

Annual Report 2006

ASOCIACION
AFP
25 años 



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I. President's Letter

The activities of the AFP Association during the year 2006 were concentrated on the reform of the "Chilean Pension System", proposed by the Government. It was a year of intense activity, dedicated to examining and debating the role, strengths and sphere of action of the AFPs and Pension Funds, as also their benefits. This work had an influence on the process prior to the design of the proposals for change and also when these were made known to the public and entered the process of parliamentary discussion.



The whole organization, with the firm backing of its members, worked hard on researching and debating the different issues relevant to our pension system. Looking back at what was achieved during this period, it is possible to note various events of particular importance. In synthesis, we formed a favourable opinion of what had been achieved, bearing in mind that the prospects open at the beginning of the year were quite gloomy, in view of the extremely unfair judgments passed by certain sectors in the political debate which preceded the technical scrutiny of the System.

The first thing to be underlined is that it was finally possible to persuade a high proportion of the actors and leaders of public opinion, including distinguished specialists in social security, that the Chilean pension system is based on the "Three Pillar" scheme advocated by the World Bank. In this architecture, the AFPs manage the Second Pillar of Saving and Individual Capitalization, and play an important role in the Third Pillar of Voluntary Pension Saving. The First Pillar corresponds to the Government's subsidiary action, and focuses on providing resources for those people who, for a variety of reasons, were unable to accumulate savings for their old age. The second is the mechanism that allows people to save systematically for their retirement and, by means of capitalization, can actually generate pensions that have a high correlation with the working wage.

This distinction is fundamental for any diagnosis, because it enabled an evaluation to be made of the work carried out by the AFPs during these 25 years in the sphere which really corresponds to them, and made it possible to correct a serious error of judgment, which involved blaming the AFP System for the situation of people with very few contributions, or even none at all, over long years, a problem that is far outside the scope of the system and the companies involved in it.

A complete, substantive presentation was made to the Presidential Advisory Commission for Pension Reform, providing both that Commission and the news media with technical studies on specific aspects of the Chilean Pension System, carried out by distinguished economists, for widespread publication. Well-founded opinions were issued via the press, thereby contributing to a



technical debate that was open, thorough, transparent and constructive.

The regular provision of material such as the Research Series, reports on Multi-funds, etc, continued with special force, containing information and opinion on different topics concerned with the saving and capitalization system, in an attempt to enable people with influence over public opinion in different areas to achieve a better understanding of the system.

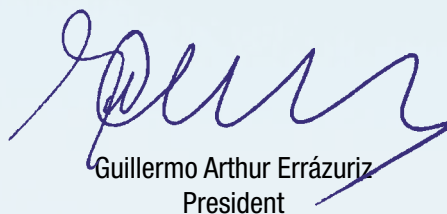
Meanwhile, contacts were made with representatives of political parties, members of parliament, trade union and business leaders, with the aim of establishing channels of fluid communication, helping towards solving legitimate queries, providing data and achieving improvements that make an efficient contribution towards improving pensions for Chilean workers. This national objective has been central in guiding the actions of our institution throughout its history and is one of the attributes that has given it greater credibility and strength.

Another point worth emphasizing is the increased awareness achieved with regard to the importance of the yield that can be obtained with members' savings and the consequent need to make the Funds' investment margins wider and more flexible, especially abroad, in order to establish a better balance between yield and risk.

It seems to us that that the State and the private sector have worked and can continue to work adequately towards the objective of achieving better pensions for Chilean workers. To do so, there must be clear recognition of the areas in which each can make its best contribution and the story of past schemes, detrimental to the workers' welfare, must not be forgotten. These claimed to protect the workers, but in practice provided high benefits for just a few and extremely low standards of welfare for the majority.

In 2006 we worked arduously and with enthusiasm on the development of the Pension System based on Saving and Individual Capitalization. We also highlighted those aspects of the proposals that represent progress in the protection of Chilean workers.

With the trust that our members have placed in us, their support, and the conviction that we have managed to create a first-class system of contributory pensions, we shall continue with the mission that we have set ourselves, with confidence that we shall achieve the best results.



Guillermo Arthur Errázuriz
President

Chilean AFP Association



II. Presentation

The Association of Pension Fund Administrators is a trade association that includes all the AFPs in the country. It was set up in October 1981, five months after the new Social Security System came into force.

Distinguished personalities have presided over our Association:

- Ignacio Cousiño A. (1983 - 1985)
- Gustavo Vicuña S. (1985 - 1986)
- Sergio Baeza V. (1986 - 1988)
- Germán Molina M. (1988 - 1990)
- Francisco Pérez M. (1990 - 1991)
- Sergio Baeza V. (1991 - 1994)
- Pedro Corona B. (1994 - 1999)
- Guillermo Arthur E. (1999 to the present)

In over 25 years of operation, the AFP Association has played a very significant role in making the System known and in improving it by contributing ideas and projects on the basis of continuous, active internal debate. It has also increased its sphere of action to a notable extent, acquiring solid prestige with the general public and with authorities both inside and outside the country.

The Association has striven ever since it began to contribute towards creating a true social security culture in society as a whole and, particularly, among the members and pensioners of the System.

The Association relates with the world of work, the authorities and other trade institutions in a thorough, professional manner, giving priority to dialogue with other people.

Objetives

The main objectives of the Association as defined in its by-laws, are:

- To make the Social Security/Pension System known among enrolled members and the general public.
- To forge stronger links between the member AFPs.
- To establish, administer and maintain such services of common interest as member AFPs may require.
- To represent member AFPs before public authorities and other institutions.
- To sponsor all measures that allow member institutions to contribute more effectively to the increase of national prosperity.
- To maintain relations with equivalent institutions in other countries.
- To study and implement procedures designed to improve the performance of member AFPs in their task of pension fund management.



Administrators



Bansander S.A. was set up on 26th March 1981

It has 713,332 enrolled members and manages funds of US\$10,834 million.



Cuprum S.A. was set up on 28th April 1981

It has 517,767 enrolled members and manages funds of US\$16,472 million.



Habitat S.A. was set up on 21st January 1981.

It has 1,859,265 enrolled members and manages funds of US\$20,851 million.



Planvital S.A. was set up on 3rd April 1981.

