



## **AFP Association**

### **The New Life Annuities Law**

The Law, which came into force in its entirety on 19<sup>th</sup> August 2004, aims to improve a series of aspects in the sphere of pension system benefits, all of which contribute towards improving the amount of pensions.

### **Main Changes**

**1) An Information System is set up for those members who decide to retire. It is called the Pension Consultations and Offers System (SCOMP).**

The AFPs and insurance companies are responsible for providing all the information, so that future pensioners are in a position to take a decision with better, easily comprehensible information about the various pension modes.

This new tool serves to correct aspects of information asymmetry between members and pension providers, reduces intermediation costs and gives all pension providers the same access to data about potential pensioners.

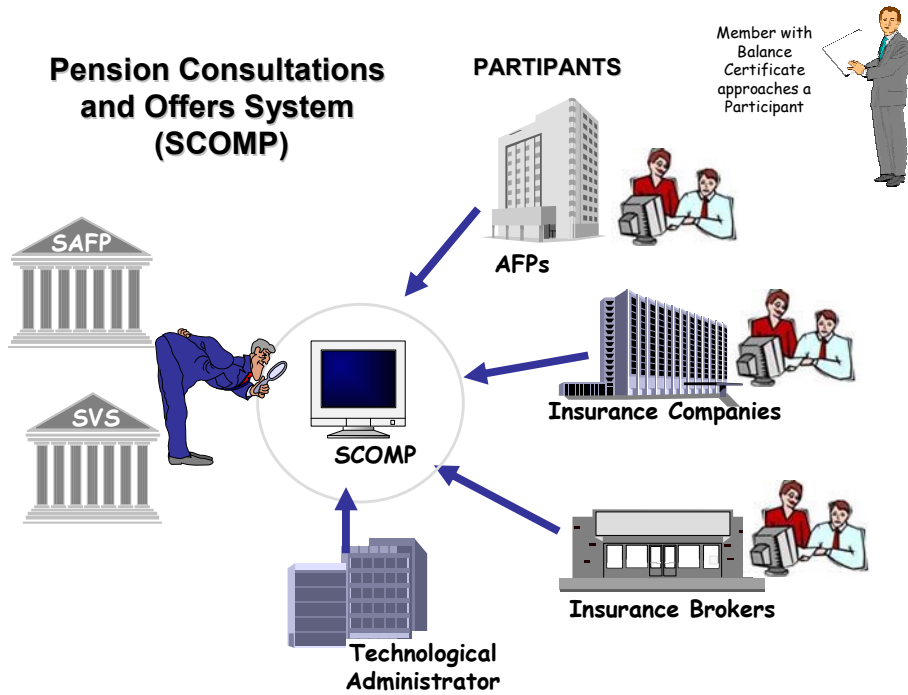
The AFPs will send members information so that they can draw up a “public list of members who are eligible for pensions”.

People who do not wish to be included in the list must state this in writing to their AFP.

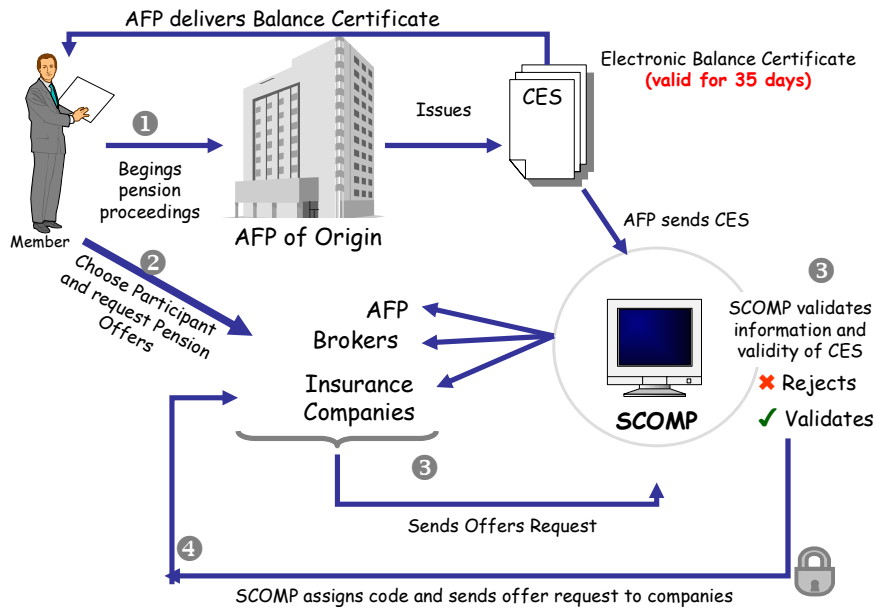
The AFPs, insurance companies and insurance brokers will use this information in order to make pension offers.

