EXECUTIVE SUMMARY

PRESIDENTIAL ADVISORY COMMISSION ON THE PENSION SYSTEM

2015

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COMISIÓN PRESIDENCIAL PENSIONES

EXECUTIVE SUMMARY
Comisión Asesora Presidencial sobre el Sistema de Pensiones

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COMISIÓN PRESIDENCIAL PENSIONES

EXECUTIVE SUMMARY

Santiago, Chile, September, 2015

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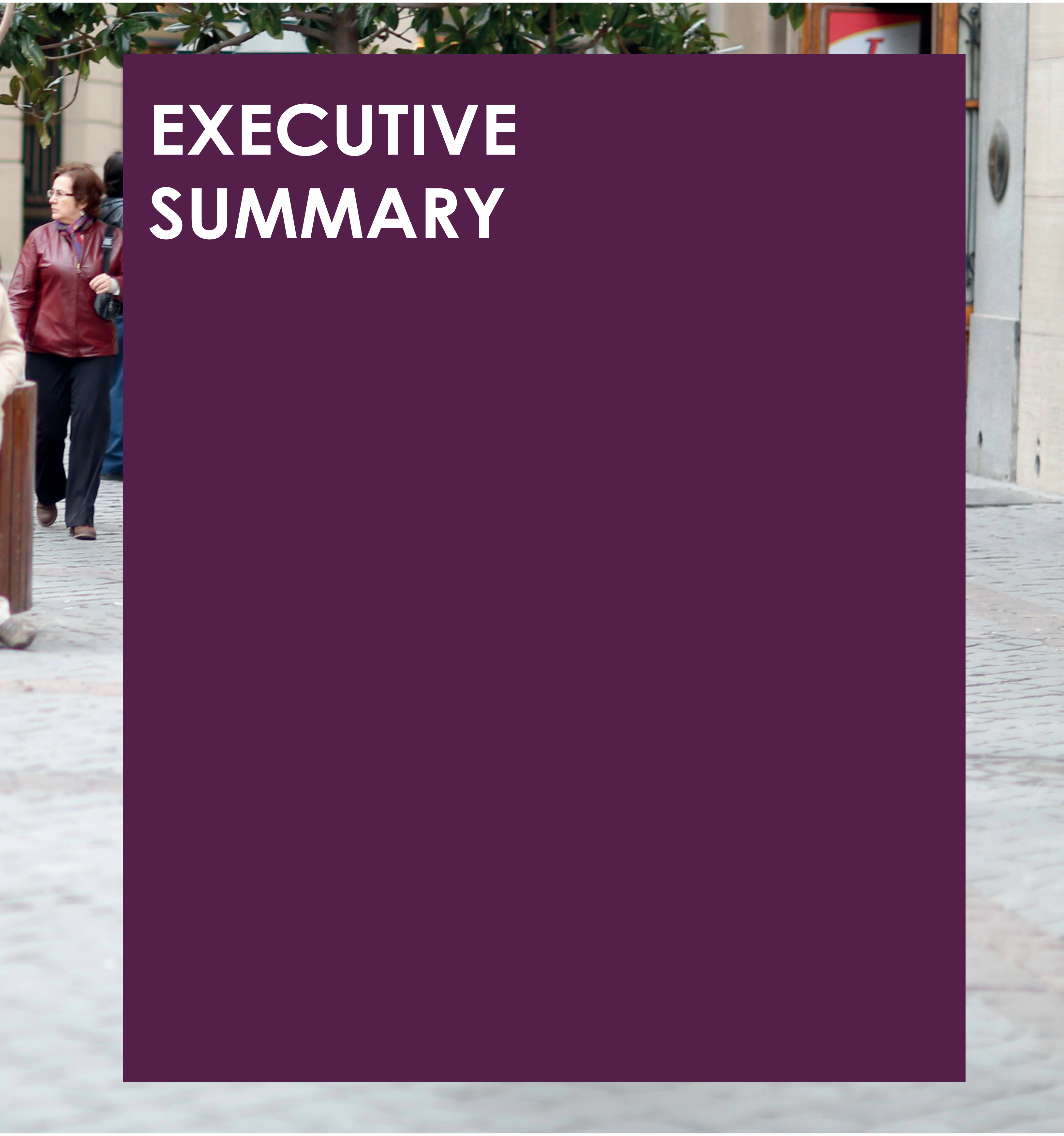


EXECUTIVE SUMMARY

I. The Commission’s Work

The Presidential Advisory Commission on the Pension System was established on April 29, 2014, by way of Supreme Decree Number 718 of the Treasury Department, backed by the President of the Republic, the Minister of the Treasury, and the Minister of Labor and Social Security.

The Commission was made up of 24 national and international members, who worked pro bono. Its mandate was to study the Pension System established in Decree Law Number 3.500 and modified by Law Number 20.255 of the Pension System Reform of 2008, with the objectives of carrying out an assessment of its current operation and of creating proposals to resolve the weaknesses identified by the examination.