It has 401,470 enrolled members and manages funds of US\$3,066 million.



BBVA Provida S.A. was set up on 1st April 1981.

It has 3,232,131 enrolled members and manages funds of US\$27,479 million.



ING AFP Santa María S.A. was set up on 20th January 1981.

It has 959,486 enrolled members and manages funds of US\$ 9,930 million.

The savings managed by the AFPs in December 2006 amounted to US\$88,632 million, the assets being divided between the five types of fund in existence.

VALUE OF THE FUNDS' ASSETS IN MILLIONS OF US\$						
Pension Funds	Fund A	Fund B	Fund C	Fund D	Fund E	Total
BANSANDER	2.688,15	2.640,41	4.474,55	900,01	131,06	10.834,18
CUPRUM	4.087,72	3.818,20	6.692,35	1.593,75	279,59	16.471,61
HABITAT	3.611,97	5.191,01	9.589,28	2.074,20	384,36	20.850,82
PLANVITAL	429,19	553,50	1.547,38	488,99	46,50	3.065,96
BBVA PROVIDA	4.494,44	6.101,43	13.241,09	3.216,11	426,09	27.479,16
ING SANTA MARIA	1.546,89	2.070,52	4.795,57	1.373,62	143,45	9.930,05
TOTAL	16.858,36	20.375,47	40.340,22	9.646,68	1.411,05	88.631,78



III. The Association's Board of Directors

The Board of Directors of the Pension Fund Administrators Trade Association is made up of members who represent the country's AFPs. As of 31st December 2006, the following administrators formed part of this Association: Bansander, Cuprum, Habitat, Planvital, BBVA Provida and ING Santa María.

Boards of Directors



Guillermo Arthur E.
Chairman



Gustavo Alcalde L.
First Vice-Chairman



Sergio Baeza V.
Second Vice-Chairman



Antonio Ortúzar S.
Director



Ernesto Silva B.
Director



José Antonio Guzmán M.
Director

Board meetings are held monthly. The Managing Director and Legal Advisor of the AFP Association also attend.



IV. Organization and Administration

Management Structure



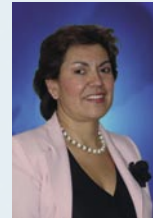
Francisco Margozzini C.
Managing Director



Héctor Humeres N.
Legal Advisor



Fernando Ávila S.
Operations Manager



Clara Gallardo P.
Administration and Finance
Manager



Roberto Fuentes S.
Research Manager

Operational Structure

The Association and its members base their working structure on four specific committees:

- **Managing Directors' Committee**
Made up of the top executives of the various administrators. It is chaired by Manuel Antonio Tocornal (AFP Cuprum). This committee is coordinated by Francisco Margozzini C.
- **Legal Advisors' Committee**
This is composed of the lawyers responsible for the legal departments of the different administrators. This committee is coordinated by Héctor Humeres N.
- **Investment Managers' Committee**
This is made up of the professionals responsible for the investment area of the various administrators. This committee is coordinated by Roberto Fuentes S.
- **Operations Managers' Committee**
This is made up of the executives responsible for this area in each administrator. Its chairman is Juan Carlos Reyes M. (AFP BBVA Provida), and its Vice-chairman, Sergio Solari (AFP Habitat). This committee is coordinated by Francisco Margozzini C.



V. Goals and Objectives 2006

During the annual meeting of the industry, the VI Reflection Symposium, the Board of the Association and the top executives of the administrators defined the strategic objectives of the Trade Association's actions for the period 2006. The following strategic objectives were established:

1. To participate actively in improving the Pension System based on its three pillars.
2. To promote a social security culture based on the three pillars (25 years)
3. To make the achievements of the AFP System more widely known and improve its image.
4. To encourage the participation of its members.
5. To seek to make the AFP System more efficient.

In consequence, the activities carried out by the Trade Association during the year 2006 were directed towards achieving the proposed objectives. Special attention was given to the participation of the AFP Association in the sessions held by the Presidential Council for Pension Reform, chaired by economist and former Director of Budgets, Mario Marcel.

The assertions of the Trade Association were very well received by a number of actors, especially our views regarding the diagnostic error that had occurred in the evaluation of the performance of the Pension System based on Saving and Individual Capitalization. It should be remembered that the second half of 2005 was marked by a fierce public debate in an agitated electoral climate. In that context, various political actors criticised the System with inadequate technical precision and a large number of proposals aimed at capturing support and votes.

The Presidential Commission for Pension Reform, appointed by the President of the Republic, formed itself into an instance with a high technical level, which also brought together specialists with different views and sensitivities. That commission prepared a report with its reform proposals and these were passed to a Committee of Ministers. This Committee made a final proposal to the President of the Republic's office, for decisions to be taken.

In December 2006, the President of the Republic, Michelle Bachelet, sent the Pension Reform Bill to the National Congress.

With regard to this, the AFP Association declared that:

- We see the improvement of the "First Solidarity Pillar" as a highly positive move. It recognises the need to provide support for those



people who, for various reasons, were unable to contribute regularly for their old age.

- We particularly value the recognition given to the Second Contributory Pillar operated by the AFPs, by offering government subsidies to encourage independent workers, young people and women to enter the system.

However, we repeat our strong disagreement with the notion of bidding for members, because this restricts young people's individual freedom, guarantees market shares by law and concentrates attention on price, whereas yield is the more relevant variable for the final pension.

We also regret the fact that there is no mention of a correction of the tax discrimination that currently affects the workers' Pension Funds, in connection with the dividends received on the investments in shares of Chilean companies – with damage estimated at 1,600 million dollars.



• **The AFP Association Attends the Marcel Commission**

On Monday 17th April, the President of the AFP Association, Guillermo Arthur, accompanied by the Managing Director, Francisco Margozzini, explained the sector's positions to the members of the Advisory Commission for Pension Reform.

The Trade Association's presentation produced a high level of interest among specialists and the general public, as being the most complete presentation and the document most frequently requested, with 4,072 transfers, on the web page created expressly by the advisory commission for pension reform.

The AFPs appreciated the setting up of this commission and considered it to be particularly important, recognising the high technical skill of its members in dealing with subjects that definitely contribute towards improving the functioning of the three pillars of the pension system, while extending its benefits to a larger number of Chileans. The work carried out allowed the country, its authorities and leaders, to recognise the strengths of the saving and capitalization system.

