

Abstract

This paper presents a brief history of pension reform in Chile, and the reasons behind the introduction of individual privately-managed accounts in 1981, as well as the adjustments to the system introduced in 2006-07. The main conclusions are that the system is sound, but the reinforcement of the social protection to low income-low contribution workers was a necessary step, given the problems of the formal labour market. This adjustment is also feasible since the budgetary expenses linked to the transition of the 1981 reform are entering the decreasing phase, opening room for these adjustments. We emphasize the importance of economic growth for the good performance of the pension system, reversing one of the traditional arguments for pension reform. Finally we explore elements that must be taken into account when designing this type of pension reform.

Keywords: pension reform, Chile, economic growth, fiscal policy, labour market, market reforms.

JEL classification: G23, H55, O40.