Chile

Chile: Pension system in 2014

The pension system has three components: a redistributive first tier, a second tier of mandatory individual accounts and a voluntary third tier. The individual accounts system was introduced in 1981 and is defined contribution.

Key indicators: Chile

		Chile	OECD
Average worker earnings (AW)	CLP (million)	7.02	24.2
	USD	11 588	40 007
Public pension spending	% of GDP	3.2	7.9
Life expectancy	At birth	79.8	80.0
	At age 65	19.6	19.3
Population over age 65	% of population	10.6	16.2

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Qualifying conditions

Defined contribution

Normal retirement age is 65 years for men and 60 years for women. Pension benefits can be withdrawn at any point from that age. Individuals are not required to stop working to claim a pension benefit.

Basic and supplementary schemes

The basic solidarity pension (PBS) is an entitlement for individuals without other pensions. The PBS is payable from the age of 65 to the poorest 60% of the population. Benefit receipt is conditional on at least 20 years of residency and on residency in at least four of the five years prior to the claim. There is also a supplementary welfare pension named Solidarity Pension Payment (APS) which is targeted to individuals with low pensions. The benefit is paid when the defined contribution pension is less than a specified amount: the maximum welfare pension threshold (PMAS). The qualifying conditions for this benefit are the same as the qualifying conditions to the PBS.

Benefit calculation

Defined contribution

The contribution rate for the individual accounts scheme equals 10% of earnings. Administrative fees are levied on top of the contribution rate. There is a ceiling on contributions, which in December 2014 was set at 72.3 “Unidades de Fomento” (UF), which was CLP 1 780 539 per month (equal to 7.9 times the minimum wage in December 2014). The ceiling is indexed to real earnings growth.

At retirement, the accumulated capital can be used to buy an immediate life annuity, to get a temporary income with a deferred life annuity, to take programmed withdrawals, or to buy an immediate life annuity with programmed withdrawals. An amount of 15 UFs are withdrawn from the individual account to cover for funeral expenses. On purposes, replacement rates have been calculated assuming an actuarially fair annuity, using sex-specific annuity rates.

Basic

The basic solidarity pension (PBS) was CLP 85 964 in December 2014. The PBS is indexed to prices. The 2008 reform also introduced a pension-income-tested supplement as a replacement for the previous minimum pension, named Solidarity Pension Payment (APS). The objective of this new supplementary pension is to improve the living standards of low-income workers when they move into retirement.

In general terms, the supplementary benefit is defined as the value of the basic pension (PBS) minus the ratio of PBS to the value of the maximum welfare pension (PMAS) multiplied by the value of the defined contribution pension. The PMAS value in December 2014 was CLP 279 427. The key withdrawal ratio of PBS to PMAS is 30.7%.

Variant careers

Early retirement

Early retirement is allowed at any age in the defined contribution scheme as long as the capital accumulated in the account is sufficient to finance a pension above particular thresholds. The first condition is that the benefit must be at least worth 80% of the PMAS. The second condition is that a minimum 70% replacement rate is reached, relative to earnings and incomes in the ten years prior to drawing the pension.

The normal retirement age is reduced by one or two years for each five years of work under arduous conditions in specified occupations. The maximum reduction of the normal retirement age is ten years.

Late retirement

It is possible to defer pension claiming after normal retirement age.

Childcare

There is a parental leave for working mothers with earnings replacement for a maximum of 24 weeks. Of these 24 weeks, the first 18 are exclusively for mothers. For weeks 19 to 24, the mother has the chance to transfer the benefit to the father. The replaced earnings are calculated over the average salary in the last three months before the birth, with the same ceiling as for pension contributions. The benefit does not vary with the number of children. During this period, the mandatory 10% contributions to the pension system are paid from the parental leave benefit. This benefit does not lower the retirement age but does increase pensions as it increases savings.

