authorized by the Central Bank</td><td colspan="4">UNAUTHORIZED</td><td colspan="4">UNAUTHORIZED</td><td colspan="4">UNAUTHORIZED</td><td colspan="4">UNAUTHORIZED</td></tr>
<tr><td>Risk Hedging Transactions</td><td colspan="4">UNAUTHORIZED</td><td colspan="4">UNAUTHORIZED</td><td colspan="4">UNAUTHORIZED</td><td colspan="4">UNAUTHORIZED</td></tr>
</table>

(1) A maximum range was established for the Central Bank of Chile limit of 1% during the first year the law entered into effect, adding 1% per year over five years. Five years after the law entered into effect, the maximum range for the limit would be 10%.

TABLE VI.7 (continued)
EVOLUTION OF INVESTMENT LIMITS BY INSTRUMENT

<table>
<tr><th rowspan="2">INSTRUMENTS</th><th colspan="4">1994</th><th colspan="4">1996</th><th colspan="4">1999</th></tr>
<tr><th colspan="2">Lower Limit</th><th colspan="2">Upper Limit</th><th colspan="2">Lower Limit</th><th colspan="2">Upper Limit</th><th colspan="2">Lower Limit</th><th colspan="2">Upper Limit</th></tr>
<tr><td>Government Securities</td><td colspan="2">35%</td><td colspan="2">50%</td><td colspan="2">35%</td><td colspan="2">50%</td><td colspan="2">35%</td><td colspan="2">50%</td></tr>
<tr><td>Mortgage Bonds</td><td colspan="2">35%</td><td colspan="2">50%</td><td colspan="2">35%</td><td colspan="2">50%</td><td colspan="2">35%</td><td colspan="2">50%</td></tr>
<tr><td>Time Deposits, Bonds, other securities representing deposits and guaranteed by Financial Institutions</td><td colspan="2">30%</td><td colspan="2">50%</td><td colspan="2">30%</td><td colspan="2">50%</td><td colspan="2">30%</td><td colspan="2">50%</td></tr>
<tr><td>Private and Public Company Bonds</td><td colspan="2">30%</td><td colspan="2">50%</td><td colspan="2">30%</td><td colspan="2">50%</td><td colspan="2">30%</td><td colspan="2">50%</td></tr>
<tr><td>Open Company Stocks</td><td colspan="2">30% (the distinction between concentrated firms is eliminated)</td><td colspan="2">40% (the distinction between concentrated is eliminated)</td><td colspan="2">30%</td><td colspan="2">40%</td><td colspan="2">30%</td><td colspan="2">40%</td></tr>
<tr><td>Real Estate Company Stocks</td><td colspan="2">10% (limit shared with real estate investment funds)</td><td colspan="2">20% (limit shared with real estate investment funds)</td><td colspan="2">10% (limit shared with real estate investment funds)</td><td colspan="2">20% (limit shared with real estate investment funds)</td><td colspan="2">10% (limit shared with real estate investment funds)</td><td colspan="2">20% (limit shared with real estate investment funds)</td></tr>
<tr><td>Security Investment Fund Shares</td><td colspan="2">5%</td><td colspan="2">10%</td><td colspan="2">5%</td><td colspan="2">10%</td><td colspan="2">5%</td><td colspan="2">10%</td></tr>
<tr><td>Real Estate Investment Fund Shares</td><td colspan="2">10% (limit shared with real estate investment funds)</td><td colspan="2">20% (limit shared with real estate investment funds)</td><td colspan="2">10% (limit shared with real estate investment funds)</td><td colspan="2">20% (limit shared with real estate investment funds)</td><td colspan="2">10% (limit shared with real estate investment funds)</td><td colspan="2">20% (limit shared with real estate investment funds)</td></tr>
<tr><td>Business Development Investment Fund Shares</td><td colspan="2">2%</td><td colspan="2">5%</td><td colspan="2">2%</td><td colspan="2">5%</td><td colspan="2">2%</td><td colspan="2">5%</td></tr>
<tr><td>Securitized Credit Investment Fund Shares</td><td colspan="2">5%</td><td colspan="2">10%</td><td colspan="2">5%</td><td colspan="2">10%</td><td colspan="2">5%</td><td colspan="2">10%</td></tr>
<tr><td>Foreign Investment Fund Shares</td><td colspan="4">UNAUTHORIZED</td><td colspan="2">3% (included in foreign variable income sublimit)</td><td colspan="2">6% (included in foreign variable income sublimit)</td><td colspan="2">3% (included in foreign variable income sublimit)</td><td colspan="2">6% (included in foreign variable income sublimit)</td></tr>
<tr><td>Foreign Fixed-Income Securities</td><td>6%</td><td rowspan="2">6%</td><td>12%</td><td rowspan="2">12%</td><td>6%</td><td rowspan="2">6%</td><td>12%</td><td rowspan="2">12%</td><td>10%</td><td rowspan="2">10%</td><td>20%</td><td rowspan="2">20%</td></tr>
<tr><td>Foreign Variable Income Securities</td><td>3%</td><td>6%</td><td>3%</td><td>6%</td><td>5%</td><td>10%</td></tr>
<tr><td>Other Instruments authorized by the Central Bank</td><td colspan="2">1%</td><td colspan="2">5%</td><td colspan="2">1%</td><td colspan="2">5%</td><td colspan="2">1%</td><td colspan="2">5%</td></tr>
<tr><td>Risk Hedging Transactions</td><td colspan="2">5%</td><td colspan="2">15%</td><td colspan="2">5%</td><td colspan="2">15%</td><td colspan="2">10%</td><td colspan="2">25%</td></tr>
</table>

TABLE VI.7 (continued)
EVOLUTION OF INVESTMENT LIMITS BY INSTRUMENT AND FUND

<table>
<tr><th rowspan="3">INSTRUMENTS</th><th colspan="6">2000</th></tr>
<tr><th colspan="4">Fund 1 (1)</th><th colspan="2">Fund 2</th></tr>
<tr><th colspan="2">Lower Limit</th><th colspan="2">Upper Limit</th><th>Lower Limit</th><th>Upper Limit</th></tr>
<tr><td>Government Securities</td><td colspan="2">35%</td><td colspan="2">50%</td><td>50%</td><td>80%</td></tr>
<tr><td>Mortgage Bonds</td><td colspan="2">35%</td><td colspan="2">50%</td><td>45%</td><td>70%</td></tr>
<tr><td>Time Deposits, Bonds, other securities representing deposits and guaranteed by Financial Institutions</td><td colspan="2">30%</td><td colspan="2">50%</td><td>50%</td><td>80%</td></tr>
<tr><td>Private and Public Company Bonds</td><td>-</td><td rowspan="2">30%</td><td>-</td><td rowspan="2">50%</td><td>45%</td><td>70%</td></tr>
<tr><td>Open Company Stocks</td><td>10%</td><td>15%</td><td colspan="2">UNAUTHORIZED</td></tr>
<tr><td>Real Estate Company Stocks</td><td colspan="2" rowspan="2">30%</td><td colspan="2" rowspan="2">40%</td><td colspan="2">UNAUTHORIZED</td></tr>
<tr><td>Security Investment Fund Shares</td><td colspan="2">UNAUTHORIZED</td></tr>
<tr><td>Real Estate Investment Fund Shares</td><td colspan="2">5%</td><td colspan="2">10%</td><td colspan="2">UNAUTHORIZED</td></tr>
<tr><td>Business Development Investment Fund Shares</td><td colspan="2">10%</td><td colspan="2">20%</td><td colspan="2">UNAUTHORIZED</td></tr>
<tr><td>Securitized Credit Investment Fund Shares</td><td colspan="2">2%</td><td colspan="2">5%</td><td colspan="2">UNAUTHORIZED</td></tr>
<tr><td>Foreign Investment Fund Shares</td><td colspan="2">5%</td><td colspan="2">10%</td><td colspan="2">UNAUTHORIZED</td></tr>
<tr><td>Commercial paper</td><td colspan="2">10%</td><td colspan="2">25%</td><td>30%</td><td>50%</td></tr>
<tr><td>Foreign Fixed-Income Securities</td><td>10%</td><td>10%</td><td>20%</td><td>20%</td><td>10%</td><td>20%</td></tr>
<tr><td>Foreign Variable Income Securities</td><td>5%</td><td>-</td><td>10%</td><td>-</td><td colspan="2">UNAUTHORIZED</td></tr>
<tr><td>Other Instruments authorized by the Central Bank</td><td colspan="2">1%</td><td colspan="2">5%</td><td>1%</td><td>5%</td></tr>
<tr><td>Risk Hedging Transactions</td><td colspan="2">10%</td><td colspan="2">25%</td><td>10%</td><td>25%</td></tr>
</table>

(1) The Type 1 Fund is the legal successor of the only Fund in existence until February 29, 2000 (Original Fund).

(2) Law No. 19,705 of December 20, 2000 eliminated the distinction between the shares of Real Estate Investment Funds, Security Investment Funds and Business Development and Securitized Loans, defining all of these as Investment Fund Shares.

TABLE VI.7 (continued)
EVOLUTION OF INVESTMENT LIMITS BY INSTRUMENT AND FUND

<table>
<tr><th rowspan="3">INSTRUMENTS</th><th colspan="20">2002</th></tr>
<tr><th colspan="4">Fund A</th><th colspan="4">Fund B</th><th colspan="4">Fund C (1)</th><th colspan="4">Fund D</th><th colspan="4">Fund E (2)</th></tr>
<tr><th colspan="2">Lower Limit</th><th colspan="2">Upper Limit</th><th colspan="2">Lower Limit</th><th colspan="2">Upper Limit</th><th colspan="2">Lower Limit</th><th colspan="2">Upper Limit</th><th colspan="2">Lower Limit</th><th colspan="2">Upper Limit</th><th colspan="2">Lower Limit</th><th colspan="2">Upper Limit</th></tr>
<tr><td>Government Securities</td><td colspan="2">30%</td><td colspan="2">40%</td><td colspan="2">30%</td><td colspan="2">40%</td><td colspan="2">35%</td><td colspan="2">50%</td><td colspan="2">40%</td><td colspan="2">70%</td><td colspan="2">50%</td><td colspan="2">80%</td></tr>
<tr><td>Mortgage Bonds</td><td colspan="2">30%</td><td colspan="2">40%</td><td colspan="2">30%</td><td colspan="2">40%</td><td colspan="2">35%</td><td colspan="2">50%</td><td colspan="2">35%</td><td colspan="2">60%</td><td colspan="2">45%</td><td colspan="2">70%</td></tr>
<tr><td>Time Deposits, Bonds, other securities representing deposits and guaranteed by Financial Institutions</td><td colspan="2">30%</td><td colspan="2">40%</td><td colspan="2">30%</td><td colspan="2">40%</td><td colspan="2">35%</td><td colspan="2">50%</td><td colspan="2">40%</td><td colspan="2">70%</td><td colspan="2">50%</td><td colspan="2">80%</td></tr>
<tr><td>Private and Public Company Bonds</td><td colspan="2" rowspan="2">20%</td><td colspan="2" rowspan="2">30%</td><td colspan="2" rowspan="2">20%</td><td colspan="2" rowspan="2">30%</td><td>-</td><td rowspan="2">30%</td><td>-</td><td rowspan="2">40%</td><td>-</td><td rowspan="2">30%</td><td>-</td><td rowspan="2">50%</td><td colspan="2">40%</td><td colspan="2">40%</td></tr>
<tr><td>Convertible Private and Public Company Bonds</td><td>10%</td><td>15%</td><td>5%</td><td>10%</td><td colspan="4">UNAUTHORIZED</td></tr>
<tr><td>Open Company Stocks</td><td colspan="2" rowspan="2">45%</td><td colspan="2" rowspan="2">60%</td><td colspan="2" rowspan="2">35%</td><td colspan="2" rowspan="2">50%</td><td colspan="2" rowspan="2">15%</td><td colspan="2" rowspan="2">30%</td><td colspan="2" rowspan="2">5%</td><td colspan="2" rowspan="2">15%</td><td colspan="4" rowspan="2">UNAUTHORIZED</td></tr>
<tr><td>Real Estate Company Stocks</td></tr>
<tr><td>Investment Fund Shares and promises of subscription for investment fund shares (3)</td><td>-</td><td rowspan="2">30%</td><td>-</td><td rowspan="2">40%</td><td>-</td><td rowspan="2">20%</td><td>-</td><td rowspan="2">30%</td><td>-</td><td rowspan="2">10%</td><td>-</td><td rowspan="2">20%</td><td>-</td><td rowspan="2">5%</td><td>-</td><td rowspan="2">10%</td><td colspan="4" rowspan="2">UNAUTHORIZED</td></tr>
<tr><td>Mutual Fund Shares</td><td>5%</td><td>5%</td><td>5%</td><td>5%</td><td>5%</td><td>5%</td><td>5%</td><td>5%</td></tr>
<tr><td>Commercial Paper</td><td colspan="2">10%</td><td colspan="2">20%</td><td colspan="2">10%</td><td colspan="2">20%</td><td colspan="2">10%</td><td colspan="2">20%</td><td colspan="2">20%</td><td colspan="2">40%</td><td colspan="2">30%</td><td colspan="2">50%</td></tr>
<tr><td>Foreign Securities</td><td colspan="4"></td><td colspan="16">Shared Limit: Lower Limit 20% - Upper Limit 30%</td></tr>
<tr><td>Other Instruments authorized by the Central Bank (limit per type of instrument)</td><td colspan="2">1%</td><td colspan="2">5%</td><td colspan="2">1%</td><td colspan="2">5%</td><td colspan="2">1%</td><td colspan="2">5%</td><td colspan="2">1%</td><td colspan="2">5%</td><td colspan="2">1%</td><td colspan="2">5%</td></tr>
<tr><td>Asset Loans</td><td colspan="2">5%</td><td colspan="2">20%</td><td colspan="2">5%</td><td colspan="2">20%</td><td colspan="2">5%</td><td colspan="2">20%</td><td colspan="2">5%</td><td colspan="2">20%</td><td colspan="2">5%</td><td colspan="2">20%</td></tr>
<tr><td>Risk Hedging Transactions</td><td colspan="4"></td><td colspan="16">Total Investment of each Fund in covered instruments</td></tr>
<tr><td>Maximum Exposure in Foreign Currency (investment without exchange rate coverage).</td><td colspan="2">25%</td><td colspan="2">40%</td><td colspan="2">15%</td><td colspan="2">25%</td><td colspan="2">10%</td><td colspan="2">20%</td><td colspan="2">8%</td><td colspan="2">15%</td><td colspan="2">6%</td><td colspan="2">10%</td></tr>
<tr><td>Variable Income Securities (National and Foreign)</td><td colspan="2">40%</td><td colspan="2">80%</td><td colspan="2">25%</td><td colspan="2">60%</td><td colspan="2">15%</td><td colspan="2">40%</td><td colspan="2">5%</td><td colspan="2">20%</td><td colspan="4">UNAUTHORIZED</td></tr>
</table>

(1) The Type C Fund is the legal successor of the Type 1 Fund.
(2) The Type E Fund is the legal successor of the Type 2 Fund.
(3) The maximum limit on National Mutual Fund Shares for Funds A, B, C and D is 5%.

Note: See Chapter III for investment limits as of June 2009.

Evolution of Investments by Instrument

As it has already been mentioned, between 1981 and 1985 Pension Funds could only be invested in fixed income instruments. In fact, the most important instruments in the portfolios of these institutional investors were the letters of credit issued by financial institutions (mortgage-backed securities), government instruments, fixed time deposits and promissory notes of financial institutions. During this period, instruments with lower relative risk (government and mortgage-backed securities) gained ground, while time deposits and promissory notes decreased their share, due to the economic and financial crisis of 1982 and 1983.

In 1985, 56% of Funds were invested in instruments issued by financial institutions. From 1988 onwards there was greater diversification of investments, and securities issued by financial institutions began to lose their share in the portfolios of Funds, as the weight of paper issued by companies increased. In other words, company financing from banks was replaced in part by the issuing of bonds and shares, some of which were acquired by Pension Funds. However, this trend began to reverse slightly beginning in 1995. In June 2009, 27.4% of the Funds' portfolio was invested in instruments issued by financial institutions, while the share of securities issued by companies amounted to 28.4%.

It should also be emphasized that in 1993 investments abroad were incorporated into the portfolio for the first time, and by June 2009 these added up to 31.8% of the portfolio.

TABLE VI.8
DIVERSIFICATION OF PENSION FUND ASSETS BY INSTRUMENT
(Figures as percentages of Pension Funds)

	1981	1985	1990	1995	2000	2005	2008	Jun-09
Public Sector	**28.07**	**42.44**	**44.07**	**39.41**	**35.73**	**16.45**	**14.30**	**12.30**
Central Bank of Chile	---	20.29	42.48	37.52	31.90	10.63	7.49	6.29
General Treasury of the Republic	---	22.14	1.53	0.11	0.00	1.91	3.51	3.15
Recognition Bonds	---	---	---	1.78	3.84	3.91	3.31	2.86
Ministry of Housing	---	0.00	0.06	---	---	---	---	---
Financial Sector	**71.34**	**55.97**	**33.38**	**23.11**	**35.62**	**29.74**	**30.12**	**27.40**
Mortgage Payments	9.43	35.20	16.08	15.79	14.36	4.96	3.61	2.96
Time Deposits	61.91	20.36	16.26	5.32	18.72	20.83	20.04	14.01
Financial Institution Bonds	---	0.41	1.05	1.31	2.02	2.12	9.37	8.81
Financial Institution Shares	---	---	---	0.69	0.51	0.83	0.43	0.42
Forwards	---	---	---	---	0.01	1.01	-3.34	1.20
Business Sector	**0.59**	**1.11**	**22.43**	**37.18**	**17.57**	**23.25**	**26.89**	**28.41**
Stocks	---	0.01	11.29	29.37	11.10	13.91	13.52	14.30
Bonds	0.59	1.10	11.14	5.25	4.04	6.62	10.75	11.40
Investment Fund Shares	---	---	---	2.56	2.43	2.57	2.57	2.69
Negotiable Instruments	---	---	---	---	---	0.14	0.05	0.02
Foreign Sector	**---**	**---**	**---**	**0.20**	**10.88**	**30.41**	**28.50**	**31.76**
Mutual Fund Shares and Stocks	---	---	---	---	8.86	29.30	27.29	30.88
Indirect Investment Abroad (*)	---	---	---	---	0.24	0.25	0.63	0.79
Debt Instruments	---	---	---	---	1.67	0.84	0.04	0.11
Forwards	---	---	---	---	---	0.00	-0.03	-0.04
Others	---	---	---	---	0.11	0.02	0.56	0.01
Available Assets	**0.00**	**0.48**	**0.12**	**0.09**	**0.19**	**0.16**	**0.19**	**0.13**
TOTAL ASSETS	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

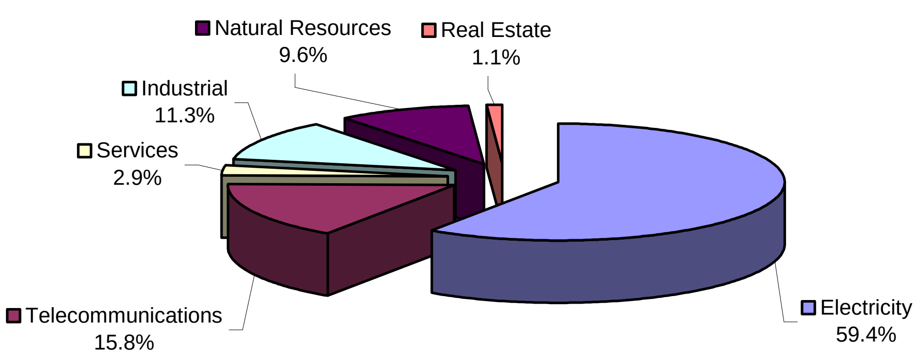
** Corresponds to Indirect Investment Abroad made by Pension Funds through national investment funds.*
Note: The Statistical Annex describes the diversification for all years in this period.

iii. Evolution of Investments by Economic Sector

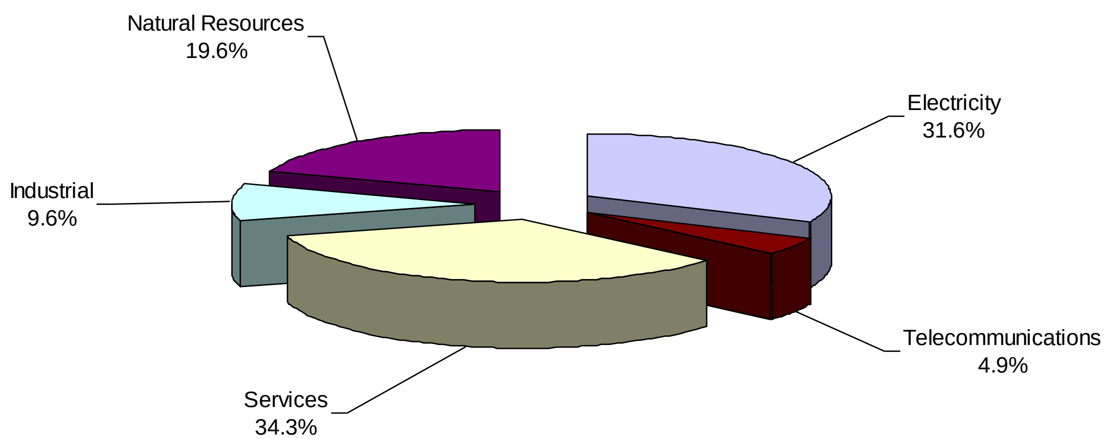
The demand for financial assets arising from the growth of Pension Funds has produced a considerable flow of financing for many sectors of the national economy. The following charts compare the distribution by sector of the investment portfolio in shares and bonds between December 1994 –the year with highest percentage of investment in these instruments– and June 2009.

