The new PGU will increase future pension entitlements

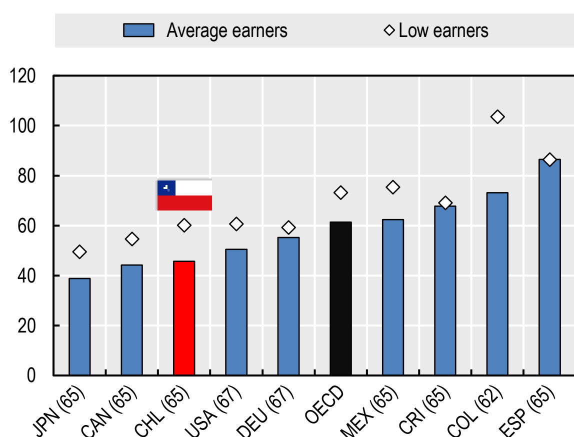
Chileans in old age have disposable incomes amounting on average to 94% of that for the total population; this compares to 88% on average across OECD countries. However, inequality is very large for both the total population and the elderly, with an almost record-high Gini coefficient among the 65+ of 0.44 (with higher levels only in Costa Rica and Mexico) compared with the OECD average of 0.31.

Chile replaced its targeted public pension scheme with a quasi-universal scheme in February 2022. While the previous scheme (basic solidarity pension) was targeted at the poorest 60% of those aged 65+, the new scheme – the universal guaranteed pension (PGU) – covers those aged 65+ belonging to the 90% poorest people in the entire population.

Chile's long-term net replacement rates increased by about 10 percentage points as a result of the reform. The PGU benefit level is 4 p.p. higher in real terms than the previous benefit, at about 20% of gross average earnings and withdrawal rules have also changed substantially. While the basic solidarity pension was withdrawn by 33.8% from the first peso received from the funded defined contribution (FDC) pension, there is no withdrawal now until the FDC pension renders 3.4 times the amount of the universal guaranteed pension. Thereafter, a withdrawal rate of 50% applies.

Enhanced safety nets increase pension prospects

Future net pension replacement rates, %



Source: Table 4.4.

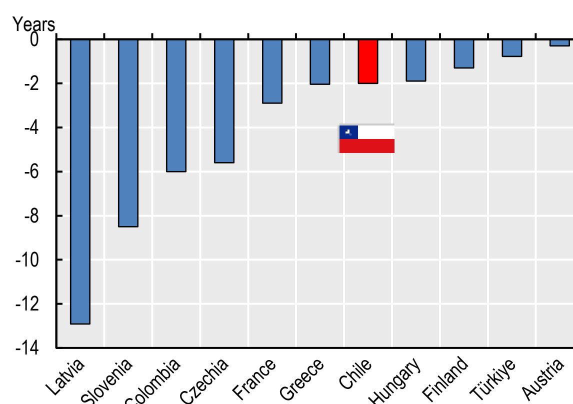
Employees in arduous jobs pay higher contributions and can retire much earlier or have higher future pensions

Specific to Chile, an expert commission (Comisión Ergonómica Nacional) assesses the application of employers and employees based on job characteristics and classifies them as hazardous or arduous, rather than covering entire sectors or occupations. Reference is made to premature ageing caused by accelerated physical, intellectual or mental exhaustion among the majority of workers in some occupations, for example, miners, refuse collectors or paramedics.

These workers can anticipate their retirement up to 10 years before the normal retirement age, to take into account some lower life expectancy, provided they have a general contribution record of at least 20 years. On average in Chile workers in hazardous or arduous jobs are claiming their pension two years earlier than for all workers combined, though they represent less than 1% of retirees. This early retirement option was introduced in 1995 and is financed by additional individual contributions, normally an extra 2 or 4 p.p. added to the FDC contribution, split between employees and employers. If the early retirement option is not taken, then pension payments at retirement are higher.

Workers in hazardous or arduous jobs effectively claim pensions earlier

Difference in the average age of claiming pensions between workers in hazardous or arduous jobs and all workers, 2021 or latest year



Source: Figure 2.4.