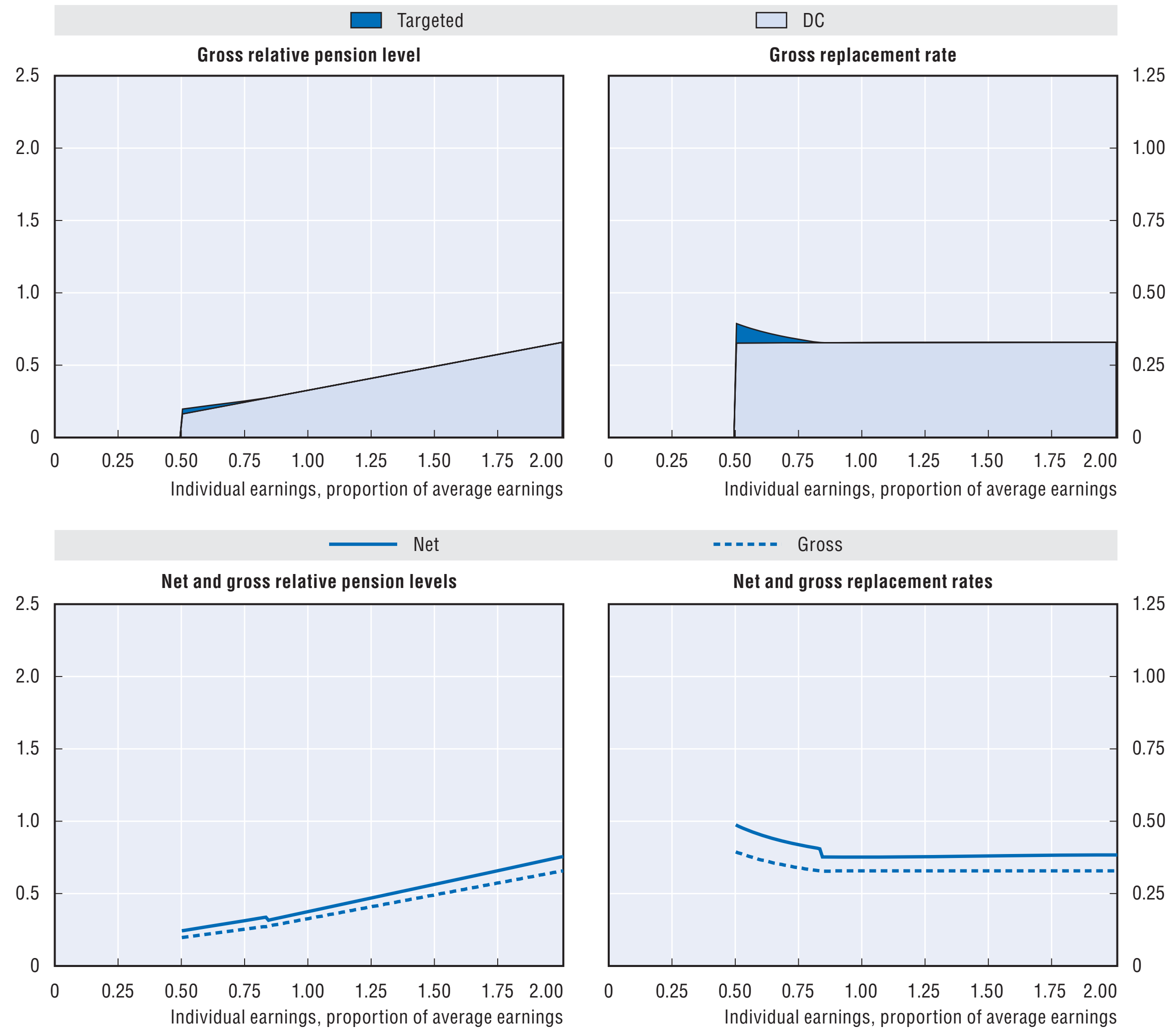
Finally, when a child aged less than one year has a serious illness, the mother is entitled to take medical leave for the time the physician considered sufficient to take care of the baby. The medical leave allows the mother (or father, in the case that the mother set that) to receive her wage and increase pensions via the mandatory contributions for the child's sick leave.