The distribution by sector of investment in shares has undergone various modifications in the period analyzed, reflecting an increasing diversification. In effect, there has been a reduction in investment in sectors where the share and bond portfolio was very concentrated, such as the electricity sector, which fell from 59.4% of Pension Fund investment in bonds and shares to 31.6% of the total invested in these instruments. At the same time, there was an increase in the share of those sectors which showed a low level of investment in 1994, such as the services sectors (from 2.9% to 34.3%) and natural resources (from 9.6% to 19.6%); meanwhile, there was a decrease in the telecommunications sector. All the above resulted in a greater diversification of the share and bond portfolio of Pension Funds.

GRAPH VI.11
DISTRIBUTION OF INVESTMENTS BY ECONOMIC SECTOR
(As of December 1994)



GRAPH VI.12
DISTRIBUTION OF INVESTMENTS BY ECONOMIC SECTOR
(As of June 2009)



1.4 Net Worth Variation of Pension Funds

This section describes the main causes of the net worth variation of the Pension Funds.

As of December 2008, the main sources of growth in pension resources corresponded to mandatory contribution payments (capital gains, dividends, interest and readjustments) in individual capitalization accounts, which represented 259.2%. The remaining percentage consisted of other payments to individual accounts, income from Recognition Bonds, payment of voluntary savings deposits and other sources.

The expenditure of Pension Fund resources may be broken down into three main groups: 46.5% corresponds to the payment of pensions (mainly transfers of premiums for Life Annuities to Insurance Companies and payment of Programmed Withdrawals), 19.1% corresponds to fees accrued (fixed and variable), while the remaining 34.6% consists of withdrawals from voluntary savings accounts (CAV) and compensation savings accounts (CAI), withdrawals from APV and other reductions.

Table VI.9 reflects the increases and decreases in the net worth of Pension Funds between 1990 and 2008. With regard to the increases in net worth, it is worth mentioning that the variations in the proportion represented by the Revaluation account reflect the annual yield on investments made with Pension Fund resources. With regard to the decreases in net worth, since the beginning of the period analyzed there have been constant increases in the share of the Benefits Paid and Transfers to Insurance Companies accounts, compared to the total decreases. Meanwhile, Fees Accrued have become less significant in the total decreases in the net worth of Pension Funds, in spite of the fact that they have increased over the last two years.

TABLE VI.9
COMPOSITION OF INCREASES AND REDUCTIONS IN PENSION FUNDS
(In percentages)

	1990	1992	1994	1996	1998	2000	2002	2004	2005	2008
INCREASES	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Mandatory Contribution Payments	24.3%	35.6%	27.0%	46.7%	58.5%	38.2%	39.0%	28.8%	32.0%	259.2%
Voluntary Contribution Payments	-	-	-	-	-	-	1.1%	1.1%	1.4%	10.0%
Voluntary Savings Deposit Payments	0.9%	10.2%	4.3%	3.1%	3.0%	1.9%	2.0%	2.5%	3.1%	13.1%
Compensation Savings Deposit Payments	0.0%	0.2%	0.1%	0.3%	0.4%	0.3%	0.4%	0.2%	0.2%	1.4%
Collection of Voluntary Pension Savings (APV)	0	0	0	0	0	0	0.0%	0.1%	0.0%	0.0%
Agreed Deposits	0.0%	0.1%	0.1%	0.5%	0.6%	0.6%	1.2%	1.0%	1.1%	7.0%
Additional Contributions	1.6%	0.7%	0.8%	1.4%	1.9%	1.4%	1.7%	1.0%	1.0%	11.2%
Recognition Bonds	4.0%	4.6%	6.7%	9.8%	8.4%	7.6%	5.8%	4.8%	4.7%	32.9%
Revaluation	66.3%	48.1%	60.6%	37.9%	26.0%	48.1%	39.8%	57.5%	52.2%	-894.7%
Other Increases	2.9%	0.4%	0.4%	0.4%	1.2%	2.0%	9.0%	3.1%	4.3%	660.0%
REDUCTIONS	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Fees Accrued	38.2%	30.2%	30.0%	26.4%	27.5%	21.3%	19.3%	20.9%	21.9%	19.1%
Benefits Paid Out	9.7%	14.5%	20.8%	22.2%	20.1%	21.3%	19.2%	23.2%	20.0%	17.0%
Transfers to Insurance Companies	29.1%	15.1%	29.7%	37.9%	37.8%	42.9%	34.7%	40.1%	36.2%	29.5%
Voluntary Savings Withdrawals	4.9%	37.4%	17.2%	10.9%	10.9%	5.2%	4.5%	6.0%	7.5%	8.5%
Compensation Savings Withdrawals	0.0%	0.2%	0.4%	0.6%	0.6%	0.6%	0.5%	0.6%	0.6%	0.6%
APV Withdrawals	-	-	-	-	-	-	0.4%	0.5%	0.6%	0.6%
APV Transfers	-	-	-	-	-	-	-	1.2%	2.0%	1.6%
Other Reductions	18.1%	2.6%	2.0%	1.9%	3.2%	8.8%	21.0%	7.5%	11.2%	23.3%

(1) When Law No. 19,768 entered into effect on March 2002, a contribution account was opened with two separate items: mandatory contributions and voluntary contributions.
(2) Corresponds to the voluntary pension savings collected by AFPs and managed by other institutions.

1.5 Yield and Volatility

The Superintendence calculates two indicators of the yield obtained by the resources held by workers in different Pension Funds and publicizes them by various means.[100]

The first indicator is the variation in the value of Pension Fund shares, which reflects the yield of the Fund's investments in the period under consideration. The second indicator is the yield of the mandatory individual capitalization account, which includes both the yield on investments and

[100] Press Releases, Statistical Report, and Website of the Superintendence and statement sent by AFPs to their members.

the fees paid by contributors to the AFPs, and aims to inform the public on the System's net yield and costs. In both cases, the published yields are real, that is, over and above the variation in the UF.

In addition, it must be considered that the differences in the investment portfolios of different types of Pension Funds have an impact not only on the yield, but also on their volatility. One way to analyze the volatility of the different types of Funds over time is to calculate the variation in the share values for each type of Fund, in order to reflect which ones have greater or lesser yield variability as a result of changes in the value of their investment portfolios. In this way, when observing a specific period of time, a more volatile type of Fund will present greater volatility in terms of yield.[101]

Yield on the Share

This yield, as measured each year, is the percentage of variation in share value on the last day of a certain month,[102] compared to its value on the last day of the same month during the previous year.[103]

The Type C Fund is the only Fund that has been in existence since the creation of the System. Over the June 1981-June 2009 period, it had an average annual yield of 9% in real terms. The average yield of the Type E Fund, from its creation in May 2000 until June 2009, has been 5%. In the case of the types of Funds introduced by the Multifund Law, Type A, Type B and Type D Funds had yields of 6.99%, 5.59% and 4.51%, respectively, for the September 2002–June 2009 period.[104]

The average yield for each type of Fund (since each one was created) is shown below:

TABLE VI.10
AVERAGE ANNUAL REAL YIELD OF PENSION FUNDS

	Type A Fund Sept. 02 – June 09	Type B Fund Sept. 02 – June 09	Type C Fund June 81 – June 09	Type D Fund Sept. 02 – June 09	Type E Fund May 00 – June 09
Average Yield	6.99%	5.59%	9.08%	4.51%	5.16%

[101] As of August 2006, along with the normal information published by the Superintendence of Pensions on its website, there is also a "Pension Panorama" newsletter with information on the yield and volatility of each type of Pension Fund.

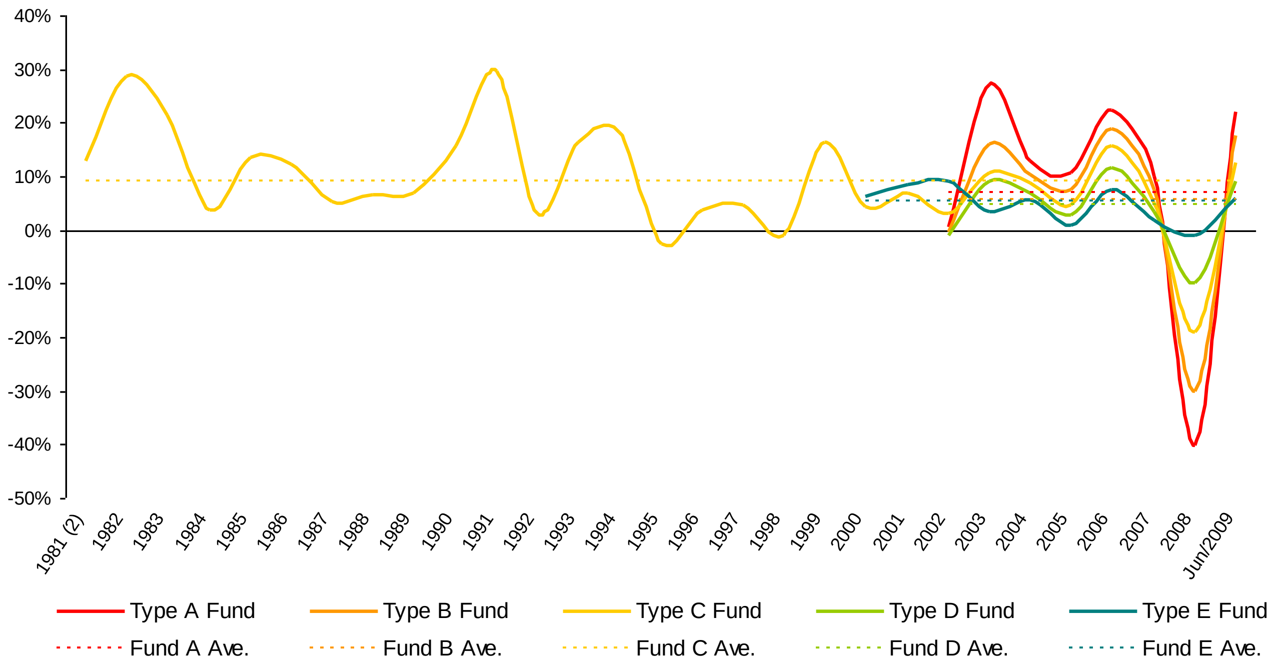
[102] Pension Funds are expressed in a measurement unit called a "share." This value increases or decreases depending on the market value of the investments made by the Fund.

[103] Until December 2002, the annual yield per share was calculated as the percentage of variation in the average value of the share in one month, in comparison to the average monthly value of the share in the same month during the previous year. For purposes of the calculations included in this section, the historical annual yields were recalculated using the new method, which has been in effect since January 2003 and is still in use.

[104] In regards to the effect of investment regulations on Pension Fund yield, see *Berstein y Chumacera. Documento de Trabajo No. 3: "Cuantificación de los Costos de los Límites de Inversión para los Fondos de Pensiones Chilenos". Superintendencia de Pensiones, Abril 2005.*

The evolution of yields by type of Fund is shown in the following graph:

GRAPH VI.13
ANNUAL REAL YIELD OF PENSION FUND SHARES
(Deflated by UF[105])



Yield on the Account

The yield indicator is an Internal Rate of Return (IRR) and is calculated by solving the following equation:

$$\frac{SFC}{(1+r)^n} - SI_0 - \sum_{i=1}^{n} \frac{(0{,}1 + TCA_i - \beta)^* RI}{(1+r)^i} = 0$$

Where:

105 Weighted average of the value of each AFP's Pension Funds during the corresponding period.

SFC[106] = Final balance of the CCI.
SI = Initial balance of the CCI.
TCA_i = Additional contribution rate for each month of the period of calculation, as a percentage.
ß = Benefit received by members as a result of their insurance against the risk of disability and death.
RI = Taxable income, which for purposes of the calculation is assumed to be constant in real terms throughout the period.
r = Real monthly yield of the CCI, to be determined in the calculation.
n = Period of calculation of the indicator.
i = Each month of the period.

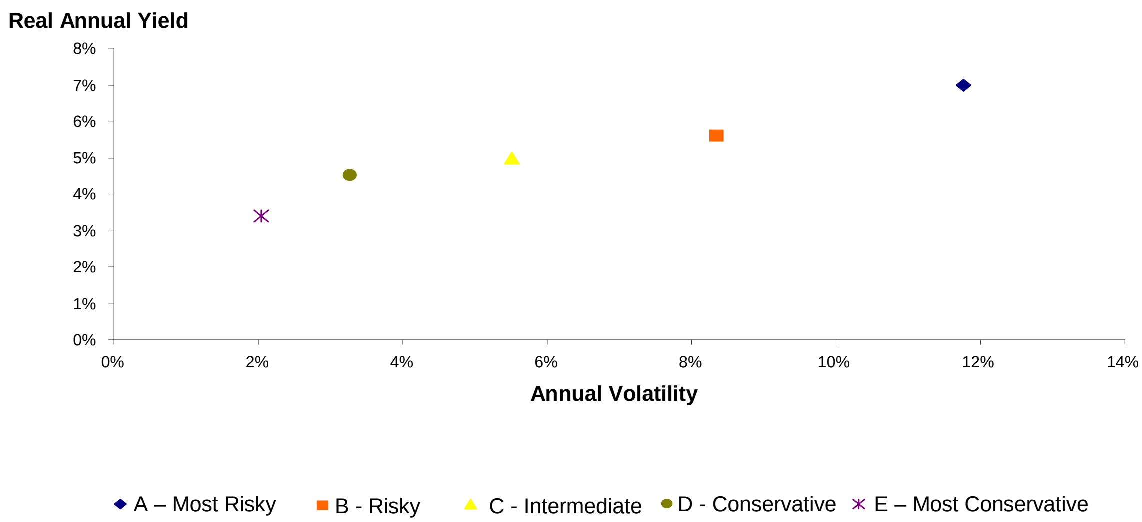
As may be seen from the above equation, the resulting IRR depends on both the income of the contributor and on his/her initial balance; in other words, there is an account yield for each member of the System. In order to maintain the simplicity of this indicator, the information which is sent every four months to members contains the net yields and expenses obtained by members whose balances and taxable wages correspond to the average values observed in each AFP.

Yield Volatility

The yield volatility of a Pension Fund corresponds to the standard deviation of real daily yields during the period being measured. For the period stretching from the implementation of Multifunds (September 2002) until June 2009, it is possible to observe that volatility and yield for the different types of Funds decreases to the extent that Pension Funds have lower levels of investment in fixed income. Thus, Type A Funds have a volatility and yield of 6.99% and 11.77%, respectively, while Type E Funds have a volatility and yield of 3.40% and 2.04%, respectively. This situation may also be observed for the 2003, 2004 and 2005 periods.

GRAPH VI.14
VOLATILITY – YIELD PROFILE BY TYPE OF PENSION FUND
(September 2002 – June 2009)

[106] The fixed fee per contribution is discounted directly by calculating the final balance.



The following table shows the yields and volatility of different types of Pension Funds in different periods:

TABLE VI.11
VOLATILITY AND YIELD BY TYPE OF PENSION FUND

Period	Type A Fund Most Risky		Type B Fund Risky		Type C Fund Intermediate		Type D Fund Conservative		Type E Fund Most Conservative	
	Yield	Volatility	Yield	Volatility	Yield	Volatility	Yield	Volatility	Yield	Volatility
June 1981 to June 2009	-	-	-	-	9.08%	**3.71%**	-	-	-	-
Sept. 2002 to June 2009	6.99%	11.77%	5.59%	8.35%	4.99%	5.51%	4.51%	3.27%	3.40%	2.04%
July 2008 to June 2009	-22.21%	22.41%	-14.14%	15.67%	-6.62%	9.20%	-1.14%	4.69%	4.50%	2.25%
Jan. 2009 to June 2009	21.93%	10.40%	17.62%	7.47%	12.57%	4.41%	9.10%	2.45%	5.93%	1.87%
June 2009	0.46%	3.96%	0.89%	2.93%	1.12%	1.90%	1.29%	1.03%	1.57%	0.53%

(1) This calculation considers all days during this period.

1.6 Cost of the System for Members

The Importance of Pension Cost

The main goal of the Pension System is to provide its members with a pension that is as close as possible to the income received during their active life. In an Individual Capitalization System, the replacement rate achieved depends primarily on the yield of the Pension Fund, while the cost charged by AFPs for managing each Fund affects the efficiency of contributions.[107]

In addition to its effect on the efficiency of contributions, pension cost has an impact on the labor market, creating a gap between the wage paid by employers and the income received by workers. In fact, since contributions are mandatory, it is likely that part of it will be considered by contributors as a tax on income. In other words, contributors probably consider the resources dedicated to purchasing Pension Fund shares to be less valuable that the expected current value of the pensions they will receive during the passive stage of their lives. In this sense, the lower the pension cost, the smaller the gap between gross wages and net wages, and therefore the higher the level of contractual employment in the economy.

Pension cost also influences coverage, because it is a disincentive that discourages self-employed workers from contributing.

Finally, for an open economy, the cost of labor is a very important variable when it comes to remaining competitive. From this perspective, a lower pension cost would help reduce the cost of labor and thus improve the external competitiveness of the national economy.

Defining Pension Cost

In this section, *net pension cost (NPC)* shall be defined as the sum, expressed in Chilean pesos, which a member must pay an AFP for all the services that he/she receives. In general terms, the contributor's pension cost corresponding to month "t" would be:

$$CPN_{i,t} = CFC_t + CFS_t + \frac{CVS_t * F_{i,t}}{12} + (CA_t - \beta_t) * RI_{i,t}$$

Where:

$CPN_{i,t}$	=	net monthly pension cost for contributor *i* in month *t*.
CFC_t	=	fixed commission per contribution as of month *t*.
CFS_t	=	fixed commission for maintenance of the balance accumulated in the individual capitalization account as of month *t*.
CVS_t	=	percentage commission for maintenance of balance accumulated in the CCI as of month *t*.
$F_{i,t}$	=	balance accumulated by individual *i* in the CCI as of month *t*.
CA_t	=	additional contribution as of month *t*.
$RI_{i,t}$	=	taxable income of contributor *i* in the period *t*.
$ß_t$	=	premium of disability and survivor insurance (SIS) for month *t*. When $ß_t$ is worth zero, the gross pension cost is obtained.

[107] Naturally, the replacement rate is also affected by other variables such as the number of years contributions were made, the contribution rate and the temporary trajectory of wages; however, these are exogenous variables for the System.

The main variables affecting pension cost are: the level of commissions, the structure allowed by regulation, the operating costs of Administrators, and the degree of competition between them.

Measuring Pension Cost

Since their creation, AFPs have financed their operations with fixed and percentage fees. Fixed fees were charged for maintaining the balance and on contribution deposits. Percentage fees were charged on the balance of the CCI (for maintaining it or for transferring it from another AFP) and on the covered earnings. At present only the latter is charged.[108] In 1987, the possibility of charging commissions on the balance of individual capitalization accounts was eliminated, in other words, $FCBt = PCBt = 0$. Starting in October 2008, the possibility of charging a fixed fees for contribution deposits was eliminated.

Therefore, in order to establish a way of calculating a pension cost that would allow comparisons to be made over time, it was necessary to define, in addition to the value of fees, one or more levels of taxable income for contributors and one or more movements of the balance in the CCI. In effect, the price paid for the service depends both on the fees charged by Administrators and the contributor's own attributes, such as his/her covered earnings and, during the first years of the System, the balance in his/her CCI.

The gross pension cost was estimated for a contributor with an income equal to the average for the System and with a movement of the balance in the CCI that is also equal to the average for System members.

The taxable income used for this calculation corresponds to the annual weighted average of employed contributors.

Regarding the average balance in the CCI, since it was only necessary to calculate it for the 1982-1987 period, a good approximation may be obtained by dividing the value of the Pension Fund of each AFP by the corresponding number of active members.[109]

Percentage ß corresponds to the premium rate agreed between the Insurance Company and the AFP. This premium is established as a percentage of the taxable income of members. Although the contracts are not all alike, a considerable percentage of them are agreed in terms of two premium rates: the provisional rate and the maximum rate.[110] The SIS benefit was estimated as equal to the provisional premium rate. In order to reflect the differences in the premium rate paid by each AFP, the benefit was calculated as a weighted average for the whole System, using each AFP's share in the total number of contributors as the weighting factor.

[108] Currently, no AFP is charging a commission for transfers.

[109] During this period, voluntary savings accounts and compensation savings accounts did not yet exist. Also, the lower number of pensioners in the System meant that the difference between the total balance of Pension Funds and the balance of the individual capitalization accounts of active members was insignificant.

[110] Some contracts include fixed payments that do not depend on an ensured taxable wage. They also consider the participation of AFPs in contract surpluses when there are fewer claims than expected.

Using the above equations and the average balance of CCIs, a series of pension costs for each AFP was obtained for the January 1982-June 2009 period. Finally, in order to evaluate the evolution of the pension cost of the System as a whole, the weighted average of gross pension costs was calculated, using each AFP's share in the total number of contributors as the weighting factor.

Evolution of Average Pension Cost

The following table presents the results of applying the method described to measure pension cost in gross and net terms.

