



CMF Chairman Joaquín Cortez spoke before the Chamber of Deputies' Constitutional Committee about the motions for withdrawal of life annuity funds

- *The Chairman stressed the characteristics of the life annuity system – once a contract is signed with the pensioner, the funds in their AFP account are transferred to an insurance company.*
- *He also stated that the initiatives under discussion in Congress have potential effects on both the solvency of insurance companies and the life annuities market, especially if entities must make withdrawals from their own assets.*

October 6, 2020 – Joaquín Cortez, Chairman of the Financial Market Commission (CMF), spoke today before the Chamber of Deputies' Constitutional Committee to address the parliamentary motions seeking to allow an exceptional withdrawal of life annuity funds. In his [presentation before the Committee](#), the Chairman stated that the initiatives affect the core features of life annuities, which are defined by DL No. 3,500. Accordingly, he emphasized that in the life annuity system, once the contract is signed with the pensioner, the funds in their Pension Fund Administrator (AFP, for its Spanish acronym) account are transferred to an insurer.

Unlike the programmed retirement system, said funds become property of the insurance company instead of being managed by the pensioner. In exchange, the insurer agrees to pay a monthly fixed amount in UF to the insured and his/her beneficiaries for life.

Therefore, if the initiatives under discussion are approved, "the implicit concept is not a withdrawal of funds but rather an advance of future pension flows that will directly impact the pensions of pensioners and their beneficiaries depending on the amount withdrawn," said Cortez.

Solvence and Stability

Joaquín Cortez argued that such an advance may generate a complex financial situation for companies offering life annuities. It may end up weakening their ability to pay the life annuity pension differential remaining after a withdrawal, as well as

other insurance types that are so critical in the current scenario, like life and complementary health insurance. The Chairman of the CMF also remarked that insurance companies, unlike AFPs, invest a significant fraction of their funds in long-term illiquid assets. These assets, he explained, are an ideal investment to support a predetermined monthly flow of life income and allow for better pensions. However, forcing companies to sell assets to transfer this advance to pensioners could generate heavy losses in a short period of time, increasing solvency risks. He added that this effect would be even greater in the case that life insurance companies must make withdrawals of funds from their assets – as one of the parliamentary motions suggest – impacting the solvency of companies and the stability of the life annuities market itself.

Cortez underlined that in the case of life annuities the ownership of funds marks a substantial difference with the recently approved constitutional reform. Said reform authorized affiliates of the private pension system, on an exceptional basis, to withdraw up to 10 percent of the funds accumulated in their individual capitalization account of compulsory contributions. While the money accumulated in these accounts is owned by the affiliates themselves and the AFPs only manage it in a fiduciary capacity, the ownership of funds in life annuities belongs to insurance companies.

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