# *Individually-funded programs and their role in the improvement of pensions and the economic development*

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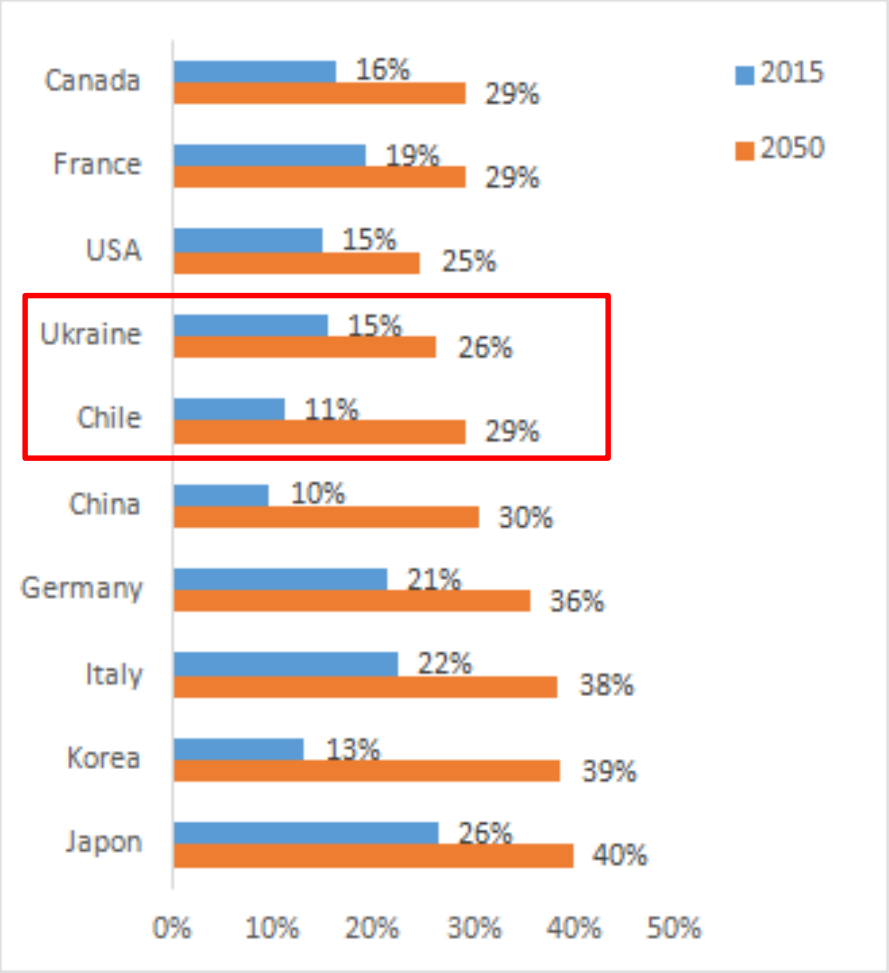
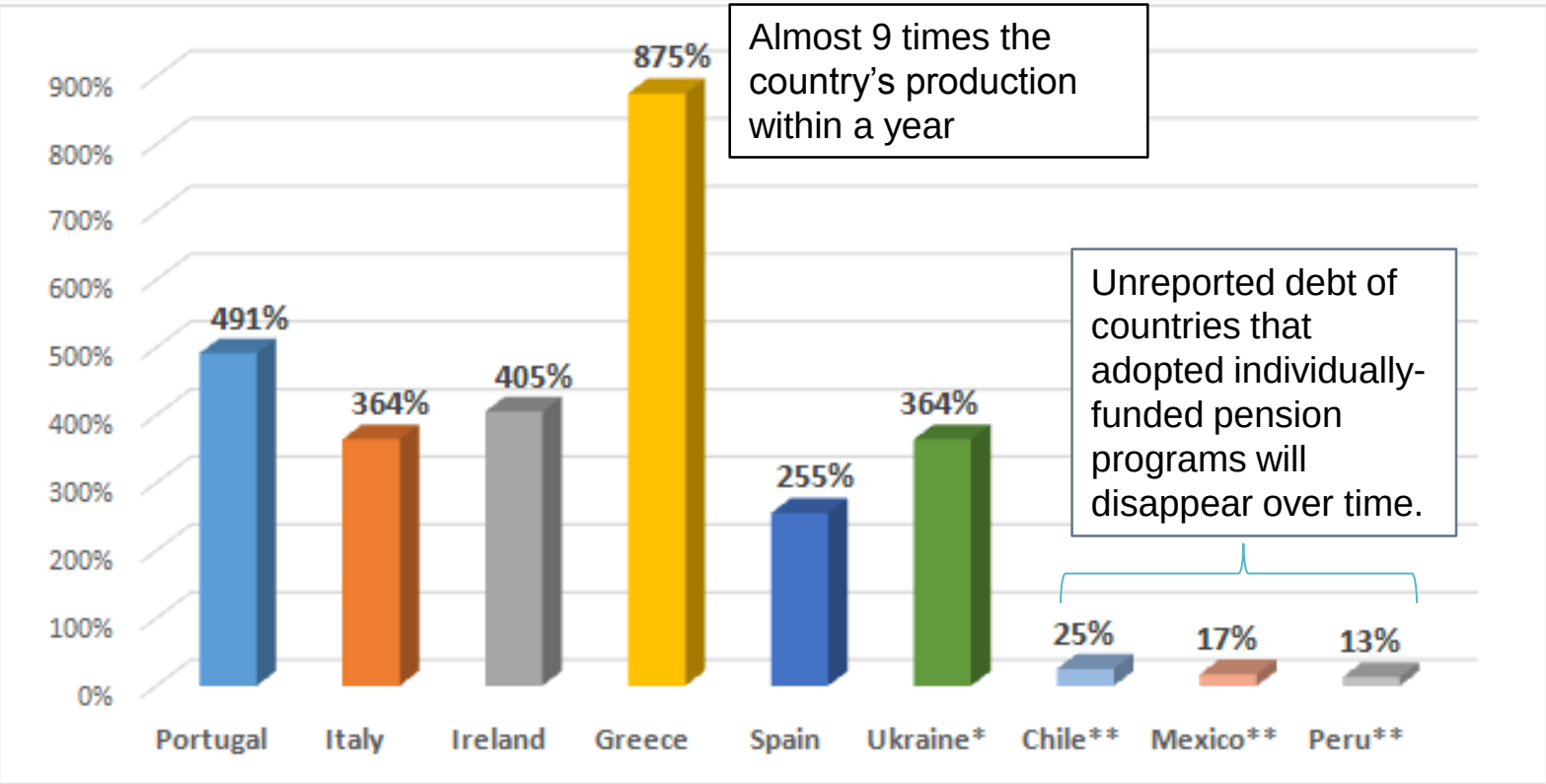
## Elderly (65+) in 2015 & 2050
(% of the population)