The evolution of the gross pension cost may be divided into five periods:

i. Between 1982 and 1983, Administrators raised percentage fees on the balance and on taxable income considerably, in an attempt to reverse the negative operating results of 1981-1982, which were caused by high entry costs. This was reinforced by an extremely adverse macroeconomic climate, characterized by a fall in real wages and in the ratio of contributors to members.[111] As a consequence of this, the gross pension cost rose from CLP 9,363 to CLP 11,034 between 1982 and 1983 (equivalent to an increase from 3.6% to 4.9% as a proportion of average real income).

ii. During the 1984-1987 period, a sharp reduction in operating costs per member led to a decrease in gross pension cost, which fell from CLP 9,483 to CLP 8,059, as well as a sharp increase in the operating margin. This caused a reduction of 16.4% in the average cost as a proportion of taxable income, from 4.8% of average income in 1984 to 4% in 1987.

iii. Between 1988 and 1990, the change in the fees structure caused a significant reduction in the gross pension cost, which fell 21.4% as a proportion of income. Between 1988 and 1989, in addition to the change in the fees structure, several factors combined to allow a simultaneous reduction in the pension cost and an increase in the operating margin of the System. In the first place, a rapid growth in contributors' real income (12.7% between 1988 and 1990) which, given the new fees structure, immediately increased the income of Administrators. In the second place, stronger competition arising from the entry of new Administrators and the liberalization of transfers encouraged a continual downward trend of fixed fees and a gradual reduction of additional contributions.

iv. The downward trend in the gross pension cost was reversed between 1990 and 1997, when an ascending spiral of marketing costs began. This was in spite of the growth in contributors' real income (48.7% between December 1990 and 1997). In effect, between 1990 and 1997 the gross pension cost stagnated at around 3% of taxable income, while in monetary terms it increased by 39.9%.

[111] The decrease in the ratio between contributions and members affects Administrators, since on the one hand, the lower amount of contributors restricts income from fees on covered earnings, and on the other hand, operating costs are not reduced in proportion to the drop in income, since some expenses remain even when members are not contributing, such as, for example, the cost of managing the balance accumulated in the CCI. During this period, both the increase in the unemployment rate and the increase in self-employment or informal work, tend to reduce the ratio between contributors and members. This is caused, in the first case, by the loss of employment, and in the second case because self-employed workers are not obliged to contribute.

v. In 1997, the ascending spiral in transfers associated to an increase in marketing costs came to an end. 27% of members switched AFPs that year, and the number of transfer irregularities was growing constantly—the percentage of transfers rejected due to irregularities was 26% of all transfers declared. The norms issued by the Superintendence helped to regularize transfers. Even when Administrators' costs dropped substantially, only part of that drop was transferred to members through lower prices, and between December 1997 and December 2005, the average pension cost of AFP contributors was reduced by 10.5% in real terms.

Beginning in 2006, and until June 2009, the gross pension cost increased from CLP 10,160 to CLP 11,795, increasing from 2.4% in 2006 to 2.7% in June 2009 as a proportion of average real income. This is explained by the upward trend in the cost of disability and survivor insurance.

TABLE VI.12
MONTHLY PENSION COST FOR A MEMBER WITH THE AVERAGE INCOME OF THE AFP SYSTEM

Year	Pension Cost (June 2009 CLP)	Real Average Covered Earnings (1) (June 2009 CLP)	Pension Cost (% of Average Income)
1982	$ 9,363	$ 262,380	3.57
1983	$ 11,034	$ 226,605	4.87
1984	$ 9,843	$ 206,612	4.76
1985	$ 8,767	$ 194,350	4.51
1986	$ 8,678	$ 210,561	4.12
1987	$ 8,059	$ 202,513	3.98
1988	$ 8,936	$ 223,051	4.01
1989	$ 8,555	$ 241,911	3.54
1990	$ 7,909	$ 251,483	3.15
1991	$ 8,140	$ 262,489	3.10
1992	$ 8,541	$ 278,485	3.07
1993	$ 9,261	$ 302,115	3.07
1994	$ 9,742	$ 318,747	3.06
1995	$ 10,341	$ 338,132	3.06
1996	$ 10,557	$ 353,545	2.99
1997	$ 11,087	$ 373,954	2.96
1998	$ 10,251	$ 375,369	2.73
1999	$ 9,700	$ 380,948	2.55
2000	$ 9,650	$ 387,946	2.49
2001	$ 9,561	$ 392,501	2.44
2002	$ 9,468	$ 389,452	2.43
2003	$ 9,668	$ 398,943	2.42
2004	$ 10,076	$ 416,521	2.42

2005	$ 9,906	$ 410,055	2.42
2006	$ 10,160	$ 417,651	2.43
2007	$ 10,247	$ 419,150	2.44
2008	$ 11,443	$ 427,264	2.68
June 2009	$ 11,795	$ 442,475	2.67

Note (1): Covered Earnings as of December of each year.
(1) Corresponds to total contributors (employed and self-employed).

Fees on withdrawals

Even though it was legally permitted, AFPs did not charge fees to pensioners until 1994, when one of the Administrators began charging fees to pensioners in the programmed withdrawal mode, or temporary income with a fixed commission. Beginning in 1999, all Administrators began to charge their pensioners through the retirement percentage commission. The following table shows the values for pensioners in the programmed withdrawal mode.

TABLE VI.13
EVOLUTION OF THE COST OF PROGRAMMED WITHDRAWALS
(In Chilean pesos as of June 2009)

Date	Average Pension with Programmed Withdrawals		Fixed Commission $ CLP of Dec. 2005	Percentage Commission %	Cost in $ over Pension CLP of Dec. 2005	Cost in % over Pension
	UF	CLP of Dec. 2005				
Dec. 94	4.77	$ 100,346	$ 34	-	$ 34	0.03%
Dec. 95	5.36	$ 112,744	$ 33	-	$ 33	0.03%
Dec. 96	4.89	$ 102,511	$ 214	-	$ 214	0.21%
Dec. 97	5.03	$ 105,630	$ 193	-	$ 193	0.18%
Dec. 98	4.50	$ 94,039	$ 236	-	$ 236	0.25%
Dec. 99	4.92	$ 103,027	$ 224	0.25%	$ 484	0.47%
Dec. 00	5.32	$ 111,716	$ 155	1.03%	$ 1,304	1.17%
Dec. 01	5.31	$ 112,000	$ 148	1.03%	$ 1,301	1.16%
Dec. 02	5.06	$ 106,928	$ 145	1.03%	$ 1,246	1.16%
Dec. 03	5.22	$ 110,182	$ 143	1.04%	$ 1,290	1.17%
Dec. 04	5.06	$ 106,764	$ 0	1.14%	$ 1,214	1.14%
Dec. 05	5.07	$ 107,070	$ 0	1.14%	$ 1,219	1.14%
Dec. 06	5.39	$ 113,210	$ 0	1.14%	$ 1,289	1.14%
Dec. 07	5.85	$ 121,951	$ 0	1.25%	$ 1,524	1.25%
Dec. 08	5.69	$ 121,089	$ 0	1.25%	$ 1,514	1.25%
June 09	5.75	$ 120,365	$ 0	1.25%	$ 1,505	1.25%

Equivalent Fee in Relation to Fund

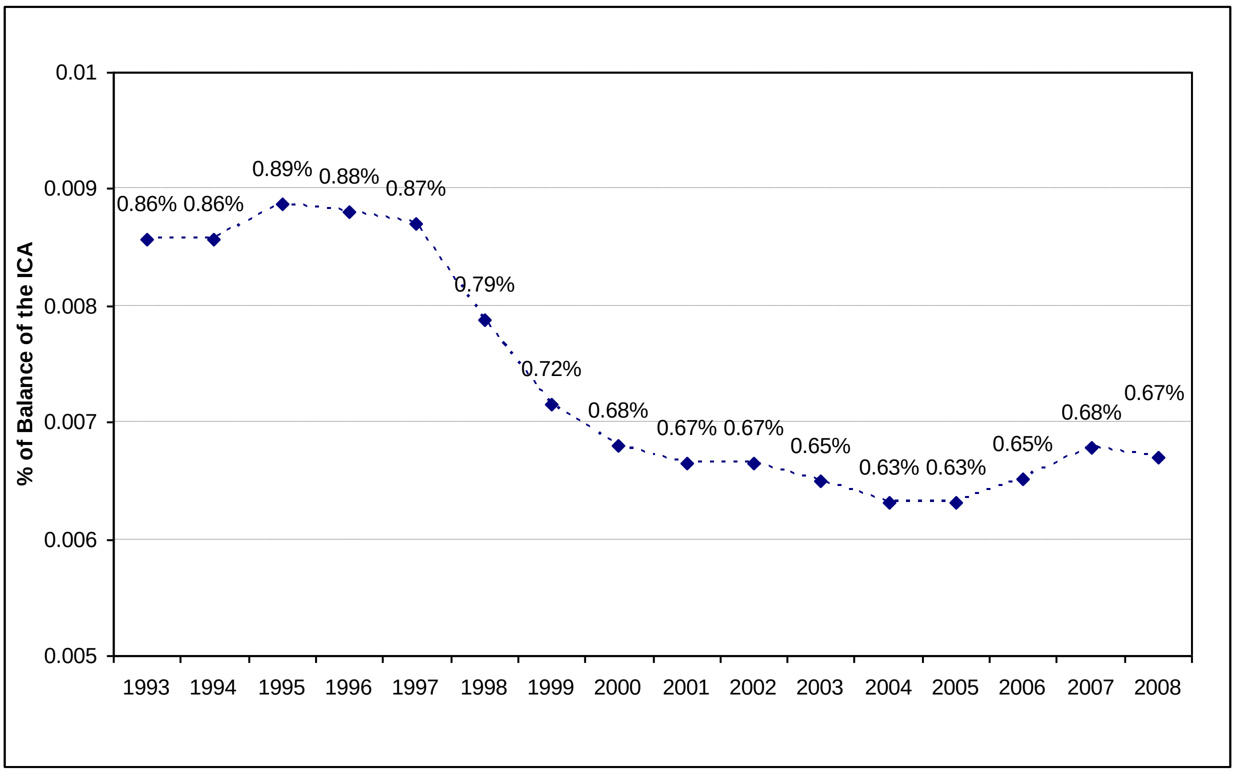
One of the greatest difficulties involved in the structure of charges used by Administrators is that it is impossible to obtain a direct measurement of their efficiency in managing the resources, because the fees that members are charged cannot be compared directly with the yield obtained from the Pension Fund.[112] For this reason, an estimation is given of what the annual percentage fee charged on the Fund should be, according to the fee structure.

In order to do this, the following assumptions are made: an annual growth rate in wages of 2% in real terms and an annual yield on Pension Funds of 5% in real terms.

The method consists in finding the annual percentage fee which, applied on the basis of the CCI balance, gives the same final balance after forty years as would be obtained by applying the current fees structure for each year of the 1993-2001 period (percentage commission on taxable income and fixed commission deducted from the Fund). The payment of disability and survivor insurance is excluded from this calculation.

The results are presented according to the period in which members began their active working lives.

GRAPH VI.15
EQUIVALENT FEE IN THE AFP INDUSTRY



According to the above diagram, it may be said that an individual who entered the System in 2005 will pay fees equivalent to 0.67% per year on the balance, as long as the present structure for charging fees is maintained.

112 The indicator of the yield of individual capitalization accounts that is described in number 2, letter E of this chapter provides a measurement of yield that also considers costs.

1.7 Results of Voluntary Pension Savings (APV)

In March 2002, important changes were introduced to the Voluntary Pension Savings mode.[113] These payments, when made to Administrators, are made as voluntary contributions and agreed deposits. The following table shows the voluntary flows credited to the accounts of members.

TABLE VI.14
NUMBER OF MEMBERS WITH SAVINGS AND TOTAL AMOUNT THROUGH VOLUNTARY CONTRIBUTIONS
(In millions of Chilean pesos as of June 2009)

Type of Fund		2002	2003	2004	2005	2006	2007	2008	Jun.09
Type A Fund	Number	3,449	22,787	45,429	74,060	104,950	136,474	135,697	145,723
	Amount	7,747	46,202	91,519	151,877	274,096	339,505	193,592	273,009
Type B Fund	Number	25,441	41,673	53,591	53,182	56,976	59,763	59,306	61,296
	Amount	19,884	52,220	77,892	102,798	142,516	154,670	96,975	123,632
Type C Fund	Number	139,954	165,620	131,943	119,216	120,178	120,431	132,354	135,544
	Amount	156,082	144,445	158,624	170,697	188,516	196,221	157,215	189,961
Type D Fund	Number	13,424	37,860	50,105	47,374	49,054	49,377	50,160	52,113
	Amount	38,440	57,865	50,696	44,381	42,552	44,943	53,037	57,767
Type E und	Number	5,353	5,260	4,204	3,213	3,019	3,443	22,197	20,047
	Amount	19,422	9,915	7,250	6,153	6,087	13,896	106,479	67,298
TOTAL	Number	187,621	273,200	285,272	297,045	334,177	369,488	399,714	414,723
	Amount	241,575	310,646	385,981	475,906	653,767	749,236	607,298	711,666

TABLE VI.15
NUMBER OF MEMBERS WITH SAVINGS AND TOTAL AMOUNT THROUGH AGREED DEPOSITS
(In millions of Chilean pesos as of June 2009)

[113] Chapter IV describes the characteristics of this type of savings.

Type of Fund		2002	2003	2004	2005	2006	2007	2008	Jun.09
Type A Fund	Number	580	7,152	7,723	12,033	17,351	22,395	21,916	24,489
	Amount	6,167	32,543	65,008	101,539	178,582	227,570	134,299	198,110
Type B Fund	Number	9,240	15,085	12,304	11,005	12,432	12,887	12,912	13,446
	Amount	15,747	52,673	69,972	95,597	128,829	133,723	77,350	101,492
Type C Fund	Number	48,938	32,413	21,185	18,777	19,045	19,528	23,064	23,976
	Amount	126,412	135,950	150,123	175,376	216,636	222,277	163,436	209,450
Type D Fund	Number	7,303	8,380	8,352	5,258	5,444	5,667	6,695	7,069
	Amount	35,480	47,072	39,789	33,815	29,772	32,375	38,796	45,382
Type E und	Number	1,635	1,933	1,161	815	726	799	5,121	4,487
	Amount	19,355	9,848	8,029	7,046	10,673	29,461	127,513	102,977
TOTAL	Number	67,696	64,963	50,725	47,888	54,998	61,276	69,708	73,467
	Amount	203,161	278,086	332,921	413,374	564,493	645,406	541,394	657,411

In June 2009, a total of 414,723 members registered voluntary contributions in their individual capitalization account, with a total accumulated balance of CLP 711.6 billion under this item. At the same time, 73,467 members registered agreed deposits, with a total accumulated balance of CLP 657.4 billion.

It must be noted that the amounts saved by members under APV are greater than those given, because there are other authorized institutions, apart from AFPs, which are also authorized to manage these savings.

1.8 Delinquency

Contributions to the Pension System which have not been paid by the legal deadline, and for which employers have made a Declaration without Payment (DNP),[114] amounted to CLP 577.3 billion in June 2009, representing 1.1% of the net worth of Pension Funds at that date. The evolution of delinquency, starting in 1990, may be seen in the following table:

[114] As defined in Chapter III.

TABLE VI.16
DECLARED AND UNPAID CONTRIBUTIONS
(Cumulative figures in millions of Chilean pesos as of June 2009)

Year	Contributions Declared and Unpaid (Figures in CLP millions)	% of net worth
1990	44,218	0.66%
1991	51,651	0.55%
1992	54,638	0.52%
1993	60,982	0.45%
1994	72,341	0.44%
1995	83,532	0.48%
1996	97,037	0.53%
1997	112,640	0.56%
1998	140,537	0.68%
1999	167,984	0.67%
2000	193,326	0.71%
2001	236,168	0.79%
2002	268,716	0.84%
2003	296,601	0.81%
2004	334,380	0.82%
2005	370,844	0.83%
2006	411,403	0.77%
2007	461,037	0.79%
2008	509,321	1.11%
Jun-09	577,380	1.10%

In terms of the distribution of DNPs by economic activity, it may be seen from the following table that there is a greater concentration of these in the manufacturing industry (20%), community, social and personal service activities (16%), construction (14%), and wholesale and retail trade, automobiles and appliances (13%).

TABLE VI.17

DECLARED AND UNPAID CONTRIBUTIONS BY ECONOMIC ACTIVITY
(As of June 2009)

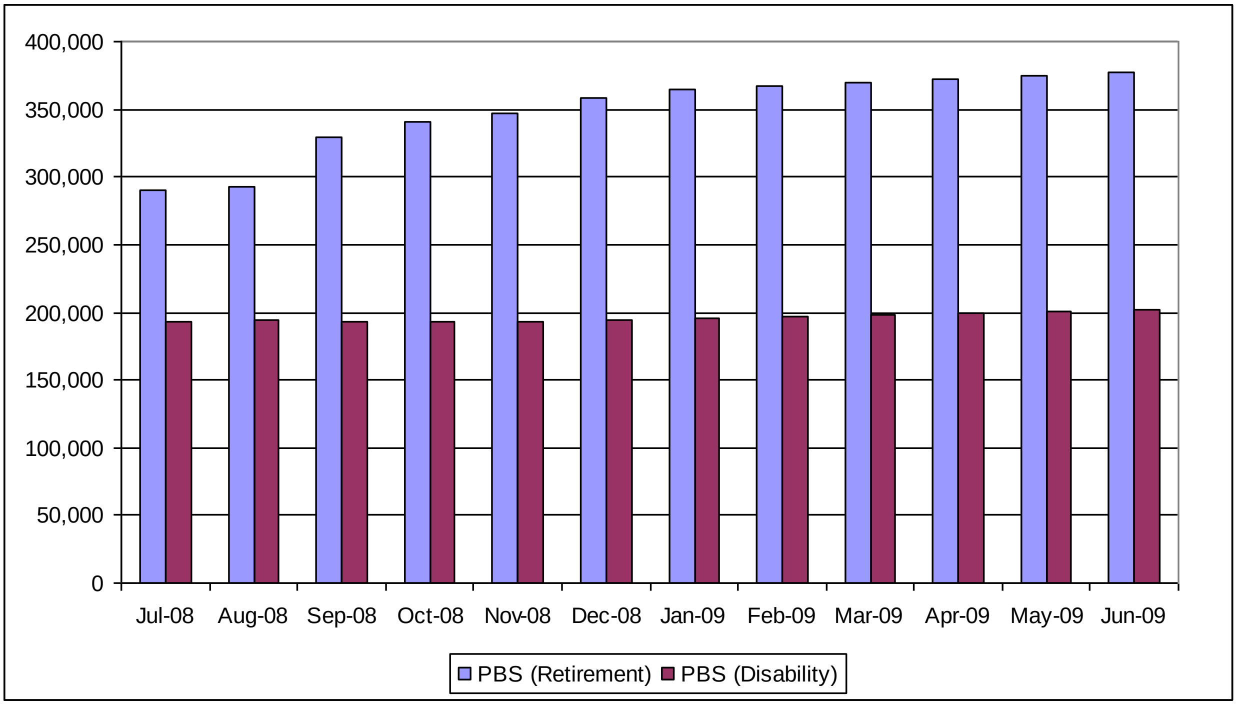
Economic Activity	Thousands of Chilean pesos	Percentages over total
Agriculture, Agricultural Services, Hunting, Forestry and Fishing	33,102,028	5.7%
Mines, Oil and Quarries	14,023,088	2.4%
Manufacturing Industries	115,310,935	20.0%
Electricity, Gas and Water	659,233	0.1%
Construction	80,788,211	14.0%
Retail and Wholesale Trade, Vehicle Repair, Automobile / Home Appliances	77,359,980	13.4% 0.0%
Hotels and Restaurants	17,481,544	3.0%
Transportation, Storage and Communications	40,652,779	7.0%
Financial Mediation	6,892,801	1.2%
Real Estate, Entrepreneurial and Rental Activities	62,949,930	10.9%
Public Administration and Defense; Social Security Plans, Mandatory Affiliation	6,396,449	1.1%
Teaching	21,032,948	3.6%
Social and Health Services	6,103,982	1.1%
Other Community Service, Social and Personal Activities	94,588,867	16.4%
Management Council of Buildings and Condominiums	24,834	0.0%
Overseas Organizations and Agencies	12,323	0.0%
Total	**577,379,932**	**100.0%**

2. Solidarity Pension System

2.1 Basic Solidarity Pension

Beginning in July 2008, the first benefits of the Basic Solidarity Pension were granted to those who were formerly receiving Assistance Pensions (PASIS), as may be observed in the following graph. As of June 2009, these pensions were being given to a total of 578,492 beneficiaries, with 377,068 (65%) corresponding to PBS for the Elderly and the remaining 201,424 (35%) corresponding to PBS for the Disabled. From July 2008 to July 2009, the number of beneficiaries increased by 19.7%, the largest increasing being PBS for the Elderly (29.8%), especially among women (37.5%). Meanwhile, during the same period, PBS for the Disabled increased by 4.5%.