The Trade Association underlined that fact that permanent, systematic contribution, together with yield, are the most important factors in obtaining good pensions. One extra point of yield over 35 to 40 years means a 30% increase in the pension.

The industry's interest in taking part in this process has been to improve the pension system. Generating ideas and making contributions to improve the quality of pensions has been a constant feature of the Association. Thus the ideas of Multi-funds, the expansion of investment margins and the APV



have arisen from the industry itself, all changes directed towards improving pensions.

The professional quality of those involved in this commission was a guarantee that their suggestions would contribute towards the improvement of pensions for the Chilean public.

- **Contacts with the Press**

In view of the high visibility acquired by the subject of social security in the political campaigns, the Association adopted a selective, technical strategy, choosing those topics defined as strategic for the system.

In this respect, it is worth mentioning that 8 press releases and public statements were issued, in addition to specific contacts and a number of interviews with spokesmen of the nationwide press, radio and television.

In addition, representatives of the Association had contacts with representatives of regional journalism, in the context of the training seminars held during the year.

In addition to the above, the Association's executives continued their collaboration with the press on technical matters normally required by the media throughout the year.

- **International Investment Seminar**

The International Seminar entitled "Pension Fund Investment Perspectives" was held on 18th and 19th May in Casa Piedra. This was organized jointly by the International Federation of AFPs and the AFP Association, with speakers from Latin America, Europe and the USA, and attended by almost 500 executives, both local and foreign.



The experts agreed that yield is the most important factor in obtaining good pensions and that investment abroad should be increased. The foreign specialists also expressed the interest of the international community in the improvements to the Chilean system.

- **Improvement of Investment Limits and Risk Control**

The Association's Investment Managers' Committee commissioned a study on making investment limits more flexible and analysing metrics of financial risk for pension funds.

This document will be presented in order to contribute to the improvement of legal and regulatory norms to be drawn up in the future.



- **Reflection Symposium**

This year, the VI Reflection Symposium was held in Viña del Mar on 12th and 13th April, with Presidents and Managing Directors of the AFPs taking part. This occasion constitutes a fundamental activity, both for the union between the administrators to achieve common goals, and for its contribution towards the analysis and solution of a number of strategic issues in the industry.



- **Seminar in Regional and Social Security Consultations**

Over 800 people, including social workers, union officials and personnel from the areas of payroll and human resources in companies, received instruction on social security topics throughout the country, by means of three training and dissemination seminars about the AFP System. The events, organized by the Association, were held in Puerto Montt, La Serena and Antofagasta.

In addition, talks were given in various companies, trade unions and universities, both in Santiago and in regions, with about 500 people taking part.



- **Study on Consequences for Chile if the Pay-as-you-go System had Continued**

Rodrigo Cerda, economist and lecturer from the Catholic University, carried out a study commissioned by the Trade Association, entitled “Pensions in Chile: What would have happened without the 1981 Reform?”

The study analyses the situation of the Pay-as-you-go Pension System prior to the 1981 reform, and projects it to the year 2050; analysing the fiscal sustainability of the pay-as-you-go system, the coverage and amounts of pension; as also its impact on the accumulation of capital, employment and the gross domestic product (GDP), i.e. its macroeconomic effects. One feature of Cerda’s work is that it includes the deep demographic changes that have occurred in the country in the past few decades.

The main conclusions of the document are that, if Chile had continued with the pay-as-you-go system that was in force up to 1981, the country would have faced a growing fiscal deficit with an extremely low level of workers protected by the system. Up to 70% of them would have been receiving minimum pensions in the period 1991-2000, and economic expansion would have been weakened, resulting in an income of less than US\$521 per inhabitant per year, equivalent to a per capita income 8% lower than that received in the year 2005.

In addition, the coverage of the state pay-as-you-go system would only have reached one third of the population of retirement age and the amount of the pensions would have oscillated between 30% and 52% of the income of



the working population. With the old funds (cajas), the economy would have been unable to provide employment for about 350 thousand people who are employed at present.

Pensions in Chile: What would have happened without the 1981 reform?

	Without 1979 reform	With 1979 reform
RESULTS OF THE OLD PENSION SYSTEM		
Coverage of pensioners	Between 28% and 39%	Between 34% and 39%
Minimum pension (2025)	70% to 30%	70% to 47%
Replacement rates	Between 30% and 52%	Between 30% and 40%
MACROECONOMIC RESULTS		
Fewer jobs	-550,000 (-10.1%)	-348,000 (-6.3%)
Annual fiscal deficits	Up to 8% GDP in 2050	Up to 8% after 2050
Lower GDP per capita (year 2005)	-US\$730 (-10%)	-US\$521 (-8%)
Less capital stock (2005)	-11.7% of GDP	- 9.7% of GDP

Source: Working document N° 310 Catholic University of Chile

- Highway Billboards**

The practice of renting advertising spaces on highways continued, to inform the public about the investments being made by the Pension Funds in highway construction concession companies. The billboards, which enable people to see the AFPs' contribution to the country and the destination of the pension resources, were maintained on the following highways: Ruta del Sol (Santiago - San Antonio Highway), Ruta del Pacífico (Santiago – Valparaíso), Ruta 5 Sur (Talca – Chillán section and Chillán – Collipulli section), and new advertising support was added on the Autopista del Bosque (Los Angeles, Eighth Region) and La Araucanía (Temuco, Ninth Region).



- Research Series**

For the eighth consecutive year we continued regular publication of the Research Series. This consists of technical information leaflets directed towards members of parliament, government authorities, universities, leaders of public opinion, journalists and the general public, and deals with current topics referring to the AFP System.

Seven documents were published in the research series, dealing with the following topics: Pension Funds have Financed the 14 Main Infrastructure Projects in Roads and Transport; New Decision from the SAFP: Women who are Divorced or whose Marriages have been Annulled are not Entitled to a Widow's Pension; Government Spending on Pensions will Fall Sharply and Free Up Funds for the Solidarity Pillar; Strong Recovery by AFP Savings Accounts; Workers and Businessmen Seek a Solution for Tax Damages affecting AFP Members; Limits on Investment Abroad Damage Yield and Distort Local Market and What does a State AFP Contribute to Workers' Efforts to Save for Pensions?

