



CMF Chairman Joaquín Cortez spoke before the Chamber of Deputies' Special Investigative Commission on Life Annuity Advance Payments

August 9, 2021 – Joaquín Cortez, Chairman of the Financial Market Commission (CMF), spoke today before the Chamber of Deputies' Special Investigative Commission that is analyzing the Government's actions regarding Law No. 21,330 on life annuity advance payments. In his [presentation before the Investigative Commission](#), the Chairman stated that the CMF is mandated by law to uphold a general, systemic view of the market, considering the interests of investors, depositors, and policyholders, as well as safeguarding the public trust. He pointed out that one of the CMF's key functions is supervising the proper solvency, liquidity, stability, and operational continuity of its supervised institutions, including the market conduct of financial institutions and issuers of publicly traded securities under its regulatory scope.

Chairman Cortez stressed that the CMF has strictly complied with the provisions of Law No. 21,330, which amends the Constitution to establish an exceptional mechanism for advance payment of life annuities, as well as exercising its powers to instruct insurance companies for its proper application.

Life Annuities and Technical Reserves

During his presentation, Joaquín Cortez explained that **life annuities are a specially regulated insurance contract granted by a life insurance company**. In this contract, the insurer is bound to pay a fixed monthly sum for life to pensioners or beneficiaries in exchange for a premium payment funded by the savings accumulated in their individual capitalization account throughout their working life. Regarding the life annuity advance established in Law 21,330, the Chairman of the CMF noted that, according to the literal wording of the Law approved by Congress, life insurance companies must estimate the maximum amount of pension advances for pensioners/beneficiaries who request them **based on their technical reserves**.

A technical reserve is the amount that insurers must provision, as required by regulations, to support the life annuity payment obligation agreed in the respective contract. Its calculation considers, among other factors, life expectancy and monthly pension amounts to be paid. Its purpose is reflecting the best available estimate of the present value of the sum of all expected future payments to be

made by the company to pensioners and their beneficiaries. The Chairman of the CMF explained that, as time goes by, alongside the progressive payment of monthly pensions, the probability of the pensioner's death increases, which in turn makes technical reserves decrease. In this way, he stated that according to the provisions of Law No. 21,330, if a pensioner requests an advance equivalent to 10 percent of the technical reserve, this will automatically result in a reduction of 10 percent in all future payments.

"The permanent reduction of life annuity pensions is the result of a literal implementation of the constitutional reform's text by the CMF. Therefore, the mechanism included in the reform for advance payments correctly reflects the operation of life annuities since they are insurance policies," said Joaquín Cortez. Accordingly, he argued that the impact of a 10-percent advance equals what would happen if pensioners were to take out a life annuity under the same original terms, but with a premium 10 percent smaller — capped at UF 150.

Cortez added that "the constitutional reform and its implementation by the CMF does not benefit the insurance industry, given that advance payments are not a loan which ends up being overpaid by some pensioners," and that this view is supported by a broad group of experts in insurance, pensions, and financial regulation.

Life Annuity Advance Payments Supervision

The Chairman stated that the process of requesting and paying the advances has been carried out in compliance with the legal framework, always safeguarding the timeliness and completeness of the information in the pensioner's decision making, including the effect such advance would have on their pension amount. Once Law 21,330 was enacted, the CMF instructed life insurance companies through [Circular Letter No. 1,208 of April 30, 2021](#) to adopt all special measures to facilitate the voluntary pension advance process. Cortez added that the process "has been strictly supervised by the CMF to ensure that entities comply with the provisions of Law 21,330." Some of the actions taken by the Financial Market Commission include:

- Monitoring alongside the banking and insurance industries to ensure a timely flow of resources.
- Meetings with the Central Bank of Chile and the Superintendence of Pensions for adequate withdrawal coordination, and mitigation measures due to effects on the capital market caused by these advance payments.
- Easing debt limits to facilitate liquidity management of life insurance companies, thereby allowing them to obtain the required funds promptly.
- Coordination with the Administrative Corporation of the Judiciary to provide courts with access to life annuity information to make the pertinent withholdings for alimony payments. To this effect, an agreement was signed between both parties and an electronic mechanism for the exchange of information established.

Chairman Cortez also mentioned that insurance companies had to provide a special access on their websites to request advance payments, informing that they would be paid in the same way as pensions to minimize the risk of fraud in these fund transfers. The companies were granted a maximum of four business days after receiving requests to validate them and inform pensioners/surrogates/beneficiaries whether they were accepted or rejected. In the latter case, they had to detail their reasons for rejection and the requirements for making a new request. They were also instructed to strengthen control measures to validate applications to mitigate the possibility of fraud.

When applications were accepted, the CMF instructed insurance companies to inform withdrawal percentage options and the resulting pension amounts derived from each of them. It also set a 30-day timeframe to pay these advances since the time the first requests were filed. Since the beginning of this process, said Cortez, **life annuity advance payments worth over USD 1 billion have been granted to over 232,000 individuals.** This represents 96 percent of all confirmed requests.

To date, the CMF has received a total of 136 complaints related to this process. 120 have been fully processed — including an official response to pensioners — and 16 are still under review. The Chairman added that the CMF has not received any reinstated complaints regarding answered cases.

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