GRAPH VI.16
NUMBER OF BASIC SOLIDARITY PENSIONS
(by type of pension)

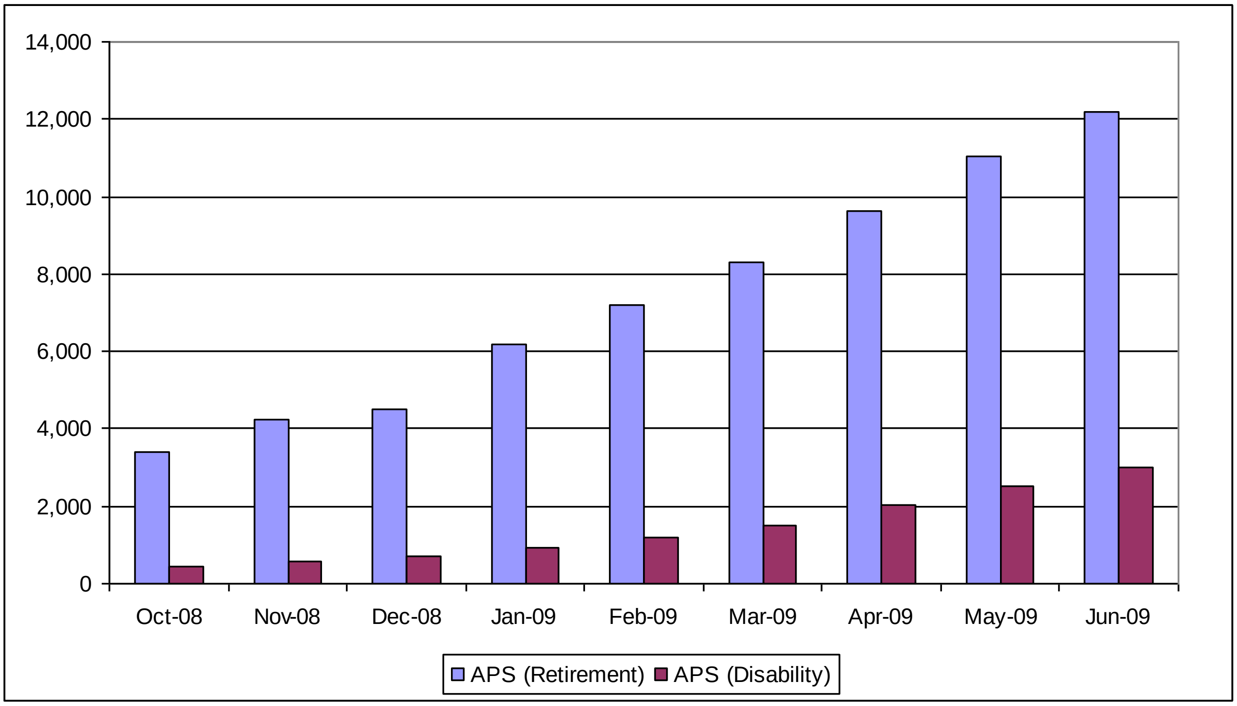


A total of almost CLP 406.1 billion was needed to finance PBS for the Elderly or Disabled during the 12 months between July 2008 and June 2009. As of June 2009, the monthly cost of PBS was CLP 36.2 billion, with 64% of these resources destined to finance PBS for the Elderly. During this same period, the monthly cost of PBS increased by 25%.

2.2 Solidarity Pension Payment

The first Solidarity Pension Payments were granted in October 2008, and in June 2009 a total of 15,210 individuals were receiving this benefit; the following graph shows its evolution. It may be observed that the greatest proportion of APS corresponds to retirement benefits (80% of beneficiaries as of June 2009). The number of beneficiaries during the October 2008-June 2009 period has almost tripled, especially in the case of APS for the Disabled, which has grown by more than five times.

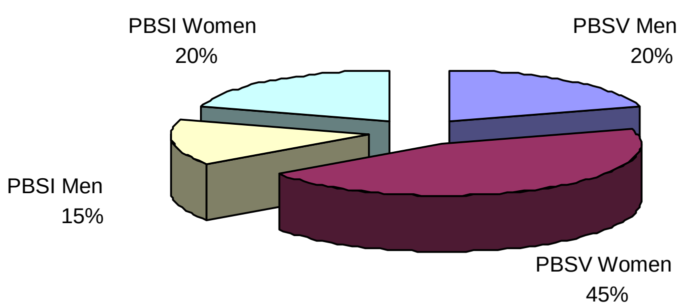
GRAPH VI.17
NUMBER OF SOLIDARITY PENSION PAYMENTS



In the period from October 2008 to June 2009, public spending on APS ascended to CLP 6.02 billion. As of June 2009, the monthly cost was CLP 963 million, and most of these resources were destined to finance APS for the Elderly (77%), especially among women.

The gender composition of PBS for the Elderly or Disabled, as of June 2009, may be observed in the following graph. 65% of all beneficiaries receive PBS for the Elderly, mostly women. Similarly, women are also a significant majority of those who receive PBS for the Disabled.

GRAPH VI.18
DISTRIBUTION OF BASIC SOLIDARITY PENSION: JUNE 2009
(by type of pension and gender)



CHAPTER VII

ONGOING CHALLENGES

This chapter describes two of the modifications introduced by Pension Reform Law No. 20,255 (2008), which have not yet been implemented. The first modification establishes mandatory contributions by self-employed workers, and will enter into effect in 2012 under the aforementioned law. The second modification calls for a public tender to decide which AFP may receive members entering the Pension System for the first time, and may only be implemented one year after the publication of the Pension Reform Law.

This chapter also summarizes the method of risk-based supervision which is being adopted by the Superintendence of Pensions. The goal of this system is to assess the quality of the risk management processes of the institutions that are under the supervision of this agency, in order to focus this oversight on the sources of most risk, thus maximizing the use of supervisory resources.

Finally, this chapter includes a description of the concept of pension risk and how it is different from more commonly used short-term risk measurement methods. Correctly measuring the different risks faced by members of the Pension System, taking into account their investment horizon, is essential to the regulation and oversight of pension institutions and the information available to those participating in this system.

Pension coverage for self-employed workers

As shown by the diagnosis made before the submission of the pension reform bill, the coverage of the Pension System for self-employed workers was minimal: 3.9% in 2005, which may be explained primarily by the following aspects:

- Self-employed workers must voluntarily join and contribute to the individual capitalization system established by DL 3500.
- Income or job instability among self-employed workers, which prevents them from contributing each month.
- Other factors that influence this group's lesser contribution are: misinformation regarding the benefits of contributing to the pension system, the lack of a "pension culture," and a preference for liquidity.
- Current monthly contribution options are unattractive for this group.

Furthermore, in terms of their willingness to save, it has been observed that the great majority of self-employed workers have no other form of savings which could allow them to possess income during old age. At the same time, they show the same patterns of savings as employees or domestic workers. According to this diagnosis, self-employed workers have spent a large proportion of their active life working independently, although not necessarily over the entire duration of this period.

In this situation, it is a significant challenge to increase the pension coverage of self-employed workers, and this has been addressed in the Pension Reform Law. The goal of this law is to increase the coverage of self-employed workers in the Pension System, creating specific incentives, rights and duties for this group of workers. In particular, along with the new rights that the law has established for self-employed workers, such as access to Solidarity Pension System benefits, affiliation to the Family Allowance Compensation Funds, access to the Unified System of Family Services and Disability and Survivor Insurance, this segment also has the obligation to contribute to the system.

i. Mandatory pension contributions

The obligation of self-employed workers to contribute shall enter into effect beginning on January 1, 2012. Nevertheless, the law stipulates a gradual process of Pension System affiliation and mandatory contributions for these workers, according to the following schedule:

- As of January 1, 2012, self-employed workers are obliged to make contributions on 40% of their taxable income, except as expressly indicated otherwise.
- As of January 1, 2013, they are obliged to make contributions on 70% of their taxable income, except as expressly indicated otherwise.
- As of January 1, 2014, they are obliged to make contributions on 100% of their taxable income, except as expressly indicated otherwise.
- As of January 1, 2015, they are obliged to make contributions on 100% of their taxable income, without exception.
- As of January 1, 2018, they are additionally obliged to make contributions on 7% of their taxable income for health care insurance.

All male workers who are at least 55 years of age, and female workers who are at least 50 years of age, as of January 1, 2012, are exempt from the aforementioned obligations.

Also, self-employed workers that are members of a pension institution of the Old System managed by the IPS or the Social Security Department of the Chilean Police Force (DIPRECA) and the National Defense Social Security Fund, are legally exempt from making these contributions.

The obligation to contribute will be annual, in order to more adequately adapt to the conditions of income and employment of self-employed workers.

Covered Earnings

The annual covered earnings to be considered for contributions by self-employed workers shall correspond to 80% of total gross income subject to Article 42 No. 2 of the Income Tax Law, obtained by the self-employed worker during the calendar year prior to the tax statement. This sum may not be less than one minimum monthly wage or more than the product of multiplying

12 by the maximum contribution limit.[115] Therefore, the obligation to contribute is limited to self-employed workers whose work activities produces income that is taxable under the aforementioned Article of the Income Tax Law, which will effectively determine the income of these workers and oversee their contributions.

If a worker receives income and wages from one or more employers simultaneously, all taxable wages and income are added for purposes of calculating the maximum yearly limit.

Self-employed workers who do not receive income that is taxable under Article 42, No.2 of the Income Tax Law, may contribute according to the rules established for voluntary members. For purposes of this law, these contributions will be considered pension contributions.

Payment

Self-employed workers may choose to make monthly pension payments that will be deposited into their mandatory annual pension contribution.

AFPs must certify the total amount of pension payments made by self-employed workers during a calendar year and the amount of contributions paid or declared by their employer(s), if the worker is simultaneously receiving wages as an employee. These amounts will be reported by the Administrators to their members and to the Internal Revenue Service (SII).

The SII is the entity responsible for determining the amount of the contributions to the Pension System that self-employed members must pay each year.

Mandatory contributions must be paid first and foremost, above all other fees, charges or payments of any nature, and deducted from the amounts withheld for pension payments from income taxes during the previous calendar year.[116] For this purpose, during the first two-week period of May, the SII will inform the General Treasury of the Republic (TGR) of the names of self-employed members who must pay pensions contributions, as well as the amounts they owe. The TGR must pay these mandatory pension contributions to the AFP to which the self-employed worker is affiliated, so they may be registered and deposited into their individual capitalization accounts as mandatory contributions. If the amount retained is insufficient to cover the total amount of contributions, the member is obliged to directly pay the remainder.

Delinquency

Pension Fund Administrators are obliged to take action to collect all contributions owed by self-employed workers, as well as any readjustments and interests.

The law stipulates that the Solidarity Pension Payment of a self-employed worker must be reduced if this individual owes pension contributions.

Disability and Survivor Insurance

[115] The maximum limit for 2010 is 64.7 UF.

[116] In accordance with Articles 84, 88 and 89 of the Income Tax Law.

Self-employed workers that have paid their mandatory pension contributions will have access to Disability and Survivor Insurance (SIS) as established in DL 3.500 (1980). The coverage of this insurance will have the following characteristics for this group of workers, depending on the taxable income for which mandatory contributions were made:

- If the worker made contributions for an annual taxable income equal to or greater than 7 minimum monthly wages, he/she will have annual coverage, from May 1 of the year in which contributions were paid to April 30 of the year after this payment.

- If the taxable income was less than 7 monthly minimum wages, the self-employed worker will be covered by SIS for the number of months resulting from the following formula, counting from May 1 of the year in which the contributions were paid:

$$\text{Months of coverage} = \frac{\text{Number of contributions equal to minimum monthly income}}{7} \times 12$$

- In any case, whatever the amount of contributions paid, workers will be covered in May of the year in which payment was made.

Management fees

AFPs may charge fees for managing the individual accounts of self-employed workers, which must correspond to the average fee charged by the Administrator to which the specific worker belongs during the fiscal year prior to the payment of these contributions.

ii. Mandatory health care contributions

As of January 1, 2018, self-employed workers must contribute 7% of their taxable income to finance health insurance services.

Self-employed workers must make monthly health care payments to the National Health Fund. Alternatively, if they are already making pension contributions, they may choose to make these health care payments to the Administrator, which will transfer them to the National Health Fund. The taxable income declared by members each month to the National Health Fund or the Administrator, as the case may be, will be used to calculate these payments. This income may not be less than one minimum monthly wage or more than the maximum taxable limit. However, self-employed members may also choose to join the private health system.

Each year, the Internal Revenue Service (SII) shall determine the amount that self-employed members must pay in contributions to finance health services, and the National Health Fund will inform the SII of the amount of health contributions that self-employed workers pay each month during the previous calendar year. Meanwhile, the Superintendence of Health will inform the SII of the Health Insurance Institution which self-employed workers are affiliated to.

Just as in the case of pension contributions, during the first two-week period of May the SII will provide the General Treasury of the Republic with the names of self-employed members who are obliged to pay contributions to finance health care services from the National Health Fund, as well as the amount due. Finally, the Treasury will pay the health care contributions to the National Health Fund.

In order to become entitled to medical services offered by the Health Care System and services under the "free choice" option, self-employed workers must have contributed during the month immediately prior to the date on which they use the benefit, or have paid at least six continual or intermittent contributions over the previous twelve months.

iii. Pension benefits for self-employed members

The Pension Reform Law establishes that self-employed workers are eligible for the Solidarity Pension System and access to the benefits of this system, under conditions equal to those of employees.[117] This law also establishes additional pension benefits for self-employed workers, as described below:

Access to the Unified System of Family Services

Self-employed workers who are obliged to join the Pension System will be eligible for the Unified System of Family Allowances created by DFL 150 (1981), as long as they are not behind on their pension contributions.

In order to determine the value of the benefits granted by the system of family allowances, monthly income is defined as the income of a self-employed worker in the calendar year immediately preceding that in which the allowance was granted. If the beneficiary had more than one source of income, all sources will be considered.

Family dependents are to be accredited through the IPS, which will communicate this information to the Internal Revenue Service. The benefits of the Unified System of Family Allowances are paid annually and are compensated with the amount of mandatory pension contributions.

This legal disposition of the Pension Reform Law enters into effect on January 1, 2012.

Affiliation to a Family Allowance Compensation Fund (CCAF)

Self-employed workers who are making pension and health care contributions may individually join a CCAF to use the additional services offered by this system, such as social and complementary services.

[117] Described in Chapter III.

In order to contribute to financing these services, each Compensation Fund establishes a common contribution payment for self-employed members. This amount may be fixed or variable, and may not exceed 2% of the taxable income for pensions. In order to provide complementary services, CCAFs may enter into agreements with associations of self-employed workers or other related entities, establishing a financing method.

This legal disposition of the Pension Reform Law enters into effect on January 1, 2012.

Participation in Insurance against Work Accident and Professional Illness Risk[118]

As of January 1, 2010, self-employed workers who are making pension and health care contributions are covered by an insurance policy created by the Law on Work Accidents and Professional Illnesses. For this purpose, they are obliged to pay the basic general contribution stipulated in letter a) of Article 15 of Law No. 16,744, which corresponds to 0.90% of their taxable wages; an extraordinary contribution of 0.05% as stipulated by the Sixth Transitory Article of Law No. 19,578, and any additional contributions that may apply under the terms of Articles 15 and 16 of Law No. 16,744 and its corresponding regulations, which may not exceed 3.4% of their taxable wages.

These contributions are calculated on the basis of the same income for which these workers make their pension contributions and are not considered income for purposes of the Income Tax Law.

The contributions described above must be paid each month to the entity that manages the Insurance against Work Accident and Professional Illness Risks to which each specific worker is affiliated, as established in Law No. 16,744.

Contributions for this insurance are paid and collected in a manner similar to the procedure used for pension contributions.

In order to gain the right to use the services stipulated in Law No. 16,744, self-employed workers must not be behind in their contributions for this insurance. Workers are considered ineligible if they have not made these payments for two months.

This obligation enters into effect on January 1, 2012 and shall be implemented through the same gradual process as established for pension contributions. All male self-employed workers who are at least 55 years of age, and female self-employed workers who are at least 50 years of age, as of January 1, 2012, are exempt from the obligation to contribute for this insurance.

In any case, as of October 1, 2008, all self-employed workers may contribute voluntarily for the insurance policy of the Law on Work Accidents and Professional Illnesses, provided that they have made their pension and health care contributions during the corresponding month.

[118] Law No. 16,744.

Tender for Management of Individual Capitalization Accounts

i. Background

One of the main measures of the Pension Reform Law aims to encourage competition in the Pension Fund Administrator industry: a public tender for the management of the individual capitalization accounts of workers joining the Pension System for the first time.

Several studies have confirmed that, in Chile, there is not much competition in terms of AFP market prices. In spite of the profit margins obtained by administrating companies, no new actors have entered the market in several years. This scarce competition may be explained by a combination of factors: the price insensibility of members, the legal obligation to charge a uniform fee on the monthly wages of contributors of a single AFP, and a series of barriers to entry.

Therefore, as the pension reform was being designed, the challenge was to generate mechanisms to raise awareness about price among members, giving them greater negotiating power, allowing more competition and, eventually, the entry of new actors into the industry. The final goal is to lower the fees paid by members, without sacrificing other relevant attributes such as the quality of financial management and services, and without reducing the industry's productive efficiency. In this sense, the tendering process for new members also includes clauses that require the winning AFP not to neglect the quality of services offered. These include minimum service standards and the possibility that, after a minimum period of affiliation to the winning AFP, members must be free to transfer if the lower fees of this AFP are not enough to compensate the greater yield that members may find at other AFPs.

The Pension Reform Law establishes a tendering process for members as a way to replicate the performance that would result if consumers were more active. In addition, this proposal has the virtue of aiming to decrease the industry's current barriers to entry, by making it feasible for potential new institutions to achieve a more competitive scale of operations without having to trigger a generalized and unproductive increase of sales forces.

Therefore, the objectives of the public tender for managing the individual capitalization accounts of new Pension System members may be summarized as follows:

- Encourage price competition and achieve lower commissions for members.
- Generate greater sensibility of demand to price.
- Favor the entry of new actors to the AFP industry.
- Safeguard the economic interests of members.

The main aim of the public tender for new members is to create a market for pension fund management services in which the potential entry of new actors may act as a factor that creates greater market discipline. Also, since different system attributes (price, yield and services) are relevant to different members, this proposal encourages Administrators operating within the system to compete through one or more of these variables.

ii. Description of Tendering Process

The law establishes[119] that, every 24 months, the Superintendence of Pensions must organize a tendering process for the management of the individual capitalization accounts of new workers joining the Pension System. The bidding bases must be approved by the Ministry of Labor and Social Security by Supreme Decree.

The most distinctive element of this process is that it uses the price variable as a criterion for awarding the tender, and it contains clauses that allow members to transfer out of the winning Administrator under certain circumstances which are described below.

These are the main characteristics of tendering process for new members:

Objective of the Tender

During the 24 months following the date that is six months after the award of the tender, all individuals joining the Individual Capitalization Pension System for the first time as employees, self-employed workers and voluntary members, must join the winning AFP. The date of affiliation to the system will determine the obligation to join the winning AFP.

This assignment is mandatory for workers beginning their active working life, since their low or zero funds accumulated means that the price variable is more relevant to them for selecting an AFP. This group also is large enough to cover a scale that is minimally efficient for the operations of a new AFP.

Bidding on the Tender

All existing Pension Fund Administrators and legal entities that are in the process of being established are allowed to participate in the tendering process. The legal term of six months between the date of the tender and the beginning of the contract allows the entry into operation of the winning AFP, if it happens to be a new Administrator.

Awarding the Tender

The tender is awarded to the AFP offering the lowest fee per deposit on periodical contributions. This fee must be less than the lowest fee on the date of the tender.

The winning administrator must maintain the fee offered in the tender during the entire period of the service, as established in the bidding bases. This price will be offered to all members of the winning AFP, regardless of whether or not they are part of the group of members being tendered.

Affiliation to the Selected Entity

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[119] Article 160 and subsequent articles of DL 3,500 (1980).

Members belonging to the tendered group must remain affiliated to the winning AFP for the entire period established in the bidding bases, which may be no longer than 24 months.

However, the law includes specific clauses that allow members to abandon the winning AFP before the end of the minimum period of affiliation, in order to safeguard their economic interest:

- If the AFP does not comply with the rule of minimum capital, minimum yield or notorious insolvency, bankruptcy or liquidation.
- If the AFP stops charging the lowest fee per contribution on the market for two consecutive months.
- If the lowest fee tendered does not compensate the greater yield that could be obtained by members in any other AFP from the date of affiliation.

Risk-Based Supervision

The new approach for supervising pension fund institutions, known as Risk-Based Supervision (RBS), is a structured process designed to identify the main risks faced by the institutions being supervised and assess the management of these risks. The final objective is to ensure an adequate management process for all risks involving the complex institutions that are responsible for providing a source of income during retirement.

The RBS approach is by nature a mechanism for comprehensive and preventive oversight. It is comprehensive because it analyzes all relevant risks in each activity, and it is preventive because it predicts situations of weakness in the risk management of the supervised entities and the internal controls associated to their main operating processes, promoting their correction and continual improvement. This supervisory approach aims to help supervised entities establish a continual, systematic risk management process and achieve an organizational structure capable of adequately handling the relevant risks they face in their daily activities. This process must effectively guarantee the security and reliability of the entity's operations and the funds it manages.

For these purposes, each entity's risk management system must be appropriate to its nature, scale and the complexity of its operations, and must consider the following stages:

- Identification of all risks that affect the entity and the funds it manages.
- Assessment of the probability and consequences of each risk identified.
- Mechanisms for the control or mitigation of each risk identified.
- Permanent strategies for monitoring each risk identified.

Pension supervisors in several countries throughout the world are moving away from supervisory strategies based on compliance with rules and towards RBS strategies. This is the case of Chile, where the Superintendence of Pensions has been working for the last three years on the implementation of risk-based supervision methods in its supervisory entities.

The Pension Reform Law of 2008 established some bases for the implementation of the risk-based supervisory approach for Pension Fund Administrators. In particular, it contained a comprehensive vision of the supervisory functions of the Superintendence, to be implemented through specialized logistics. Also, the law gives the Superintendence of Pensions additional powers, such as the authority to designate inspectors within AFPs in order to safeguard the security of pension funds, the possibility of requiring investment policies for these funds, and the power to request information from companies subcontracted by AFPs to provide pension services. Finally, a recent legal modification expressly states that secondary regulations may consider the risk variables in the investments made by AFPs with pension resources.

All these legal improvements are greatly aligned with the institutional plan of adopting a RBS approach. The current objectives of the supervisory agency may be summarized as follows:

- *Effective Supervision*. This means using a preventive approach that considers all relevant risk factors, thus helping to create a more stable Pension System and appropriate services (according to national and international parameters) in a framework of limited risk.

- *Efficient Supervision*. This means identifying the key risk factors within each supervised entity, which should lead to a more efficient use of the human and material resources of the supervisor. In other words, the supervisory effort is assigned in proportion to the general risk of each entity, and focuses on the areas of greatest vulnerability for each one.

- *Supervision Aligned with Best Practices*. This means following global trends, which are always important in an increasingly global financial market. In this sense, the inclusion of RBS criteria in the oversight of financial institutions is one of the areas that the OECD observes in the evaluation process of newly admitted countries such as Chile.