Source: World Population Prospects: The 2015 Revision (UN Population Division, 2016).

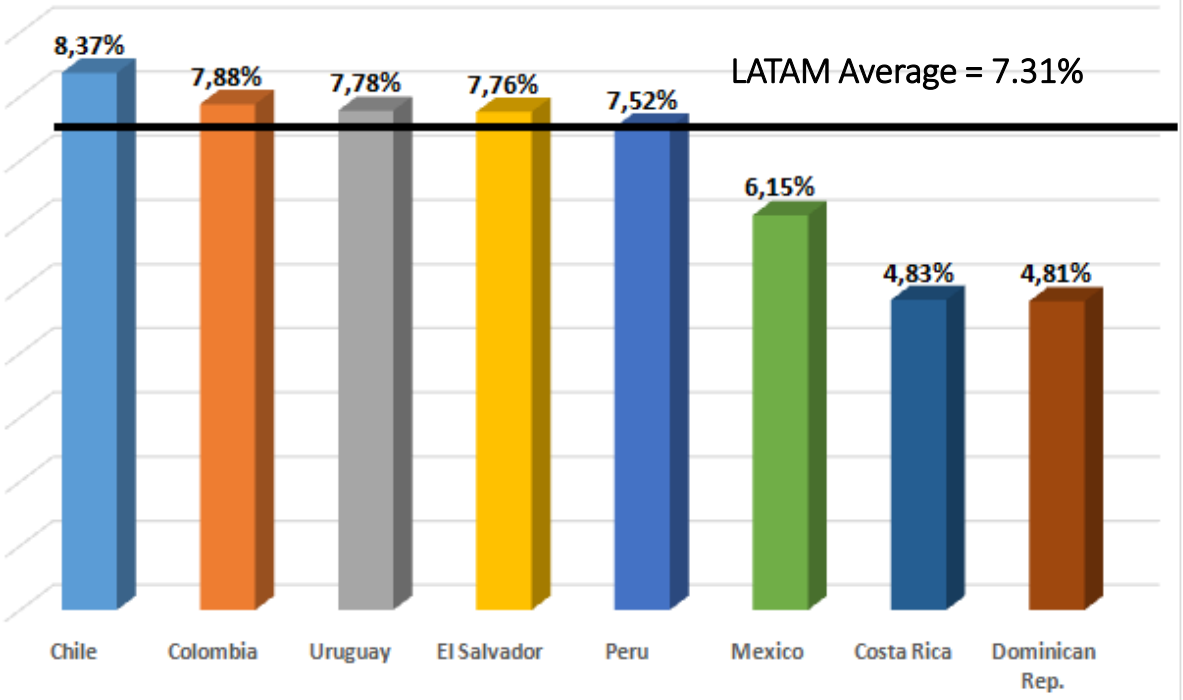
## Unreported Pension Debt 2009-2010
(% GDP)



