Chile – Pension Reform and the New Pension Scheme

On January 29th, 2025, the Chilean National Congress approved pension reforms filed by the government of President Gabriel Boric, after the Chilean National Congress, in the third constitutional procedure, approved it[1].

This pension reform will now be reviewed by the Chilean Constitutional Court, and once this process is finalized, it is expected to become effective in March of this year.

WHY THIS MATTERS

The reform includes four structural changes:

1) The creation of a Pension Pillar that mitigates risks and manages a Social Pension Fund.

2) A permanent contribution from employers, distributing the financial burden equitably.

3) The opening of industry to greater competition through competitive bidding; and

4) Reducing inequalities to correct gender gaps in the pension scheme.

These changes will consolidate a mixed pension scheme that guarantees sustainability and greater equity in current and future pensions.

More Details

- The Social Pension Reform proposes the creation of a Social Pension Fund that will grant two benefits:
    i. Benefit per contributed year, and
    ii. Women's compensation for longer life expectancy.

A new contribution of 7% of taxable income to be paid by the employer is also contemplated, which will be added to the 1.5% contributed by employers to Disability and Survival Insurance (currently at 1.38%), so that employers will contribute a total of 8.5% (implemented gradually over nine years) for the benefit of the employee.

- This total of 8.5% will be distributed as follows:

  i. 4.5% for individual capitalization, with the objective of strengthening future pensions.

  ii. 4% will be managed by the Social Pension and will have the following composition:

    a. 2.5% will cover the contingencies of Disability and Survival Insurance and women’s compensation for longer life expectancy.

       The characteristics of the benefits, the women's compensation for longer life expectancy will result in a woman and a man retiring at age 65, the same age, same balance, and same family group obtaining the same pension.

    b. 1.5% will finance the benefit per contributed year, an instrument that will improve current pensions and will be of a transitory nature.

       This benefit will be available to women having made at least 10 years of contributions, a threshold that will be maintained during the first decade of the benefit. After that, this access requirement will increase to 15 years of contributions. In the case of men, those with a minimum of 20 years of contributions will benefit.

- Change will occur in the mechanism that Pension Fund Administrators (AFP in Spanish) and pension funds operate. Currently, members can choose between different multi-funds (A, B, C, D, and E) according to the level of risk they want to assume. With the reform, this system will be replaced by generational funds, where the investment will be automatically adjusted according to the age of the employee: young people will assume more risk to seek higher returns, while people close to retirement will have safer investments to avoid large fluctuations in their savings.

- A bidding system will also be implemented to encourage competition among the AFPs. Every two years, 10 percent of the affiliates will be randomly reassigned to the AFP that charges the lowest commission, which could help reduce costs for employees.

Chilean Pension Scheme Currently

The current social security legislation stablished that funds are contributed as follows:

Employee Contributions:

- 10% of contribution + a commission fee from the AFP of 0.58% up to 1.45% *
- Unemployment Insurance: 0.6% **

Employer Contributions:

- Unemployment Insurance: 2.4% **
- Labor Accidents and Professional Disease insurance: 0.93% *

- Death and disability insurance: 1.38% *

Total employer contributions rate at 4.71%

*Capped at USD 3,606

**Capped at USD 5,417

KPMG INSIGHTS

Expatriate executives who are transferred to Chile and are required to make contributions to the Chilean pension scheme will begin to see these changes once the implementation of the reform begins. Accordingly, Chilean entities should see an increase in the cost of their employees' contributions due to the cost they will begin to assume.

FOOTNOTES:

1 *Subsecretaría de Previsión Social* at*:* https://previsionsocial.gob.cl/congreso-despacho-a-ley-la-reforma-previsional-camara-de-diputados-aprobo-el-proyecto-por-110-votos-a-favor-y-38-en-contra/.

2 *Previsión Social* at:, *https://previsionsocial.gob.cl/pensiones-para-chile-2/* .

3 *República de Chile, Senado* at: https://tramitacion.senado.cl/appsenado/templates/tramitacion/index.php?boletin_ini=15480-13 .

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