The analysis conducted by the Superintendence of Pensions has concluded that Chile meets the prerequisites for implementing a Risk-Based Supervision approach in the AFP industry, particularly those specified by the IOPS[120] related to the legal compliance, capabilities, structure, resources and experience of the supervisory agency and the availability and capabilities of the AFP industry. The road towards a definitive implementation of the RBS approach will require the joint participation of the supervisory agency and the supervised entities.

Pension Risk

Adequately defining and measuring what relevant risks members face in a defined contribution Pension System, such as Chile's, is fundamental to orient the regulatory and supervisory activities of the supervised entities and to provide information for participants in the system.

However, measuring pension risk is not an easy task. For example, the short-term volatility of pension fund yield is not necessarily a good indicator of the pension risk of members who are just beginning their active stage and have more than 30 years left before they retire. Therefore, it

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120 See the document called "Preconditions for Risk-Based Supervision", International Organization of Pension Supervisors (IOPS).

is important to determine what elements are required to produce a sensible definition of pension risk.

The financial literature has analyzed and suggested several quantitative tools for measuring risk, but these usually have serious limitations in terms of their use for measuring risk within the Pension System. For example, applying *VaR* models may be an attractive alternative, since this instrument is used extensively by banks as a way to measure solvency and market risk, and is easy to interpret. However, it has an important limitation: its short-term focus is not appropriate for measuring long-term investment strategies such as those used in pension funds.

In conclusion, it is possible to identify important limitations in the models that analyze short-term volatility, such as *VaR*, which is used extensively to measure market risk. First, the horizon investment is relevant. Risk measurements that consider a horizon of one day, one month, or one year, are not appropriate for measuring pension risk.[121] The investment horizon associated to pension fund investments, from the moment a member begins contributing, is significantly higher—40 to 45 years. Second, the properties of these periods of time must be considered, since building scenarios based on historical information corresponding to a relatively stable and short period of time would only increase the probability that measurements such as *VaR* may exceed the pre-established limits in a future scenario of greater financial volatility, adding another source of market instability. Finally, choosing an appropriate variable for measuring pension risk must consider all relevant sources of risk faced by Pension System members. Some of the most relevant sources of risk are: the risk of density of contributions or unemployment; the risk of investments; and the risk of annuitization or re-investment, by transforming the final balance of members' individual accounts into the value of the pension at retirement.

Considering the long-term nature of pension funds and the aforementioned risks associated to pensions, pension risk must necessarily be measured and assessed using a perspective that considers the life cycle of contributors. Accordingly, the objective variable that best represents the situation of members at retirement is the replacement rate, which is defined as the ratio between the value of the pension at retirement and the relevant monthly wage. In particular, it is possible to identify four relevant factors that affect the expected value and volatility of pensions: (1) the accumulated yield on pension fund investments (balance accumulated in the individual capitalization account at retirement), (2) the total volatility of the selected investment strategy, (3) the volatility associated to contributions (not contributing permanently throughout the life cycle), and (4) the cost associated to a required pension unit or capital.[122]

In the case of Chile, the design considers the diverse risks faced by members. There are mechanisms that encourage individuals to contribute (voluntarily) and that seek to enforce the obligation to contribute. These resources are also invested during the active life of the worker in a diversified and strictly regulated manner, with alternative investment strategies depending on the characteristics of each participant. In this sense, the system implements an investment trajectory that is consistent with life cycle of individuals who choose not to select their funds;

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[121] See *Documento No. 26,* "VaR Limits for Pension Funds: An Evaluation", Solange Berstein and Rómulo Chumacero, May 2008.

[122] See *Documento No. 35* ***"****Sistemas de Pensiones de Capitalización Individual: ¿Cómo mitigar riesgos?" Berstein, S.; Fuentes, O. y Torrealba, N. Febrero 2010.*

this is aligned with international recommendations.[123] Later, there are several options that allow pensioners and insurance companies to share the risks upon retirement, depending on the particular situation of each individual. Finally, the State also plays an essential role through the Solidarity Pillar, which is a way to share risks within generations and between generations facing different economic conditions.

Pension Reform has contributed greatly to a more appropriate risk management, and will be essential to assessing its future impact. Along with reforms to the Pension System, the institutional framework of the supervisory agency has also been modified, providing a broader range of supervision and introducing risk as a fundamental concern. In order to generate a more appropriate management of one of the main risks of the individual capitalization system, which is investment risk, the system is moving towards more appropriate ways to measure risk. In this sense, the Pension Reform has also established that the Investment Regime[124] may establish rules for regulating the investment of Pension Funds in accordance with the risk measurement of each particular investment portfolio. Of course, these measurements must consider the final pension and the risk associated to this variable, which may be very different from its short-term volatility.

[123] The Superintendence is currently preparing a memorandum which would help AFPs offer their members more standard trajectories for changing funds as they age, without each member having to sign a transfer each time.

[124] The Investment Regime is the set of rules that govern the investment of Pension Funds in all aspects contained in the legislation. They are important because they bring greater flexibility to the decision-making process on investment regulation.

STATISTICAL ANNEX

SOLIDARITY PENSION SYSTEM

NUMBER AND AMOUNT OF BASIC SOLIDARITY PENSION, BY TYPE AND SEX

	OLD AGE PBS						DISABILITY PBS					
	Men		Women		Total		Men		Women		Total	
	Number	Amount (T$)	Number	Amount (T$)	Number	Amount (T$)	Number	Amount (T$)	Number	Amount (T$)	Number	Amount (T$)
Jul-08	101,418	6,085,080	189,152	11,349,120	290,570	17,434,200	84,277	5,056,620	108,433	6,505,980	192,710	11,562,600
Aug-08	101,669	6,100,140	190,467	11,428,020	292,136	17,528,160	84,831	5,089,860	109,473	6,568,380	194,304	11,658,240
Sep-08	108,162	6,488,433	221,383	13,279,938	329,545	19,768,371	84,559	5,073,540	108,959	6,537,540	193,518	11,611,080
Oct-08	110,075	6,917,450	230,808	15,225,060	340,883	22,142,510	84,437	5,094,062	108,604	6,541,980	193,041	11,636,042
Nov-08	111,136	6,911,023	236,178	15,133,152	347,314	22,044,175	84,286	5,088,893	108,404	6,574,320	192,690	11,663,213
Dec-08	113,630	7,304,694	244,815	16,162,567	358,445	23,467,261	84,823	5,314,695	109,628	7,061,640	194,451	12,376,335
Jan-09	114,748	7,092,138	249,383	15,637,466	364,131	22,729,604	85,291	5,351,180	110,901	7,229,795	196,192	12,580,975
Feb-09	115,183	7,061,355	251,808	15,606,042	366,991	22,667,397	85,481	5,318,678	111,775	7,233,871	197,256	12,552,549
Mar-09	115,759	7,110,674	254,074	15,641,611	369,833	22,752,284	85,609	5,310,501	112,459	7,228,185	198,068	12,538,686
Apr-09	116,177	7,082,298	255,795	15,659,383	371,972	22,741,681	85,787	5,349,219	113,104	7,298,661	198,891	12,647,880
May-09	116,638	7,116,381	258,094	15,830,183	374,732	22,946,564	86,085	5,432,319	114,003	7,445,721	200,088	12,878,040
Jun-09	116,982	7,146,999	260,086	15,976,445	377,068	23,123,444	86,441	5,488,752	114,983	7,632,606	201,424	13,121,358

NUMBER AND AMOUNT OF SOLIDARITY PENSION CONTRIBUTION, BY TYPE AND SEX

	OLD AGE APS						DISABILITY APS					
	Men		Women		Total		Men		Women		Total	
	Number	Amount (T$)	Number	Amount (T$)	Number	Amount (T$)	Number	Amount (T$)	Number	Amount (T$)	Number	Amount (T$)
Jul-08												
Aug-08												
Sep-08												
Oct-08	955	191,695	2,444	385,554	3,399	577,249	229	35,923	217	35,328	446	71,251
Nov-08	1,159	85,654	3,067	192,968	4,226	278,622	294	19,636	290	20,521	584	40,157
Dec-08	1,234	107,688	3,251	198,565	4,485	306,254	348	20,228	352	21,138	700	41,367
Jan-09	1,765	194,888	4,434	386,552	6,199	581,439	481	43,688	468	38,039	949	81,727
Feb-09	2,132	156,341	5,048	297,761	7,180	454,103	584	43,786	596	47,118	1,180	90,904
Mar-09	2,584	202,020	5,703	330,682	8,287	532,702	703	47,442	787	61,973	1,490	109,415
Apr-09	3,131	281,550	6,499	474,238	9,630	755,788	922	79,704	1,119	109,278	2,041	188,982
May-09	3,842	331,166	7,208	435,187	11,050	766,353	1,125	83,507	1,372	103,344	2,497	186,852
Jun-09	4,373	305,749	7,817	439,866	12,190	745,615	1,346	94,453	1,674	122,955	3,020	217,408

ACTIVE MEMBERS AND TOTAL CONTRIBUTORS

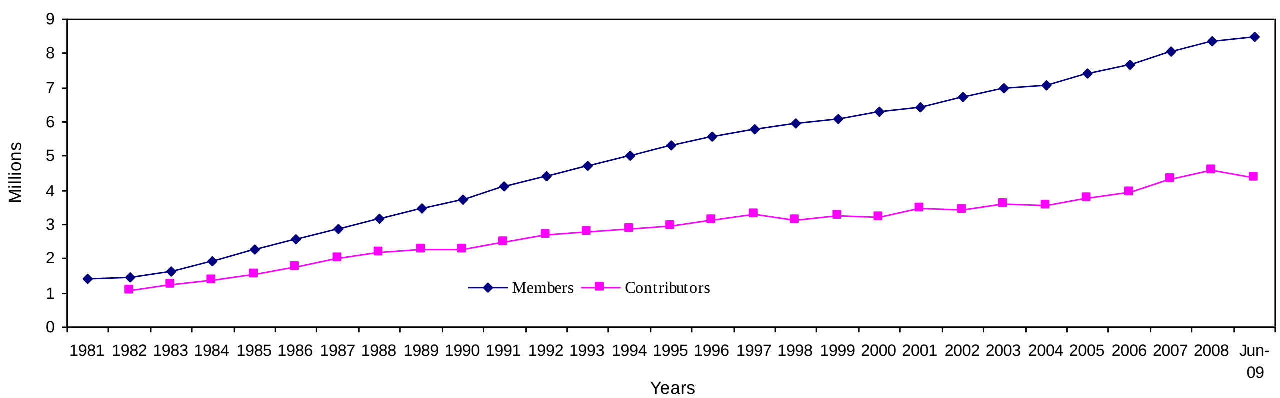
(As of June 2009)

Years	Number of Members [1]	Number of Contributors [2]
1981	1,400,000	-
1982	1,440,000	1,060,000
1983	1,620,000	1,229,877
1984	1,930,353	1,360,000
1985	2,283,830	1,558,194
1986	2,591,484	1,774,057
1987	2,890,680	2,023,739
1988	3,183,002	2,167,568
1989	3,470,845	2,267,622
1990 [3]	3,739,542	2,289,254
1991	4,109,184	2,486,813
1992	4,434,795	2,695,580
1993	4,708,840	2,792,118
1994	5,014,444	2,879,637
1995	5,320,913	2,961,928
1996	5,571,482	3,121,139
1997	5,780,400	3,296,361
1998	5,966,143	3,149,755
1999	6,105,731	3,262,269
2000	6,280,191	3,196,991
2001	6,427,656	3,450,080
2002	6,708,491	3,431,277
2003	6,979,351	3,618,995
2004	7,080,646	3,571,864
2005	7,394,506	3,784,141
2006	7,683,451	3,956,992
2007	8,043,808	4,329,412
2008	8,372,475	4,572,327
Jun-09	8,504,703	4,367,625

(1) Active members are those who are alive and who are not pensioners.

(2) Corresponds to the number of members who contributed in December of each year.

(3) Contributor data from November 1990, since December of this year had an unusual delay clarification process, such that the figures for December are not representative.



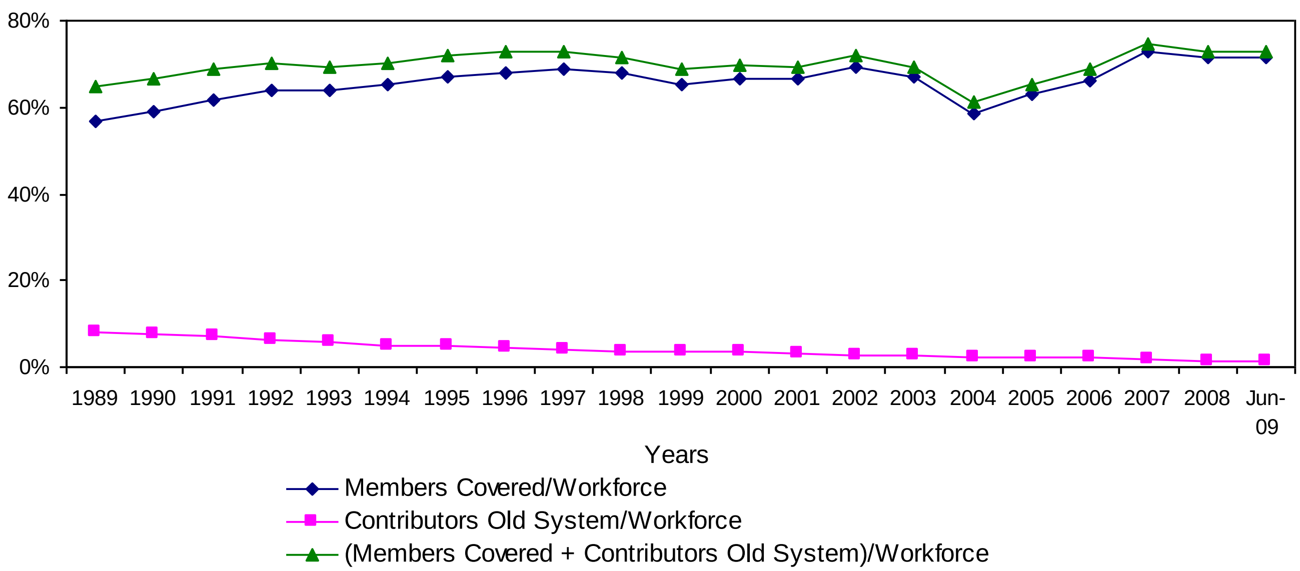
ANNUAL AVERAGE COVERED INCOME
EMPLOYED WORKERS
(In Chilean pesos as of June 2009)

Years	Average	Male	Female
1989	$ 259,996	$ 285,547	$ 203,198
1990	$ 267,659	$ 295,260	$ 207,159
1991	$ 280,996	$ 307,742	$ 222,334
1992	$ 295,180	$ 321,329	$ 238,734
1993	$ 315,361	$ 341,097	$ 260,521
1994	$ 332,543	$ 357,975	$ 279,957
1995	$ 348,536	$ 373,844	$ 297,446
1996	$ 363,857	$ 388,725	$ 314,991
1997	$ 379,226	$ 404,025	$ 331,477
1998	$ 391,025	$ 415,936	$ 344,939
1999	$ 393,847	$ 416,403	$ 354,533
2000	$ 398,568	$ 418,103	$ 364,320
2001	$ 403,179	$ 421,504	$ 371,197
2002	$ 407,997	$ 425,058	$ 378,283
2003	$ 403,924	$ 421,812	$ 373,197
2004	$ 410,329	$ 427,214	$ 381,422
2005	$ 420,659	$ 438,880	$ 389,399
2006	$ 425,826	$ 445,374	$ 392,771
2007	$ 425,674	$ 447,324	$ 389,923
2008	$ 434,040	$ 457,842	$ 395,764
Jun-09	$ 441,258	$ 464,634	$ 405,196

PENSION SYSTEM COVERAGE
COMPARED TO WORKFORCE
(Percentage)

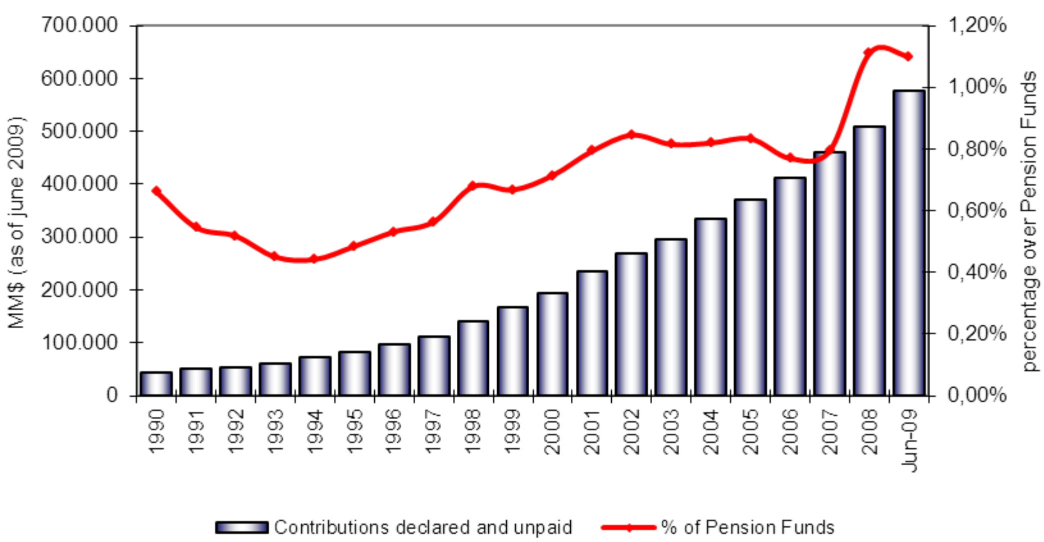
Years	Members Covered [(1)]/ Workforce	Contributors Old System/ Workforce	(Members Covered + Contributors Old System)/ Workforce
1989	56.81%	8.12%	64.93%
1990	58.91%	7.52%	66.43%
1991	61.82%	7.03%	68.85%
1992	63.84%	6.47%	70.31%
1993	63.82%	5.66%	69.48%
1994	65.11%	5.04%	70.14%
1995	66.99%	5.10%	72.09%
1996	68.07%	4.64%	72.71%
1997	68.71%	4.02%	72.73%
1998	67.76%	3.73%	71.49%
1999	65.36%	3.42%	68.78%
2000	66.58%	3.36%	69.94%
2001	66.47%	2.94%	69.41%
2002	69.33%	2.73%	72.06%
2003	66.83%	2.59%	69.42%
2004	58.70%	2.31%	61.01%
2005	63.09%	2.21%	65.30%
2006	66.34%	2.30%	68.65%
2007	72.99%	1.58%	74.57%
2008	71.36%	1.42%	72.78%
Jun-09	71.43%	1.40%	72.83%

(1) Corresponds to members of the AFP System with less than twelve months without movement in their individual capitalization accounts.



