

December 17th, 2020

Ministry of Finance presents a bill that regulates changes in investment strategies in mandatory pension fund savings accounts

Santiago, December 17th, 2020. On December 16th, 2020 the Government of Chile sent a bill to Congress that regulates changes in investment strategies (*multifondos*) of individual mandatory pension savings accounts. The bill has several objectives. On the one hand, as frequent trading in pension savings tends to yield lower investment outcomes over time, the bill has the objective of preventing its harmful effects on investment returns and hence pensions. On the other, considering that frequent trading in high volumes may have a destabilizing effect on asset prices, the bill aims to mitigate risks to the stability of the local financial market.

The Chilean pension system allows savers within their pension fund provider may select among 5 funds, each with an investment strategy that varies according to risk and expected returns (Fund A being the most aggressive and E the most conservative). Currently, savers can freely request changes between funds as many times as they desire, considering a period in which the Pension Fund Administrators (AFP) accommodate the portfolios to make the change effective.

The initiative takes place in the context of an increase in the frequency of fund transfers that have been associated to large trading volumes.

According to the bill, the pension regulator (Superintendencia de Pensiones) must establish the procedures and terms for the transfers between funds and regulate them through one of the following process:

- Allowing savers to request up to 2 fund transfers in a calendar year, between any type of fund, or;
- Allowing only transfers between adjacent funds¹.

The limitations proposed in this bill will not apply to the voluntary pension saving accounts, voluntary contributions or agreed deposits, nor with respect to the affiliates at the time of retirement, who may only opt for conservative investment strategies (funds C, D or E).

¹ This is, funds with similar level of risk, e.g. from A to B, or B to C, or C to D, or D to E (or vice versa).