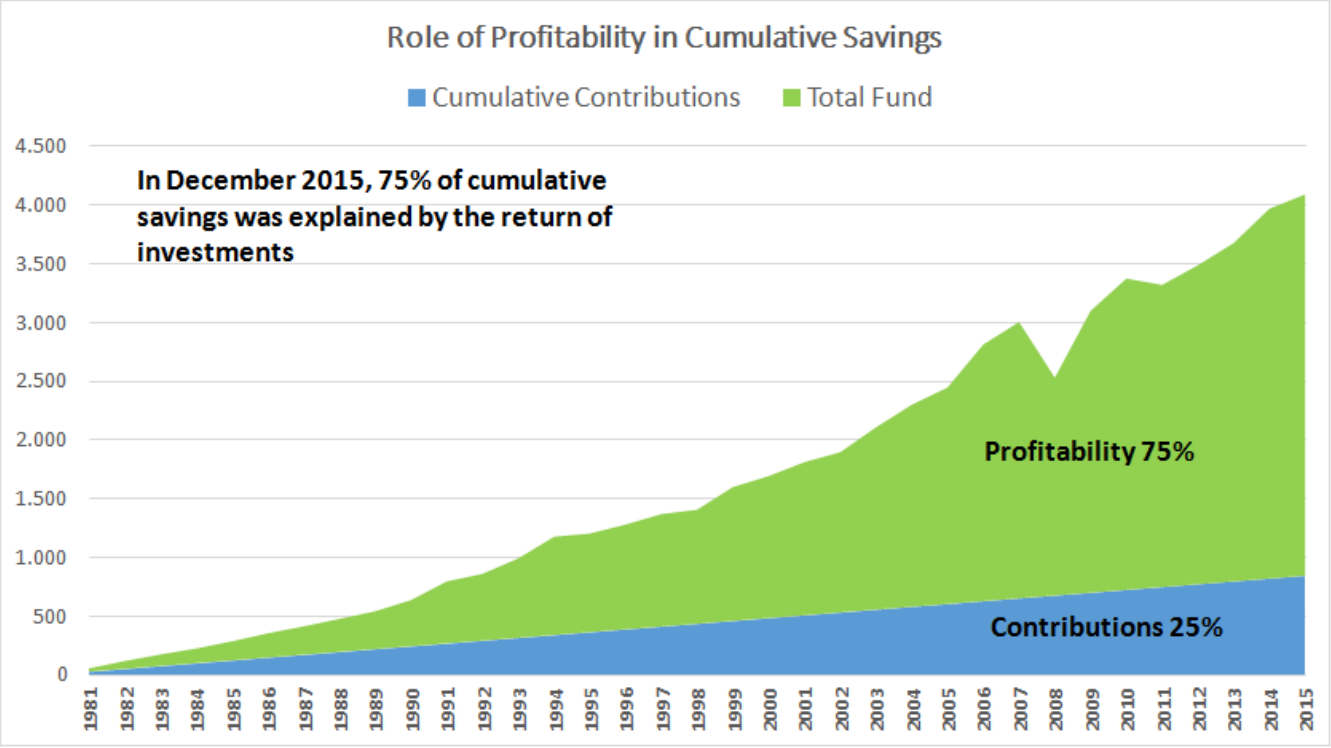

* For Ukraine, World Bank estimations, 2004.
** For Chile, Mexico and Peru, World Bank estimations, 2010.
Source: Edwards (2010) and World Bank (2004).