Further reforms are being planned

Chile extended pension coverage to platform workers from September 2022. They were previously not covered by mandatory pensions, but are now in the mandatory FDC pension scheme under the same rules as the self-employed. Furthermore, the rules for self-employed workers are being brought in line with those for private sector workers by gradually increasing their mandatory contribution level by 2027.

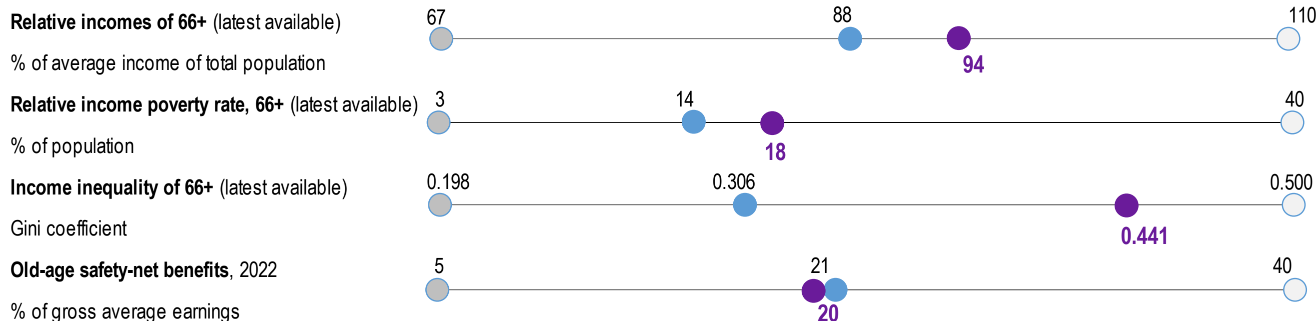
Contribution rates will likely increase in the future although, as yet, there is no political agreement on a concrete reform. There is a broad political consensus to increase mandatory contributions for employers by 6 percentage points. Employers currently only pay a contribution of 1.5% to the FDC scheme, which is the third lowest mandatory contribution rate for employers in the OECD. Employees pay 11.1% towards the scheme.

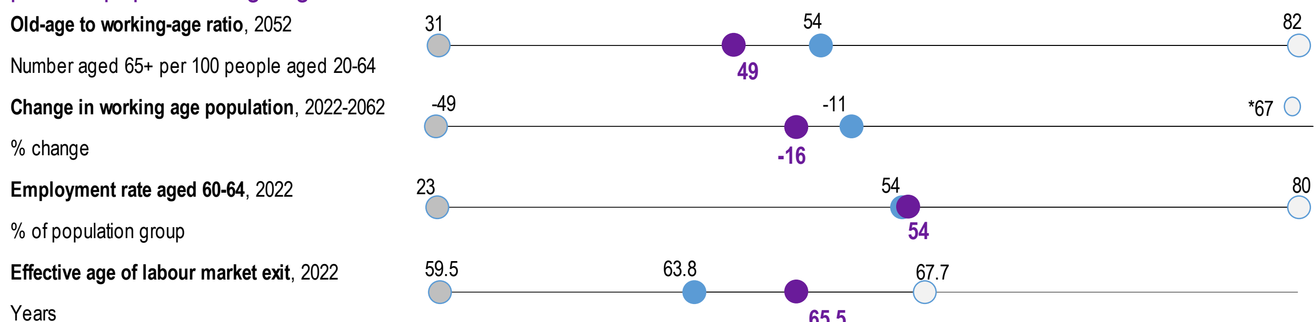
There is no agreement, however, on how the supplementary employer contributions should be used and on whether the reform should concentrate only on future pensions or on assisting today's pensioners. While opposition parties favour strengthening individual FDC accounts, the government proposes to use these contributions to create a new Integrated Pension Fund. The contributions would go to new individual notional accounts with a strong redistributive element. Flows in the individual notional accounts will be equal to contributions applying to 70% of the individual's wages and 30% of the economy-wide average wage. With these contributions and, initially, a temporary loan, a new fund would be created to pay pensions linked to the notional accounts and other benefits (fixed amount guaranteed per year of contribution, a gender factor to compensate for women's lower pensions due to their higher life expectancy in the FDC scheme and crediting maternity, care

