

As from October:

Employers will have a Pension Subsidy for Young Workers

- **The Government will give employers money equivalent to 50% of young people's pension contribution, calculating the percentage on the basis of a minimum monthly wage.**
- **As from July 2011, young workers will receive a government subsidy that will enable them to increase their pension savings.**
- **The subsidy will benefit both companies and low-income earners who are between 18 and 35 years of age, and will continue for the first 24 contributions.**

Las Contributions paid in during the first stage of the working life have a great influence on the amount of the future pension. For this reason, the Government will be paying a pension subsidy on the first 24 contributions paid by young workers with low incomes. This will consist of a payment for hiring and another for contributing.

The subsidy on hiring, which will benefit the employer, seeks to encourage the hiring of youngsters and provide incentives for formalizing work; while the subsidy on contribution, which favours the workers, seeks to increase the social security coverage and pension funds of this group of workers, and hence their future pensions.

With the subsidy on the contribution of young workers, the first 24 contributions may reach around 15% of the worker's wage. This higher contribution may mean an increase of up to 5% in the final pension.

As from October 2008, employers will be entitled to a subsidy, funded by the Government, equivalent to half the pension contribution on a minimum monthly wage (\$7,950 per month¹, 5% of the minimum wage) for each young worker between 18 and 35 years of age who has a contract and who is earning no more than 1.5 times the minimum wage. At today's values, the government assistance will be for those young workers whose monthly wage is no more than \$238,500.

As was mentioned above, this subsidy will begin to operate in October this year. In order for employers to obtain the corresponding money from the Government, they will have to provide proof of having paid these workers' contributions

¹ The Minimum Wage amounts to \$159,000, so the 10% corresponding to the pension contribution is \$15,900. The subsidy is half this contribution, in other words, \$7,950.

and apply for the benefit from the Social Pensions Institute (SPI), the government body that will administer this benefit.

Once this benefit has been in effect for two years and eight months, in July 2011 in other words, another benefit will begin to operate to complement that of the employers. This bonus will be paid directly into the young workers' individual capitalization accounts and will consist of half the pension contribution.

As regards the subsidy on the pension contribution to be paid by the Government into young workers' individual accounts, the AFPs will not be allowed to charge commissions when entering these contributions in the account.

Does this benefit favour the worker or the employer?

The subsidy benefits both the worker and the employer. One part helps to fund the cost of hiring young workers, while the other part of the subsidy, which will begin to operate in 2011, is deposited in the worker's individual capitalization account.

Who will be entitled to this subsidy?

The subsidy on hiring will favour employers who have hired young workers, whose wages do not

exceed the limit laid down in the law for access to the benefit.

The subsidy on contribution, meanwhile, will benefit young employees with low incomes.

What are the requirements demanded of the young worker?

Young people entitled to the subsidy must be between 18 and 35 years of age; have less than 24 contributions in the AFP System; receive an income less than or equal to 1.5 times the minimum monthly wage (\$238,500 at present).

What are the requirements demanded of the employer?

In order to qualify for the subsidy, the employer must pay the social security contributions corresponding to the worker concerned, within the deadline laid down in the law. The worker must have a contract and must meet the age, income and contribution conditions.

How is the two-year contribution requirement worked out?

The law states that the two years of contribution in the AFP System may be continuous or discontinuous. The benefit is given until the first 24 contributions are complete, regardless of whether there are gaps or periods without contributions in between.

“Subsidy for employers comes into effect on 1st October 2008 and subsidy for young workers on 1st July 2011”

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Is “months of contribution” the same as the number of months since joining the AFP System?

No. A worker may be a member and not pay contributions. For purposes of this subsidy, what matters is the number of months for which contributions have been paid.

What happens if a worker who is entitled to the subsidy changes his/her job?

If he/she meets the requirements, he/she will continue to be entitled until the 24 months of contributions in the AFP System have been completed.

Is the benefit lost when a worker receives a pay-rise?

The benefit remains the same in value and duration if the worker's wage rises above 1.5 times

the minimum monthly wage, up to twice the minimum wage (\$318,000), provided that the increase occurs as from the thirteenth month after he/she began to receive the benefit.

Do employers receive the subsidy in cash, or will they have to deduct it from taxes, as happens with other subsidies?

They will receive the Government benefit in cash. The Ministry of Labour will issue regulations to govern the procedures, and the form and occasion on which it will be granted.

Is the subsidy for the employer automatic when he/she hires a young worker?

It is not automatic. The employer must pay the social security contribution and then apply to the Social Pensions Institute (SPI) (the current INP), to recover 50% of the contribution.

The subsidy on contribution will be deposited in the worker's individual capitalization account.

What happens if the employer does not apply for this benefit?

As was mentioned, application must be made for the subsidy – it does not operate automatically. If the employer does not ask for it, he/she will not have the contribution reimbursed.

As regards the subsidy on contribution, which favours the worker, either the employer or the worker must apply for it at the SPI.

What happens with the subsidy if the employer does not deposit the contributions on time?

If the contributions are not paid within the period established by the law, the employer will not be able to collect the subsidy, since proof of payment of the contribution is a requirement.

When will the subsidy on young workers come into force?

The subsidy for employers will come into force on 1st October 2008. The subsidy on contribution will be valid as from 1st July 2011.

What happens about young workers who were hired before 1st October 2008 and who meet the requirements?

The law does not distinguish between workers hired before or after the date when the benefit comes into force. From the above, the conclusion is that employers and workers who meet the requirements will qualify, regardless of the date of hiring.

How does the worker receive the subsidy on contribution?

The Social Pensions Institute (SPI) will deposit the money directly in the individual capitalization account of the enrolled worker, once the benefit has been requested and proof provided that the requirements have been met.

What happens if fraudulent information is given in order to qualify for the subsidy?

The offender loses the benefit and risks a minor prison sentence and fine for criminal deception, under article 467 of the Penal Code. In addition, he/she must return the benefits fraudulently obtained to the SPI, with readjustments and subject to penal interest.