

Chile

Chile: Pension system in 2010

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 of the defined-contribution type. The redistributive first tier was substantially extended in a pension reform in 2008.

Key indicators

		Chile	LAC26
Average earnings	CLP (million)	5.51	3.26
	USD	11 800	7 000
Public pension spending	% of GDP	3.4	3.1
Life expectancy	At birth	79.8	73.6
	At age 65	19.5	17.4
Population over age 65	% of working-age population	16.0	12.3

Qualifying conditions

Defined contribution

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

Basic and supplementary schemes

The Basic Solidarity Pension (PBS) is payable from age 65 to the 60% poorest population on condition that people have lived in the country for at least 20 years and at least four of the five years prior to the claim. The qualifying conditions for the supplementary welfare pension are the same.

Benefit calculation

Defined contribution

The contribution rate by workers for individual accounts is 10% of earnings. Administrative charges, averaging 1.55% of earnings, are levied on top of this contribution (not out of the mandatory contribution). In addition, workers contribute 1.49% of earnings to the disability and survival insurance premium.

There is a ceiling on contributions, which in December 2010 was set at 64.7 “unidad de fomento” (real, that is inflation adjusted, units), which was CLP 1 388 147 per month, equal to eight times the minimum wage in December 2010 (CLP 172 000) and 302% of average earnings. The ceiling is indexed to the real annual increase of average earnings (1 UF = CLP 21 455).

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. A withdrawal of 15 UFs is made from the individual account to cover for funeral expenses. For comparison with other countries, replacement rates have been calculated assuming an actuarially fair annuity, using sex-specific annuity rates.

Basic

The basic pension (PBS) was CLP 75 840 in December 2010. The basic pension is indexed with changes in prices.

Supplementary

The 2008 reform also introduced a pension-income-tested supplement as a replacement for the previous minimum pension. This is payable to all individuals whose defined-contribution pension is less than a specified amount: the maximum welfare pension threshold (PMaS). This threshold increased over time as the new system was phased in:

	Maximum welfare pension (PMaS, CLP)	Target coverage of older people (%)
July 2008-June 2009	70 000	40
July-August 2009	120 000	45
September 2009-June 2010	150 000	50
July 2010-June 2001	200 000	55
July 2011 onwards	255 000	60

In general terms, the supplementary benefit is defined as the value of the basic pension (PBS) – the ratio of PBS to the value of the maximum welfare pension (PMaS) multiplied by the value of the defined-contribution pension. The key ratio of PBS to PMaS was 38% in 2010, and fell to just 29% from mid-2011 onwards, thus increasing the supplementary benefit.

The objective of this new supplementary pension is to improve the living standards of low-income workers when they move into retirement. The table above shows the new programme that was gradually phased-in, moving from coverage of 40% of the poorest pensioners in 2008-09 to 60% from mid-2011 onwards. The modelling of pension entitlements uses the parameters in place from 2011 (and so will be those applicable to a new labour-market entrant in 2010). In the modelling the value of the supplementary pension is indexed in line with prices from 2011 onwards.

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 worth 150% of the minimum pension under the old system. From July 2012 onwards, this changed to 80% of the maximum welfare pension (PMaS). The second condition is that a 70% replacement rate is reached, relative to earnings 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.

Personal income tax and social security contributions

Taxation of pensioners

When claiming a pension individuals are allowed to obtain the “Free Purpose Surplus” if the remaining balance meets certain conditions. The first one is that the balance is enough to finance a pension that is at least 150% of the minimum pension under the old system. From July 2012 onwards, this will change to 100% of the maximum welfare pension (PMaS). The second condition is that a 70% replacement rate is reached, relative to earnings in the ten years prior to drawing the pension. The surplus can be obtained in tax-free annual instalments up to a maximum of 200 Monthly Taxing Monetary Units (UTM) per year and a total tax-free amount of 1 200 UTM. If obtained as a lump-sum, the maximum exempt amount is 800 UTM (1 UTM = CLP 37 605).

