legal alert

Congress approves pensions reform

Congress has approved a reform to the Chilean pensions system that, among other measures, increases the total amount to be contributed to the system.

The reform is still pending approval from the Chilean Constitutional Court, but this marks the end to years of negotiation to reach a political agreement.

An additional 7% of the workers' salary will be contributed to the system, paid for by the employer and implemented gradually during a 9-year period. From this additional contribution, 4,5% goes directly into each worker's individual account. Another 1,5% is accounted for as part of each worker's individual account but invested mandatorily in a "secured loan" to the Chilean government, to be used exclusively for paying social security benefits to women (to account for disparities arising from higher life expectancy) and current pensioners based on years of contribution. A 1% increment to the disability insurance (totaling 2,5%) completes the new contributions.

The total 2,5% for the disability insurance and the 1,5% mandatorily invested in the secured loan will be managed by new public institutions as part of a social security system.

Along with the increased contribution, there are other relevant modifications introduced to the system:

- A random 10% of the existing workers will be transferred to the pension fund manager offering the lower fees in an auction process, to be conducted every two years.
- Pending specific rules to be enacted by the Pensions Superintendence, entities other than existing pension fund managers can participate in the auctions, including Chilean fund managers.
- The social security system will be financed by a fund established for this purpose and composed of the additional contributions described above and managed by a special entity created for this purpose. The management of its investments can also be auctioned to foreign entities.
- The funds offered by the pension fund managers will change from a construction based on risk-return profiles, to generational funds, targeting specific dates for maximizing returns. Workers will no longer have the ability to choose their fund but instead will be assigned to the fund targeting their expected retirement date.

Once enacted, the reform will require specific regulation to be issued mostly by the Pensions Superintendence.

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