Dalgalarrando & Cía.

CHILEAN GOVERNMENT PROPOSES AMENDMENTS TO THE PENSION SYSTEM IN CHILE

Recently, the Chilean Government introduced a bill to the Congress that intends to amend the Chilean Pension System.

The proposed amendments have the following purposes: (i) to expand current and future benefits of the so called "Solidary Pillar"; (ii) to enhance future pensions derived from the employees' mandatory savings; (iii) to improve women and middle classes current and future pensions; (iv) to promote competition in the Pension Funds Managers ("**PFM**") industry; (v) to encourage pension education and to foster pension information; (vi) to increase PFM's transparency system; (vii) to strengthen the Pension System oversight, and (viii) to create a dependency subsidy and a dependency insurance designed for people over 65 years old that are in a dependency situation.

In the first place, the Government proposes to expand current and future benefits granted by the so called "Solidarity Pillar" – which is paid for with public funds –to most vulnerable people. This expansion is intended to be achieved by, among others, the following measures (i) an increase in the amounts granted by old-age pensions, increase that will be proportional to the beneficiaries age rate (thus, as older the beneficiary is, the larger the increase will be), and (ii) ensuring that the old-age pensions received under the "scheduled withdrawal" mechanism is continuous.

In the second place, an enhancement in future pensions derived from the mandatory employees' individual savings is pursued, by means of implementing, among others, the following actions:

(a) The gradual increase, during an eight-year period, of the employees' mandatory savings in 4 percentage points, which will be borne by the employer;

(b) The creation of the so called "Supplementary Savings for Pension Managers" ("**SSPM**"), which shall be the institution in charge of administrating the 4% increase in the employees' mandatory savings referred to above.

Regarding the SSPM, the bill proposes, among others matters, that (i) they can be incorporated as subsidiaries of Savings and Loans Cooperatives, of Family Allowance Compensation Funds, of Insurance Companies, of Funds General Administrators, of PFM; (ii) they must have an exclusive business purpose; (iii) they shall be subject to the same oversight of the Pensions Superintendence; (iv) they shall only invest the funds under their administration in the same authorized instruments than the pension funds administrated by PFM, and (v) they will be authorized to charge a fee over the administrated amount.

(c) As an incentive for people that are not required to make mandatory savings (for having reached their retirement age) to keep making them (and so, consequentially, improve their pension amount), PFM and SSPM are authorized to lower the fees charged to said people, or not to charge them at all.

In the third place, to improve women and middle classes current and future pensions, the Government proposes to create the so called "Middle Class Pension Additional Contribution" and the "Middle Class Women Additional Contribution", both of them financed with public funds.

In the fourth place, the promotion of competition in the PFM industry is seeked by means of, among others (i) lowering the PFM legal reserve accounts from the current 1% to 0.5%; (ii) encouraging the new employees' tender process, through augmenting from two to three years the period during which the awarded PFM exclusively receives such new employees, and (iii) allowing PFM and SSPM to be incorporated as corporations that do not distribute dividends.

In the fifth place, it is proposed to encourage pension education and to also foster pension information, by virtue of, among others, making mandatory for FPM and SSPM to allocate part of their fee revenues to finance pension education programs and projects.

In the sixth place, the bill intends to increase PFMs' transparency system. For this purpose, it is proposed, among other actions, to expand incompatible roles between PFM and other entities belonging to the company group thereof, and to establish the obligation to PFM and to SSPM to inform to the Pensions Superintendence (i) all and every change in the stock ownership thereof by means of which one shareholder – or a related shareholders group – acquires 10% or more of the company's capital, and (ii) all and every change of control in any company that, directly or indirectly, owns more than 10% of the capital thereof.

In the seventh place, the intention is to strengthen the pension system oversight, through, among others, the creation of (i) a Coordination Committee between the Pensions Superintendence and the Financial Market Commission, and of (ii) a pension savings centralized information system.

Finally, the Government proposes to create a dependency subsidy and a dependency insurance designed for people over 65 years old that are in a dependency situation. In this regard, the dependency subsidy shall be financed with public funds and it will amount to CLP$60,000 to CLP$80,000 per month; while the dependency insurance shall be paid by each employee with a 0.2% of his or her mandatory individual savings.

To follow the bill's status in the Congress, please check on the following link:

https://www.camara.cl/pley/pley_detalle.aspx?prmID=12718&prmBoletin=12212-13.

Dalgalarrando & Cía.

www.dryc.cl
San Sebastián 2952 Piso 7 Las Condes, Santiago, Chile
Código Postal 7550050
Mail: contact@dryc.cl
Teléfono [+562] 2383 0000 Fax [+562] 2383 0010