In Pandemic-Hit Chile, Lawmakers to Vote on Early Access to Retirement Savings; Measure would undermine President Sebastián Piñera's efforts to stabilize economy, experts say

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FULL TEXT

Chile's Senate is expected to vote on a bill Wednesday allowing workers struggling with the country's pandemic-induced economic meltdown to withdraw part of their contributions to private pension funds . If approved, the measure would deliver a blow to President Sebastián Piñera's government, alarming economists who have warned it could hurt a recovery.

The bill has been staunchly opposed by Mr. Piñera. He has tried to convince lawmakers, some within his own center-right coalition, to leave the $200 billion pension system alone. Officials had promised instead to ramp up emergency measures by providing cash payments to lower- and middle-class Chileans struggling with the crisis .

But many Chileans support the bill, which would allow them to withdraw up to 10% of their retirement savings from a once-vaunted pension model considered a bedrock of the country's free-market economic model. Pollster Cadem said Monday that 82% of workers backed the measure.

"It is my money...I don't see anything wrong with having access to it," said Andrés Herrera, a 35-year-old Santiago resident who manages social-media accounts for businesses. He plans to use the funds to pay off debt and cover basic needs. "It will provide relief."

Faced with a pandemic that has wreaked economic hardship , lawmakers from Australia to Malaysia to Peru are making it easier for people to raid their retirement accounts under the thinking that those savings, which hold trillions in wealth, can double as emergency funds.

In the U.S., those affected by the coronavirus and the ensuing economic blow are permitted now to take up to $100,0000 from retirement accounts —such as employment-linked 401(k)-type plans —without an early-withdrawal penalty.

The Peruvian Congress enacted legislation in April allowing people to take up to 25% of their pension savings as they grapple with an economic contraction which has left more than half of workers without jobs in the capital.

And in Latin America's biggest country, Brazil, the treasury secretary said the government is considering permitting Brazilians to withdraw from their pension funds early.

"People know it has benefits, but it can come with some costs," the secretary, Roberto Funchal, said in recent public comments.

In Chile, government officials, who have launched a large stimulus package to cushion an expected 7.5% economic contraction, say the pension withdrawal would unfairly put the onus of the economic downturn on workers by requiring them to dip into their savings.

Finance Minister Ignacio Briones says allowing workers to dip into their pensions would have a long-term impact on future retirees by undermining their payouts, while gutting reforms aimed at shoring up the pension model.

"It is incompatible to work on such a necessary reform to improve pensions, to have dignified pensions, and at the same time pass a reform that weakens them," he said recently. "It is one thing or another."

Chile's retirement system, implemented in 1981 when Gen. Augusto Pinochet's military dictatorship privatized the near-bankrupt, pay-as-you-go state pension system, was once seen as a model for some 30 other countries that emulated it to various degrees. Economists say it boosted Chile's capital markets, which helped propel robust economic growth that made the nation of 18 million people one of Latin America's wealthiest.

But the model has faced a blowback in recent years because of low payouts for retirees, helping spark protests last year that drew hundreds of thousands of people to the streets. Many Chileans demanded the model be scrapped, while others protested against inequality and substandard hospitals and schools. The demonstrations forced the government to agree to a referendum , which has yet to be staged, to rewrite the constitution.

If approved, the bill to allow pension withdrawals could be vetoed by Mr. Piñera or overturned by the constitutional court. But political analysts say that is unlikely due to the social backlash it would provoke.

Marcela Guajardo, 34, said she would hope to use her pension money to pay off debt after being forced to close a food store that has seen sales plummet. She predicted Chileans would take to the streets if Mr. Pinera, who has a 16% approval rating, tries to strike down a bill that is approved.

"People are waiting for things to be resolved, we are living in a really tense moment," she said. "Chile is like a pressure cooker."

If approved, the measure would likely fuel support for nationalizing the retirement system as fewer Chileans would have a significant stake in maintaining the current model, said Patricio Navia, a political analyst with consulting firm Alberdi Partners.

"As the country moves into a constitution-writing phase, those calls will likely be popular enough to make it into the new constitution," Mr. Navia wrote in a recent report. "The survival of the pension system hangs by a thread in Chile."

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