The Commission’s actions to fulfill its mandate have all been aimed at implementing this mandate, as articulated by the President of the Republic on the day of the Commission’s creation (April 29th, 2014):

> ***“…We are beginning an important process of reflection and debate so that Chileans can have access to a dignified pension system that adequately meets their needs. This is a process that we want to be highly participatory, but also of a very high technical level, and which will allow us to take responsibility for the clear inadequacies in our pension system...”***

The Commission's work over a period of 16 months included the following activities:

» **Internal work sessions:** the Commission organized its work into 65 internal work sessions of the national Commission members, including 10 expanded meetings with the participation of national and international Commission members. Of the total meetings that were held, 21 were in connection with the presentation of the Public Hearings, 10 were internal presentations to organizations and experts who work in areas relating to pensions and ageing, and 34 of them were regarding internal work.

» **Citizen participation:**

- **Public Hearings in Santiago:** one of the most important actions involving citizen participation was the 78 Public Hearings that took place in Santiago. During these Hearings, national and international experts in the field, social organizations, international organizations, NGOs, educational centers, representatives from the labor sector, business people, pension fund administrators, and insurance company administrators were able to present their ideas to members of the Commission. Over all of the public hearings, there were 254 total participants.

- **Citizen Dialogues in Regions:** another mechanism for citizen participation was the organization of 30 Regional Citizen Dialogues in each one of the country's regions. These represented a space for discussion between the Commission and the citizens of the region. The citizen dialogues were made up of two stages. The first stage consisted of Prior Meetings with those people who were interested in the issue. 1,416 people attended a total of 15 different Prior Meetings. The second stage consisted of Regional Hearings with the Commission, attended by 1,170 people.

- **Survey on Opinions and Perceptions of the Pension System in Chile:** after a bidding process, the "Survey on Opinions and Perceptions of the Pension System in Chile" was carried out. Its ultimate objective was to identify the level of awareness and the approval of the people regarding the primary components of the Pension System and the 2008 Reform. This survey had a representative sample of 3,696 homes throughout the nation.

- **Webpage:** a webpage was created to serve as a source of information for citizens and has continued to answer questions from the public. The Commission received 730 messages on the webpage, and there were 88,230 downloads of information available on the website.

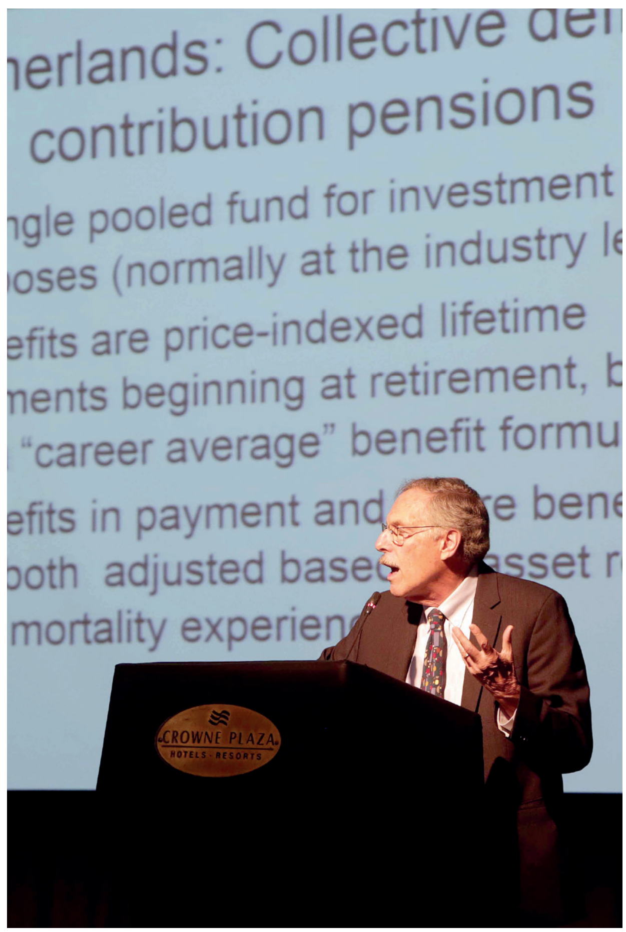
Table 1: Downloads of the Commission's Information (as of June 30, 2015)

Tipo de Documentos	Descargas
Public Hearing presentations	58.674
Prior Meeting Reports	6.776
Meeting Notes	2.933
Official Documents	4.445
Documents Received over the Internet	13.422
Presentations at the International Seminars	1.980

- **Tasks assigned by the Commission:** to complement its work, the Commission requested seven studies on the issues of pensions and ageing to evaluate and assess the pension system, to formulate proposals and to better understand public opinion regarding issues with the pension system.

- **Requested Collaboration with Public Organizations:** to develop its work and proposals, the Commission had to reach out to different resources to access a large volume of information. Examples of these sources were the Ministries and State Public Services, International Organizations, and databases from different surveys.

- **International Seminar:** to comply with one of the mandates established in the DS Number 718 that created the Commission, the Commission organized an international seminar on June 16, 2015 called, "International Experiences and Tendencies of Pension Systems." Seven presenters who were experts on pension issue were in attendance, including two Nobel Prize winners in Economics. The seminar was attended by 300 people.



- **Audience with President Michelle Bachelet:** on December 11th, 2014, the members of the Commission met with President Michelle Bachelet to report on the status of their work.