These research papers are distributed by electronic mail to the press and to various leaders of public opinion, with a circulation of about 4,700.





Ranking

Fondos	Porcentaje	Porcentaje	Porcentaje
A	15,22%	12,12%	10,55%
B	11,82%	12,12%	13,22%
C	11,72%	8,12%	12,12%
D	11,62%	8,12%	12,12%
E	7,44%	7,72%	10,91%

Fondos Promedio Por Afiliados

Año	2002	2003	2004	2005	2006
Porcentaje	4,4	4,4	4,4	4,3	4,3

- **Analysis of the Multi-funds**

For the fourth year running, we continued to produce the Quarterly Bulletin on Multi-funds, which shows the latest results and trends of the various portfolios managed by the AFPs.

During the year 2006, the Bulletin carried the following front-page headings: Half the Social Security Savings are in Local and Foreign Equity Securities; First Six Months of 2006: the Most Volatile Period since Multi-funds began; Multi-funds: Four Years of a Reform that has been Successful for Members, and Multi-funds: Limits on Investment Abroad Urgently Need to Expand in Order to Achieve Better Yields.

In this case, distribution to the press and various leaders of public opinion is also by electronic mail, with a similar circulation to that of the research series.

- **Bulletin for Workers**

Preparation of the Bulletin “ComunicAFP” continued, this publication being directed towards union officials, social workers, heads of personnel in businesses, leaders of public opinion, social communications media and the general public. The bulletin aims to be a contribution to Chilean workers’ social security culture. It deals with social security matters of interest to the public. This leaflet has a circulation of 5,000 in hard copies and 4,700 by e-mail.

- **Web Site**

The web site includes a wide variety of publications produced by the Association, among them the Multi-Funds Bulletin, the Research Series, the ComunicAFP Bulletin, and Press Releases. It also includes the main characteristics of Voluntary Pension Saving (APV), the Multi-funds, Statistics, the AFP Pensioner Program, etc. Since 2004 the site has a version in English with the main publications.

- **Direct Mailing**

During 2006, the association increased its database, to the extent that today it has 7,100 registrations, of which 66%, i.e. 4,700 registrations, have e-mail. In the course of the year, a total of 31 publications were distributed by electronic mail in a direct, timely manner, at low cost, among them research series, press releases, the Comunica AFP bulletin, the Multi-funds bulletin and the Executive bulletin.



VI. The AFP System in Figures

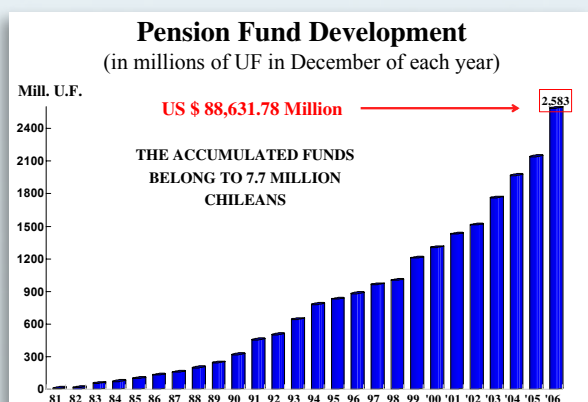
The performance of the Pension System of Saving and Individual Capitalization, in its 26 years of operation, has been more than satisfactory. One of the key variables, yield, has shown results far above those forecast when the system began, achieving gains for the pension savings of UF + 10% as an annual average by the end of 2006, a return that any other investment alternative would find difficult to match.

The yield is a determining factor in contributory pension systems with individual capitalization, because after 30 or 40 years of paying contributions into personal accounts, the profit made by the investments practically triples the amounts obtained by the accumulation of members' contributions alone. It therefore has a heavy impact on the final pension benefit.

One of the most effective improvements, which has benefited the yield of the pension funds, is undoubtedly the Multi-fund System. This has made it possible to augment members' savings accounts and improve the pensions of those who are already receiving benefits today. What has been achieved is very positive, but more progress can be made and a movement towards new improvements is urgent. Increasing investment limits abroad, making investment rules more flexible, creating risk indicators that are easy to understand and are delivered to members in a timely manner, is essential. At the same time, workers' social security culture needs to be increased, not only because saving and capitalization are in themselves a scheme with certain complexities, but also because this way of approaching future pensions needs members to take decisions.

Funds under Management

As of 31st December 2006, the Pension Funds had accumulated assets equivalent to US\$88,632 million.



Note: The above chart shows the development in the size of the Pension Fund in "Unidades de Fomento", which avoids the effect of the strong swings in the exchange rate that have occurred in recent periods.



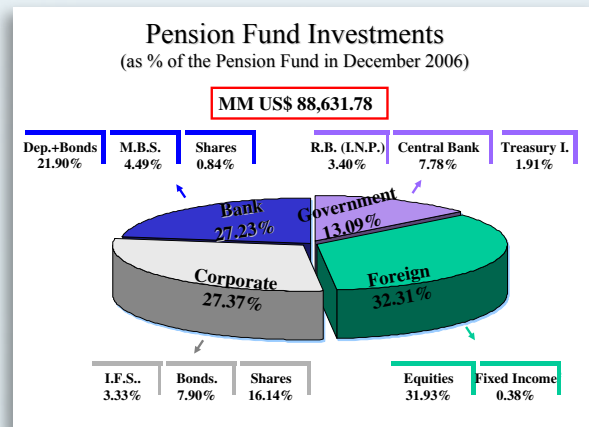
The total value of the Funds shows a real increase of 20.73% compared with the total in December 2005, which amounted to US\$73,416 million. This increase is explained in part by new collections from contributions, which amounted to almost US\$3,500 million in the years, and the rest by the effect of the yield on the fund under management which, on average, amounted to +17.04% over inflation.

Pension Fund Investments

Of the total pension funds, US\$46,281 million were invested in equities and US\$42,349 in fixed income.

US\$59,897 million was invested in Chile and US\$28,639 million abroad, investment that yielded +29% over inflation.

