

Multi-funds in the Chilean Pension System

Soledad Hormazábal

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Overview

This work describes the development of the multi-fund scheme in Chile, as well as its key features and results. It includes simulation exercises designed to model the returns and volatilities of the different types of Chilean pension funds over a 50-year horizon. It shows how the trend is for increasing returns and that the average expected return of the pension funds is greater as the percentage invested in equity increases, although the volatility is also higher. The considerable risk premium associated with investment in shares would justify the adoption of a greater risk when the investment horizon is longer. This does not mean that the risk is limited over time, but rather that the volatility of the equity assets provides periods of exit opportunities with significant returns.