

Chile's Social Security Coverage Incentive Scheme

MDC Design to Increase Coverage

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Background

- Labor Force (2010) 7.917.590
 - Unemployment rate 7.2%
 - Participation rate 59%
 - Male 73%
 - Female 47%
 - Dependent Workers 74%
 - Independent Workers 20%
 - Employers 5%

Chile's Pension System

- Mandatory Defined Contribution for all dependent workers (capped at monthly wage of US\$3.000)
 - 8.9 mn. participants of which 55% contribute and 6.1 mn under 45
 - 900.000 old age retirees and 120.988 disability retirees
 - 10% into individual pension account.
 - 1.49% survivorship and disability insurance
 - 1% management fee
 - (7% health insurance + 1.6% unemployment insurance)
 - Total contributions 21,1% of wage
- Social & Supplementary Pensions for pensions below US\$540, 1.023.363 beneficiaries (624.000 minimum pensions)
- Armed Forces (annual subsidy of US\$2 bn.)
- Voluntary Pension Savings Scheme.

Chile's Pension System

- Pension Reform of 2008 introduced social security contributions for independent workers.
 - 2011 87.325 registered voluntarily (of which 86.802 women) and about 25% contribute
 - 2012-2014 required to contribute to pension scheme for 40%, 70% and 100% of income unless opting out
 - 2015 required to contribute to pension system
 - 2018 required to contribute to health system

Pension Adequacy

- Individual Voluntary Pension Savings Scheme with about 517.000 members
 - Tax deferred, or
 - Public matching of 15% of contribution with a maximum of US\$410 or 10 times the mandatory contribution
- Employer sponsored Voluntary Pension Savings Scheme with 87.000 members
 - Same benefits for employee
 - Employer contribution counts as deductible expense

Programs to Increase Coverage

- The pension reform of 2008 introduced a scheme to subsidize pension contributions of young workers to promote formal employment of the young , improve coverage of th pension scheme and increase adequacy of pensions. (Law 20.255)
- Another new more generous scheme for the same purpose started operating in July 2009 (Law 20.338)
- Both schemes operate side by side but beneficiaries can claim benefits in only one scheme

Program Design

	Law 20.255	Law 20.338
Start	Subsidy to employer: October 2008 Subsidy to worker: July 2011	Subsidy to employer and worker: July 2009
Age Requirement	18 to 35 years	18 to less than 25 years Extension for maternity and education (expires at age 21 if secondary education incomplete)
Targeting	None	First 2 quintiles according to Vulnerability measure; (in fact 52% of population) 65% of target = 251.000 workers
Wage requirement	Less than 1.5 monthly minimum wages (US\$550)	Less than 2.25 monthly minimum wages (US\$825) (measured as average for the year)

Program Design

	Law 20.255	Law 20.338
Length of benefit	24 first contribution payments, continuous or discontinuous.	No limit as long as above requirements are fulfilled
Benefit	5% of a minimum wage (50% of pension contribution) paid to employer and 5% into worker's pension fund account starting July 2011	Subsidy of 30% of minimum wage (20% for worker and 10% for employer) for wages up to 1.25 minimum wages and same amount less 30% of the difference of actual wage less 1.25 minimum wages. At 2.25 minimum wages the subsidy is 0.

Program Design

	Law 20.255	Law 20.338
Type of worker	Dependent	Dependent workers under labor code Independent workers that pay income tax and are current with their contributions for pension and health insurance.

Difference in Access

- Young workers that have access only to benefits of Law 20.255 are
 - Low wage workers that do not belong to two most vulnerable quintiles
 - Workers age 25-35 that have not made 24 contributions
 - Workers not under labor code like public administration workers

Coverage of the Programs

	20.255	20.338	20.255	20.338	20.255	20.338
Coverage (paid sub.)	2009	2009	2010	2010	2011	2011
Quarter 1	11.225		12.481	58.158	805	56.574
Quarter 2	7.490		15.870	53.526		
Quarter 3	13.068		3.782	52.130		
Quarter 4	20.783	71.987	1.881	55.215		
Cost US\$ Mn.	1.8	11.1	1.3	28	0.045	6.5

Issues

- Relevance: 1.4mn. workers up to age 25 and 3.4 mn. Up to age 35 have had formal jobs and 46.196 new ones got a formal job in March 2011.
- Political use
 - New scheme (20.338) started payments 3 month before elections and peaked right before elections with twice as many subsidies paid then registered workers.
 - Increased education requirements start 2 years later
- Evaluation of impact difficult
 - 486.000 new jobs in 2010
 - Almost simultaneous and massive launch of 2 programs with 20.338 dominating 20.255
 - Large social pension scheme of 1mn. beneficiaries

Issues

- Targeting
 - Targeting mechanism is weak resulting in very large cohorts of people in vulnerable quintiles
 - Early to say, but use peaks in summer during students vacations
- Regional coverage
 - 97% of beneficiaries of 20.255 in capital district (40% of working age and total population)
 - 46 % of beneficiaries (50% of funds) of 20.338 in capital district
 - Of 64.352 public work jobs 12.7% in capital district

Questions & Next Steps

- Targeting
 - How to target?
 - Targeting indicator? Is Vulnerability the right indicator?
 - Achieve representative regional distribution?
- Evaluation of impact already underway for 20.338
- Close 20.255? Merge? How? Transition?
- Control political use, just 15% of target potential universe covered as of today
- Impact of mandatory contributions of independent workers?

Thank you