

Chile

The death of Chile's pension promise

Protesters urge overhaul of system once lauded as the 'Mercedes-Benz' of retirement provision



A protester gestures in front of a burning barricade in Valparaíso, Chile © Reuters

Benedict Mander in Santiago 8 HOURS AGO



Ten years after retiring, Patricia Azagra considers herself to be one of Chile's lucky ones. Unlike many, she held a steady job for almost her entire working life and made regular contributions to her pension for more than 30 years.

Even so, her monthly pension of about \$600 is scarcely one-third of her final salary, and about half what she was promised when she first started paying into Chile's pioneering pensions system in the 1980s. Getting by without help from her children was "impossible", she said.

"Thank God I also have my health," said the 75-year-old former municipal social worker, who fears having to rely on Chile's expensive privatised health system. "Of course I can't afford holidays or anything but the most basic costs. If the slightest thing happens to me — bang! — I will fall into poverty."

Her situation, precarious though it is, is at least better than that of the 44 per cent of Chilean pensioners who receive less than the minimum wage of about \$400.

As Chileans of all ages [take to the streets](#) in protest at persistent poverty and social injustices, the irony for many is that the pensions system they want President Sebastián Piñera to overhaul was once globally hailed as an engine for economic prosperity — the "Mercedes-Benz" of retirement provision.

Chile was the first country in the world to privatise its pensions system. Established almost 40 years ago during General Augusto Pinochet's military dictatorship, the defined contribution model was widely praised by institutions such as the World Bank and seen as a key part of the Chilean economic success story.

Reliant solely on a mandatory 10 per cent contribution from employees, it was copied by more than 30 countries across Latin America, south-east Asia and eastern Europe. Buoyed by regular payments, the Chilean pensions system grew and the country's embryonic capital market roared to life: pension funds now exceed \$200bn, or 80 per cent of gross domestic product. This played a crucial role in turning Chile into the richest country in the region, lifting millions out of poverty.

But the system is designed to benefit those who remain in formal employment for much of their working lives and are thus able to make regular payments. Chile's large informal sector — as many as one-third of the population are in irregular employment — means that many people pay little or nothing over their lives.

“It's a system that doesn't work for the reality of Latin America,” said Andras Uthoff, a pensions expert in Santiago. The privatised system “works fine for about a fifth of the population, but not for the vast majority. They were forgotten about,” he added.

“Chile never left behind the [neoliberal] model installed by Pinochet and now it is paying the price,” said Andrés Solimano, an economist and former World Bank country director in Santiago. “That model is exhausted in its current form, and needs a serious upgrade. There is no social safety net in Chile.”



An elderly man holds a sign bearing the message 'Thanks, brave youth' during protests against the government in Santiago © Johan Ordonez/Getty

Analysts argue that a saving rate of 10 per cent — almost half the level of contributions in developed countries — is too low to deliver retirees a decent income. Retirement ages, at 65 for men and 60 for women, also remain low, given that life expectancy has risen by a decade since the early 1980s.

Much of the debate — and the anger on the streets — has focused on the private pension funds that critics say have outsized profits while paying out sometimes derisory pensions. A ubiquitous slogan on protesters' banners and graffiti around Santiago is “No more AFPs”, referring to Chile's private pension fund managers.

Fernando Larraín, director-general of the pension administrators' association, said that even if all of their profits were given to pensioners, that would amount to less than \$13 per person. “That's all very well, but it doesn't solve anything,” he said, arguing that ultimately what is needed is better pensions, which would need to be at least partly government-funded. “There is a solution, but it is expensive. Where is the money going to come from?”

Previous governments have tried to tweak the system, to allow some state support for those on the lowest incomes. Since 2008, the government has paid a basic pension to the poorest workers, amounting to scarcely \$150 a month. That costs the government about 0.8 per cent of GDP, and compares with a 6 per cent average in OECD countries.

Further changes were under discussion even as protesters remained on the street this month. A 50 per cent rise in the basic state pension has been agreed in congress, which would cost the state an

extra \$1.3bn annually, and there are proposals for employers to make an extra contribution of 5 per cent to a new state agency.

“It’s the cost of doing business,” said Jonathan Callund, a pensions policy consultant based in Santiago, pointing out that while employers have not until now made direct contributions to pensions, the Pinochet reforms forced them to compensate by paying higher wages. “When it comes down to it, as everywhere else in the world, all social security contributions are paid by the employer. This is clear as day.”

Rodrigo Valdés, a former finance minister, fears a populist solution to Chile’s pension problem could compromise fiscal equilibrium. “The elastic has already been stretched, and I don’t know at what point it will snap. It depends how irresponsible the government wants to be.”

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