# Pension Funds have had excellent profitability

## Real historical cumulative profitability (annualized) of Pension Funds – Dec. 2015



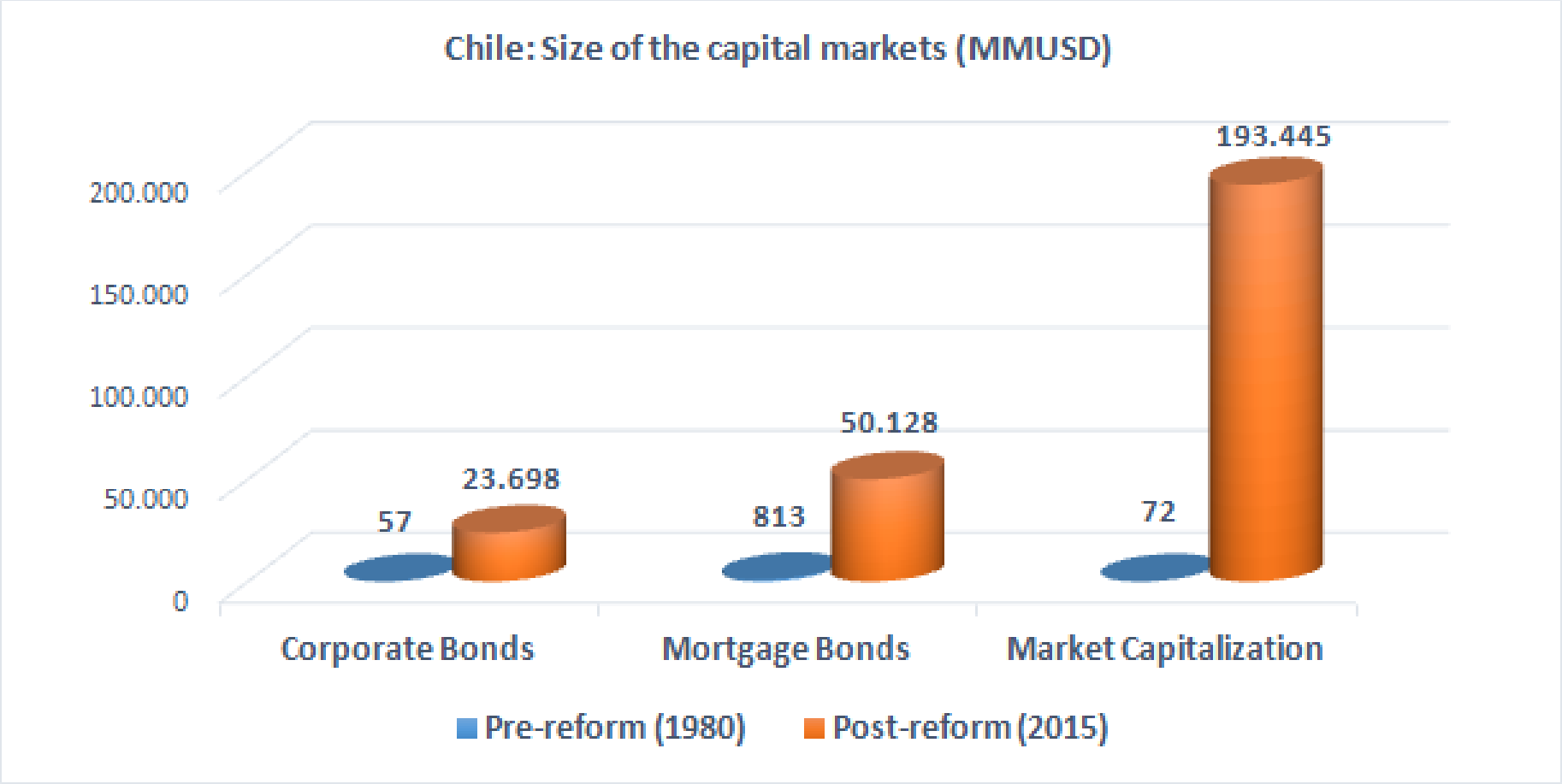

## Chile




Source: FIAP, Dec. 31, 2015

# Increased deepening of capital market

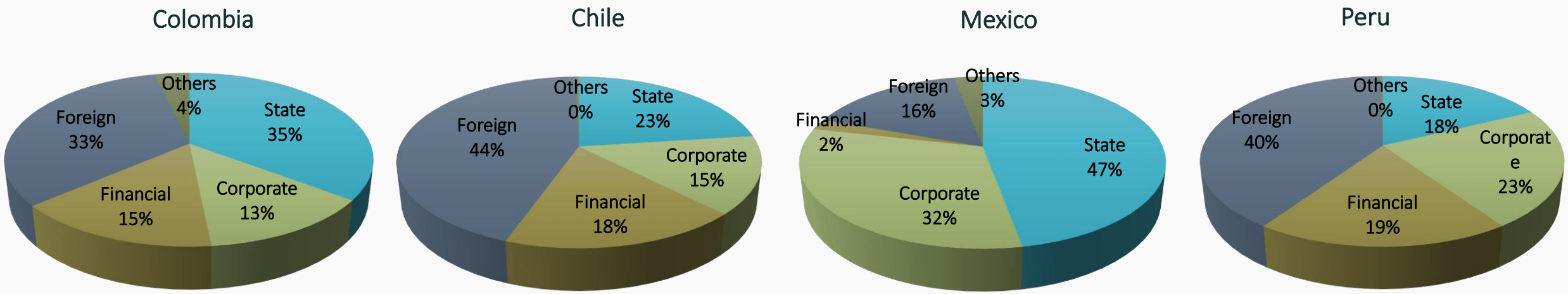
- In Chile, funds have the 34% of the stock of national debt; 58% of the financial system's debt; 37% of the companies' bonds; 6% of stock.




**Source: Elaborated by FIAP on Dec 31, 2015.**

# Pension Funds reach every economic sector

Pension Funds' Portfolio per economic sector (Dec. 2015)