Taxation of pension income

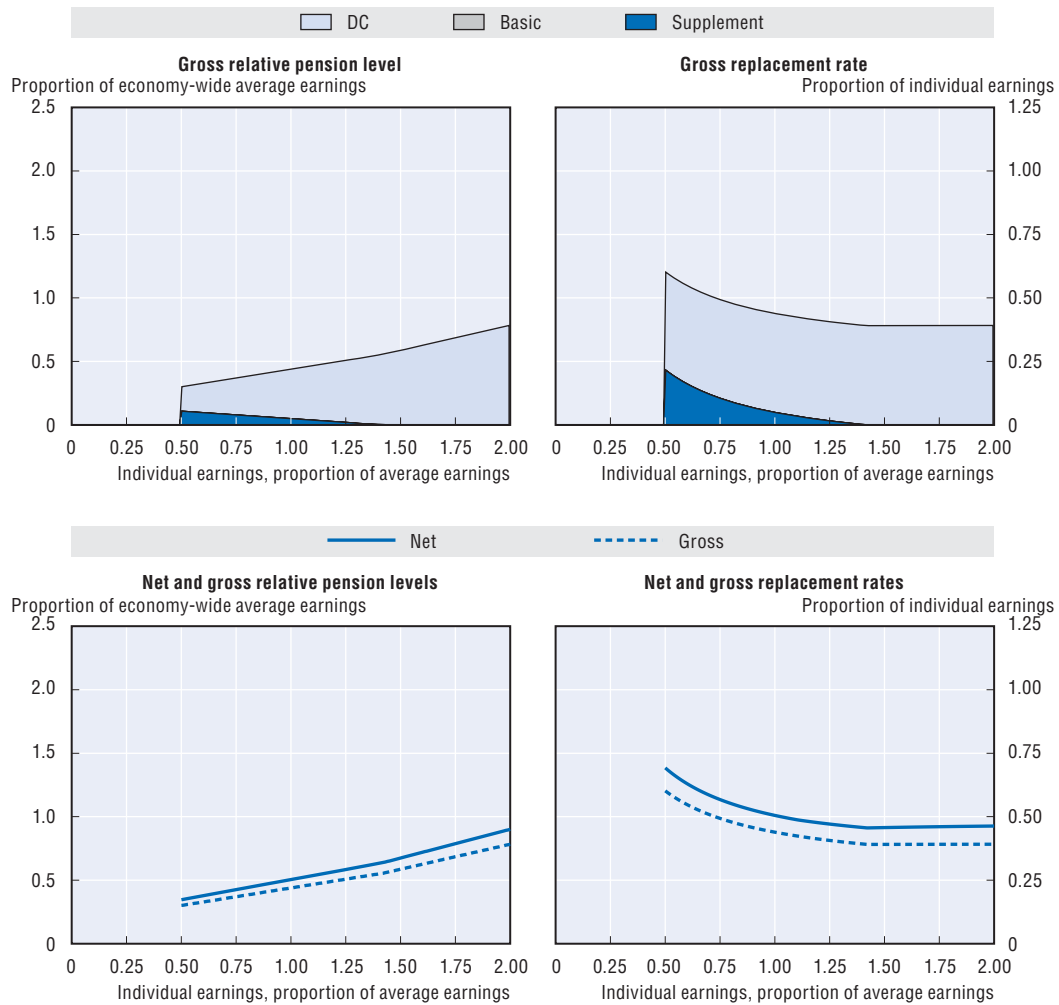
Same rates as general income tax rates apply. Structure of Income tax is progressive:

Income bracket (UTM)		Marginal tax rate (%)
From	To (inclusive)	
-	13.5	0
13.5	30	5
30	50	10
50	70	15
70	90	25
90	120	32
120	150	37
150+		40


Social security contributions paid by pensioners

By 2010, all pensioners paid 7% of pension income for health-care coverage. Since November 2011 pensioners who belong to the 60% poorest population and beneficiaries of the redistributive first tier (either of PNS or the pension-income-tested supplement) do not need to contribute for health coverage. From November 2012 onwards, pensioners belonging to the 4th earnings quintile will contribute 5% of pension income for health coverage. The remaining pensioners pay 7% of pension income for health coverage.

Pension modelling results: Chile



Men	Median earner	Individual earnings, multiple of average				
Women (where different)		0.5	0.75	1.0	1.5	2.0
Gross relative pension level	38.7	30.1	37.0	43.9	58.7	78.3
(% average gross earnings)	31.0	25.4	29.9	34.4	43.4	52.5
Net relative pension level	44.5	34.6	42.6	50.5	67.5	90.1
(% net average earnings)	35.6	29.2	34.4	39.6	49.9	60.3
Gross replacement rate	47.7	60.2	49.3	43.9	39.1	39.2
(% individual gross earnings)	38.2	50.7	39.8	34.4	28.9	26.2
Net replacement rate	54.9	69.2	56.7	50.5	45.7	46.3
(% individual net earnings)	44.0	58.3	45.8	39.6	33.8	31.0
Gross pension wealth	7.8	9.8	8.1	7.2	6.4	6.4
(multiple of individual gross earnings)	8.1	10.8	8.5	7.3	6.2	5.6
Net pension wealth	7.3	9.1	7.5	6.7	5.9	5.9
(multiple of individual gross earnings)	7.6	10.1	7.9	6.8	5.7	5.2

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