In addition, a pension voucher is given to women for each child born alive that they have had. This benefit is claimable when they reach 65 years of age. The voucher is equivalent to 10% of 18 months' minimum wages at the time of birth, plus the average net rate of return on defined contribution pension plans from the birth until the pension claim. The average interest rate is calculated for "fund C" of the private pensions: the middle one in terms of the risk-return trade-off. This is transformed into a pension flow when the woman claims her pension.

Unemployment

No pension credits are given.

Pension modelling results: Chile in 2059, retirement at age 65



Baseline scenario: Legislation scenario (price indexation of targeted schemes)						
Men	*Individual earnings, multiple of average*					
Women (where different)	*0.5*	*0.75*	*1*	*1.5*	*2*	*3*
Gross relative pension level	19.7	25.4	32.8	49.3	65.8	98.8
(% average gross earnings)	*18.3*	*23.4*	*28.8*	*43.3*	*57.8*	*86.8*
Net relative pension level	24.3	31.4	37.7	56.6	75.6	113.4
(% net average earnings)	*22.6*	*28.8*	*33.1*	*49.7*	*66.4*	*99.7*
Gross replacement rate	39.4	33.9	32.8	32.9	32.9	32.9
(% individual gross earnings)	*36.7*	*31.1*	*28.8*	*28.9*	*28.9*	*28.9*
Net replacement rate	48.7	41.8	37.7	38.0	38.4	37.9
(% individual net earnings)	*45.3*	*38.4*	*33.1*	*33.4*	*34.7*	*33.3*
Gross pension wealth	6.9	6.0	5.8	5.8	5.8	5.8
(multiple of individual gross earnings)	*7.4*	*6.2*	*5.8*	*5.8*	*5.8*	*5.8*
Net pension wealth	6.9	6.0	5.4	5.4	5.4	5.4
(multiple of individual gross earnings)	*7.4*	*6.2*	*5.4*	*5.4*	*5.4*	*5.4*

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 85%. Labour market entry occurs at age 20 in 2014. Tax system latest available: 2014.

Pension modelling results: Chile in 2059, retirement at age 65 *(cont.)*

Alternative scenario: Full-wage indexation of targeted schemes

Men	Individual earnings, multiple of average					
Women (where different)	*0.5*	*0.75*	*1*	*1.5*	*2*	*3*
Gross relative pension level	25.9	31.6	37.3	49.2	65.7	98.7
(% average gross earnings)	*24.5*	*29.6*	*34.6*	*44.6*	*57.7*	*86.7*
Net relative pension level	32.0	39.0	46.1	56.5	75.4	113.3
(% net average earnings)	*30.3*	*36.5*	*42.7*	*55.1*	*66.3*	*99.5*
Gross replacement rate	51.8	42.2	37.3	32.8	32.8	32.9
(% individual gross earnings)	*49.1*	*39.4*	*34.6*	*29.7*	*28.9*	*28.9*
Net replacement rate	64.0	52.1	46.1	37.9	38.3	37.8
(% individual net earnings)	*60.6*	*48.7*	*42.7*	*37.0*	*33.6*	*33.2*
Gross pension wealth	9.1	7.4	6.6	5.8	5.8	5.8
(multiple of individual gross earnings)	*9.8*	*7.9*	*6.9*	*6.0*	*5.8*	*5.8*
Net pension wealth	9.1	7.4	6.6	5.4	5.4	5.4
(multiple of individual gross earnings)	*9.8*	*7.9*	*6.9*	*6.0*	*5.4*	*5.4*

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated except for the safety-nets which follow real-wages. Transitional rules apply where relevant. DC conversion rate equal 85%. Labour market entry occurs at age 20 in 2014. Tax system latest available: 2014.

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Pensions at a Glance 2015
OECD AND G20 INDICATORS
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