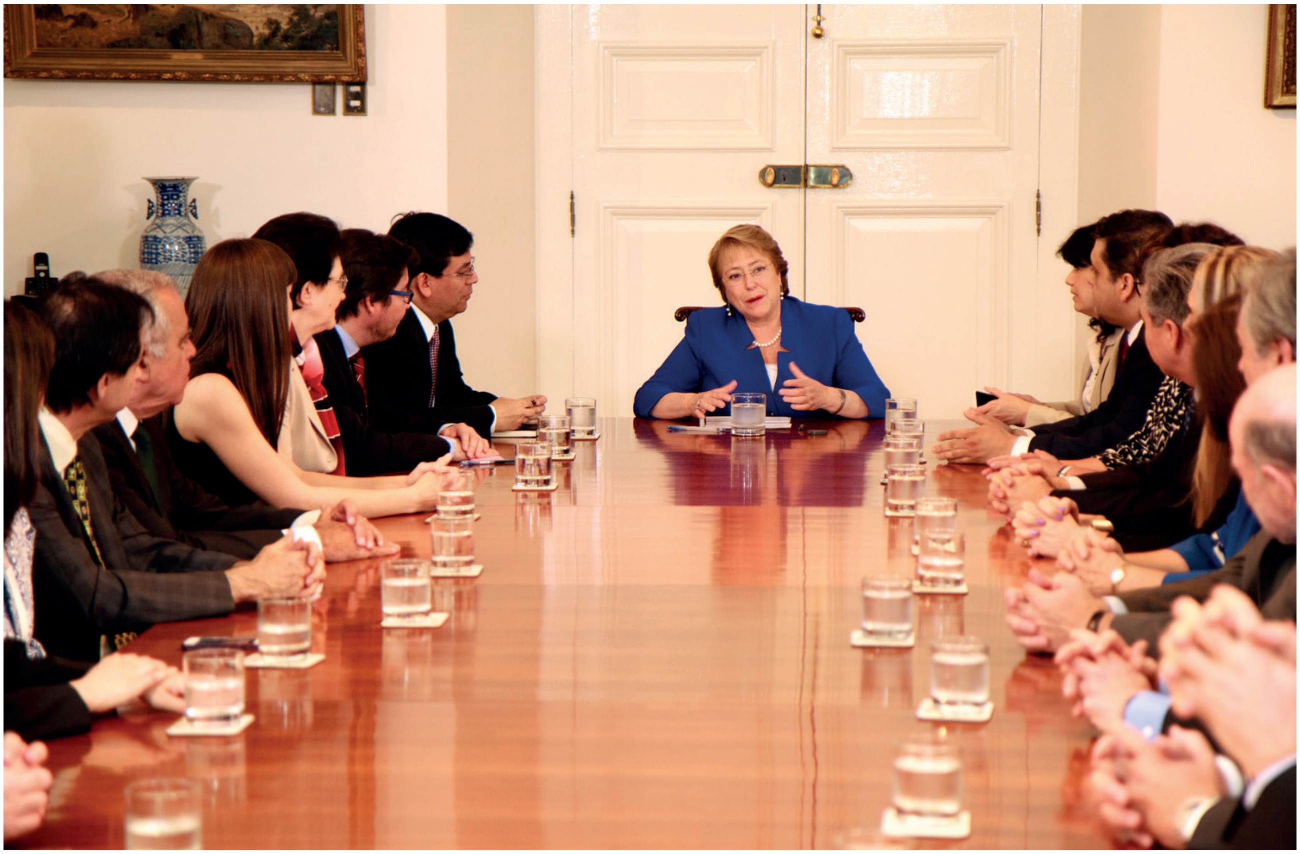
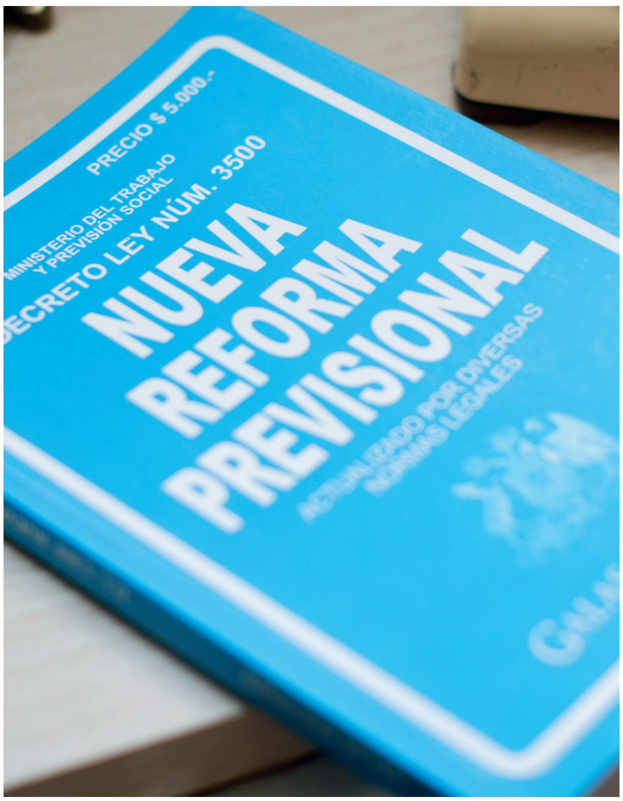