CONTRIBUTIONS DECLARED AND UNPAID
(Figures in Chilean pesos as of June 2009)

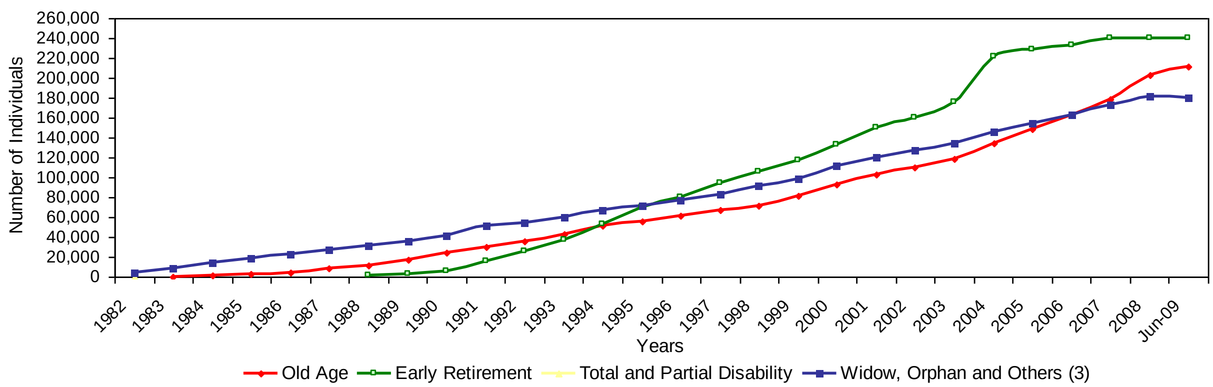
Years	Contributions declared and unpaid (Figures in M$)	% of Pension Funds
1990	44,217,871	0.66%
1991	51,650,841	0.55%
1992	54,637,516	0.52%
1993	60,982,043	0.45%
1994	72,341,444	0.44%
1995	83,531,823	0.48%
1996	97,036,787	0.53%
1997	112,640,252	0.56%
1998	140,537,444	0.68%
1999	167,984,125	0.67%
2000	193,325,805	0.71%
2001	236,167,550	0.79%
2002	268,715,955	0.84%
2003	296,601,338	0.81%
2004	334,379,521	0.82%
2005	370,843,851	0.83%
2006	411,403,361	0.77%
2007	461,037,446	0.79%
2008	509,320,677	1.11%
Jun-09	577,379,933	1.10%



NUMBER OF PENSIONS PAID BY THE SYSTEM, BY TYPE OF PENSION (1)

(As of December of each year)

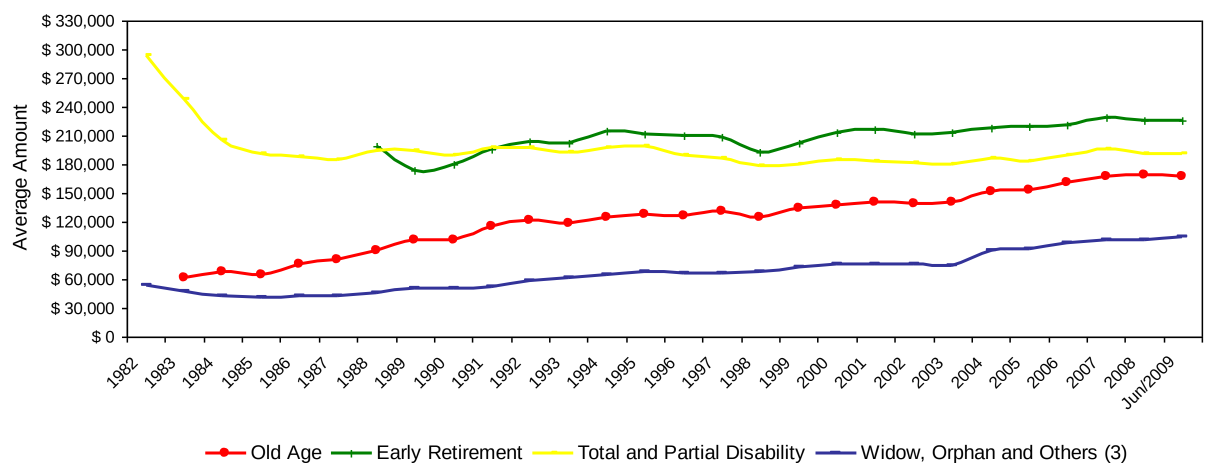
Years	Old Age	Early retirement	Total disability (2)	Partial disability (2)	Widows	Orphans	Others (3)	TOTAL
1982	---	---	791	---	1,108	2,566	58	4,523
1983	393	---	2,272	---	2,521	5,821	164	11,171
1984	1,730	---	4,058	---	4,340	9,665	292	20,085
1985	2,647	---	5,729	---	5,872	11,768	410	26,426
1986	4,835	---	7,979	---	7,740	14,539	572	35,665
1987	7,980	---	10,620	---	9,797	16,847	671	45,915
1988	11,819	772	12,786	---	11,506	18,669	814	56,366
1989	17,129	2,824	14,388	---	14,245	19,798	1,051	69,435
1990	23,876	5,790	15,777	---	17,214	23,079	1,325	87,061
1991	30,141	15,673	15,479	12	20,472	29,414	1,621	112,812
1992	35,763	26,054	15,404	32	22,810	29,262	1,805	131,130
1993	43,089	37,521	15,189	107	25,848	31,450	2,122	155,326
1994	51,440	53,354	15,295	800	29,965	34,616	2,544	188,014
1995	55,591	69,537	16,760	1,216	32,279	36,107	2,863	214,353
1996	61,374	80,576	17,865	1,438	35,516	38,468	3,252	238,489
1997	67,405	94,116	18,917	1,626	38,792	41,097	3,648	265,601
1998	71,161	106,177	20,159	1,832	41,789	44,951	4,136	290,205
1999	80,968	117,559	22,827	2,284	46,312	47,676	4,608	322,234
2000	93,152	132,221	23,523	2,370	52,997	53,714	5,374	363,351
2001	103,138	149,603	25,794	2,991	57,173	56,818	5,903	401,420
2002	109,804	159,888	28,423	3,701	61,208	59,699	6,450	429,173
2003	118,839	175,039	30,598	4,379	64,605	62,137	6,855	462,452
2004 (*)	134,207	221,201	34,439	4,753	85,545	51,409	8,770	540,324
2005	148,096	229,033	37,765	5,391	92,602	51,511	9,613	574,011
2006	163,223	233,384	41,094	6,405	99,886	51,903	10,447	606,342
2007	179,146	239,790	43,552	6,988	107,799	53,304	11,485	642,064
2008	203,144	240,425	45,419	7,627	115,740	53,219	12,394	677,968
Jun-09	211,335	239,646	46,515	7,774	119,147	47,856	12,772	685,045



(1) Does not include pensions corresponding to the first payment.
(2) Does not include temporary disability pensions.
(3) Corresponds to pensions for mothers of children born out of wedlock and parents of members.
(*) Starting in 2004, this includes pensions paid in the life annuity mode, and until 2003 it included the total number of immediate life annuities contracted.

AVERAGE AMOUNT OF PENSIONS PAID BY THE SYSTEM (1)
(As of December of each year in Chilean pesos as of June 2009)

Years	Old Age	Early retirement	Total disability (2)	Partial disability (2)	Widows	Orphans	Others (3)
1982	-	-	293,481	-	106,549	30,562	66,776
1983	61,165	-	248,460	-	96,283	26,951	57,162
1984	67,560	-	205,785	-	83,481	23,435	46,923
1985	64,915	-	190,288	-	79,907	22,355	43,199
1986	76,144	-	187,640	-	80,115	23,382	43,021
1987	79,805	-	185,079	-	77,726	22,506	48,625
1988	90,490	198,327	193,692	-	81,424	23,685	45,517
1989	100,829	174,236	193,542	-	84,545	27,233	46,823
1990	101,589	180,341	189,959	-	82,480	28,157	49,787
1991	115,564	196,503	197,832	65,730	88,605	28,254	47,645
1992	120,861	203,175	197,440	116,067	94,470	32,126	49,998
1993	117,986	202,509	193,281	169,147	98,709	32,344	53,786
1994	125,015	214,114	197,643	176,362	99,337	36,097	53,529
1995	127,415	211,034	200,083	194,763	102,503	36,738	53,477
1996	126,258	209,863	191,159	162,552	99,529	36,369	49,552
1997	130,711	208,701	188,196	158,982	100,802	36,516	49,429
1998	125,470	193,240	182,599	130,887	101,926	36,309	51,709
1999	133,978	202,317	183,046	142,149	108,795	38,503	57,769
2000	137,166	213,760	188,791	145,003	113,763	39,132	60,956
2001	140,095	215,625	187,477	144,187	114,029	39,556	60,438
2002	138,934	211,347	186,851	146,830	113,459	39,291	57,896
2003	140,986	212,437	185,208	148,888	111,430	38,163	56,183
2004	151,087	218,317	190,347	151,810	123,888	40,519	59,184
2005	153,276	219,470	188,424	149,250	123,718	39,920	59,187
2006	161,240	220,595	195,006	150,131	129,784	42,459	62,661
2007	167,080	229,090	200,951	159,129	132,490	43,916	65,895
2008	168,956	225,442	197,580	155,883	131,627	44,424	63,498
Jun/2009	167,466	225,521	196,663	154,520	132,783	45,495	65,853



(1) Does not include pensions corresponding to the first payment.
(2) Does not include temporary disability pensions.
(3) Corresponds to pensions for mothers of children born out of wedlock and parents of members.

NUMBER OF PENSIONS PAID IN PROGRAMMED WITHDRAWALS, BY TYPE OF PENSION (1)

(As of December of each year)

Years	Old Age	Early retirement	Total disability (2)	Partial disability (2)	Widows	Orphans	Others (3)	TOTAL
1982	---	---	749	---	1,064	2,472	58	4,343
1983	392	---	348	---	392	864	24	2,020
1984	1,721	---	888	---	992	2,041	67	5,709
1985	2,501	---	1,136	---	1,306	2,355	75	7,373
1986	4,021	---	1,415	---	1,817	3,022	111	10,386
1987	5,801	---	1,756	---	2,287	3,280	133	13,257
1988	8,385	5	2,426	---	2,956	4,171	191	18,134
1989	12,423	33	3,487	---	4,867	6,289	345	27,444
1990	16,852	41	4,095	---	6,640	8,536	532	36,696
1991	21,469	230	3,958	12	9,211	13,107	807	48,794
1992	25,590	934	4,162	31	11,121	14,173	987	56,998
1993	30,868	2,288	4,155	101	13,421	16,189	1,246	68,268
1994	37,465	5,572	4,683	240	16,636	18,992	1,617	85,205
1995	40,777	10,276	6,211	623	18,353	20,551	1,908	98,699
1996	43,653	10,818	6,836	757	20,042	21,647	2,188	105,941
1997	46,482	12,177	7,571	904	21,361	22,322	2,434	113,251
1998	48,490	11,964	9,109	1,074	21,845	22,321	2,659	117,462
1999	52,575	14,146	10,429	1,405	23,520	23,390	2,926	128,391
2000	61,678	15,032	10,401	1,644	28,257	26,972	3,548	147,532
2001	68,069	16,612	12,000	2,119	30,948	28,806	3,962	162,516
2002	71,857	17,057	13,305	2,596	33,051	29,675	4,358	171,899
2003	77,831	19,208	14,685	3,094	34,905	30,517	4,620	184,860
2004	84,528	20,102	16,578	3,571	37,021	30,725	5,000	197,525
2005	93,860	21,376	18,488	4,008	40,176	30,881	5,450	214,239
2006	104,385	22,360	20,359	4,906	43,221	31,266	5,901	232,398
2007	115,969	23,379	21,776	5,291	46,755	32,451	6,474	252,095
2008	130,852	23,034	22,797	5,700	50,185	32,204	6,959	271,731
Jun/2009	135,894	22,858	23,534	5,752	51,386	27,240	7,130	273,794

AVERAGE AMOUNT OF PENSIONS PAID IN PROGRAMMED WITHDRAWALS, BY TYPE OF PENSION (1)

(As of December of each year in Chilean pesos as of June 2009)

Years	Old Age	Early retirement	Total disability (2)	Partial disability (2)	Widows	Orphans	Others (3)
1982	---	---	293,481	---	106,549	30,562	66,776
1983	61,124	---	65,520	---	33,702	9,839	16,956
1984	66,986	---	69,079	---	36,005	10,885	18,212
1985	58,403	---	56,938	---	35,795	10,467	15,490
1986	60,496	---	61,752	---	41,029	12,769	22,608
1987	54,426	---	58,822	---	40,819	12,560	21,770
1988	61,962	270,455	93,361	---	55,473	17,374	36,633
1989	76,615	428,290	108,433	---	63,218	23,445	36,214
1990	70,754	375,120	92,315	---	57,356	23,864	39,982
1991	89,175	331,579	101,525	65,730	70,963	27,213	40,191
1992	95,245	326,346	110,526	115,760	83,523	32,237	44,797
1993	94,199	281,968	106,968	148,206	82,476	30,353	45,006
1994	105,020	310,723	124,030	156,948	89,275	35,333	46,644
1995	109,664	302,476	136,451	133,209	93,796	36,704	49,079
1996	101,511	277,913	119,859	111,152	82,257	34,854	42,868
1997	104,205	284,746	119,541	112,809	81,415	34,379	42,022
1998	95,830	224,622	116,448	99,771	78,455	32,471	42,064
1999	103,325	237,383	119,389	103,319	88,170	35,189	46,304
2000	108,790	295,724	129,039	109,535	94,536	33,699	51,698
2001	108,685	289,431	127,994	109,002	94,171	34,210	50,034
2002	106,130	267,733	120,784	106,968	90,431	32,237	46,506
2003	108,224	268,989	122,877	109,689	92,943	32,656	47,440
2004	106,968	240,102	120,365	109,689	91,059	34,749	47,328
2005	106,968	243,451	115,969	105,293	90,431	33,493	45,557
2006	116,388	237,380	124,133	115,550	98,385	36,633	49,234
2007	123,923	279,037	132,087	121,412	103,828	39,145	51,284
2008	123,086	259,779	128,529	119,109	100,897	39,563	50,224
Jun/2009	122,667	259,988	126,854	118,900	101,734	39,773	50,929

(1) Does not include pensions corresponding to the first payment.
(2) Does not include temporary disability pensions.
(3) Corresponds to pensions for mothers of children born out of wedlock and parents of members.

NUMBER OF PENSIONS PAID IN LIFE ANNUITIES, BY TYPE OF PENSION (1)
(As of December of each year)

Years	Old Age	Early retirement	Total disability (2)	Partial disability (2)	Widows	Orphans	Others (3)	TOTAL
1982	---	---	---	---	---	---	---	0
1983	1	---	---	---	---	---	---	1
1984	9	---	18	---	---	---	---	27
1985	146	---	90	---	---	---	---	236
1986	814	---	306	---	---	---	---	1,120
1987	2,179	---	578	---	---	---	---	2,757
1988	3,433	766	867	---	233	338	5	5,642
1989	4,705	2,791	1,692	---	765	1,286	28	11,267
1990	6,972	5,717	2,645	---	1,807	3,050	84	20,275
1991	8,428	14,792	2,886	---	2,502	4,183	117	32,908
1992	9,599	23,461	2,953	---	3,037	4,997	144	44,191
1993	11,529	33,127	3,005	---	3,763	6,274	208	57,906
1994	13,261	43,750	2,709	532	4,621	7,583	263	72,719
1995	14,162	53,382	2,774	548	5,275	8,469	288	84,898
1996	16,736	63,831	3,302	608	6,766	10,499	388	102,130
1997	19,723	75,626	3,878	652	8,656	13,180	535	122,250
1998	21,761	90,443	4,640	709	10,531	17,478	748	146,310
1999	27,696	99,127	6,064	816	13,284	19,827	929	167,743
2000	30,726	111,720	7,184	656	15,342	23,060	1,113	189,801
2001	34,090	127,636	8,007	795	16,760	24,915	1,228	213,431
2002	37,169	139,049	9,239	1,004	18,705	27,560	1,391	234,117
2003	40,066	151,494	10,209	1,160	20,234	29,671	1,529	254,363
2004	48,472	196,984	12,249	1,025	39,103	19,139	3,067	320,039
2005	51,989	204,118	13,266	1,209	43,007	19,500	3,467	336,556
2006	56,023	208,206	14,615	1,348	47,283	19,773	3,859	351,107
2007	59,937	212,362	15,766	1,528	51,647	20,172	4,320	365,732
2008	67,482	215,247	17,025	1,779	56,262	20,480	4,742	383,017
Jun/2009	71,728	215,371	17,550	1,901	58,496	20,166	4,951	390,163

AVERAGE AMOUNT OF PENSIONS PAID IN LIFE ANNUITIES, BY TYPE OF PENSION (1)
(As of December of each year in Chilean pesos as of June 2009)

Years	Old Age	Early retirement	Total disability (2)	Partial disability (2)	Widows	Orphans	Others (3)
1982	---	---	---	---	---	---	---
1983	77,034	---	---	---	---	---	---
1984	177,303	---	171,023	---	---	---	---
1985	176,465	---	145,694	---	---	---	---
1986	153,439	---	124,970	---	---	---	---
1987	147,368	---	124,970	---	---	---	---
1988	160,138	197,398	162,440	---	116,806	31,818	34,121
1989	164,743	171,232	204,725	---	120,156	35,795	94,827
1990	171,860	176,465	219,378	---	129,785	41,029	86,872
1991	173,116	180,443	220,215	---	130,203	41,447	81,639
1992	167,673	176,047	219,587	---	131,669	42,075	83,941
1993	160,975	176,465	208,284	---	138,577	44,169	94,827
1994	163,068	173,535	206,818	156,579	134,809	46,262	92,315
1995	165,162	168,720	216,029	194,049	132,506	43,122	86,453
1996	173,116	171,232	213,307	189,653	143,601	43,750	82,267
1997	173,535	171,023	211,842	185,676	141,507	42,913	78,499
1998	178,977	175,628	220,215	156,160	142,554	43,122	83,104
1999	181,280	181,280	221,890	180,861	141,298	43,959	95,873
2000	184,866	185,268	219,797	197,817	145,484	46,681	91,085
2001	190,641	189,908	223,042	203,888	146,950	46,681	92,814
2002	193,630	194,049	227,542	207,237	150,090	47,518	91,782
2003	195,933	195,514	227,751	211,214	137,739	43,959	80,105
2004 (*)	218,641	208,311	241,400	239,098	154,533	50,080	77,685
2005	222,088	210,971	244,936	238,333	154,466	50,239	79,974
2006	227,123	213,820	250,983	239,389	158,173	51,823	82,585
2007	230,588	216,081	253,577	241,927	158,048	51,723	87,511
2008	236,164	218,494	258,118	243,593	158,281	52,217	82,193
Jun/2009	237,994	219,773	260,361	243,982	159,464	53,342	86,942

(1) Does not include pensions corresponding to the first payment.
(2) Does not include temporary disability pensions.
(3) Corresponds to pensions for mothers of children born out of wedlock and parents of members.
(*) Starting in 2004, this includes pensions paid in the life annuity mode, and until 2003 it included the total number of immediate life annuities.

NUMBER OF PENSIONS PAID IN TEMPORARY ANNUITIES,
BY TYPE OF PENSION (1)
(As of December of each year)

Years	Old Age	Early retirement	Total disability (2)	Partial disability (2)	Widows	Orphans	Others (3)	TOTAL
1982	---	---	---	---	---	---	---	0
1983	---	---	---	---	---	---	---	0
1984	---	---	---	---	---	---	---	0
1985	---	---	---	---	---	---	---	0
1986	---	---	---	---	---	---	---	0
1987	---	---	---	---	---	---	---	0
1988	1	1	1	---	2	3	---	8
1989	1	---	2	---	3	3	---	9
1990	52	32	45	---	6	13	---	148
1991	244	651	86	---	18	19	1	1,019
1992	574	1,659	49	1	9	10	1	2,303
1993	692	2,106	34	6	8	5	1	2,852
1994	714	4,032	103	28	11	10	---	4,898
1995	652	5,879	208	45	12	7	---	6,803
1996	985	5,927	355	73	21	14	2	7,377
1997	1,200	6,313	338	70	34	18	1	7,974
1998	910	3,770	294	49	29	11	---	5,063
1999	697	4,286	292	63	18	8	---	5,364
2000	748	5,469	325	70	14	5	---	6,631
2001	979	5,355	390	77	18	8	2	6,829
2002	778	3,782	564	101	21	10	1	5,257
2003	942	4,337	553	125	16	7	1	5,981
2004	1,207	4,115	619	157	15	17	2	6,132
2005	2,247	3,539	916	174	28	12	1	6,917
2006	2,815	2,818	988	151	23	21	2	6,818
2007	3,240	4,049	1,073	169	27	17	3	8,578
2008	4,810	2,144	899	148	31	16	5	8,053
Jun/2009	3,713	1,417	843	121	32	11	4	6,141

AVERAGE AMOUNT OF PENSIONS PAID IN TEMPORARY ANNUITIES,
BY TYPE OF PENSION (1)
(As of December of each year in Chilean pesos as of June 2009)

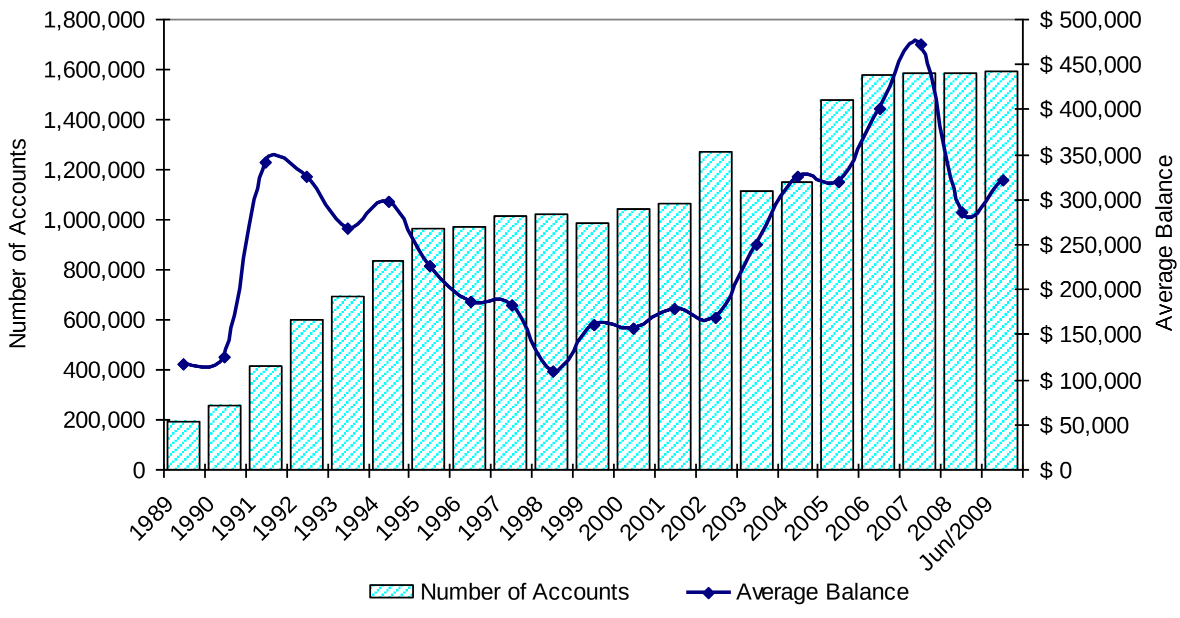
Years	Old Age	Early retirement	Total disability (2)	Partial disability (2)	Widows	Orphans	Others (3)
1982	---	---	---	---	---	---	---
1983	---	---	---	---	---	---	---
1984	---	---	---	---	---	---	---
1985	---	---	---	---	---	---	---
1986	---	---	---	---	---	---	---
1987	---	---	---	---	---	---	---
1988	194,886	549,282	1,046,651	---	353,349	122,667	---
1989	194,886	---	913,517	---	301,854	119,318	---
1990	672,997	623,176	631,131	---	196,561	105,921	---
1991	449,641	513,696	696,860	---	414,892	105,502	134,181
1992	479,994	517,464	936,543	125,598	324,462	67,195	134,181
1993	462,829	525,837	571,471	521,651	776,615	106,968	216,238
1994	464,085	521,023	479,575	718,212	493,391	157,626	---
1995	416,148	435,407	461,154	1,053,768	507,416	561,424	---
1996	426,196	501,555	474,552	467,644	424,103	283,433	311,065
1997	451,944	513,487	466,597	506,370	538,397	102,990	143,601
1998	423,056	516,208	455,084	445,455	415,939	128,319	---
1999	560,168	573,146	558,493	504,695	559,121	106,340	---
2000	521,914	570,770	516,680	481,041	550,120	206,609	---
2001	544,993	599,825	545,154	494,647	558,702	166,627	218,855
2002	540,909	592,823	551,794	570,843	545,724	217,703	520,395
2003	511,394	552,841	517,255	544,468	529,396	273,385	134,181
2004	531,908	592,195	566,029	540,281	573,146	128,529	146,322
2005	495,485	564,773	529,815	542,793	518,092	156,370	205,981
2006	513,278	588,009	568,122	476,854	431,011	107,805	69,079
2007	536,932	622,967	618,152	591,358	581,519	181,071	253,499
2008	473,924	554,097	543,840	517,883	427,662	105,084	210,796
Jun/2009	444,617	543,212	546,561	442,315	454,247	199,701	262,919

(1) Does not include pensions corresponding to the first payment.
(2) Does not include temporary disability pensions.
(3) Corresponds to pensions for mothers of children born out of wedlock and parents of members.