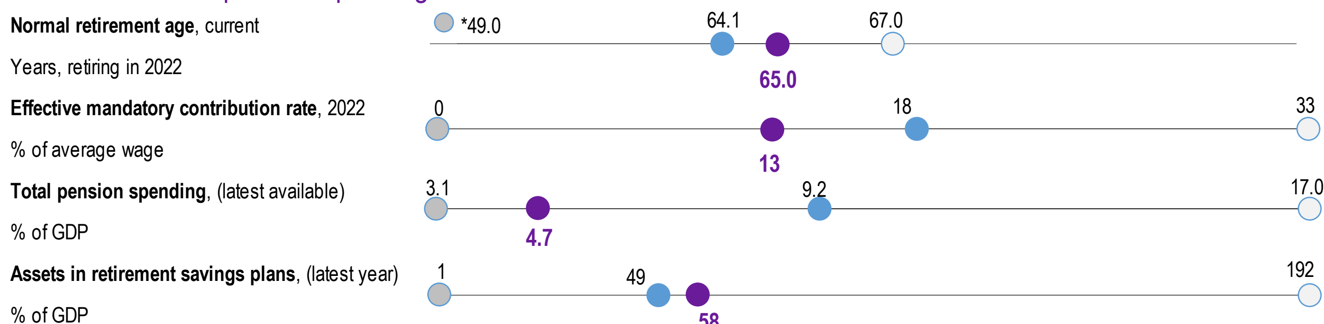
© OECD 2023

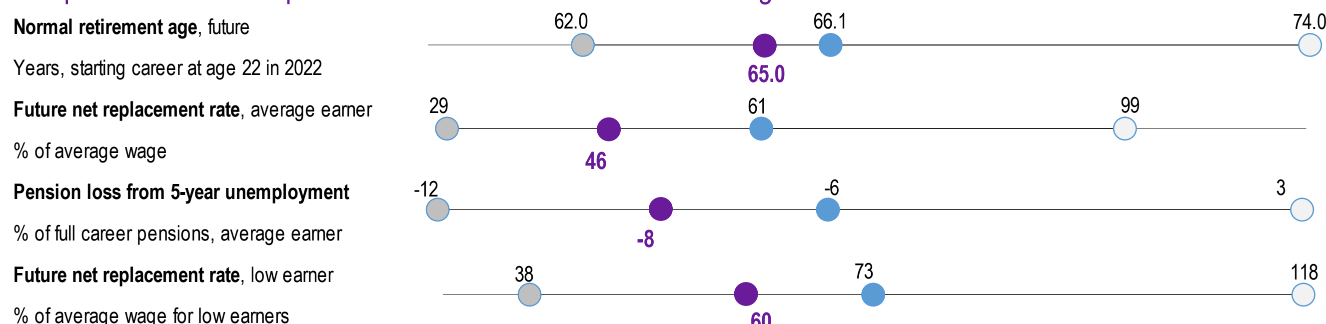
and unemployment periods in the new scheme). The fund would offer a real rate of return of 2% and the difference between the actual rate and this 2% rate would be part of the financing of the fund. The contribution rate would start at 1.0% of covered pay and increase by one percentage point each year until it reaches 6.0%. In addition, the PGU would increase by about 25% financed from general revenues.

In sum, this proposed reform would benefit current pensioners, would generate transfers from above-average to below-average earners, and from men to women. The bill is currently with the Chamber of Deputies, but it is unclear whether the government has the votes for passage in both houses of Congress.









Contacts: Andrew Reilly (+33 1 45 24 82 04; andrew.reilly@oecd.org), Hervé Boulhol (+33 1 45 24 84 58; herve.boulhol@oecd.org)