Table 2: Summary of the activities carried out by the Presidential Advisory Commission on the pension system

Activities	Details
Work Sessions	65 Internal Work sessions (including 10 expanded meetings)
Citizen participation	» 78 Public Hearings in Santiago » 30 Regional Dialogues in each one of the country's regions. » Survey on opinions and perception of the pension system in Chile (3,696 homes) » Web page: 704 messages
Request for background documents	Seven background studies were carried out
International Seminar	«International Experiences and Tendencies of Pension Systems» on June 16th 2015
Audience with President Michele Bachelet	Audience with President Michelle Bachelet

II. Evaluation of the pension system

Since the 2008 reform, the current pension system can be characterized as a system that combines a Solidarity Pillar financed through taxes with an individual capitalization pillar financed by contributions that each individual makes into their individual account, and therefore includes self-funded benefits and subsidized benefits for old age, disability and survival. In this way, the system addresses the objectives of distributing consumption over a person's life and alleviating poverty in old age.



Under this arrangement, the current civilian pension system delivers benefits that depend on an affiliate's history of contributions and on the Solidarity Pillar. The Solidarity Pillar has contributed to poverty relief and to alleviating the poverty of the elderly in particular.

In its assessment, the Commission warns that between 2007 and 2014, 50% of pensioners received pensions that were less than or equal to $82,650 pesos—an amount that includes the benefit from the Solidarity Welfare Pension (APS). The Commission's diagnosis also highlights the significant gap between the pension benefits of men and women. While half of women get pensions that are equal to or less than $42,561, half of men receive pensions that are equal to or less than $112,333. This gap is partly explained by the difference in the retirement age and the age at which each gender can access the benefits of the Solidarity Pension System[1].

If we examine the capacity of a pension to fulfill the objective of smoothing consumption, we see that 50% of pensioners receive pensions that are, at most, equal to 34% of their average salary over the last ten years[2]. This result, known as the replacement rate, also differs significantly between men and women. While half of men had replacement rates (using the definition above) at or below 60%, half of women received replacement rates that were, at most, 31%.

These results have emerged in a context where many of the current pensioners were contributors to the old Pension Providers in the pension system that existed until the 1980 reform of the pension system. The results, therefore, do not accurately represent what would occur under a pure system of individual capitalization. In this regard, the replacement rates for pensioners in 2025 and 2035 are projected to reach an average of 39%, with 50% of pensioners receiving replacement rates that will be less than or equal to 37%.

At a comparative level, current and projected replacement rates in the Chilean pension system are below international standards. In contrast with OECD member countries, whose average net replacement rates are 66% for men and 65% for women with histories of regular contributions[3], Chile is below that average by 18 percentage points for men and 28 percentage points for women. Nevertheless, when we esti-

1 If we only examine the beneficiaries of the Solidarity Welfare Contribution, the median pensions are equal to $ 84,298 for women and $107,073 for men.

2 As a proxy for purchasing power during an affiliate's active working life, the average taxable income over the course of the affiliate's career is commonly used, typically as reported by the OECD and ILO. In this case, because of the availability of information, we use the average taxable income of the ten years prior to retirement as a basis for calculating the replacement rate.

3 "Pensions at a Glance 2013" (OECD, 2013)

mate replacement rates for different contribution densities, the gaps between Chile and other OECD countries decreases, which reveals the importance of the Solidarity Pension System for groups who have less capacity to save.

In accordance with this data, most citizens, 70%, believe that the pensions that the system delivers are not enough to finance an adequate standard of living[4].

The coverage of the system, in terms of its capacity to recruit people of working age and keep them contributing, is directly related to the adequacy of pension benefits that the system subsequently delivers. Of the total employed population, 69.3% regularly contribute, but contribution densities do not exceed 50% of the total population affiliated to a pension fund administrator (AFP)—half of men have contribution densities lower than 47.5%, and half of women have densities equal to or less than 12.8%. This low contribution density is associated with work histories that include periods of self-employment or informal employment, periods of unemployment and years of professional inactivity over the course of an affiliate's life. Moreover, the contribution rate to the pension fund is 10% of taxable income and therefore is relatively low compared to rates in other countries and with the rates seen in the old pension system. This, in conjunction with problems of evasion and avoidance, suppresses the accumulation of savings for old age during an affiliate's active working life, especially in the cases of women and people in low-income brackets.

Pension systems are not independent of the context in which they operate. The aging of the Chilean population has a direct impact on the adequacy of pensions. The gains in survival means that the savings accumulated over an affiliate's working life must be spread over more years in retirement, and at the same time provide a response to the increased vulnerability and dependence associated with aging.

4 Survey on Opinions and Perceptions of the Pension System in Chile (Pension Commission, 2015).

The role of the pension industry is crucial to the effectiveness and efficiency with which the savings of the population are captured and transformed into future pensions. In this regard, there is evidence of low price competition among AFPs: only a small percentage of contributors are affiliated with the AFP that won the bidding process introduced by the 2008 reform and 80% of affiliates continue to pay much higher fees.

