8-12-2016

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Debate over Private Pension System Takes Center Stage in Chile

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Category/Department: Chile
Published: 2016-08-12

Widespread frustration with Chile’s privately managed pension system boiled to the surface last month in coordinated marches that drew hundreds of thousands of participants and prompted more than a few comparisons to the student-led education reform movement of 2011-2012 (NotiSur, July 22, 2011, Nov. 11, 2011, and Sept. 7, 2012).

Organizers behind the July 24 demonstrations, which took place simultaneously in Santiago and dozens of other Chilean cities, are promising further protests this month in a bid to keep the pension polemic forefront in the minds of the public and politicians alike. A nationwide “cacerolazo” (pot-and-pan-banging demonstration) was planned for Aug. 10, followed by another round of protests on Aug. 21. The events are being coordinated by an umbrella group called “No+AFP” (no more AFP), in reference to the for-profit companies, called Administradoras de Fondos de Pensiones (AFPs), that manage the retirement savings of most Chilean workers (NotiSur, Feb. 11, 2005).

“This is about the indignation of the general public, which is sick of the abuse, the arrogance, the corruption, and the impunity,” said Luis Mesina, spokesperson for No+AFP, in a July 27 interview with The Clinic, a Chilean news site and weekly satirical magazine. Mesina added that the demonstrations were also in response to revelations that Myriam Olate, a recently retired official of the national prison service (Gendarmería de Chile), receives monthly pension payments of roughly 5.2 million pesos (nearly US$8,000), more than 20 times the legal minimum salary in Chile. Olate is an active member of President Michelle Bachelet’s center-left Partido Socialista (PS). She is also the ex-wife of Osvaldo Andrade, a congressional deputy and former PS party president who served as labor minister during Bachelet’s first administration (2006-2010).

The Olate revelations proved to be something of a straw that broke the camel’s back for critics of the AFP system, which was introduced by decree in 1981 during the military dictatorship of Gen. Augusto Pinochet (1973-1990) and has come to be seen by many in Chile as an egregious give-away—at the expense of everyday citizens—to banks and corporations. Backers of the system hail it as a model to be emulated, and credit it with helping drive Chile’s “miracle” development in recent decades.

Paltry pensions
The AFP system was designed by José Piñera, a so-called “Chicago Boy” (even though he studied economics at Harvard) who served as Pinochet’s labor minister between 1978 and 1980. Piñera is the older brother of ex-President Sebastián Piñera (2010-2014), a political conservative and billionaire investor who many observers expect will run for president again in the 2017 election.

The pension scheme makes exceptions for military personnel (including police and prison services personnel) but obliges everyone else to hand over 10% of their monthly earnings to one of the handful of AFP companies, some of them foreign owned, that operate in Chile. The AFPs invest the savings in banks and corporations and then, once contributors have reached retirement...
age (60 for women, 65 for men), begin issuing monthly pension checks. An estimated 10 million Chileans contribute to the AFPs, which manage nearly US$170 billion in savings, according to the Superintendencia de Pensiones, a government oversight body.

The most glaring problem with the system, critics say, is that the payouts are often poor—and not just in comparison to the generous Gendarmería checks Olate cashes every month. Chile media outlets note that AFP participants, on average, receive approximately US$300 per month, not even half the average salary in Chile (US$720, according to data drawn in 2015 from the Instituto Nacional de Estadísticas, INE) and less even than the legal minimum salary (US$380). Fundación Sol, a left-wing think tank, says that for most retirees, the take-home is even worse: 87.4% of men and 94.2% of women receive less than US$237 a month, the foundation’s researchers concluded.

Another frequent complaint is that the individual retirement funds are vulnerable to market instability. The recent Brexit vote in the United Kingdom caused AFP accounts to tumble, as did the global financial crisis of 2008-2009. Unlike the so-called pay-as-you-go (PAYGO) systems used in countries like the US, where contributions from the current workforce cover pension costs for people who no longer work, the AFP system is structured around personal accounts that can grow or diminish based on investment performance and does not, therefore, provide precise guarantees on returns.

“The AFP situation is probably the most serious and complex problem facing Chilean society right now, with roots that go as deep as the grievances over university education,” political analyst Carlos Correa B. wrote in an essay published July 27 by the independent news site El Mostrador. “It’s a mistake to think that this is only about the exorbitant pensions paid by the Gendarmería. This is a profound, stand-alone issue that has to do with fear, by the middle class, that they’ll fall back into poverty.”

