CHILEAN PENSION SYSTEM & PROPOSED AMENDMENTS
ABC WEBINAR

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January 29th 2015
AGENDA

1) CHILE´S PENSION SYSTEM: BACKGROUND IN BRIEF
2) REFORMS
   A) BRAVO COMMISSION
   B) STATE OWNED AFP
3) TAKE AWAYS
1) CHILE´S PENSION SYSTEM: BACKGROUND IN BRIEF

• Chile’s pension system consists of three pillars
POVERTY PREVENTION PILLAR

• **Provides a minimum benefit** to aged persons who did not participate in the public pension system and to retired workers whose monthly pensions financed by individual account assets (the second pillar) do not reach certain thresholds.

• Benefits:
  • **Basic Solidarity Pension** (USD 130 per month)
  • **Pension Solidarity Complement** (marginal decreasing subsidy up to USD 420 per month)
MANDATORY PILLAR
(DEFINDED CONTRIBUTION)

• Employees are required to **contribute 10% of salary** earnings to an individual account, **up to a ceiling of USD 3,000 per month** (USD 300 contribution) on monthly taxable earnings.
• Employers are required to withhold workers’ contributions from their paychecks and to forward contributions to the AFP chosen by each worker.
• Employees can choose among different private administrators (AFPs), highly government regulated by Chile’s Superintendent of Pensions.
• **Employees’ contributions are tax deferred.** Retirees pay regular income taxes on pension income when it is drawn as a retirement benefit.
• **Employers are not required to contribute to employees’ accounts**, but they pay the premiums for workers’ **survivor and disability insurance**, which are provided by private insurance companies.
• **6 different AFP** managing a total of **USD 168 billions**.
• Each AFP offers up to **5 funds**, called “Multifunds” A to E, **with different levels of risk**. This 5 funds have strong regulation in terms of risk and diversification.
• **Average annual real rate of return** since 1981: **8.6%**
VOLUNTARY PILLAR

• The third or voluntary pillar allows workers to supplement retirement income with voluntary, tax-favored savings.

• Savings products authorized by the Chilean government are: voluntary savings accounts managed by the AFPs, mutual funds, and savings products offered by insurance companies.

• Tax deferred up to USD 84,000 per year.

• Voluntary plan:
  • Individual Employee Voluntary Pension Plan.
  • Employer Sponsored Voluntary Pension Plan.
THEORETICAL LONG TERM NET REPLACEMENTS RATES

Note: The net replacement rate is calculated assuming labour market entry at age 20 in 2012 and a working life equal to the pensionable age in each country. The net replacement rates shown are calculated for an individual with 100% and 50% of average worker earnings (AW).

2) REFORMS
A) BRAVO COMMISSION

• In 2014, during President Bachelet second period, a 25-member **advisory commission for pensions** was set up to assess Chile's pensions system and develop proposals for its improvement.
• The delivery of the final report was recently rescheduled for **August 2015**.
• Dangerous ideas:
  – Eliminate the second pillar and go back to a pay as you go defined benefit system.
• Good ideas:
  – Pushing back the retirement age gradually.
  – Increasing the contribution rate (financed by employer)
  – Increasing the monthly salary cap.
  – Increasing the benefits and coverage of the first pillar.
  – Creation of lifecycle funds.
  – Strengthen Employer Sponsored Voluntary Pension Plan (APVC).
  – Workplace savings education.
B) STATE OWNED AFP

• The new Government headed by Michelle Bachelet has proposed the creation of a State Owned AFP.

• The Government mentions these purposes for creating a State Owned AFP.
  – Expand pension coverage for lower-income workers, self-employed and workers in geographical areas distant from urban centers.
  – Intends to introduce greater competition into the Pension Fund Management Companies System.

• From our perspective, the creation of a State Owned AFP can introduce certain risks for the pension system.
3) TAKE AWAYS

- Chile has a good system by international standards. We believe it has to be improved but not destroyed. Pay as you go systems have proved to be unsustainable.
- Bad public policies could impact pensions, fiscal sustainability and economic growth which has effects on consumers and companies.
- You as employers (and we can help you!)
  – Educate and inform employees in order to understand their responsibility on building their pension in order to reach adequate replacement rates. The sooner, the better.
  – Promote and facilitate voluntary savings, enrollment & matching.
  – Be active on the reforms ad they could impact pensions, fiscal sustainability and economic growth.
## 3) TAKE AWAYS

<table>
<thead>
<tr>
<th>Grade</th>
<th>Index Value</th>
<th>Countries</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>&gt;80</td>
<td>Denmark</td>
<td>A first class and robust retirement income system that delivers good benefits, is sustainable and has a high level of integrity.</td>
</tr>
<tr>
<td>B+</td>
<td>75–80</td>
<td>Australia, Netherlands</td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>65–75</td>
<td>Finland, Switzerland, Sweden, Canada, Chile, UK, Singapore</td>
<td>A system that has a sound structure, with many good features, but has some areas for improvement that differentiates it from an A-grade system.</td>
</tr>
<tr>
<td>C+</td>
<td>60–65</td>
<td>Germany, Ireland</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>50–60</td>
<td>USA, France, Poland, South Africa, Austria, Brazil</td>
<td>A system that has some good features, but also has major risks and/or shortcomings that should be addressed. Without these improvements, its efficacy and/or long-term sustainability can be questioned.</td>
</tr>
<tr>
<td>D</td>
<td>35–50</td>
<td>Italy, Mexico, China, Indonesia, Japan, Korea (South), India</td>
<td>A system that has some desirable features, but also has major weaknesses and/or omissions that need to be addressed. Without these improvements, its efficacy and sustainability are in doubt.</td>
</tr>
<tr>
<td>E</td>
<td>&lt;35</td>
<td>Nil</td>
<td>A poor system that may be in the early stages of development or a non-existent system.</td>
</tr>
</tbody>
</table>

