IGP Country Profile
Chile

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Customary employee benefits

Death benefits

Group life insurance has long been a factor in the Chilean employee benefits market, and many companies have group life plans in force.

The typical benefit is 24 times monthly salary. Accidental death and disability riders are also available.

A unique feature of Chilean life insurance policies, including group life, was that the sum insured was expressed in index-linked insurance units known as Unidades de Seguros Readjustables (USR) or Unidades de Fomento (UF).

Most USR policies are now changed to UF upon renewal. Unidades de Fomento are units of currency adjusted monthly based on the Chilean Consumer Price Index (IDC).

Current values of the UF can be found on the website of the Central Bank of Chile: http://www.bcentral.cl/eng/index.asp.

It is unlikely that the need for group life benefits will be impacted by social legislation. As far as the insurance industry itself is concerned, regulatory reform was accomplished in 1984 with the abolition of fixed premium tariffs and the ending of the state reinsurance monopoly.

Disability benefits

- Disability cover is often provided in conjunction with group life insurance.
- Accidental death, disability and dismemberment are usually provided via riders to the group life policy.
- The typical benefit is 18-, 24- or 36-times monthly salary.
- Sickness benefits can be provided via group plans to cover the gap between the amount provided by Social Security and the insured's salary.
- Long-term disability is usually not an employer-sponsored benefit.

Health benefits

The health system in Chile consists of mandatory health insurance that can be either public or private. Public insurance is offered through the National Health Fund (FONASA), a non-profit provider.

Private insurance can be purchased from either for-profit or not-for-profit private health insurance institutions known as ISAPREs. ISAPRES were established in 1981 via the new Social Security system.

Employees are free to choose under which system they will receive care, FONASA or ISAPRES. Both institutions cover employees and their legal dependents. Employees can make additional voluntary contributions over and above the mandatory 7% to obtain better health benefits for themselves and their dependents.

Each individual contract must run for at least one year. The contract can be canceled by an employee with 30 days' notice. The coverages under the contract can be provided either in the form of reimbursement of incurred costs or through the direct provision of medical care (e.g., by an HMO).

Those who contribute to FONASA can receive medical care via the public system, or they can choose a private health care provider and make a co-payment. The amount of the co-payment is based on the income level of the insured; those with a higher income must pay a higher co-payment.

Covered benefits include basic primary care provided by a physician or medical provider; preventive and curative services, including health screenings; surgery; hospitalization; diagnostic services; home visits; emergency care, etc.

Explicit Health Guarantee (GES) laws implemented in 2005 contained provisions for basic primary care, emergency care, and targeted health problems. An important component of this legislation is the Universal Access and Explicit Guarantees (AUGE) plan, which details coverage guarantees for 56 health problems and conditions.

ISAPREs must provide the same benefits as legislated by the GES. However, they can offer additional coverage for an extra cost.

Private supplementary health plans

Supplementary health plans reimburse expenses incurred by the insured and his or her dependents after deducting any benefits for which he or she may be eligible from a legally required health institution (ISAPRES or FONASA).

These plans supplement the basic Social Security coverages subject to certain percentages of reimbursement and maximum limits.

The benefits are as follows:

- Room and Board
- Other Hospital Expenses (Fees, Operating Room, Examinations, Medicines, etc.)
- Maternity:
  - Normal Delivery
  - Cesarean Section
  - Miscarriage
- Out-Patient Expenses
- Cancer Coverage
- Dental Treatment

Normally, contributions for supplementary health insurance are paid 50% by the employer and 50% by the employee.

Cash Benefits for Short-Term Sickness & Maternity/Paternity

Cash benefits for short-term sickness, maternity and paternity are available via either the public (FONSA) or private (ISAPRE) health system.

Sickness benefits

Benefits for short-term illness begin on the fourth day for an absence of less than 11 days. For absences of at least 11 days or more, the benefit commences on the first day and can continue until it is verified as a disability.

To qualify for the sickness benefit, the employee must have contributed for at least six months, and at least three of these months must be during the last six months. Contract workers must have contributed for at least six months, including 30 days during the previous six months. The same qualifying conditions also apply for maternity and paternity benefits.

There are no qualifications for conditions resulting from an accident.

Private sector employees receive a benefit equal to their average monthly net earnings during the previous three months. Public sector employees receive a monthly benefit of 100% of their earnings prior to the onset of the illness.

Maternity benefits

A benefit is paid for six weeks before and 12 weeks after the expected delivery date. In the case of multiple or premature births, the benefit may be extended. The benefit may be paid for up to a year for the adoption of a child under the age of six months.

Paternity benefits

A benefit is paid for up to five days during the 30 days following the birth of the child and may also be paid for the adoption of a child under the age of six months.

Retirement benefits

Social security pensions generally provide 60% of the average salary of the insured during his or her last ten working years, which can leave a significant income gap.

Life or disability coverage can be used to provide the employee and their family with additional income to make up this shortfall.

Pension system

The pension scheme in Chile is based on a system of individual accounts. Each participant has an individual account into which they deposit their social security contributions.

Employees must make the following contributions up to a monthly cap of UF 84.3.

UF (Unidades de Fomento) are units of currency adjusted monthly based on the Chilean Consumer Price Index (IDC).

- 10% of monthly salary for retirement pension plus an additional (.41% - 1.48%) for administration.
- An additional 1% or 2% is contributed by those working under difficult or strenuous conditions depending on the job. The employer makes this contribution as well.
- Employees can also make additional, voluntary contributions of up to 10% of monthly salary. All contributions are tax-deductible.

The system is managed by regulated private investment companies known as Pension Fund Administrators (AFPs) that are organized by financial institutions, unions, and other groups who compete for employee contributions. Members choose which AFP that they wish to join and may change to another at any time. Members may also choose the type of fund in which they want their funds invested, with some restrictions for older members.