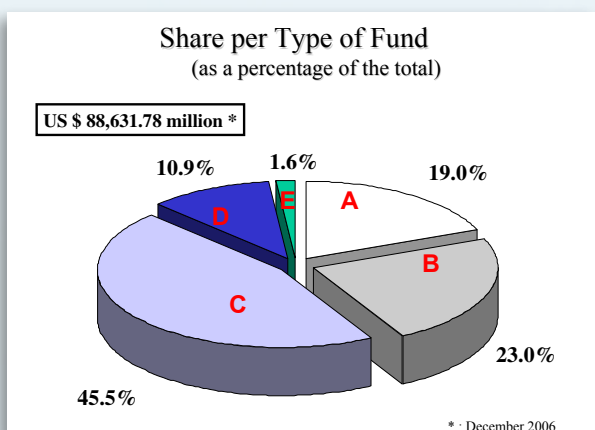
70% of the US\$59,897 million invested in Chile is in Fixed Income instruments, the majority of them long-term, which yield an average of 3.5% per year in real terms. There are also US\$15,500 million in time deposits in the financial system, which have produced around UF + 4.5% in the past year.



Multi-Funds

The Multi-funds System, which came into operation in 2002, has been a key factor in raising the yield of the workers' savings.

Of the total pension funds in December 2006, US\$16,858 million corresponded to assets of the A-Type Pension Funds, US\$20,375 million to the B-Type Funds, US\$40,340 to the C-Type Funds, US\$9,647 to the D-Type Funds and US\$1,411 million to the E-Type Funds.



The start of the Multi-funds in the year 2002 coincided with a very favourable economic cycle, both locally and internationally. The emerging markets were particularly dynamic, with share markets recording high profits. In 2006 alone there are stock exchange indexes that gained over 100% in a year, such as Peru, Venezuela and China. In Chile, meanwhile, investment in shares yielded + 37%.

Foreign Investment

Investments abroad, especially those in emerging economies, played a vital role, even though they represent around 30% of the total, about US\$28,600 million.

As of December 2006, 70% of investment abroad was located in countries that obtained returns of over 13.4%, calculated as world average performance.

The greater percentage of investment abroad is in developed economies (51%), with 47% in emerging economies.



Foreign Investment by Zone December 2006

GEOGRAPHICAL ZONE	MM US \$	%
EMERGING ASIA	5.789,6	20,2%
EUROPE	5.219,8	18,2%
DEVELOPED PACIFIC ASIA	4.850,1	16,9%
NORTH AMERICA	4.399,1	15,4%
LATIN AMERICA	4.086,4	14,3%
EMERGING EUROPE	3.139,2	11,0%
OTHERS	633,7	2,2%
MIDDLE EAST-AFRICA	511,9	1,8%
TOTAL MM US \$	28.629,7	100%
TOTAL DEVELOPED	14.468,9	51%
TOTAL EMERGING	13.527,1	47%
TOTAL GLOBAL	633,7	2%
TOTAL	28.629,7	100%

Investment abroad by currency was concentrated in United States dollars and Euros, and the investment vehicle preferred by the Chilean funds are international mutual funds (95% of foreign investment).

Yield of Pension Funds

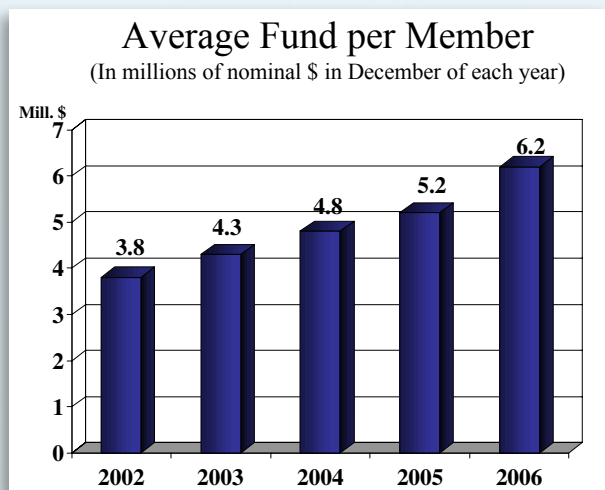
The year 2006 saw the completion of a cycle, lasting just over four years, of high yields for the Multi-fund System. From September 2002 to December 2006 the average annual yield of all the funds has been very positive, with a maximum of UF + 17.17% for the A-Type funds and a minimum of UF + 3.73% for the E-Type funds.

Real Yield of the Multi-Funds (deflated by the variation in the UF during the period)

	Jan.-Dec. 06 (year)	Sept. 02.-Dec. 06 (annualised)	Sept. 02.-Dec. 06 (accumulated)
A	22,25%	17,17%	96,65%
B	18,83%	12,18%	63,29%
C	15,77%	9,12%	45,11%
D	11,46%	6,81%	32,48%
E	7,44%	3,73%	16,91%

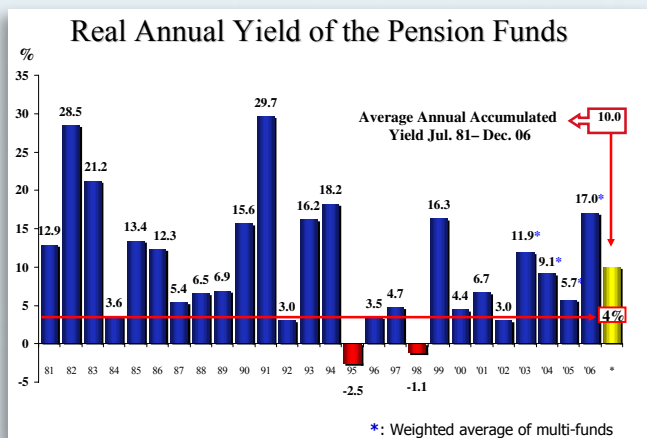


These good results are reflected in the growth of the average pension fund per member. Thus between the year 2002 and 2006, the workers' accounts grew from \$3.8 to \$6.2 million, showing an average increase per member of 2.4 million pesos.



As already mentioned, yield is a key factor in pension systems based on saving and capitalization. One percentage point of increased annual profit can raise the amount of the pension, after 30 or 40 years of saving, by between 25% and 30%.