Source: Melbourn Mercer Global Pension Index 2014
THANKS
Deliver Benefits Management at AstraZeneca

What it means for us

Lucy Otter & Rosangela Giorgianni
January 29, 2015
Benefits COE Journey

- Benefits Centre of Excellence established providing:
  - Consistent financial & risk reporting
  - Strategic advice
  - Global governance
  - Global / regional projects
- COE accountable for Benefits management
  - Reduced risk for AZ globally through oversight of risks and costs
  - Countries want flexibility and control of Benefits management, less cost locally

1 July 2014:
- Refined Benefits model Go live

Countries took on accountability for managing Benefits locally
- Countries gain flexibility to choose Benefits management service level from Aon Hewitt, above minimum requirements set by global COE

Benefits COE model reviewed
- Country feedback considered

Merged Compensation & Benefits COE continues to provide:
- Reporting & Assurance
- Strategic advice
- Global governance framework
- Global processes
- Global / regional projects
# Summary of approach

## Global / Regional Delivery

- Strategic compensation and benefits advice
- Global governance framework, supported by Standard Operating Procedures and the Benefits Book
- Regional and global projects / opportunities e.g. Total Reward statements
- Annual reporting, audit and assurance requirements

## What is different

**Reward COE**

- **Choice for countries** in relation to certain benefits management services from Aon Hewitt, above minimum requirements

**Local HR accountable for:**

- Delivery of reward (compensation & benefits)
- Managing country-aligned AZ and Aon Hewitt Benefits resource
- Following the governance structure, irrespective of vendor / in-house resource
- Adhering to global policy and initiatives e.g. Insuring risk benefits through the Captive
- Managing risks or issues, supported by the COE on an as-needed basis
Assessing Proportional Level of Risk Management

The Benefits Governance Framework sets out to deliver fit-for-purpose risk management and governance across AZ’s risks and financial obligations.

- The COE can apply 3 levels of risk management and governance, dependent on the Benefits characteristics of the market:
  1) Top 12
  2) Reporting & Assurance
  3) Very small markets

- The standard minimum level of service is primarily in service of meeting AZ Corporate standards of risk management & governance.
Benefits Management
AZ Chile
What we do
Bring a consistent approach to Benefits management globally, enable effective governance and risk management of benefits, and drive down costs through the power of global procurement.

Non Benefits

**Employment**
- Severance and Redundancy policies
- Long service awards
- Vacation / Holidays
- Work Time (Overtime et al)
- Other Time / Leave (e.g. Maternity, Bereavement, Sabbaticals, Education)
- Sick Pay (Short Term Disability)
- Travel allowances / provisions
- Food allowances / provisions
- Housing allowances
- Loans
- Contracts and Notice Periods
- Personal accident insurance
- Travel insurance (company provided rather than Flex plan)

**Compensation**
- Salary
- Short Term Incentive Programmes
- Long Term Incentive Equity Plan (included as Compensation for plan design purposes)

(List varies between countries)
AZ Chile Annual Benefits Report

- Activity and annual plan
- Benefit Strategy Policy Alignment
- Risk Issues and Opportunities
  - Governance
  - Compliance
- Risk Rating
- Legislative Changes and Market Trends
- Financial Review
- Review of Employee communications
- Managed Suppliers
- Attachments

<table>
<thead>
<tr>
<th>ID</th>
<th>Date Identified</th>
<th>Risk/Issue/Opportunity</th>
<th>Risk Category</th>
<th>Description</th>
<th>Benefit Plans affected</th>
<th>Description of mitigation plan/action/decision not to act</th>
<th>Owner</th>
<th>Date advised to AZ RBM/D</th>
<th>Escalate to Regional/VP/ER/RR</th>
<th>RAG Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>02 August 2012</td>
<td>Opportunity</td>
<td>Financial</td>
<td>Review cost of brokers and services offered</td>
<td>Healthcare STD SINOT</td>
<td>Review broker costs and services offered, look at ways to streamline costs and integrate services among third parties at a lower cost. Look at adding more services with <em>Ax讓他們</em>, under both existing outsourcing and/or a new brokerage agreement.</td>
<td>AZ HR</td>
<td>02 August 2012</td>
<td>No</td>
<td>Green</td>
</tr>
<tr>
<td>2</td>
<td>02 August 2012</td>
<td>Opportunity</td>
<td>Operational</td>
<td>All the changes</td>
<td>All and none</td>
<td>Loss of critical talent and knowledge</td>
<td>AZ</td>
<td>02 August 2012</td>
<td>No</td>
<td>Green</td>
</tr>
</tbody>
</table>
AZ Chile Legislative Changes and Market Trends

- The information provided takes into consideration data from thirteen (13) pharmaceutical companies in Chile. The analysis is focused on the benefits in scope of the Benefits Management Services.

### Pharmaceutical/Market Survey Results

Based on the review of the benefits, AstraZeneca is mostly aligned to market local practice, to Pharma market and to the Global Benefits Strategy. Global Pharma Survey had 13 participants (operations) from Chile that provided data for the survey.

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Companies Offering the Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement Program</td>
<td></td>
</tr>
<tr>
<td>Defined benefit plan only</td>
<td>0</td>
</tr>
<tr>
<td>Defined contribution plan only</td>
<td>0</td>
</tr>
<tr>
<td>Both defined benefit and defined contribution plan</td>
<td>0</td>
</tr>
<tr>
<td>No retirement plan</td>
<td>0</td>
</tr>
<tr>
<td>Severance plan (in addition to legal requirements)</td>
<td>6</td>
</tr>
</tbody>
</table>
Any Questions?

Thanks!