AFPs collect the social security contributions, deposit them in the member's account and invest the funds in order to provide future benefits. Any disability or survivorship pensions are financed via an insurance policy taken out by the AFP. For their management of the fund, AFPs receive commissions paid by members.

When needed, the funds in an account including investment gains are returned to the member or their surviving beneficiaries in the form of a pension.

The Government supervises the system and provides any guarantees.

Ahorro Previsional Voluntario Colectivo (APVC)

In 2008, voluntary pension savings plans, known as Ahorro Previsional Voluntario Colectivo (APVC), were introduced.

Employers are not required to set up an APVC plan, but if they do, the plan must be open to all employees.

Employer contributions are tax-exempt, contributions must be made on behalf of all employees, and the percentage of the contribution must be the same for each employee. An employer can offer more than one APVC plan, but employees are not required to join any plan.

Employee contributions to an APVC are voluntary. However, to encourage participation, the government offers an annual subsidy of 15% of the total amount that the employee contributes to any voluntary individual savings account. The subsidy is forfeited if the employee withdraws the funds from any of their voluntary savings accounts prior to retirement.

To be eligible for the subsidy, the employee must make regular contributions, and their voluntary retirement savings cannot exceed ten times their annual contributions to the mandatory system.

More information is available at: https://www.cmfchile.cl/educa/621/w3-propertyvalue-580.html

Legislative news

Law No. 21,735 - Increases to employer social security contributions

The Chilean Social Security system is comprised of mandatory individual defined contribution accounts (Sistema de Capitalizatión Individual) administered by private institutions called Administradoras de Fondos de Pensións (AFPs), which collect and distribute the funds of Social Security. Benefits for retirement, survivors', and disability are paid from these accounts.

Employees contribute 10% of covered pay. An additional 1% or 2% is contributed by those working under difficult or strenuous conditions depending on the job. The employer makes this contribution as well. Employers also contribute 1.53% for disability and survivors' benefits. Contributions have a cap designated in UF (Unidades de Fomento), which are units of currency adjusted monthly based on the Chilean Consumer Price Index (IDC).

Employer contributions will gradually increase over nine years beginning in April 2027 from the current 1.53% up to 8.5% in 2036.

These additional contributions (7%) will be allocated as follows:

- 4.5% to the individual defined contribution accounts
- 1.0% to a new social security fund for survivors' and disability pensions and for improving pensions for women to take into account their longer life expectancy.
- 1.5% to a fund to finance a new retirement benefit known as w, which will be managed by the social security institute (Instituto de Prevision Social). The goal of FAPP is to provide workers with guaranteed returns, supplementing their individual retirement account.

Law No. 21,561 - Amendment to Chile's labor code

Over a period of five years, Chile will phase in a shorter work week, reducing the work week from 45 hours to 40 hours, without a decrease in pay. Starting on April 26, 2024, the workweek was reduced to 44 hours. Flexible work options will also be introduced to improve work/life balance; e.g., flexible start and end times for parents of children under age 12 and the option put overtime pay towards annual leave.

More information is available at: https://www.gob.cl/en/news/40-hour-working-week-will-be-law-learn-details-bill-promoted-government-has-been-dispatched-congress/

Trends

Average life expectancy has increased from 67 to 80 years in just over a generation; and by 2050, almost half of Chile's population will be over 65 years old. Therefore, there is an increasing focus on pension reform. More information is available at: https://www.americasquarterly.org/article/untangling-chiles-pension-reform/. Also, see previous section under "Legislative Reform" for information on increases to pension contributions.

Hybrid work continues post-pandemic where feasible.

Legislation gradually reducing the work schedule from 45 to 40 hours a week over a five-year period has become law. More information is available at: https://www.gob.cl/en/news/40-hour-working-week-will-be-law-learn-details-bill-promoted-government-has-been-dispatched-congress/

Awareness of mental health in the workplace; e.g., a protocol has been established for evaluation of employees' mental health and implementing measures to reduce exposure to psychological risks.

Sample employee benefits plans

Company A

Death benefit:

An amount equal to 12 times monthly salary.

Accidental death & dismemberment:

Accidental Death: An amount equal to the Death Benefit
Dismemberment: An amount up to the Death Benefit scaled according to the degree of disability.

Permanent & total disability:

A lump sum benefit equal to the principal amount of life insurance.

Company B:

Death benefit:

Executives: An amount equal to 36 times monthly salary.
Non-Executives: An amount equal to 24 times monthly salary.

Accidental death & dismemberment:

Accidental death: An amount equal to the Death Benefit.
Dismemberment: An amount up to the Death Benefit scaled according to the degree of disability.

Permanent & total disability:

A lump sum benefit equal to the principal amount of life insurance.

Company C:

Death benefit:

An amount equal to 12 times monthly salary.

Upon the death of the insured's spouse:

An amount equal to 50% of the death benefit.

Upon the death of the insured's children:

An amount equal to 25% of the death benefit.

Accidental death & dismemberment:

Accidental death: An amount equal to the Death Benefit.

Dismemberment (employees only):

An amount up to the Death Benefit scaled according to the degree of disability.

Permanent & total disability:

A lump sum benefit equal to the principal amount of life insurance (Employees Only).

Useful links

Demographic information and macro-economic indicators
CIA World Factbook (please select the country to review)
World Bank Group (please select the country to review)

Chilean Ministry of Labor and Social Welfare
https://www.suseso.cl/

Central Bank of Chile
(Current Values of UF)
https://www.bcentral.cl/inicio

More information on MAPFRE Compañia de Seguros de Vida de Chile S.A.

Your Local Link to IGP in Chile
Go to partner page on www.igpinfo.com

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