On the other hand, the average annual gross real return between 1981 and 2013 (without discounting the fees that affiliates are charged) was 8.6%, which is historically high compared to the performance that was expected when the system was designed (4%). Notwithstanding these rates, the fees charged by the AFPs mean that the returns actually received by individuals are well below what has traditionally been touted as the gross return.

In the affiliate's passive stage, when they receive their pension payments, the risk that the affiliate bears will depend on the type of pension the affiliate has selected. A pension under programmed withdrawal delivers benefits that decrease over time, which goes against the objective of smoothing consumption, and exposes affiliates to investment risk and longevity risk. However, this type of pension allows people to retain ownership of their funds. For its part, a pension based on annuities covers the affiliate against the life-expectancy risk but exposes affiliates to the high risk associated with the economic cycle at the affiliate's moment of retirement.

The pension system includes rules that affect men and women differently, to the detriment of women. This includes the mortality tables that are used to calculate pensions which are based on the different life expectancies of men and women (currently, according to the INE, life expectancy at birth is 76 years for men and 81 years for women). This, coupled with the different legal retirement ages for men and women (65 and 60, respectively), mean that women both have a shorter period in whichto accumulate savings and a longer life expectancy at retirement. The consequence of both rules is that there is a large disparity in the self-funded pensions between men and women with similar histories of contributions. This disparity is exacerbated by longer periods of unemployment in their career histories (associated with the unequal distribution of caregiving and household duties) and more precarious working conditions that affect women who participate in the labor market. These factors lead women to accumulate lower amounts in their pension fund accounts. Finally, it should also be noted that although the Grant per Child introduced by the 2008 reform acted as partial recognition of caregiving of children, the grant is insufficient to fully recognize the unpaid caregiving work for children, older people, people with disabilities and chronic illnesses (work done primarily by women).

The cost to the state of the 1981 transition (in recognition bonds, operational deficit and the state minimum pension guarantee) became an annual cost of almost 5% of GDP in 1984. This has declined as most of the costs associated with change in system have been paid off. The pension reform of 1981 (Decree No. 3,500) required massive public investment. Only the political conditions in Chile during the eighties made it possible to adjust the fiscal budget sufficiently to generate the necessary headroom to implement the transition between the two schemes. The fiscal cost of the reform was taken on by the state through a combination of tax reforms, spending cuts and debt issuance. It is estimated that a significant part of the financing of the transition has been paid by current generations who have experienced the fiscal adjustments, even though the cost of the transition will only be fully paid off around 2050.

The costs associated with the current system arising from the 2008 reform are calculated separately. The explicit guarantees and funding in the Budget Law every year has sustainably financed the Pension Reform of 2008, and actual spending has been lower than projected. The Solidarity Pillar is financed by the State from general funds raised through taxes, which in turn come from the income tax (43%) and value added tax (45%).

In the context of the current results of the system, the Survey on Opinions on the Pension System carried out by the Commission revealed a marked absence of social legitimacy. A high percentage of the population believe that only a complete change in the AFP system would help improve pensions (72%) and believe that most of the responsibility for low pensions lies with the AFPs (66%). Nevertheless, 79% of survey respondents agree with the creation of a State AFP and 69% would transfer their funds to it if it existed. In the Citizen Participation process, according to the reports from the citizen dialogues and public hearings, the majority of participants criticized the system of individual capitalization, because of its origins under the dictatorship, the promises it has failed to fulfill with regards to the replacement rate, and because of how it operates. Particularly in the Public Hearings, participants indicated that the current pension system does not adhere to the principles of solidarity, sufficiency and universality established in Convention 102 on Social Security ILO.

III. The nature of the modifications that the pension system needs

There is consensus within the Commission regarding the need to increase the pensions of current retirees, and to create the conditions in which that future pensioners can access better pensions. There is also consensus that, in light of the Commission's assessment of the current system in Chile, achieving this objective will require reforms. What, however, is the nature of these reforms? How structural do the changes need to be?

From the discussions held in its plenary sessions, the Commission categorized the views expressed by various Commissioners into three positions (called global proposals). The development of each proposal was entrusted to different Commissioners, who fleshed out the proposals in greater detail, so that they could eventually be analyzed in depth in the last plenary meeting of the Commission in late July. The three positions were called global proposals A, B and C, respectively. In summary, each proposes the following:

» **Global proposal A** fulfils the presidential mandate building on the 2008 reforms, by strengthening the solidarity benefits, improving the savings element and gender equality, while maintaining critical incentives for savings, investment, and economic growth that allow for the financing of future pensions.

» **Global Proposal B** seeks to increase the legitimacy of the system and integrate the principles of social security by creating a component of social security based on solidarity between members and between generations.

» **Global Proposal C** seeks to respond to the views expressed during the public participation process by transforming the system into one that is purely pay-as-you-go.

A brief description of the key elements of each proposal is as follows:

Global Proposal A

Global proposal A fulfils the presidential mandate by building on the 2008 reforms through mutually-reinforcing policies, that are introduced gradually and that are designed to stand the test of time, so that the system pays higher benefits today and can keep its promises to future pensioners. The proposal strengthens solidarity benefits, by (1) significantly increasing the solidarity pension and (2) making the benefit universal. It finances the increase (3) through increased taxes and (4) a new 2% employer contribution to the Solidarity Fund. It introduces major reforms to the savings element by introducing (5) a new 2% employer contribution to AFP accounts and (6) a new government AFP with strict rules of governance, and (7) takes further action to reduce charges. It improves gender equality by (8) sharing partners' pension contributions on a year-by-year basis, (9) over time, equalizing retirement ages between men and women and (10) mandating the use of unisex life tables.