VOLUNTARY SAVINGS ACCOUNTS
(As of December of each year)

Year	Accumulated Number	Average Balance (1)
1989	189,948	116,232
1990	256,226	124,815
1991	411,111	340,844
1992	601,960	326,187
1993	692,332	268,695
1994	834,074	298,370
1995	961,608	226,108
1996	973,406	187,310
1997	1,016,704	182,415
1998	1,019,765	109,769
1999	987,959	160,552
2000	1,044,309	157,636
2001	1,061,185	178,656
2002	1,272,294	168,341
2003	1,113,556	250,165
2004	1,151,782	325,645
2005	1,478,896	318,675
2006	1,578,207	401,186
2007	1,584,454	471,844
2008	1,584,218	286,223
Jun/2009	1,595,718	322,194

(1) In Chilean pesos as of June 2009



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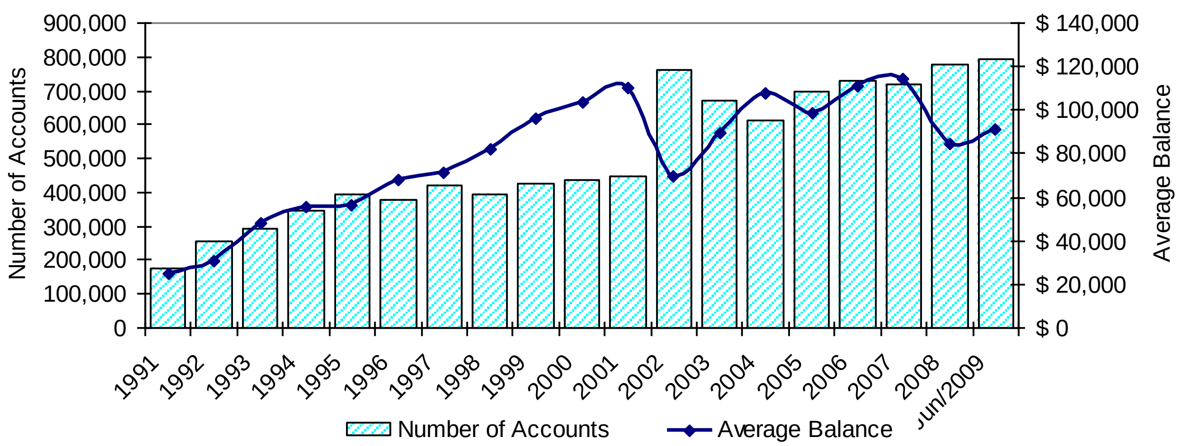
SEVERANCE PAYMENT SAVINGS ACCOUNTS
(As of December of each year)

Year	Accumulated Number	Average Balance (1)
1991	176,484	24,440
1992	255,850	30,339
1993	290,821	47,656
1994	343,558	55,278
1995	392,523	56,366
1996	380,203	67,877
1997	418,938	71,035
1998	394,709	82,253
1999	426,901	96,376
2000	434,190	103,813
2001	449,535	110,120
2002	762,610	69,446
2003	672,454	89,300
2004	611,393	107,831
2005	699,899	98,584
2006	726,946	111,248
2007	719,088	114,704
2008	780,063	84,240
Jun/2009	793,031	91,303

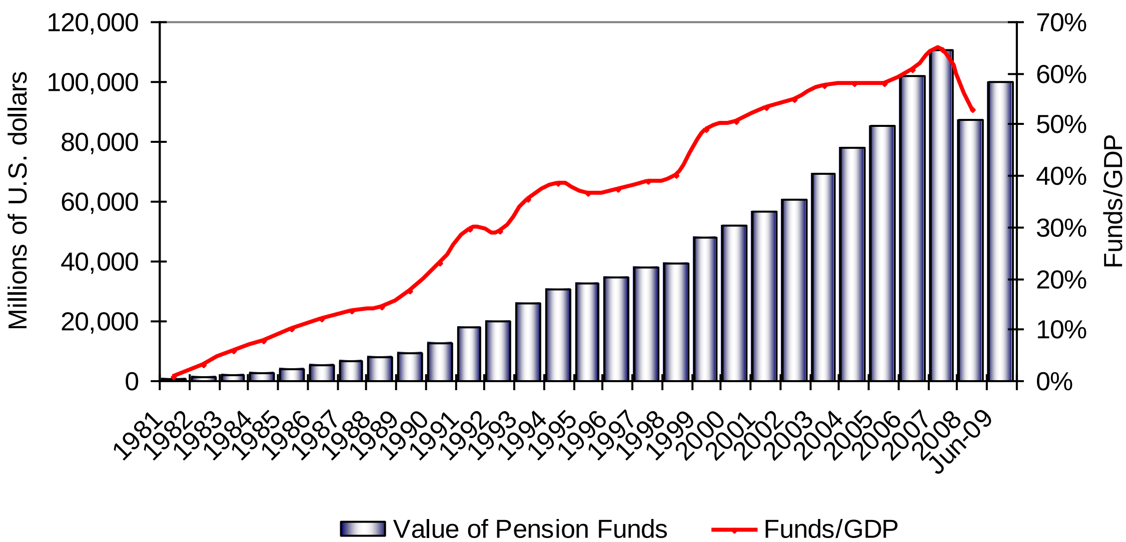
(1) In Chilean pesos as of June 2009.



VALUE OF PENSIONS FUNDS
(As of June 2009)

Years	Value of Pension Funds Millions of USD (1)	Funds/GDP
1981	378.01	0.84%
1982	1,200.05	3.29%
1983	2,172.30	5.86%
1984	2,873.31	7.73%
1985	3,957.08	10.03%
1986	5,175.45	12.19%
1987	6,341.93	13.59%
1988	7,763.42	14.27%
1989	9,572.70	17.37%
1990	12,678.50	23.09%
1991	17,931.20	29.38%
1992	19,980.21	29.16%
1993	25,679.61	35.24%
1994	30,991.17	38.61%
1995	32,943.88	36.49%
1996	34,909.61	37.42%
1997	38,157.29	39.00%
1998	39,574.24	40.21%
1999	48,077.77	49.12%
2000	51,776.49	50.61%
2001	56,899.43	53.19%
2002	60,823.31	54.90%
2003	69,572.44	57.68%
2004	78,013.06	58.13%
2005	85,079.25	57.88%
2006	102,162.14	60.6%
2007	110,786.39	64.4%
2008	87,657.36	52.8%
Jun-09	100,244.10	

(1) Amount in millions of dollars as of June 2009.



INDUSTRY CONCENTRATION INDEX

Years	Herfindahl Index (As % of Fund)	Dominance Index (As % of Fund)
1981	21.7	40.7
1982	19.4	38.8
1983	18.0	36.5
1984	17.4	34.3
1985	17.9	31.4
1986	18.2	31.4
1987	17.8	30.1
1988	17.2	29.8
1989	16.8	29.5
1990	15.8	28.1
1991	14.7	24.4
1992	13.6	22.6
1993	13.0	22.5
1994	12.5	21.2
1995	13.1	20.2
1996	13.4	20.0
1997	13.9	20.5
1998	16.9	23.5
1999	20.8	32.5
2000	20.7	32.3
2001	20.9	32.2
2002	20.9	31.8
2003	21.4	31.8
2004	21.4	31.1
2005	21.4	30.5
2006	21.5	30.1
2007	21.6	30.1
2008	24.3	27.9
Jun-09	24.3	27.9

EVOLUTION OF PENSION FUND INVESTMENT BY INSTITUTIONAL SECTOR AND FINANCIAL INSTRUMENT

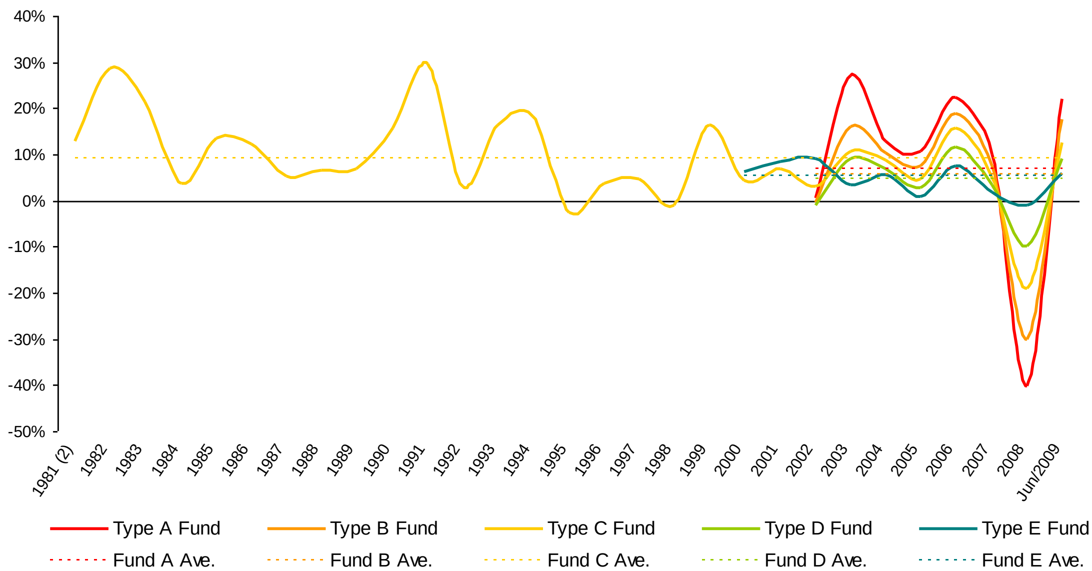
(As of December of each year, percentage)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Jun-09
Public Sector	**28.07**	**26.00**	**44.46**	**42.06**	**42.44**	**46.64**	**41.36**	**35.41**	**41.58**	**44.07**	**38.30**	**40.89**	**39.30**	**39.69**	**39.41**	**42.10**	**39.59**	**40.96**	**34.59**	**35.73**	**35.02**	**29.99**	**24.70**	**18.67**	**16.45**	**13.09**	**7.84**	**14.30**	**12.30**
Central Bank of Chile	---	---	---	16.50	20.29	25.98	29.71	29.99	38.10	42.48	37.38	40.14	38.82	38.49	37.52	38.81	36.43	37.53	31.01	31.90	29.97	24.39	19.14	12.55	10.63	7.78	3.72	7.49	6.29
General Treasury of the Republic	---	---	---	25.56	22.14	20.49	11.60	5.40	3.37	1.53	0.89	0.73	0.47	0.25	0.11	0.02	0.01	0.01	0.00	0.00	0.00	0.00	0.30	1.19	1.91	1.91	1.49	3.51	3.15
Recognition Bonds	---	---	---	---	---	---	---	---	---	---	---	---	---	0.96	1.78	3.27	3.15	3.43	3.58	3.84	5.05	5.60	5.26	4.93	3.91	3.40	2.64	3.31	2.86
Ministry of Housing	---	---	---	---	0.00	0.16	0.05	0.03	0.11	0.06	0.03	0.02	0.00	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Financial Sector	**71.34**	**73.38**	**53.36**	**55.65**	**55.97**	**48.66**	**49.44**	**50.06**	**39.21**	**33.38**	**26.65**	**25.21**	**20.68**	**20.08**	**23.11**	**24.56**	**30.13**	**32.05**	**33.70**	**35.62**	**33.08**	**35.04**	**27.29**	**29.53**	**29.74**	**27.13**	**30.34**	**30.12**	**27.40**
Mortgage Payments	9.43	46.77	50.65	42.89	35.20	25.50	21.35	20.61	17.70	16.08	13.37	14.23	13.11	13.66	15.79	17.87	16.96	16.60	15.10	14.36	12.91	11.14	8.85	6.76	4.96	4.49	3.63	3.61	2.96
Fixed-Term Deposits	61.91	26.61	2.71	12.16	20.36	22.88	27.41	28.49	20.81	16.26	11.75	9.39	6.14	4.79	5.32	4.20	10.67	13.64	16.11	18.72	17.54	21.25	14.98	19.36	20.83	17.49	18.38	20.04	14.01
Financial Institution Bonds	---	---	---	0.60	0.41	0.27	0.68	0.96	0.70	1.05	1.54	1.59	1.34	1.54	1.31	1.58	1.73	1.45	2.02	2.02	2.05	1.84	1.34	0.99	2.12	4.30	7.23	9.37	8.81
Financial Institution Shares	---	---	---	---	---	---	---	---	---	---	---	---	0.10	0.10	0.69	0.92	0.78	0.38	0.52	0.51	0.65	0.85	0.99	1.04	0.83	0.83	0.68	0.43	0.42
Forwards	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	0.00	-0.02	-0.02	-0.04	0.01	-0.07	-0.03	1.13	1.39	1.01	0.01	0.42	-3.34	1.20
Business Sector	**0.59**	**0.61**	**2.17**	**1.81**	**1.11**	**4.59**	**8.82**	**14.49**	**19.19**	**22.43**	**34.94**	**33.76**	**39.36**	**39.31**	**37.18**	**32.77**	**28.96**	**21.17**	**18.26**	**17.57**	**18.49**	**18.44**	**24.01**	**24.41**	**23.25**	**27.37**	**26.18**	**26.89**	**28.41**
Stocks	---	---	---	---	0.01	3.75	6.22	8.08	10.10	11.29	23.81	24.01	31.77	32.07	29.37	25.08	22.62	14.53	11.89	11.10	9.95	9.04	13.55	14.70	13.91	16.14	14.51	13.52	14.30
Bonds	0.59	0.61	2.17	1.81	1.10	0.84	2.60	6.41	9.09	11.14	11.09	9.58	7.26	6.30	5.25	4.67	3.28	3.77	3.79	4.04	6.16	7.14	7.66	6.84	6.62	7.84	7.95	10.75	11.40
Investment Fund Shares	---	---	---	---	---	---	---	---	---	---	0.04	0.17	0.34	0.94	2.56	3.03	3.05	2.88	2.58	2.43	2.38	2.24	2.73	2.66	2.57	3.33	3.70	2.57	2.69
Negotiable Instruments	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	0.03	0.07	0.21	0.14	0.06	0.03	0.05	0.02
Foreign Sector	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**0.57**	**0.90**	**0.20**	**0.54**	**1.25**	**5.73**	**13.42**	**10.88**	**13.35**	**16.41**	**23.87**	**27.23**	**30.41**	**32.30**	**35.57**	**28.50**	**31.76**
Mutual Fund Shares and Stocks	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	0.28	0.85	3.93	8.91	8.86	8.65	11.89	20.62	24.43	29.30	31.63	34.68	27.29	30.88
Indirect foreign investment (*)	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	0.14	0.19	0.19	0.24	0.22	0.23	0.17	0.39	0.25	0.28	0.58	0.63	0.79
Debt instruments	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	0.26	0.15	1.50	4.15	1.67	4.37	4.02	2.98	2.38	0.84	0.38	0.27	0.04	0.11
Forwards	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	0.00	---	0.00	---	---	0.00	0.00	-0.01	0.00	-0.03	-0.04
Others	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	0.00	0.11	0.10	0.16	0.11	0.11	0.27	0.10	0.03	0.02	0.02	0.05	0.56	0.01
Available Assets	**0.00**	**0.01**	**0.02**	**0.48**	**0.48**	**0.12**	**0.38**	**0.04**	**0.03**	**0.12**	**0.10**	**0.14**	**0.09**	**0.02**	**0.09**	**0.02**	**0.08**	**0.09**	**0.03**	**0.19**	**0.06**	**0.12**	**0.13**	**0.16**	**0.16**	**0.11**	**0.08**	**0.19**	**0.13**
TOTAL ASSETS	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

(*) Corresponds to indirect investment abroad made by Pension Funds through national investments funds.

ANNUAL REAL YIELD OF SHARES, DEFLATED BY U.F.
(Percentage)

Years	Type A Fund	Type B Fund	Type C Fund	Type D Fund	Type E Fund
1981 (2)			12.8		
1982			28.51		
1983			21.25		
1984			3.56		
1985			13.42		
1986			12.29		
1987			5.41		
1988			6.49		
1989			6.92		
1990			15.62		
1991			29.68		
1992			3.04		
1993			16.21		
1994			18.18		
1995			-2.52		
1996			3.54		
1997			4.72		
1998			-1.14		
1999			16.26		
2000			4.44		6.32
2001			6.74		8.41
2002	0.68	-0.52	2.98	-1.03	8.9
2003	26.94	16.02	10.55	8.94	3.34
2004	12.86	10.26	8.86	6.8	5.44
2005	10.71	7.32	4.58	2.84	0.94
2006	22.25	18.83	15.77	11.46	7.44
2007	10.06	7.46	4.99	3.29	1.89
2008	-40.26	-30.08	-18.94	-9.86	-0.93
Jun/2009	21.93	17.62	12.57	9.1	5.93
Annual average	**6.99**	**5.59**	**9.08**	**4.51**	**5.16**



(1) Average weighted by the value of the Pension Funds of each AFP during the corresponding period.
(2) July 1981 – December 1981 period.
(3) Corresponds to the average annual yield in real terms obtained by a contribution entering the System in July 1981 and which is kept there until June 2009 in a Type C Fund.
(4) May 2000 – March 2002 period.

FEES CHARGED BY ADMINISTRATORS
(As of December of each year)

Monthly Fixed Fees per Contribution
(In Chilean pesos as of June 2009)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Jun-09
Weighted Average	34	214	171	163	153	158	1,039	717	541	449	382	258	211	197	240	217	477	560	701	694	676	669	644	482	267	169	108	108
Maximum	1,983	2,704	2,011	1,517	1,734	1,427	2,289	1,886	1,481	1,248	1,107	576	488	488	2361	2,227	1,423	1,391	1,331	1,296	1,261	1,247	962	817	790	733	684	690
Minimum	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Additional Contribution
(As percentage of Covered Earnings)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Jun-09
Weighted Average	2.66	3.62	3.58	3.57	3.40	3.38	3.54	3.24	2.93	2.93	2.93	2.98	2.99	3.00	2.91	2.90	2.61	2.40	2.31	2.26	2.26	2.26	2.26	2.30	2.37	2.40	2.68	2.67
Maximum	2.85	3.80	3.60	3.60	3.60	3.60	3.97	3.74	3.74	3.74	3.74	3.70	3.70	3.70	3.40	3.40	2.95	2.95	2.95	2.55	2.55	2.55	2.55	2.55	2.55	2.89	3.61	3.61
Minimum	2.50	3.40	3.50	3.50	3.25	3.25	3.25	2.80	2.50	2.50	2.50	2.80	2.80	2.84	2.55	2.55	2.49	2.25	2.16	2.09	2.09	2.09	2.09	2.23	2.23	2.23	2.64	2.59

Monthly Fixed Fees for Contribution
(In Chilean pesos as of June 2009)

	1982	1983	1984	1985	1986	1987
Weighted Average	2085	2097	1825	1263	978	786
Maximum	2549	2647	2132	1687	1305	1038
Minimum	0	0	0	0	0	0

Annual Percentage Fees over Balance

	1982	1983	1984	1985	1986	1987
Weighted Average	0.72	0.88	0.86	0.63	0.51	0.33
Maximum	0.96	1.10	1.00	0.95	0.95	0.95
Minimum	0.50	0.60	0.60	0.45	0.00	0.00

Monthly Fixed Fees per Programmed Withdrawal
(In Chilean pesos as of June 2009)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Jun-09
Weighted Average	34	33	214	193	236	224	155	148	145	143	0	0	0	0	0	0
Maximum	510	472	2,361	2,227	2,127	2,079	1,989	1,938	1,885	1,865	0	0	0	0	0	0
Minimum	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Percentage Fees per Programmed Withdrawal
(As Percentage of Pension)

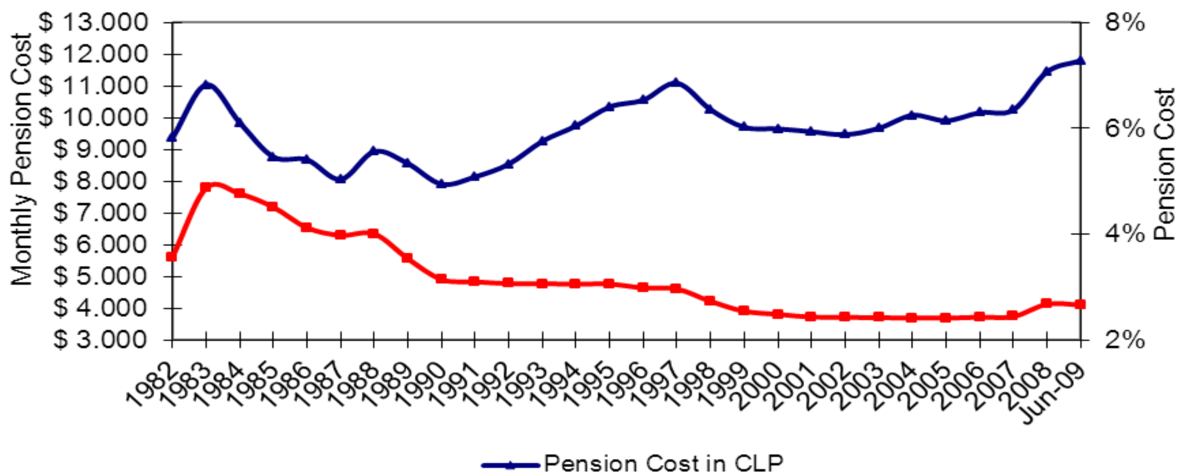
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Jun-09
Weighted Average	-	-	-	-	-	0.25	1.03	1.03	1.03	1.04	1.14	1.14	1.14	1.25	1.25	1.25

Maximum	-	-	-	-	-	1.25	2.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Minimum	-	-	-	-	-	0.00	0.00	0.00	0.00	0.00	1.00	1.00	1.00	1.25	1.25	1.25

MONTHLY ADMINISTRATIVE PENSION COST FOR THE AVERAGE MEMBER

Years	Administrative Pension Cost (CLP as of June 2009)	Average Covered Income in Real Terms (1) (CLP as of June 2009)	Administrative Pension Cost (% of Average Income)
1982	$ 9,363	$ 262,380	3.57
1983	$ 11,034	$ 226,605	4.87
1984	$ 9,843	$ 206,612	4.76
1985	$ 8,767	$ 194,350	4.51
1986	$ 8,678	$ 210,561	4.12
1987	$ 8,059	$ 202,513	3.98
1988	$ 8,936	$ 223,051	4.01
1989	$ 8,555	$ 241,911	3.54
1990	$ 7,909	$ 251,483	3.15
1991	$ 8,140	$ 262,489	3.10
1992	$ 8,541	$ 278,485	3.07
1993	$ 9,261	$ 302,115	3.07
1994	$ 9,742	$ 318,747	3.06
1995	$ 10,341	$ 338,132	3.06
1996	$ 10,557	$ 353,545	2.99
1997	$ 11,087	$ 373,954	2.96
1998	$ 10,251	$ 375,369	2.73
1999	$ 9,700	$ 380,948	2.55
2000	$ 9,650	$ 387,946	2.49
2001	$ 9,561	$ 392,501	2.44
2002	$ 9,468	$ 389,452	2.43
2003	$ 9,668	$ 398,943	2.42
2004	$ 10,076	$ 416,521	2.42
2005	$ 9,906	$ 410,055	2.42
2006	$ 10,160	$ 417,651	2.43
2007	$ 10,247	$ 419,150	2.44
2008	$ 11,443	$ 427,264	2.68
Jun-09	$ 11,795	$ 442,475	2.67

(1) Covered Income in December of each year.

