



Part two

Pension Reform:

Possible effects and debates



The new reform

- ▶ Chile's new pension reform brings with it a series of changes to the current system. Some of these changes are an additional contribution charged to the employer, the designation of a percentage to a mandatory loan, the creation of an insurance called "Seguro Social Previsional", the replacement of multi-funds with generational funds and the tender for 10% of AFPs' affiliates¹.
- ▶ These changes have generated various debates regarding their possible consequences for different parties involved.

1.- Primer informe de comisión de Trabajo y Seguridad Social. Disponible en https://tramitacion.senado.cl/appsenado/templates/tramitacion/index.php?boletin_ini=15480-13

Increase in employer contribution

- ▶ There is general agreement regarding the increase in the percentage of salary to be contributed. In general, the different interest groups agree that the increase in individual pension savings that the reform brings is beneficial.
- ▶ However, there is debate regarding the effects that this increase may generate in the labor market as hiring becomes more expensive. Some of the negative effects that have been mentioned are a drop in wages, an increase in unemployment and an increase in informal employment, especially considering the current deterioration of the Chilean labor market.
- ▶ There is special concern regarding the effect this will have on medium and small businesses.

The new insurance: *Seguro Social Previsional*

- ▶ The main purpose of the insurance is to compensate women for their longer life expectancy and fewer years of contributions. There is general consensus that this is a problem to be addressed, nevertheless, there is debate regarding the way in which the new reform does it. Specifically, some associate this aspect of the reform with a pay-as-you-go system, with all that this entails.
- ▶ There are also those who say that the reform imposes a greater burden on young workers, due to the possibility that the guarantee per year of contributions has expired when they reach retirement age despite having contributed to generating this benefit during the majority of their working life.

The mandatory loan

- ▶ Concerns regarding the mandatory loan are mainly two. Firstly, the uncertainty regarding whether the loan will actually be repaid when retirement is reached, considering the possibility that the financial situation of the State at repayment time and the administration of the money throughout the savings period could influence the effective repayment of the loans².
- ▶ Secondly, there are those who argue that the loans will be made at lower profitability rates than those currently offered by AFPs, generating a loss of profitability compared to the alternative of allocating said percentage to individual capitalization³.

2 y 3.- <https://www.df.cl/mercados/pensiones/los-cambios-que-implicaria-pasar-de-los-cinco-multifondos-a-10-fondos>

Generational Funds

- ▶ There is general agreement regarding the transition from multi-funds to generational funds, arguing that these will imply a long-term investment approach associated with the pension objective, higher returns and will eliminate the need for workers to make decisions about mobility between funds.
- ▶ Concerns regarding this measure are associated with its compatibility with other changes incorporated in the reform, such as the tender for 10% of the AFPs' affiliates every two years.

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 - https://tramitacion.senado.cl/appsenado/templates/tramitacion/index.php?boletin_ini=15480-13
 - <https://www.df.cl/mercados/pensiones/los-cambios-que-implicaria-pasar-de-los-cinco-multifondos-a-10-fondos>