Global Proposal B

Global Proposal B transforms the current solidarity pension scheme into a social security component that becomes the central part of a pension system with tripartite financing. This component is organized through citizen social security accounts (which may take the form of notional accounts), and will maintain both the basic solidarity pension and the individual capitalization accounts for the highest incomes of about 50% of workers. The proposal will increase the pensions of current pensioners by creating a solidarity fund with contributions from workers, employers and state resources. It will universalize coverage of the basic solidarity pension, except for those with very high incomes. The new social security component will be financed with contributions of 10% from all contributors (up to a cap of $350,000), as well as with a three to four percent increase in the contributions from employers, and with complimentary support from state contributions. The new social security component will facilitate the inclusion of self-employed workers, alleviate gender inequalities, improve inter- and intra-generational solidarity in the system, diversify risk exposure and centralize the administration of accounts.

Global Proposal C

Global Proposal C suggests replacing the current system with a Pay-as-you-go scheme. It assumes that all affiliates of the current AFP pension system, with their contributions and funds, will be transferred into the new system, in exchange for better, more defined, lifelong, non-discriminatory pensions. The PBS and very low old PAYG pensions will be immediately raised by at least 100%. The full amount of contributions will be used as income to pay contributory pensions, with no State subsidies. The current real retirement age (currently 70 years old) will be reduced to the legal retirement age (65/60 years old), and then will not be changed at all (in an alternative scenario, the age could be gradually raised only by two years starting in 2030). On average, retirement benefits would be increased by 75-100%. Contribution rates will not be raised until 2035, and then will be increased to 25%. No additional taxes are needed; on the contrary, direct and indirect cash subsidies will be terminated immediately, generating an annual fiscal savings of 1.8 per cent of GDP.

Global proposal A was supported by 12 commissioners: Orazio Attanasio, Nicholas Barr, David Bravo, Martin Costabal, Carlos Diaz, Costas Meghir, Olivia Mitchell, Carmelo Mesa-Lago, Ricardo Paredes, José Luis Ruiz, Jorge Tarziján and Sergio Urzúa.

Global proposal B was supported by 11 commissioners Cecilia Albala, Fabio Bertranou, Hugo Cifuentes, Regina Clark, Christian Larrain, Veronica Montecinos, Joakim Palme, Marcela Rios, Claudia Robles, Claudia Sanhueza and Andras Uthoff.

Finally, global proposal C was supported by a commissioner, Leokadia Oreziak.

As a result, the Commission does not support global proposal C, which proposes to replace the current system with a pay as you go system (PAYG). The Commissioners' main reasons for opposing this proposal included:

a) Proposal C transfers all the deposits and savings, which are currently the property of the workers who made those contributions, into the PAYG system, without compensating the workers for taking their individual accounts;

b) The proposal requires an abrupt and large increase in the amount of contributions and taxes while the reserves are depleted;

c) Moving to a fully PAYG system reduces saving and investment, which is highly problematic given that the workforce is facing a decline;

d) The assumptions that the proposal makes are overly optimistic: increases in the contribution rate and the retirement age that are not feasible, optimism with regards to increasing labor formality and conservative assumptions with regards to the coverage of seniors. These assumptions produce a parametric reform to make the system meet the proposal's objectives but the bases of these assumptions are outside what can be realistically expected from the Chilean labor market; and

e) The problematic assumptions described in d), cast doubt on the financial sustainability of proposal C.

With respect to the other global proposals, 12 Commissioners supported Proposal A and 11 supported Proposal B, which is why the Commission does not consider the issue to be resolved.

The arguments made by the 12 commissioners who supported proposal A over proposal B are summarized as follows:

Proposals A and B suggest broadly the same increase in benefits. The fundamental difference is how to finance the increase. Proposal A is designed not only to pay higher benefits now but also to ensure the ability of the system to pay promised pensions in the future. There are four sets of objections to proposal B:

a) *The proposal reduces saving and investment, harming future living standards and making it harder to finance future pensions;*

b) *In addition, in the face of a decline in the labor force, a system based on notional defined-contribution accounts (NDC) has an inbuilt growing deficit, creating a downward spiral towards higher taxes or to further reductions in saving or failing to keep pension promises;*

c) *Administrative costs, including set up and running costs, are significant;*

d) *The redistributive effects of the proposal are poorly defined.*

For its part, the arguments of the 11 commissioners who supported Proposal B over Proposal A are as follows:

Proposal A maintains most of the characteristics of the current pension system and is insufficient to fulfill the objective of sustainably improving the system's coverage and pension amounts. Proposal A:

a) *Fails to appreciably improve the pensions of current and future pensioners;*

b) *Does not create a new social contract that would give the pension system legitimacy;*

c) *Given this context, the proposal does not allow for the creation of opportunities for a social consensus to accept the parameter changes required to provide the system with long-term viability;*

d) *Continues to put most of the risks of investment on workers in the sense that they are the ones who must face the uncertainty of benefits from a contributory component that is entirely capitalized;*

e) *Does not reverse the current major gender inequalities;*

f) *Does not generate adequate incentives to increase the participation of self-employed workers in the pension system, nor does it increase the density of contributions for all workers*

g) *Does not reduce system costs by centralizing the system's administration in a way that would take advantage of economies of scale.*

For her part, the only commissioner who supported proposal C, criticized both the proposals A and B:

» *Proposal A aims to maintain the current system design at the cost of greater fiscal cost of subsidies, increases in the contribution rate and the retirement age.*

» *Proposal B is incapable of resolving the principle problems of the current system.*

The Commission's report presents the above proposals and the debate within the Commission.

IV. The Commission's proposals and specific recommendations

In conjunction with its work on the global proposals, the Commission worked on the development of specific recommendations, an essential aspect of the President's mandate.

In order to determine what would constitute a "Commission proposal", the Commissioners agreed that a proposal must be supported by at least a majority (half plus one) of the Commissioners, i.e., by 13 people.

It should be noted that each Commissioner discussed and voted on the specific proposals in light of the global proposal that they supported.

Of all of the proposals that were analyzed, the Commission approved a total of 58, making those proposals the "specific recommendations".

The proposals are presented below, grouped according to their objectives:

A. Strengthening and expanding the Solidarity Pension System

» ***Proposal 1:*** *Expand the Solidarity Pensions System to cover at least 80% of the population.*

» ***Proposal 2:*** *Increase the amount of the Basic Solidarity Pension and Maximum Pension with Solidarity Contribution by 20%.*

» ***Proposal 3:*** *Change the mechanism for accessing Solidarity Pensions System benefits, from the current Instrumento Técnico de Focalización (a means test) to an affluence test.*

» ***Proposal 4:*** *Review current mechanisms for targeting non-contributory benefits, through more effective application and periodic verification.*

B. Strengthen the contributory pillar, expanding coverage and contribution density

» ***Proposal 5:*** *Create an institution able to pro-actively coordinate policies for bringing affiliates into the system and collecting contributions.*

» ***Proposal 6:*** *Maintain the obligation for self-employed workers to make social security payments, as stipulated under Law 20,255 adapting its gradual implementation.*

» ***Proposal 7:*** *Remove a range of disincentives to contribute, associated with other social programs such as FONASA, Family Allowances, and the assignment of a score to access the benefits of the Solidarity Pillar.*

» ***Proposal 8:*** *Modify the formula for the Social Security Targeting Score (Puntaje de Focalización Previsional) so as not to deter beneficiaries from joining the formal labor market.*

C. Increase savings in the contributory pillar

» ***Proposal 9:*** *Establish a new social security contribution payable by employers, amounting to 4%.*

» ***Proposal 10:*** *Establish that at least a portion of the higher contribution of 4% paid by the employer will go to a solidarity fund.*

» ***Proposal 11:*** *Consider a transition period of at least four years for the proposed increase in the contribution rate, in order to reduce the negative effect on the labor market.*

» ***Proposal 12:*** *Establish a regulation that limits the portion of a worker's income that is not subject to social security deductions.*

» ***Proposal 13:*** *Increase and standardize the ceiling for pension contributions from the current limit (73.2 UF) to the ceiling currently in effect for unemployment insurance (109.8 UF).*

» ***Proposal 14:*** *Create a Social Security Division as part of the Labor Department, reporting to the Office of the Undersecretary of Social Security on all matters related to declarations, payments, oversight, and collections regarding social security.*

» ***Proposal 15:*** *Increase the currently low fines on employers who withhold funds from workers' incomes and then fail to pass on workers' social security contributions.*

» ***Proposal 16:*** *Extend the period of compulsory contribution to the age of actual retirement from the labor market, in cases where that age is older than 60 for women and 65 for men.*

» ***Proposal 17:*** *Introduce changes in APVC regulations, so as to increase the number of companies and unions that join this voluntary saving mechanism.*

D. Increase the legal retirement age and introduce incentives to work by older persons

» ***Proposal 18:*** *Match the retirement age of men and women.*

» ***Proposal 19:*** *Periodically review the retirement age.*

» ***Proposal 20:*** *Incorporate an incentive for those beneficiaries of the Solidarity Pension System who postpone their retirement age.*

» ***Proposal 21:*** *Establish a subsidy to encourage the employment of older people similar to the current Youth Employment Subsidy.*

» ***Proposal 22:*** *Establish high-quality jobs for senior citizens as an objective of labor policy and develop specific programs for this age group.*

E. Reduce the risks to which affiliates are exposed

» ***Proposal 23:*** *Delegate relevant decisions regarding the investment regime to the Technical Council on Investments, which will require expanding its powers.*

» ***Proposal 24:*** *Allow a greater proportion of investment to be made in real assets (alternative assets and investment funds) and find new ways to limit difficulties caused by the absence of continuous market valuation of these assets.*

» ***Proposal 25:*** *Develop new instruments to invest in national production, specifically ones that can benefit small and medium-sized businesses.*