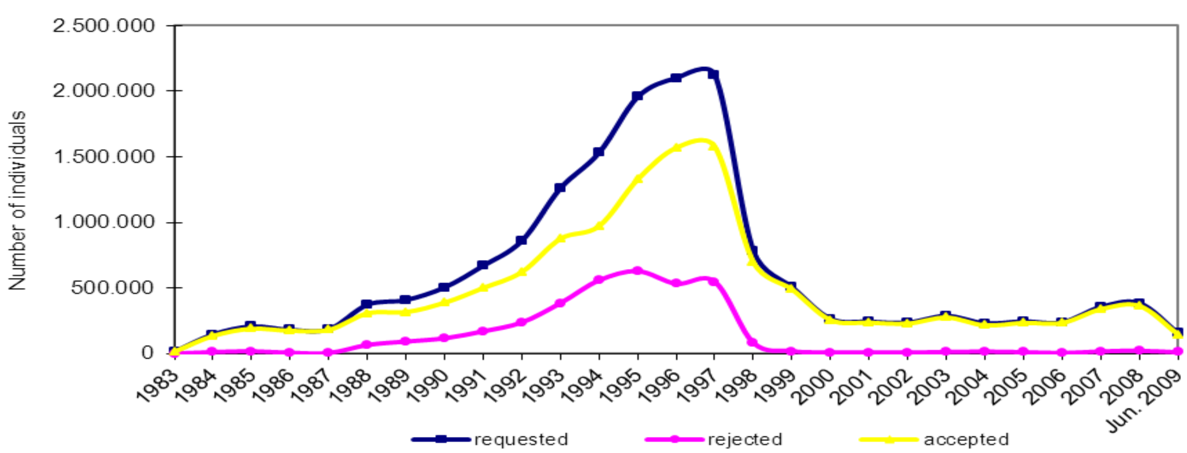


ADMINISTRATIVE COST FOR PENSIONERS PER PROGRAMMED WITHDRAWAL

Years	Administrative Cost per Programmed Withdrawal (CLP as of June 2009)	Average Programmed Withdrawal Pension in Real Terms (CLP as of June 2009)	Administrative Pension Cost (% of the Pension)
1994	$ 34	$ 100,346	0.03
1995	$ 33	$ 112,744	0.03
1996	$ 214	$ 102,511	0.21
1997	$ 193	$ 105,630	0.18
1998	$ 236	$ 94,039	0.25
1999	$ 484	$ 103,027	0.47
2000	$ 1,304	$ 111,716	1.17
2001	$ 1,301	$ 112,000	1.16
2002	$ 1,246	$ 106,928	1.16
2003	$ 1,290	$ 110,182	1.17
2004	$ 1,214	$ 106,764	1.14
2005	$ 1,219	$ 107,070	1.14
2006	$ 1,289	$ 113,210	1.14
2007	$ 1,524	$ 121,951	1.25
2008	$ 1,514	$ 121,089	1.25
Jun-09	$ 1,505	$ 120,365	1.25

TRANSFERS OF MEMBERS BETWEEN ADMINISTRATORS

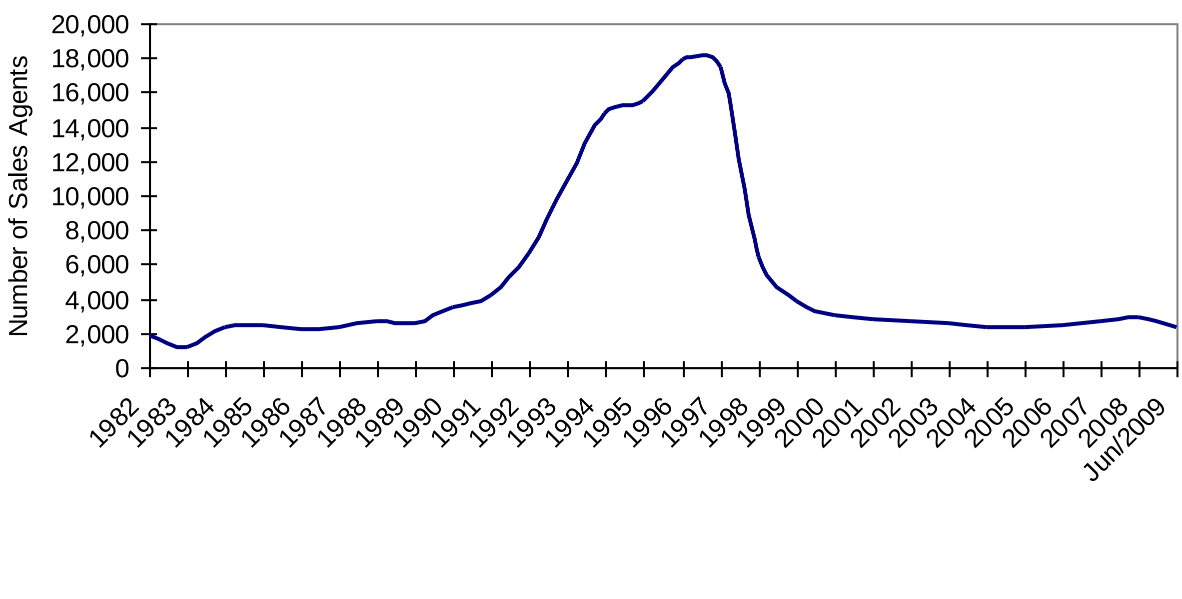
Years	Total Requested	Total Rejected	Total Accepted
1983	15,129	749	14,380
1984	145,998	11,278	134,720
1985	206,920	17,757	189,163
1986	180,760	6,523	174,237
1987	185,813	4,765	181,048
1988	372,601	65,782	306,819
1989	408,754	91,991	316,763
1990	504,640	116,685	387,955
1991	670,193	170,017	500,176
1992	859,791	237,872	621,919
1993	1,260,945	385,071	875,874
1994	1,531,526	559,044	972,482
1995	1,956,980	628,570	1,328,410
1996	2,101,561	532,376	1,569,185
1997	2,125,158	547,449	1,577,709
1998	779,363	82,081	697,282
1999	507,850	18,093	489,757
2000	265,099	9,301	255,798
2001	243,913	8,306	236,096
2002	236,628	7,511	229,117
2003	287,729	12,681	275,048
2004	231,055	15,425	215,630
2005	245,787	10,980	234,807
2006	238,901	4,253	234,646
2007	355,514	17,052	338,462
2008	384,351	21,275	363,076
Jun/2009	155,791	9,683	146,108



NUMBER OF SALES AGENTS
(As of December of each year)

Year	System Total
1982	1,880
1983	1,202
1984	2,334
1985	2,415
1986	2,249
1987	2,312
1988	2,727
1989	2,615
1990	3,446
1991	4,134
1992	6,658
1993	10,771
1994	14,800
1995	15,485
1996	17,931
1997	17,448
1998	6,343
1999	3,844
2000	2,993
2001	2,742
2002	2,677
2003	2,540
2004	2,281
2005	2,348
2006	2,493
2007	2,625
2008	2,890
Jun/2009	2,341

Source: F.E.C.U. AFP



ANNUAL OPERATING INCOME AND EXPENDITURES OF PENSION FUNDS ADMINISTRATORS

(In thousands of U.S. dollars as of December 2005)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Jun/2009
OPERATING REVENUE	130,640	142,328	152,031	160.163	167,304	182,874	396,925	463,760	499,321	487,434	549,507	630,031	683,004	711,990	719,343	796,132	744,034	819,340	899,344	801,929	760,213	820,550	869,274	934,878	1,094,452	1,141,325	967,679	715,901
Income from fees	112,719	122,400	140,356	139,362	151,609	164,348	382,469	425,675	422,653	411,296	495,878	547,919	596,902	643,659	670,334	743,021	701,846	691,539	682,320	693,807	706,373	737,546	770,713	848,314	918,116	992,978	1,125,677	602,762
Cash Flow Revenue	17,920	19,928	8,615	15,506	11,838	14,348	10,969	21,023	38,857	47,245	30,017	55,337	54,149	26,675	23,787	35,590	14,445	76,300	41,776	49,058	36,603	73,399	78,606	72,100	159,672	130,588	-179,151	98,240
Premium Fund Revenue	0	0	3,060	5,024	3,856	4,178	2,499	4,060	6,822	4,305	2,635	2,656	2,010	1,969	1,397	-	-	-	-	-	-	-	-	-	-	-	-	-
Gain (loss) from Company with Complementary Field of Business	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-2,998	10,743	31,979	158,324	43,836	-	-	-	-	-	-	-	-
Gain (loss) from Investment in a Security Deposit Company	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-222	-16	38	375	542	-	-	-	-	-	-	-	-
Other Operating Revenue	-	-	-	-	-	-	988	13,002	30,989	24,587	20,977	24,119	29,943	39,688	23,824	20,741	17,016	19,484	16,548	14,686	17,237	9,605	19,955	14,464	16,665	17,759	21,153	14,899
OPERATING Expenditures	-143,996	-125,651	-134,700	-134,196	-132,556	-140,599	-354,880	-376,909	-394,577	-366,918	-434,526	-498,138	-560,312	-583,161	-604,180	-674,233	-613,635	-581,959	-533,036	-520,651	-520,908	-603,783	-614,115	-667,632	-729,447	-755,755	-920,431	-436,308
Personnel Wages	-36,205	-36,708	-41,863	-43,408	-47,806	-52,715	-63,099	-72,509	-85,489	-90,791	-101,606	-114,087	-126,751	-123,778	-117,992	-126,237	-126,239	-129,026	-124,754	-118,222	-100,953	-101,217	-100,755	-105,539	-109,102	-119,913	-113,628	-51,336
Sales Personnel Wages	-22.233	-19.931	-19,159	-21,520	-22,823	-23,692	-32,238	-32,761	-43,421	-51,896	-75,915	-107,070	-136,535	-166,843	-201,583	-239,330	-192,276	-140,342	-79,499	-68,222	-67,061	-74,953	-69,739	-73,100	-77,570	-89,114	-99,687	-46,477
Board Wages	-434	-570	-893	-889	-828	-859	-913	-1,071	-1,140	-1,338	-1,569	-2,081	-2,060	-1,993	-2,196	-2,342	-1,792	-2,283	-2,159	-2,317	-2,049	-1,961	-1,968	-1,963	-2,683	-2,513	-974	-1,945
Marketing Expenses	-25,598	-10,783	-12,239	6,664	-5,057	-5,165	-8,291	-8,824	-9,380	-8,317	-11,800	-14,662	-17,634	-19,911	-25,833	-28,359	-13,738	-11,638	-7,553	-10,247	-12,375	-8,538	-8,235	-10,961	-11,918	-12,345	-14,903	-2,848
Computer Expenses	-10,609	-10,459	-9292	-10,575	-8,561	-8,516	-9,140	-10,511	-13,658	-12,568	-12,316	-13,550	-15,166	-14,399	-13,953	-15,865	-12,330	-11,840	-9,712	-9,770	-10,139	-11,022	-10,291	-12,933	-16,215	-16,678	-15,716	-6,992
Administrative Expenses	-23,909	-26,536	-31,623	-36,038	-38,567	-42,265	-51,811	-55,516	-61,606	-66,481	-79,129	-88,573	-100,353	-107,953	-91,533	-94,917	-84,769	-71,089	-70,615	-71,094	-78,422	-89,120	-89,678	-97,080	-100,163	-105,939	-106,737	-45,313
Depreciation	-2,059	-2,255	-2,879	-3,586	-4,503	-6,710	-6,425	-6,988	-7,984	-8,370	-11,150	-12,064	-13,729	-14,391	-14,298	-14,506	-12,676	-12,922	-11,337	-12,755	-10,143	-11,061	-10,048	-10,212	-9,688	-10,681	-11,003	-4,795
Amortization	-18,622	-17,962	-17,690	-11,512	-4,208	-161	-261	-259	-432	-608	-1,287	-2,766	-4,090	-3,164	-3,391	-3,263	-1,823	-1,777	-1,875	-2,353	-2,269	-1,674	-1,521	-3,994	-5,030	-6,339	-32,483	-17,253
Disability Insurance Premiums	-	-	-	-	-	-	-6,753	-187,869	-169,757	-122,779	-137,421	-139,887	-141,469	-127,886	-129,982	-146,358	-164,786	-196,541	-220,298	-220,129	-228,959	-292,576	-310,638	-342,940	-389,449	-384,344	-515,163	-254,575
Other Operating Expenses	-4,326	-448	939	-4	-205	-515	-175,949	-601	-1,710	-3,771	-2,333	-3,399	-2,525	-2,842	-3,420	-3,055	-3,205	-4,501	-5,233	-5,542	-8,539	-11,661	-11,240	-8,910	-7,628	-7,889	-10,137	-4,775
OPERATING INCOME	-13,356	16,677	17,332	25,967	34,748	42,275	42,045	86,851	104,744	120,516	114,981	131,894	122,692	128,829	115,163	121,898	130,399	237,381	366,307	281,278	239,305	216,767	255,160	267,247	365,005	385,570	47,249	279,593

(1) The disability and survivor insurance premium has been counted as a separate item since 1988, when the accounting system for these expenses was modified.

ANNUAL OPERATING INCOME AND EXPENDITURES OF PENSION FUNDS ADMINISTRATORS

(Percentage)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	June 2009
OPERATING REVENUE	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Income from fees	86.28	86.00	92.32	97.18	90.62	89.87	96.36	91.79	84.65	84.38	90.24	86.97	87.39	90.40	93.19	93.33	94.33	84.40	75.87	86.52	92.92	89.88	88.66	90.74	83.89	87.00	116.33	84.20
Cash Flow Revenue	13.72	14.00	5.67	9.68	7.08	7.85	2.76	4.53	7.78	9.69	5.46	8.78	7.93	3.75	3.31	4.47	1.94	9.31	4.65	6.12	4.81	8.95	9.04	7.71	14.59	11.44	-18.51	13.72
Premium Fund Revenue	0.00	0.00	2.01	3.14	2.30	2.28	0.63	0.88	1.37	0.88	0.48	0.42	0.29	0.28	0.19	-	-	-	-	-	-	-	-	-	-	-	-	-
Gain (loss) from Company with Complementary Field of Business	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.38	1.44	3.90	17.60	5.47	-	-	-	-	-	-	-	-
Gain (loss) from Investment in a Security Deposit Company	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.03	0.00	0.00	0.04	0.07	-	-	-	-	-	-	-	-
Other Operating Revenue	-	-	-	-	-	-	0.25	2.80	6.21	5.04	3.82	3.83	4.38	5.57	3.31	2.61	2.29	2.38	1.84	1.83	2.27	1.17	2.30	1.55	1.52	1.56	2.19	2.08
OPERATING EXPENSES	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Personnel Wages	25.14	29.21	31.08	32.35	36.06	37.49	17.78	19.24	21.67	24.74	23.38	22.90	22.62	21.23	19.53	18.72	20.57	22.17	23.40	22.71	19.38	16.76	16.41	15.81	14.96	15.87	12.35	11.77
Sales Personnel Wages	15.44	15.86	14.22	16.04	17.22	16.85	9.08	8.69	11.00	14.14	17.47	21.49	24.37	28.61	33.36	35.50	31.33	24.12	14.91	13.10	12.87	12.41	11.36	10.95	10.63	11.79	10.83	10.65
Board Wages	0.30	0.45	0.66	0.66	0.62	0.61	0.26	0.28	0.29	0.36	0.36	0.42	0.37	0.34	0.36	0.35	0.29	0.39	0.41	0.44	0.39	0.32	0.32	0.29	0.37	0.33	0.11	0.45
Marketing Expenses	17.78	8.58	9.09	4.97	3.81	3.67	2.34	2.34	2.38	2.27	2.72	2.94	3.15	3.41	4.28	4.21	2.24	2.00	1.42	1.97	2.38	1.41	1.34	1.64	1.63	1.63	1.62	0.65
Computer Expenses	7.37	8.32	6.90	7.88	6.46	6.06	2.58	2.79	3.46	3.43	2.83	2.72	2.71	2.47	2.31	2.35	2.01	2.03	1.82	1.88	1.95	1.83	1.68	1.94	2.22	2.21	1.71	1.60
Administrative Expenses	16.60	21.12	23.48	26.85	29.09	30.06	14.60	14.73	15.61	18.12	18.21	17.78	17.91	18.51	15.15	14.08	13.81	12.22	13.25	13.65	15.05	14.76	14.60	14.54	13.73	14.02	11.60	10.39
Depreciation	1.43	1.79	2.14	2.67	3.40	4.77	1.81	1.85	2.02	2.28	2.57	2.42	2.45	2.47	2.37	2.15	2.07	2.22	2.13	2.45	1.95	1.83	1.64	1.53	1.33	1.41	1.20	1.10
Amortization	12.93	14.30	13.13	8.58	3.17	0.11	0.07	0.07	0.11	0.17	0.30	0.56	0.73	0.54	0.56	0.48	0.30	0.31	0.35	0.45	0.44	0.28	0.25	0.60	0.69	0.84	3.53	3.95
Disability Insurance Premiums	-	-	-	-	-	-	1.90	49.84	43.02	33.46	31.63	28.08	25.25	21.93	21.51	21.71	26.85	33.77	41.33	42.28	43.95	48.46	50.58	51.37	53.39	50.86	55.97	58.35
Other Operating Expenses	3.00	0.36	-0.70	0.00	0.15	0.37	49.58	0.16	0.43	1.03	0.54	0.68	0.45	0.49	0.57	0.45	0.52	0.77	0.98	1.06	1.64	1.93	1.83	1.33	1.05	1.04	1.10	1.09

(1) The disability and survivor insurance premium has been counted as a separate item since 1988, when the accounting system for these expenses was modified.

GLOSSARY

AFC	:	Unemployment Fund Administrator
AFP	:	Pension Fund Administrator
AIOS	:	International Association of Latin American Pension Fund Supervisors
APS	:	Solidarity Pension Payment
APSV	:	Old-Age Solidarity Pension Payment
APSI	:	Disability Solidarity Pension Payment
APV	:	Voluntary Pension Savings
APVC	:	Collective Voluntary Pension Savings
BR	:	Recognition Bond
CAI	:	Compensation Savings Account
CAV	:	Voluntary Savings Account
CCI	:	Individual Capitalization Account
CCR	:	Risk Rating Council
CSV	:	Life Insurance Company
DFL	:	Decree with Force of Law
DL	:	Decree-Law
FONASA	:	National Health Fund
INE	:	National Statistics Institute
INP	:	Pension Normalization Institute
CPI	:	Consumer Price Index
IPS	:	Social Security Institute
ISAPRE	:	Health Insurance Institution
PBS	:	Basic Solidarity Pension
PBSV	:	Old-Age Basic Solidarity Pension
PBSI	:	Disability Basic Solidarity Pension
PIB	:	Gross Domestic Product
RP	:	Programmed Withdrawal
RV	:	Life Annuity
SAFP	:	Superintendence of Pension Fund Administrators
SBIF	:	Superintendence of Banks and Financial Institutions
SIS	:	Disability and Survivor Insurance
SVS	:	Superintendence of Securities and Insurance
IRR	:	Internal Rate of Return
UF	:	Price Indexed Unit of Account (*Unidad de Fomento*)
UTM	:	Monthly Tax Unit (*Unidad Tributaria Mensual*)

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