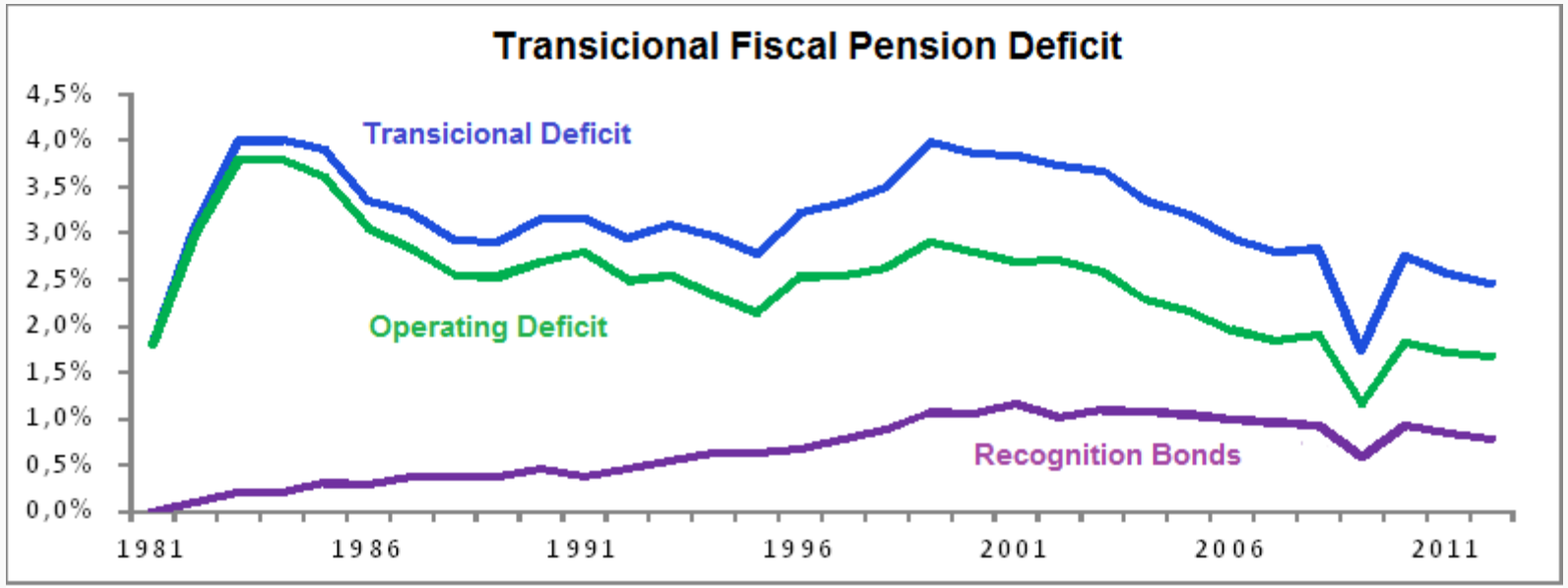



**Source: FIAP, Dec. 31, 2015.**

# Effect on Savings and Investment

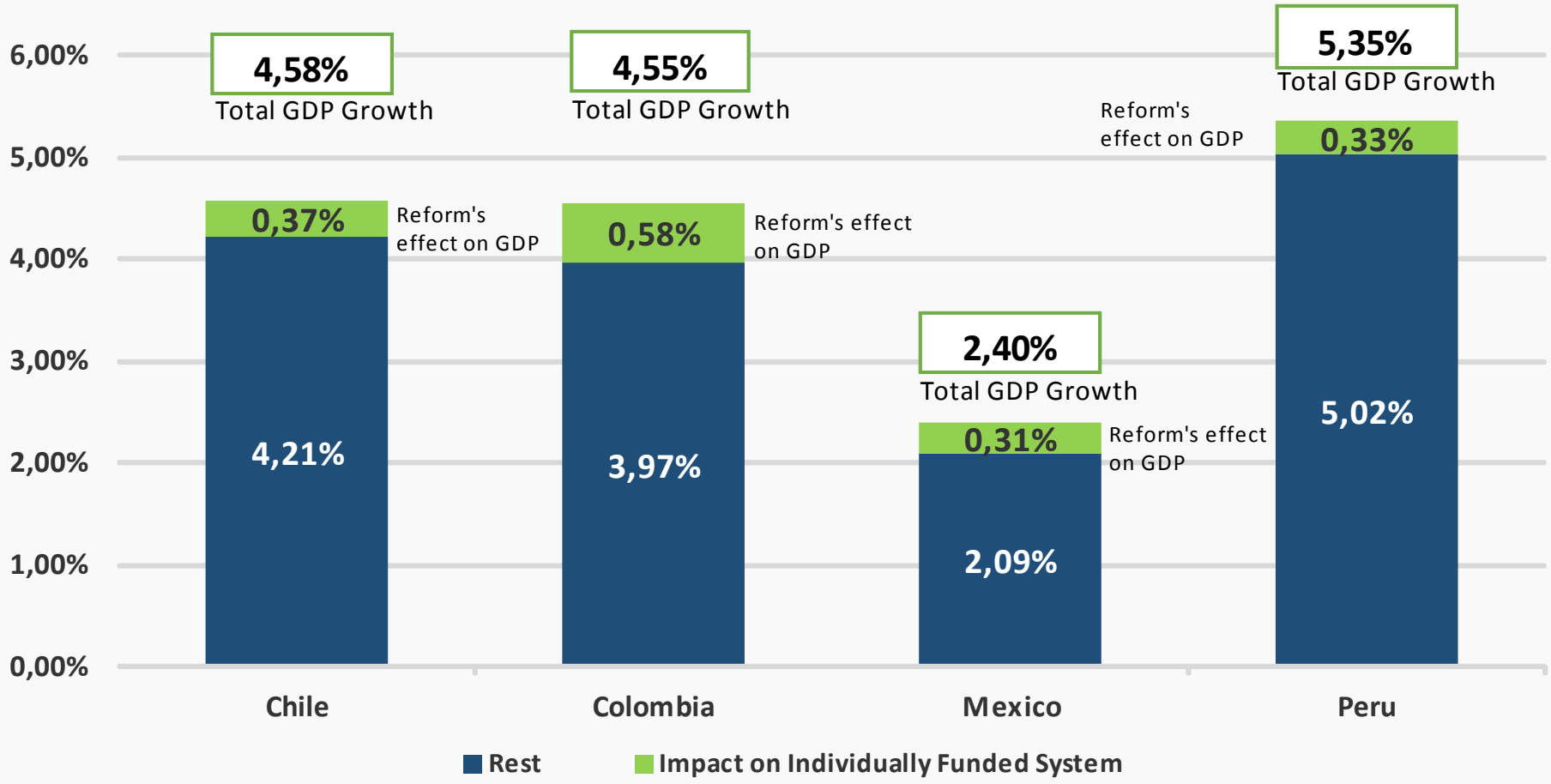
- It is possible due to the increasing reduction of the public sector deficit (as a result of financing an unsustainable PAYGO system).

- The **period of highest transition deficit in Chile is over**: deficit reached a maximum of 4% of GDP until 2000, then it decreased to a 2.6% of the GIP and it will disappear in the long term (in 2050 the deficit will disappear according to Arenas et al., 2009).
  - A direct benefit that it is being harvested: release of state resources for strengthening the "Pillar Zero" (solidarity pension system created by the Reform of 2008).




Source: SURA (2013), "Role of the private pension system in the economic development of Latin America, experiencies of Colombia, Mexico, Chile and Peru".

# Role of individually-funded systems in GDP annual growth




| % of GDP annual growth explained by pension reform | Chile | Colombia | Mexico | Peru |
|---|---|---|---|---|
| | 8.08% | 12.75% | 12.92% | 6.22% |

Source: SURA (2013) , “Role of the private pension system in the economic development of Latin America, experiences of Colombia, Mexico, Chile and Peru”.

# Impact on real economy

(i) **Housing: About one million and a half** houses are financed with Pension Funds (PFA and Life Insurance Co. through the bank). Mortgage loans are offered for terms of up to 30 years.

(ii) **Infrastructure:** About US$ 7.000 millon of the PFs are invested on the electrical sector, US$ 630 millon in telecommunications sector, and about US$ 2.000 millon are invested on concessions (highways, airports, hospitals).

THANK YOU!