PRESS RELEASE

Before the Constitutional Committee

CMF spoke at the Chamber of Deputies regarding the legislation for withdrawal of life annuity funds

Deputy Chairman Kevin Cowan stated that the legislation has important legal and financial implications. He stressed that, unlike pensioners under the AFP system, there is no personal retirement fund account available for withdrawal in life annuities.

January 6, 2021 – The Financial Market Commission (CMF) spoke today before the Chamber of Deputies' Constitutional Committee regarding the legislation that seeks to anticipate the payment of pensions granted through life annuities. In the CMF's view, the legal initiative would generate important legal complexities. Deputy Chairman Kevin Cowan stressed that, unlike the retirement scheme via programmed withdrawals through Pension Fund Administrators (AFPs, for their Spanish acronym), there is no personal retirement fund account in life annuities.

Cowan said that, at retirement, life annuities pensioners transfer their resources to a life insurance company, which becomes the owner of such funds. In return, the company assumes the responsibility of paying the agreed life annuity until their death and the subsequent survivor's pensions to their beneficiaries, if any. In the Commission's view, the project affects both the intangibility of contracts and the property rights of insurance companies. "The initiative does not generate a withdrawal of funds, but rather a change in the annuity contracts," stated Cowan.

The Deputy Chairman also added that such a change could affect the vision of various actors regarding legal certainty in Chile and the willingness of future investors in the insurance industry. This is particularly relevant in a country with high risks and where important gaps in insurance coverage persist.

Impacts on Solvency

In its presentation, the Commission pointed out that the legislation could have a significant impact on the solvency of life insurance companies. Currently there are 645,000 pensioners in Chile through life annuities paid by insurance companies. 53 percent of such pensioners are men and the remaining 47 percent are women.

As well as life annuities, the life insurance industry provides other types of coverage to the population: 2.5 million people have life insurance policies; another 7 million have complementary health coverage; and the entire workforce is protected by the Disability and Survival Insurance (SIS, for its Spanish acronym). Unlike AFPs, insurance companies invest a significant fraction of their resources in illiquid long-term assets. By forcing them to sell assets to allow advance payments to pensioners, their solvency risks could increase due to financial losses in a short period of time.

Furthermore, Kevin Cowan underlined the fiscal impact of the legislation. By reducing the pensions' amounts after an eventual withdrawal, it would increase the proportion of people who would need to receive public transfers to complete the guaranteed minimum pensions. According to current laws and regulations, if a life insurance company fails to pay pensions because of solvency problems, it is the State's responsibility to guarantee life annuities.

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