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Benjamin Witte-Lebhar

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Movement Seeks to Scrap Chile’s Private Pension System

by Benjamin Witte-Lebhar
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Less than a month after seizing the political spotlight on July 24 with massive and simultaneous protests held nationwide, opponents of Chile’s dictatorship-era pension system returned to the streets for an encore performance that pumped even more momentum into their burgeoning movement.

Like the July rallies, the follow-up demonstrations on Aug. 21 drew hundreds of thousands of people into the streets of Santiago and other Chilean cities under the banner “No+AFP” (no more AFP). The acronym refers to the private companies, called Administradoras de Fondos de Pensiones (AFPs), that manage the retirement savings of most Chilean workers (NotiSur, Feb. 11, 2005). No+AFP organizers are planning to hold further protests on Oct. 16, followed by a nationwide general strike on Nov. 4.

The AFP system dates back to 1981, when it was imposed by the dictatorship of Gen. Augusto Pinochet (1973-1990) on the advice of his economic advisers, the so-called “Chicago Boys,” who saw it as a way to relieve the state of a huge financial responsibility and at the same time provide a steady source of capital for investment in national companies and banks (NotiSur, Aug. 12, 2016). The so-called “architect” of the system is José Piñera, a Harvard educated economist who served as Pinochet’s labor minister between 1978 and 1980. Piñera is the older brother of ex-President Sebastián Piñera (2010-2014).

Critics have long questioned the decidedly undemocratic origins of the system. But as more and more of the original contributors reach retirement age, there is growing frustration as well with the poor payouts it provides. Chilean pensioners, 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), Chilean media outlets report.

“What we saw in the streets is a massive expression of the legitimate fear people have of falling into poverty in their old age, when they’re naturally more vulnerable and in need of special care. Nobody wants to become a burden on their families after years of working, be it in a formal setting or not,” Sebastián Dépolo and Marcela Sandoval, party officials with the leftist Revolución Democrática (RD), argued in an essay published late last month by the independent news site El Mostrador.

Deeply divided

The August demonstrations also represented a rebuttal of sorts to proposals put forth earlier in the month by center-left President Michelle Bachelet, who delivered a televised address on Aug. 9 outlining a series of measures aimed at bolstering the AFP system. Among other things, Bachelet called for employers to start contributing to a national fund that could be used to top off retirement payouts. “The current system has led many, too many, to receive very low pensions and abandoned them to their fate,” she said.
As it stands now, the system depends on contributions from workers, who deposit 10% of their monthly salaries (plus commission fees) into individual accounts that the for-profit AFPs manage. An estimated 10,000,000 Chilean workers contribute to the AFPs, which collectively manage nearly US$170 billion in savings, according to the Superintendencia de Pensiones, a government oversight body. Bachelet’s plan is to have employers eventually contribute a monthly equivalent of 5% of workers’ salaries. As the country’s biggest employer, much of that burden would fall on the state. In addition, the president called for reducing the commission fees AFPs charge.

As its campaign slogan suggests, the No+AFP movement is more interested in scrapping the controversial system than in improving it. What they’d like instead is a so-called pay-as-you-go system—like the government-run Social Security system in the US—that uses contributions from the current workforce (together with funds from employers and the state) to cover pension costs for people who no longer work. The AFP system, in contrast, is structured around personal accounts that can grow or diminish based on investment performance and does not, therefore, provide precise guarantees on returns.

“We don’t need a marginal fix that perpetuates the current AFP system. We want to replace the system with one that provides good quality pensions, and that is orientated around solidarity and universality,” Dépolo and Sandoval wrote.

Forcing the issue

The raging pension polemic didn’t catch President Bachelet entirely off guard. She instituted a reform of the AFP system during her first term in office (2006-2010) and, shortly upon returning to power in 2014 set up a 24-person commission—headed by economist David Bravo—to consider further changes. But by the time the commission presented its conclusions, in September 2015, Bachelet had decided to back off the issue and keep her focus on other policy areas, specifically education and labor reform.

The about-face was part of general strategy shift—dubbed “realismo sin renuncia” (realism without yielding)—that the president adopted in mid 2015 after a flurry of corruption scandals, including one involving her son, sent her approval numbers tumbling (NotiSur, April 24, 2015, and Oct. 9, 2015). The scandals put the proverbial brakes on what had been a soaring start to her term, when Bachelet managed, among other things, to overhaul the country’s tax structure, scrap the long-entrenched binomial majoritarian system that Chile used for electing parliamentary representatives, and legalize same-sex civil unions (NotiSur, Aug. 8, 2014, and Feb. 13, 2015).

The July protests, in that sense, forced the president’s hand, propelling her into a policy battle she had not only hoped to avoid, but will also be hard-pressed to win. Conservatives and business leaders will no doubt challenge her recommendations, particularly her proposal that employers contribute to the pension pot. Members of the No+AFP movement and their leftist allies, on the other hand, fault her plan for not going far enough.

“It is an enormous challenge,” Bravo, the former commission head, acknowledged in a recent interview with the financial news service Bloomberg. “Bachelet’s chances of reaching an agreement are low, but she has faced difficulties before.”
Paltry poll numbers

Complicating matters for the beleaguered president are public approval numbers that have gone from bad to downright dismal, according to findings released Aug. 19 by the Centro de Estudios Públicos (CEP), Chile’s most prestigious polling firm. The CEP poll measured support for Bachelet at just 15%, the lowest mark for any president since Chile’s return to democracy in 1990 and a nine percentage-point drop since December 2015, when the firm last carried out a major survey. The numbers are even more startling considering the 78% approval rating Bachelet scored in a CEP poll from October 2009, near the end of her first presidential term.

Many observers take the results to mean that Bachelet, who still has 18 months left in office, has already entered the so-called “lame duck” phase of her presidency. That, in turn, is fueling speculation about who might replace her—and perhaps inherit the pension conundrum.

Results from the CEP poll show ex-President Piñera, a conservative and billionaire businessman, as something of an early favorite. Asked whom they would like the next president to be, 14% of respondents named Piñera, compared to just 5% for ex-President Ricardo Lagos (2000-2006), a possible candidate for Bachelet’s center-left Nueva Mayoría coalition. Marco Enríquez-Ominami, a former congressman who has twice run for president (NotiSur, June 26, 2009), and Leonardo Farkas, a flamboyant and philanthropic entrepreneur, tied for third on the list, with 3% each.

Other names being thrown around as possible presidential candidates include Sen. Isabel Allende, whose father, former President Salvador Allende (1970-1973), died during the 1973 military overthrow of his government; and José Miguel Insulza, who held several Cabinet posts before going on to serve as secretary general of the Organization of American States (OAS) from 2005 to 2015.

Bravo worries that if Bachelet fails to resolve the AFP standoff and the protests continue, it could become a major wedge issue in the general elections scheduled for Nov. 19, 2017. A presidential runoff, should it be necessary, would take place a month later. “There is a risk that public unrest turns into a fight of slogans during the campaign,” Bravo said in his interview with Bloomberg. “It could all lead to extreme proposals.”

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