**Fuzzy math**

AFP proponents are scrambling to defend the system. José Piñera, the system’s intellectual architect, sent off a letter shortly after the protests promising to return to Chile to launch a “counteroffensive against the ‘backhoes’ that threaten, not just the economic model that has put us at the doorstep of development, but also our liberties.” The “backhoe” metaphor has been a favorite of the political right since Bachelet returned to power in 2014, promising major reforms to many of the Pinochet regime’s lasting economic and political structures.

The dictatorship-era labor minister made good on his promise just days later, touching down Aug. 1 in Chile, and promising to share ideas for how to improve the AFPs. Other system representatives agree that there is room for improvement, but say the biggest problem is that salaries themselves are low in Chile. Francisco Pérez Mackenna, a former head of the AAFP, an association of AFPs, told the daily La Tercera in June that if workers want bigger returns, they need to start investing more than just 10% of their salaries. He also suggested that Chile raise its retirement ages. “Paying pensions to women [who are just] 60 is a gallant act that is very costly for us,” he said.

Others, however, say there’s more to the dismal returns than people like José Piñera or Pérez Mackenna let on. Economist Manuel Riesco, founder and vice-president of the Centro de Estudios Nacionales de Desarrollo Alternativo, a Santiago think tank, insists that the for-profit AFPs have plenty of money coming in to boost pension payments, but choose not to. “In April, the AFPs collected 500 billion pesos [US$760 million] just in obligatory contributions, and they sent out a
million pension checks of 200,000 pesos [US$303] each, meaning they spent 200 billion pesos [US $303 million],” he told The Clinic. “In other words, they took in 500 billion pesos and paid out 200 billion pesos. That’s what they’ve been doing every month since they were created.”

Riesco doesn’t mince words: He calls the AFP system a “scam.” Plenty of critics agree, noting that the system not only provides massive earnings for the management companies and their cadre of directors, but is also a source of essentially free investment capital for the country’s leading corporations and banks. Backers of the system point to the capital transfer as a key ingredient in Chile’s rapid development. But opponents say there’s something inherently wrong with the fact that average Chileans, whether they want to or not, fund corporations that then charge high prices for their products and services, or with banks that charge those same contributors high interest rates to take out loans.

“The AFPs aren’t really a pension system,” journalist Víctor Herrero wrote in a July 25 analysis piece for Diario Uchile. “Instead they’re a mechanism for financing the large companies. In other words, it’s a model that transfers everyone’s money into the pockets of a few. The people are becoming more and more aware of that, as evidenced by yesterday’s demonstrations, which will most likely grow in the coming months and even years.”

‘No magic solutions’

It remains to be seen whether the protests will follow the pattern of the 2011 student demonstrations and coalesce into a movement that dominates the political agenda over a prolonged period of time. Much will depend, no doubt, on how the slumping Bachelet government responds.

In statements made July 25, the day after the massive demonstrations, the president expressed solidarity with the marchers and reminded them that she has been working, since returning to power two-and-a-half years ago, on legislation to introduce a public AFP option. “We face a huge challenge to ensure that pensions are fair, and to recognize the dignity and labor efforts of the people,” said Bachelet, whose approval rating, at last count, stood at just 22%.

At the same time, the president made it clear that addressing the pension problems is a “long-term” project that will require “a deep discussion and the support of all sectors in society.” Her government doesn’t plan, in other words, to move quickly on the matter. Rodrigo Valdés, the finance minister had a similar reaction. “There aren’t magic solutions,” he told reporters July 25. “It’s an issue that is technically very complex.”

Not everyone in Bachelet’s broad coalition is willing to wait. Some lawmakers with the centrist Partido Demócrata Cristiano (PDC) plan to introduce legislation that would allow AFP contributors to withdraw 25% of their savings to reinvest in real estate. Others are calling for changes to the law that would require AFP pension checks to at least match the minimum wage.

The No+AFP group, for its part, wants more than just stop-gap measures: It wants to scrap the system entirely and return to the state-run PAYGO model used before 1981. “We’re calling on the president to once and for all put an end to the AFP system, which was imposed by the dictatorship, and reestablish a solidarity-based allocation system, financed in a tripartite manner [by workers, employers, and the state] and administered by a non-profit body, just as it’s done in the countries in Europe, North America, and the OECD [Organization for Economic Cooperation and Development],” the umbrella group demands.