» ***Proposal 26:*** *In the context of the current five multifunds, restrict access to Fund A.*

» ***Proposal 27:*** *In the context of the current five multifunds, reduce the maximum risk exposure of workers' pension savings, beginning when they are twenty years from retirement age.*

» ***Proposal 28:*** *Decrease the number of multifunds from 5 to 3 (eliminating Funds A and E).*

F. Increase competition in the AFP market

» ***Proposal 29:*** *Extend the current bidding process that covers all new affiliates to include some existing affiliates, using a mechanism to be defined.*

» ***Proposal 30:*** *Require AFPs, rather than affiliates, to absorb brokerage fees.*

» ***Proposal 31:*** *Create a state AFP which will compete on an even playing field with the other AFPs, in conformity with the legislative proposal before Congress.*

» ***Proposal 32:*** *Allow nonprofit entities whose sole purpose is to manage pension funds to enter the pension fund industry.*

G. Reduce the gender gap

» ***Proposal 33:*** *Eliminate usage of sex-differentiated mortality tables.*

» ***Proposal 34:*** *Establish that, in the case of divorce, the division of pension funds, if considered by a judge, should be in equal parts.*

» ***Proposal 35:*** *Establish shared pension funds. We propose that 50% of the mandatory pension contribution be deposited in the individual account of the spouse or partner in a relationship of cohabitation.*

» ***Proposal 36:*** *Establish social security compensation for caregivers.*

» ***Proposal 37:*** *Increase the coverage of quality early education, helping women to enter the workforce.*

H. Expand and integrate public policies for older people

» ***Proposal 38:*** *Create a Comprehensive Protection System for Older Persons.*

» ***Proposal 39:*** *Create and implement a dependency law.*

» ***Proposal 40:*** *Promote the creation of day centres.*

I. Improve social security institutions, promote social participation and welfare education

» ***Proposal 41:*** *Strengthen and broaden the scope of the powers of the Advisory Council on Social Security (Consejo Consultivo Previsional).*

» ***Proposal 42:*** *Review the constitution, powers, functions, sustainability, and integration of the current Users' Commission.*

» ***Proposal 43:*** *Strengthen the Instituto de Previsión Social.*

» ***Proposal 44:*** *Convert the Superintendence of Pensions into a Pensions and Insurance Commission.*

» ***Proposal 45:*** *Develop social security education programmes.*

» ***Proposal 46:*** *Establish that Pension Fund Administrators (AFPs) must maintain welfare education programs.*

» ***Proposal 47:*** *Identify and implement strategic objectives, goals, and indicators for the program and for the achievements associated with the Welfare Education Fund (Fondo de Educación Previsional, FEP).*

» ***Proposal 48:*** *Transform the current FEP into a resource fund for pilot intervention programmes.*

J. Reduce uncertainty regarding benefits

» ***Proposal 49:*** *Eliminate programmed withdrawal pensions.*

» ***Proposal 50:*** *Restructure the current System for Consultations and Offers of Pension Amounts (SCOMP) to allow for a bidding process for offers for annuities.*

» ***Proposal 51:*** *Modernize insurance company regulation by converting it into a risk-based capital system.*

» ***Proposal 52:*** *Evaluate the use of life expectancy tables differentiated by educational level or average income.*

» ***Proposal 53:*** *Review current mortality tables, aligning them with life expectancies as published by the INE.*

K. Safeguard and standardize social security rights

» ***Proposal 54:*** *Repeal the wording of Article 12 of Decree Law 3500 that makes the disability benefit incompatible with the old age pension, ensuring that the amount of the disability benefit does not decrease when an affiliate access their old age pension.*

» ***Proposal 55:*** *Review qualification mechanisms, standardizing disability percentages, procedures, and the institutions empowered to classify cases in the two systems.*

» ***Proposal 56:*** *Increase the contributions paid by workers and their employers for heavy work and moderately heavy work.*

» ***Proposal 57:*** *Establish that the benefits received under Laws 19,123 and 19,980 (the Rettig Laws), Law 19,234 (Exonerated Political Prisoners Law), and 19,992 of 2004 (Valech Law) should be classified as reparations—not as pension benefits—thereby improving beneficiaries' access to solidarity benefits.*

» ***Proposal 58:*** *Although the mandate of the Commission refers to Decree Law3500 and Law 20,255 (on the civilian pensions system), the Commission considers that the Armed Forces, Carabineros, and similar bodies should, in general, receive the same treatment regarding affiliation and contributions as other workers, in accordance with the specific characteristics of their occupation.*

V. The expected impact and fiscal cost of the Commission's recommendations

The Commission conducted a first analysis of the expected impact and the fiscal cost associated with the 58 specific proposals recommended by the Commission. The analysis should be considered preliminary, particularly with regards to the projected impacts, which should be refined to consider all the proposals simultaneously.

The Commission estimates the annual fiscal cost at 0.4% of GDP (which corresponds to about 1 billion US dollars).

Additionally, the Commission estimates that these proposals, if implemented, would lead to increases in pensions and replacement rates. The latter would be increased in the case of men by about 13.5 percentage points, while the increase in replacement rates for women would be around 29 percentage points.

COMISIÓN PRESIDENCIAL PENSIONES