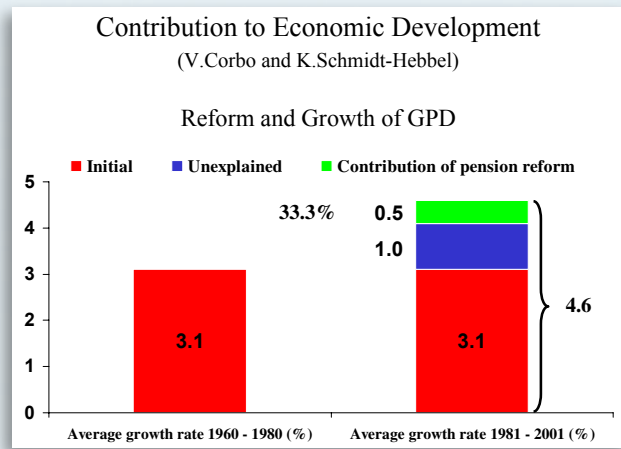
In view of the importance of this aspect, the balance of the yield obtained by the pension funds in these 26 years may be evaluated as satisfactory, since it has averaged 10% per year in real terms. We know that the experts reckon 4% or 5% of yield to be sufficient to finance pensions with a replacement rate of around 70% of average earnings.





Contribution to Economic Development

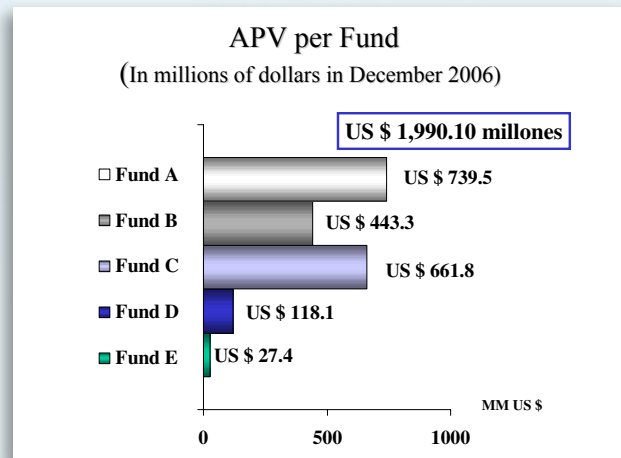
The System of Saving and Capitalization in individual accounts has made an important contribution to Chile's economic development and continues to do so through the investments it makes. Economists Vittorio Corbo and Klaus Schmidt-Hebbel calculate that a third of the increased growth rate of the GDP (amounting to 1.5 percentage points) between the years 1981 and 2001, compared with the rates for the years 1960 to 1980, had its origin in the positive influence of the AFP System on savings and investment, the capital market, activity and employment.



Voluntary Pension Saving (APV):

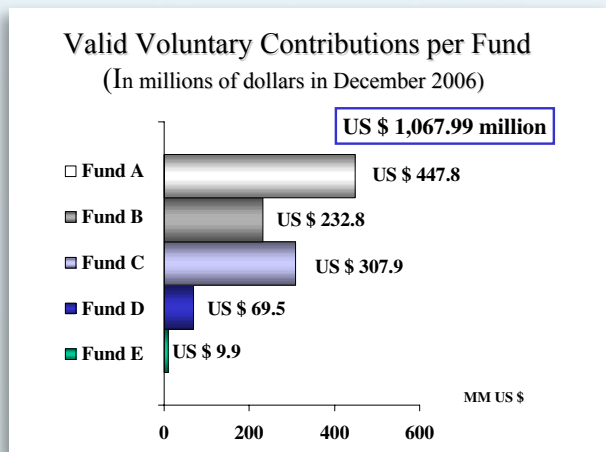
Voluntary Contributions and Agreed Deposits

The accumulated balance of APV in the AFPs in December 2006 was US\$1,990.10 million, showing an increase of US\$537 million compared with the amount accumulated in December 2005, US\$ 1,453.10 million.

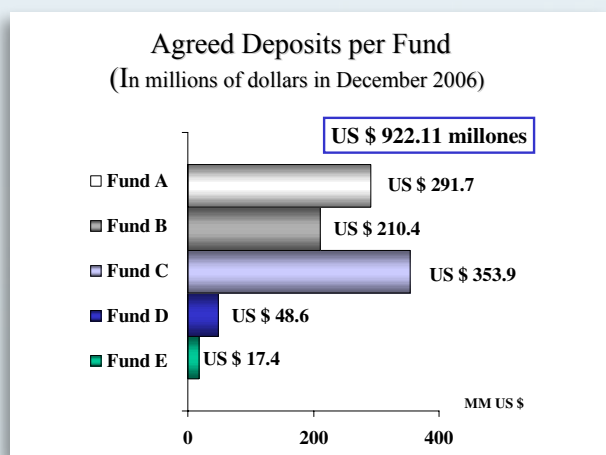




The total of the savings in APV is made up of US\$1,068 million in Voluntary Contributions and US\$922 million in Deposits Agreed with the employer.



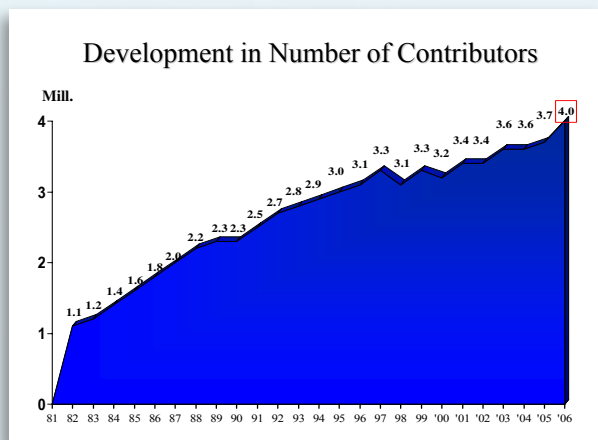
The balances accumulated in both Voluntary Contributions and Agreed Deposits showed an increase of 37% in December 2006, compared with what was recorded in the same period of 2005, implying an increase of US\$290 million for Voluntary Contributions and US\$247 million for Agreed Deposits.



The total balance of voluntary pension savings in December 2006, managed by all the industries authorised by the SVS, amounted to US\$2,719 million, of which the AFPs manage 73.2%.



