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Chileans Can't Draw on Their Retirement Money Forever

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This July, the Chilean opposition celebrated a major political victory, as the Senate passed a bill allowing Chileans to draw on some of the money locked away in their privatized pension funds, or AFP (Pension Fund Administrators). This was a blow not only against Sebastián Piñera's right-wing government, but also one of the pillars of the neoliberal economic model inherited from Augusto Pinochet's dictatorship.

AFPs are widely hated by the Chilean population — and their abolition was a major demand of the revolts that shook the country in October 2019. Under this individual capitalization system, workers are mandated by law to contribute 10 percent of their monthly income, along with interest rates. AFPs then use these funds as capital to invest in financial markets in Chile and abroad.

This system introduces great uncertainty for those thus forced to save. Contributors can choose one of at least five plans, but none are free from financial risk. It is suggested that older contributors should invest in low-risk plans, which have an average of 5 percent variable income. Younger contributors, on the other hand, are encouraged to subscribe to riskier plans, which can reach 80 percent of variable income.

But overall, the results are ghastly. By the time they retire, the majority of Chileans face the consequences of others gambling with their money as they receive only a tenth of the pension they expected. Ninety-one percent of retirees receive a below the poverty line pension of $180. A meager number in comparison with these private enterprises' profits, which ranged around $419 million in 2017.

With no public alternative to rely on, for forty years millions of Chileans' retirement money has depended on the whims of the financial markets. Faced with the coronavirus crisis, the opposition bill has, at least, allowed them to draw on some of these funds to sustain themselves. Yet such a measure has problems of its own — preying on future pension funds to cover the costs of the present crisis.

Constitutional Origins

The AFP system was devised and implemented in 1980 by José Piñera, at that time Pinochet's minister of labor and social security (and the current president's brother). The legal grounds for its existence, however, rest on the Constitution approved that same year, written behind closed doors by members of the military regime and the Chicago Boys — disciples of neoliberal economist Milton Friedman. Through legal instruments such as quorum laws and drastic use of executive power, the charter was built with all kinds of booby traps to prevent any meaningful future reforms to its neoliberal roots.

This Constitution embraced the principle of subsidiarity, originally coined as part of the Catholic Church's social teachings. This principle states that the common good should be handled not by some central authority, but by individuals, or at the smallest possible level. Pinochet's Chile was now a subsidiary state, thus yielding to private hands the majority of its natural resources and institutions. The AFPs themselves follow the tune of this laissez-faire philosophy.

After forty years, AFPs may soon come to an end, following the national referendum on October 25. In this poll, following last year's mass social protests, Chileans will have the opportunity to vote in favor of a new constitution that ditches Pinochet's in its entirety.

The Withdrawal Bill

For now, at least, it can be said that the opposition has managed to land a blow against a pillar of the Pinochet order.

The immediate trigger was the COVID-19 pandemic and its economic fallout. This summer, opposition independent and Christian Democrat congresspeople pushed a bill for constitutional reform, which would allow Chileans to withdraw 10 percent of their pension savings right away. But right-wingers were appalled — arguing that if something as sacred as pensions were touched, the country would burn to the ground. Yet the "Withdrawal Bill" quickly gained political momentum.

Faced with the withdrawal bill's apparent popularity, the government counterattacked by announcing a "Middle-Class Income Protection Law," which offered a 500,000 Chilean pesos ($626) subsidy to middle-class citizens. In the end, both laws were passed, with some congresspeople from the ruling party defying party lines and approving the Withdrawal Bill as well.

To date, over 8.5 million Chileans — 77 percent of the contributing workforce — have withdrawn between $1,258 and $5,411. And the country didn't burn to the ground. On the contrary, the rates of debt sunk to their lowest levels in years, despite the current economic crisis.

The ripples of this political victory continue today, as congresswoman for the Humanist Party, Pamela Jiles, spearheads efforts for a Withdrawal Bill 2.0, which she hopes will come into force by Christmas.

The problem is: the critics do have something of a point. Even Beatriz Sánchez, the Left's former presidential candidate, has argued against this second withdrawal bill. As she insists, no meaningful social policy should prey on the people's own pension funds.

Before the approval of the law, it was estimated that three million people under forty would have no pension funds left and — reviled though they may be — AFPs are the only pension funds available for Chileans as of today. As the coronavirus crisis rolls on, combined with the political turmoil already in play ahead of the October 25 referendum, economic instability for the next few years is a given.

Where Are the Billionaires in All This

It's not that there weren't alternatives. In late May the Communist and regional Green parties had introduced a constitutional reform project, aimed at a three-month tax on the "superrich." Over $6.5 billion dollars could be gathered through a 2.5 percent tax on just 0.1 percent of Chile's adult population. This group has amassed 34 percent of all private wealth in the country, stemming from Chileans' labor, state contributions, and access to exploit natural resources. Twenty percent of the total is held by just 263 people.

This tax, which calls back to the spirit of the protests against income inequality from last year (though moderately), could benefit up to four million households. But the billionaires that spend millions in yearly tax-deductible telethon donations — getting good media coverage along the way — have shied away from this proposal.

This proposal is currently under discussion in the Congress's Constitutional Caucus. But, according to Matías Walker, president of the caucus and a Christian Democrat, it has to be "thoroughly evaluated" — and is not labeled as urgent. Other sectors of the opposition also share this reticence. After their long opposition to Pinochet, they remained in power uninterruptedly for twenty years after the return to democracy — but didn't enact any meaningful change to the neoliberal model inherited from the regime.

The COVID-19 crisis has exposed the myth behind that great middle class which Chile's governments have bragged about for years. According to the OECD, 53 percent of Chileans risk falling into poverty after just three months with no income. How are these no grounds for urgency?

If the unambitious — or outright pro-capitalist — sectors of the opposition continue to put the brakes to any kind of meaningful reform, future retirees will end up paying the price for a policy that cannibalizes tomorrow's security in order to patch over today's crises.