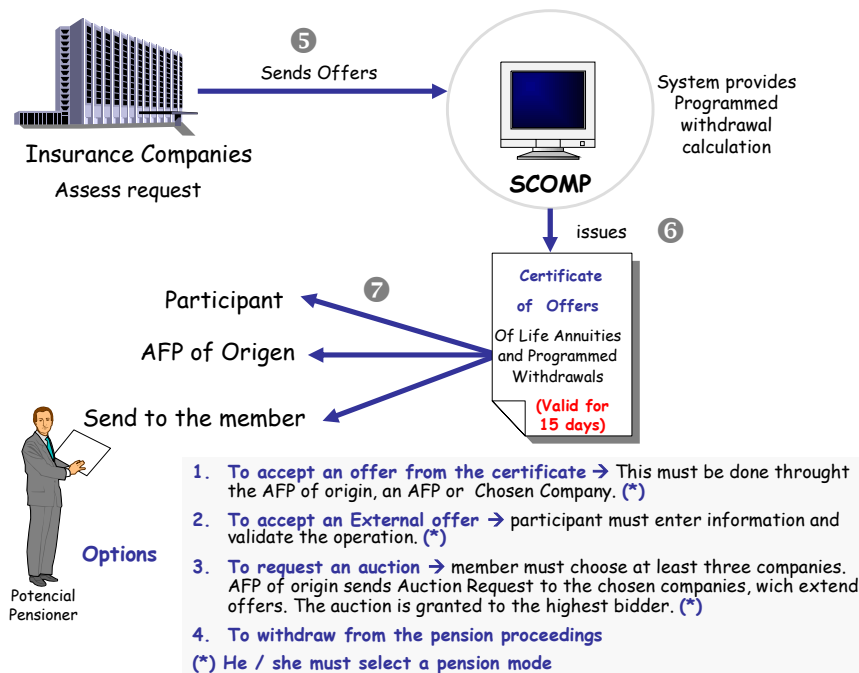
To enable them to draw up the public list, the AFPs will send a notification to members who are in any of the following situations:

- Those within twelve months of reaching the legal age for retiring on grounds of old age
- Those who have a sufficiently large balance to enable them to take early retirement
- Those who have applied for a reassessment on grounds of disability
- Those who have applied for an old-age, early retirement or survivorship pensions.