Likewise, the number of contributors in the month of December 2006 amounted to 3,956,992, meaning an increase of 4.6% compared with the month of December in the previous year, when there were 3,784,141.



This increase in the number of contributors can be explained by the variation that occurred in the number of people actually in work in the November - January 2006 quarter, compared with the same period in 2005. This number increased by 7.5%, equivalent to 446 thousand additional people.

By occupational category, the number of wage-earners (dependent workers) grew by 9.1%. This increase is very important for the pension system, because practically 100% of all those contributing in the AFPs are dependent workers.

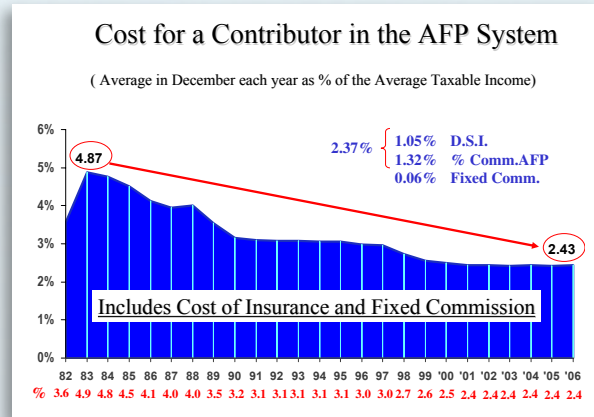
In this same direction, the increase in the number of members and contributors is a result of the greater dynamism being experienced by the country's economic activity, where the unemployment rate fell from an annual average of 7.9% in 2005 to 6.0% in 2006.

Commissions

As of December 2006, the downward trend of the commissions that AFPs charge their contributors has continued. Between 1983 and the present day, these have fallen from 4.8% of taxable income to 2.4%, a decrease of 50% over that period.



Note: The average commission of the System in December each year, weighted by the number of contributors. Includes the percentage commission based on the worker's earnings and the average fixed commission, weighted by the number of contributors. The fixed commission is paid out of each contributor's monthly contribution.



It is worth emphasizing that a disability and survivorship insurance is included in the commissions paid by contributors to the AFPs. A contract is signed between the AFPs and the insurance companies for this insurance, which complements the payment of pensions in case of a claim for the member and his/her family. The cost of this insurance has tended to rise, showing an increase of 4% in the past year alone.



VII.- Other Activities Carried Out by the AFP Association during the Year 2006

- **Disability Assessment System**

A slight increase (1.4%) was recorded in the number of applications entered under the heading of Disability Assessment, compared with the same period in 2005. In fact, 13,305 applications were presented during 2006 whereas this figure was 13,125 in the year 2005.

On the other hand, the rate of approval per thousand members was 1.28, a lower figure than that reached in the year 2005, which was 1.30. This represents a reduction of 1.54%.

The approved cases, covered by the insurance, increased by 4.1% in relation to the year 2005.

The rate of appeal presented by the Insurance Companies – SMO – increased from 19% to 20.3%.

During the year 2006, the Pension Fund Administrators dedicated UF149,785 to funding 104,729 instances of medical attention required by both the Regional Medical Boards and the Central Medical Board in order to study each of the disability pension applications. These figures represent a decrease in relation to what happened in 2005. In fact, the number of instances paid for was 109,608, costing a total of UF 158,072, meaning a decrease of 5.3% and 4.46% respectively. The average unit cost of the medical services remains practically constant.

In the same way, and responding to the philosophy of always providing members who apply for a disability pension with the best service, the offices of the Medical Board in Chillán moved into new premises and the offices in Puerto Montt were extended.

- **Meetings**

The Association's board and main executives met during the year with: authorities, members of parliament, executives of the Social Security system and various actors in the financial area.

Among the most important were the meetings held with Osvaldo Andrade, Minister of Labour and Social Security, Lissette García, Undersecretary of Social Security, Paulina Veloso, Minister and General Secretary to the Presidency, Solange Berstein, Superintendent of AFPs, Monsignor Alejandro Goic, of the Chilean Episcopal Conference, and with members of parliament



from all political parties. Meetings were also held with union leaders from the Central Unitaria de Trabajadores and the Confederación de la Producción y el Comercio.

Our Association received foreign visitors, including a delegation from Montenegro (ex Yugoslavia), executives of the Accumulating Pension Fund of Kazakhstan, the director of the AFP Banco Nacional de Fomento de Ecuador, the commercial manager and finance manager of BCR Pensiones of Costa Rica, a delegation from the People's Republic of China, headed by the Deputy Minister of Labour and Social Security of that country, executives from the National Pension Commission of Nigeria and AFP Vida Plena from Costa Rica.

We were also visited by a delegation of journalists from South Korea and students from the University of Tennessee, the University of Florida, the University of Princeton and the University of Pennsylvania.

- **Centre for Corporate Governance**

On 12th January, an Agreement was signed by the Catholic University of Chile, the SOFOFA, the Santiago Stock Exchange, the Santiago Chamber of Commerce, the Chilean-North American Chamber of Commerce and the AFP Association, in the Main Building of the Catholic University, to set up a "Centre for Corporate Governance". The purpose of this organisation is to be an instance to analyse, study, expand and debate ideas on the governance of firms and businesses. It seeks to develop, encourage and promote good practices in the country in terms of corporate governance. Francisco Rosende, Andrés Concha, Edmundo Hermosilla, Guillermo Arthur, Cristián Eyzaguirre, Antonio Martínez, René Cortázar and Sergio Undurraga (chairman) were appointed as the first board of directors.

- **Information for our Associates**

During the year 2006, we continued to publish the "Executive Bulletin" regularly. This is an internal bulletin directed towards the main representatives of the AFPs, which sums up the main activities being carried out by the Trade Association. The Bulletin is an electronic publication which is sent out once a month.

- **Follow-up of Draft Laws**

The Association continued to follow up legislation and study Draft Laws and initiatives that concern the AFP System. This activity makes it possible to formulate instructions, suggestions and proposals for improving regulations.



- **Companies linked with the Corporate Purpose**

- A) Unemployment Fund Administrator**

This is a company that belongs entirely to the AFPs; in its few years of operation it has accumulated savings of US\$ 1,034 million. During the year 2006 it covered the 4.6 million members, 2.4 million contributors and made 1 million remittances worth US\$170 million.

- B) DCV Investments**

Through this company, the AFP holds a 30% share of the ownership of the Central Securities Deposit (DCV), which is a fully-consolidated business with very positive results. It provides custody, either physically or intangibly, for almost all the instruments in the local capital market.

- C) Previred**

This is a company with a web-site belonging to the AFPs, which enables the contributions of all the Social Security institutions to be collected electronically. By this means the employer can pay their workers' social security contributions to the AFPs, Unemployment Fund Administrator (AFC), INP, Isapres, Fonasa, (Health Plans) Mutual Insurance Societies and Workers' Compensation Agencies (Cajas de Compensación) through the Internet web-site "Previred.com". It is also possible to pay the contributions of self-employed and domestic workers by this means.

Previred is the leading company in the market, collecting the social security contributions of 1.8 million workers and 600 thousand pensioners. The company showed a 49% increase in its income in 2006 and achieved its first accounting period with profits.

- D) SCOMP**

The setting up of the System of Consultations and Pension Offers (SCOMP) is one of the most significant changes introduced by Law N° 19,934. It seeks to guarantee the member greater transparency and access to information and a safe, rapid retirement process.

Created and designed jointly by the Pension Fund Administrators and Life Insurance Companies, with the advice of an external operator, its implementation implied an investment of 200 million pesos.

During 2006, 38,567 applications for pension offers were made, 243,567 pension alternatives were offered and 23,179 pensions were accepted. The company, after almost two and a half years in operation, achieved its first accounting period with profits in the year 2006.





VIII.- Legislative and Regulatory Improvements

1. Bill to Improve the Pension System

The Pension System Reform Bill entered the National Congress on 15th December 2006, basically featuring 10 major issues:

New Solidarity Pillar (NPS)

This is a system to complement the AFP System, designed to provide basic solidarity pensions in cases of old age and disability to people who have been unable to accumulate any balance at all in their individual capitalization account, and a solidarity supplement for those who have managed to accumulate some balance, but one lower than the maximum pension with solidarity contribution. The NPS will gradually replace the current welfare pension programs and the guaranteed minimum pension.

Creation of the Social Pensions Institute (IPS)

Responsible for managing the New Solidarity Pillar (NPS), it will provide the population with basic pension services through a network of Integral Pension Service Centres (CAPRI). The IPS will be connected to the executive through the Undersecretary of Social Security.

The law creates the Superintendence of Pensions (SUPEN), with responsibility for supervising the whole pension system, including the IPS. It will be coordinated with the Superintendence of Securities and Insurance (SVS) in order to supervise the benefits related with the pension system.

Equal Treatment for Women and Men

The bill includes the payment of an accrued bonus for each live birth and a lower charge for the disability and survivorship insurance (for women), due to the separation of the contract by gender, and will include the male spouse as beneficiary of a survivorship pension generated by the wife and authorize the division of the balance accumulated in the individual accounts of each spouse in case of divorce or annulment.



Self-employed Workers

Mandatory enrolment in the pension system will gradually be introduced for all workers, eliminating the current distinction between employees and self-employed workers and extending to the latter group the right to family allowance, enrolment in Workers' Compensation Agencies (Cajas de Compensación) and access to the benefits of the Law of Industrial Accidents and Occupational Diseases.

Self-employed workers will be obliged to contribute for pensions and health on the basis of their taxed income, according to article 42 number 2 of the Income Tax Law. These contributions will be paid out of withheld taxes and the provisional tax payments that have been made.

Increasing Coverage of Young Workers with low Incomes

The Reform will include effective social protection for the most vulnerable youngsters, granting a subsidy on the real monthly contributions, for the first 24 contributions, for young workers between 19 and 35 years of age with incomes less than 1.5 times the minimum wage.

Changes in the AFP Industry

Among the proposals put forward are: bidding for members, the entry of new actors, the separation of the Disability and Survivorship Insurance, the elimination of commissions deducted from the balance in the individual account, such as the fixed commission on contributions deposits and the commission for transferring the balance of the individual account from another AFP, and the elimination of the fixed commission that the Administrators may charge, in order to make it easier for members and pensioners to compare commissions.

Increase in yield and security of investments

It is hoped that the AFPs will progressively assume greater responsibility in investment decisions concerning the Funds. To achieve this, the Bill proposes:

1. to make the structure of investment limits more flexible;
2. to increase the limit on investment abroad gradually, until it reaches 80% of the value of an administrator's Pension Funds;
3. to achieve greater responsibility on the part of the



administrators in managing investments, by defining investment policies;

4. to oblige AFPs to have investment committees on their boards;
5. to establish relevant measures of risk, to complement the regulations based on investment limits.

Users' Committee and Pension Education

A Users' Committee will be set up, with representatives of workers, pensioners and the administrators of the system. A Competitive Fund for Pension Education (FPEP) will also be set up with government and private funding, to promote and disseminate the pension system and provide education about it.

Transparency and Sustainability of the Pension System

By designing a mechanism that explains the government's transitory and permanent financial commitments with the pension system, in order to ensure the financial sustainability of the pension system.

Collective Voluntary Pension Saving (APVC)

In order to give added depth to the mechanisms of voluntary pension saving, there is a proposal to set up a collective voluntary pension saving mechanism (APVC), by which the savings made by the workers are complemented by their respective employers, with tax benefits equivalent to those of the APV, counting for the employers as necessary expenses for producing income. An APVC plan would be set up by agreement between each company and its workers, provided that a significant proportion of the workers agreed with this decision.

2. Capital Market Bill II

During the year 2006 the Association studied the changes in the Bill that introduces tax and institutional adjustments for the development of the risk capital industry and continues with the modernization of the capital market, especially analyzing the modifications to Decree Law N° 3,500. This Bill completed its parliamentary process in March 2007.

The timely intervention of the Association with authorities and members of parliament made it possible to improve the law in matters concerning



the custody of Pension Fund securities. The original wording of the Bill would have produced a considerable degree of uncertainty among Administrators, due to administrative aspects outside the AFP's control, and would also have had a detrimental effect of the pension funds' yield, due to the inflexibility of the regulation originally proposed.





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