### Steps for Obtaining a Pension in the SCOMP





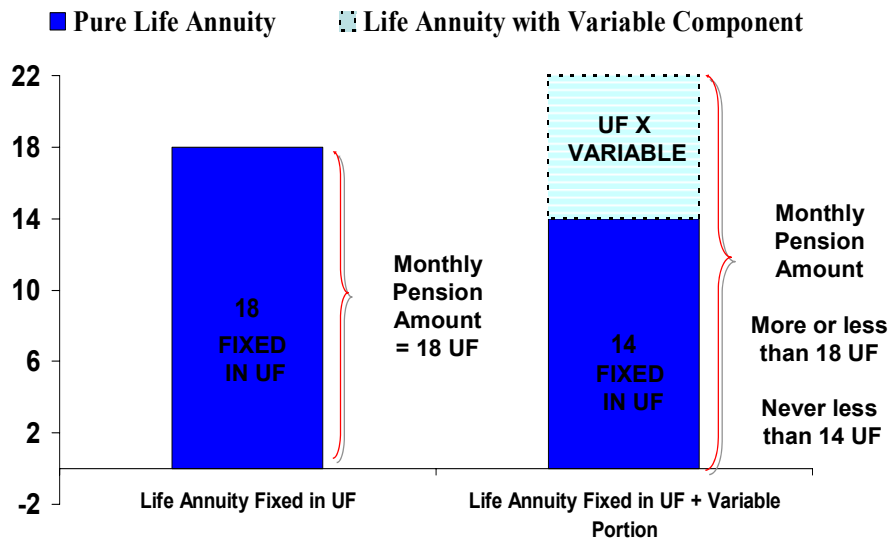
## 2) A new pension mode is introduced called Programmed Withdrawal with Immediate Life Annuity

This mode allows the worker to obtain two pension payments simultaneously. To do this he/she must divide his/her savings between the insurance company with which he/she signs a contract for a life annuity pension and the AFP from which he/she will receive a programmed withdrawal. This mode enables the risks of longevity and yield to be spread in a different way.

## 3) A new type of life annuity is introduced

Traditionally, life annuities taken out by members remained fixed at a certain amount expressed in UF. This change in the law now makes it possible to obtain a life annuity with a percentage that is variable. This means that the total amount of the pension will be made up of a fixed value, plus a value which will be variable and which can be invested in currencies or financial indexes. In other words, the pensioner can participate in the risk of future yield with a part of his/her pension.

## New Type of Life Annuity



#### 4) Modifications are introduced in the requirements for early retirement

Prior to the change in the law, the requirements for early retirement stipulated that the pension amount had to be:

- Equal to or greater than 50% of the average taxable income for the past 10 years, updated for inflation.
- And/or equal to or greater than 110% of the minimum pension guaranteed by the State.

The modification increase these values to 70% and 150% respectively.

So, in order to take early retirement, the pension must be equal to or greater than 70% of the average earnings of the past 10 years and/or equal to or greater than 150% of the minimum pension guaranteed by the State.

With regard to this, it is worth mentioning that:

- a) Members who are 10 years or less away from legal retiring age, in other words, 60 for women and 65 for men, will continue to be governed by the old requirements.

b) For people who are 11 years or more away from reaching legal retiring age, the requirements will be increased gradually according to the following table:

#### REQUIREMENTS FOR TAKING EARLY RETIREMENT

<b>GRADUAL INTRODUCTION OF REQUIREMENTS FOR TAKING EARLY RETIREMENT</b>			
FROM	UNTIL	Taxable Earnings For the past 10 years	Current Minimum Pension
	18 <sup>th</sup> august 2004	50%	110%
19 <sup>th</sup> august 2004	18 <sup>th</sup> august 2005	52%	110%
19 <sup>th</sup> august 2005	18 <sup>th</sup> august 2006	55%	110%
19 <sup>th</sup> august 2006	18 <sup>th</sup> august 2007	58%	130%
19 <sup>th</sup> august 2007	18 <sup>th</sup> august 2008	61%	140%
19 <sup>th</sup> august 2008	18 <sup>th</sup> august 2009	64%	150%
19 <sup>th</sup> august 2009	18 <sup>th</sup> august 2010	67%	150%
19 <sup>th</sup> august 2010	From now on	70%	150%

\* The calculation formula for deciding the average taxable income was modified.

#### **5. The coverage of the Disability and Survivorship Insurance was improved**

Until the change in the rules on 19<sup>th</sup> August, the coverage of the disability and survivorship insurance was linked directly to the payment of contributions. In other words all workers who were contributing regularly obtained 100% of the benefits included in the insurance. However, workers who were unemployed for a period of 12 months had a lower coverage, so their pensions were less. The change in the law increases the amount of pensions for unemployed workers, bringing them up to the same level as workers who are contributing regularly.

For more detailed information, see our Research Series N° 44.