



Annex 3: Case Studies

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Chile: Pension Reform 2025

1. Introduction

Chile's 2025 Pension Reform marks a pivotal shift in the Chile's social protection framework, introducing a structurally mixed pension system that combines individual savings with a new social insurance pillar. Designed to enhance retirement security, promote gender equity, and improve the overall inclusiveness and efficiency of the system, the reform seeks to tackle persistent challenges such as labor informality—currently affecting nearly 30% of the workforce. By linking formal employment to enhanced pension benefits and state-backed protections, the reform not only strengthens the social contract but also introduces stronger incentives for participation in the formal economy. It represents one of the most ambitious overhauls of Chile's pension model since the introduction of individual capitalization in the 1980s, with a long-term vision of expanding coverage, reducing inequality, and reinforcing fiscal sustainability through shared responsibility between workers, employers, and the state.

2. Pre-reform Situation

Before the 2025 reform, Chile's pension system was based on a mixed model, consisting of a contributory pillar based on individual capitalization and a solidarity pillar financed through public resources.

In the contributory pillar, dependent workers were required to contribute 10% of their gross salary to an individual retirement savings account, managed by a Pension Fund Administrator (AFP). These accounts were invested in mutual funds with varying levels of risk (Funds A to E), and affiliates could freely choose or switch between funds without restrictions based on age or risk profile. Additionally, there was Disability and Survivors Insurance, financed by an additional 1.5% contribution paid by the employer. This insurance covered events such as the affiliate's disability or death, thereby protecting the affiliate or their beneficiaries.

On the other hand, the solidarity pillar aimed to guarantee a minimum pension for those who were unable to finance one through their own retirement savings. In 2022, this component was strengthened with the creation of the Universal Guaranteed Pension (PGU), which replaced the previous Solidarity Pillar benefits (the Basic Solidarity Pension and the Solidarity Pension Contribution). The PGU was provided to all individuals over the age of 65 who were not part of the top 10% of earners in the Chile, regardless of whether they had formally contributed to

the pension system during their working life. The initial amount of the PGU was approximately USD 180 per month, subject to periodic adjustments.

3. Policy Initiatives and Implementation

As part of the 2025 pension reform, an additional employer contribution of 7% was introduced. Combined with the existing 1.5% employer-financed Disability and Survivors Insurance, this results in a total employer contribution of 8.5%. This 8.5% is divided into two parts.

First, 6% is allocated to workers' savings: 4.5% is deposited directly into individual retirement accounts, while 1.5% is directed to a protected-return contribution. This 1.5% goes into the newly created Autonomous Pension Protection Fund, from which it will be gradually reintegrated into individual savings over time.

The remaining 2.5% of the employer's contribution goes entirely to the same fund, financing two key social insurance benefits: the Gender Compensation Benefit, which addresses differences in life expectancy, and a new disability and survivors insurance.

To finance this new social insurance pillar, the reform established the Autonomous Pension Protection Fund (FAPP), which will be supported by a USD 900 million loan from the Pension Reserve Fund (a sovereign wealth fund) during its first ten years; by the 2.5% employer contribution earmarked for social insurance; and, starting in 2036, by annual state contributions equivalent to more than USD 1 billion.

From a fiscal perspective, the reform is expected to generate an additional public expenditure of approximately US\$140 million in 2025, growing to USD 5 billion by 2040. Administrative costs for the Social Security Institute (IPS) and the Superintendence of Pensions are projected to rise by US\$32.22 million per year once the system is fully implemented. The reform's rollout will be gradual, spanning nine years, with the first increase in employer contributions taking effect in the fifth month after the law's enactment. This phased approach is designed to ease the adjustment for small and medium-sized enterprises (SMEs).

The reform also includes regulatory changes to foster competition and reduce fees in the AFP market, such as the introduction of affiliate stock bidding. Its development was informed by consultations with labor unions, women's organizations, private pension administrators, and parliamentary commissions. Gender equality and intergenerational solidarity were central guiding principles. Crucially, the reform addresses the high levels of labor informality in Chile (affecting nearly 30% of the workforce) by linking formal employment to improved benefits and expanded coverage, thereby promoting both formalization and gender equity.

In addition, the new pension system introduces a Centralized Collection System for Contributions to improve efficiency and effectiveness of recovering unpaid contributions. It also enhances the efficiency and profitability of pension fund managers (AFP) through several reforms: new entities such as cooperatives, non-bank general fund administrators (AGF), and compensation funds will be allowed to manage pension funds; the public pension institute (IPS) will be permitted to offer account management and support services; the current multifund structure will be replaced by Generational Funds; and a new incentive mechanism will reward or penalize managers based on their investment performance. These measures aim to increase competition, transparency and efficiency while reducing commissions.

Moreover, the reform extends the coverage of Unemployment contribution Gap Insurance, which now also applies to beneficiaries who finance their unemployment benefits using individual savings accounts.

4. Impact

The reform is expected to improve pension adequacy, especially for low-income earners, women, and those with interrupted work histories. The PGU increases to CLP 250,000, applied progressively to all retirees over 65, and incentives for formal employment are strengthened. Gender gaps in pension outcomes are expected to narrow significantly with the introduction of the new Social Insurance system, which is financed through a 4% employer contribution and additional State support, aiming to improve both current and future pensions while promoting intergenerational solidarity. The creation of a universal, solidarity-based component reinforces the social contract and encourages formalization by linking formal work to tangible future benefits, and one of its key features is a compensation mechanism for women, acknowledging their longer life expectancy compared to men. The goal is for a woman and a man who retire at age of 65 with the same level of savings to receive the same pension. In addition to this gender-focused measure, the Social insurance system will provide a Benefit for Years of Contribution, which improves the pensions of current retirees and those retiring in the next 30 years. This benefit will be granted based on the number of years contributed, creating a strong incentive for formal employment. Women will qualify with 10 years of contributions and men with 20 years. The reform will benefit millions of older adults by increasing their pensions, while nearly a million contributors will receive recognition for their years of contributions. Additionally, hundreds of thousands of women will benefit from gender-based compensation linked to differences in life expectancy.

Short-term impacts include:

- Immediate improvements in current pension levels.
- The Guaranteed Universal Pension (PGU) will increase approximately to USD 250 in three different stages:
 - Six months after the law is published, individuals aged 82 or older will receive the new PGU amount.
 - Eighteen months after the law takes effect, the PGU will increase to those aged 75 and above.
 - After thirty months, everyone aged 65 or older will receive the increased PGU.
- Extension of PGU to 435,640 additional individuals in 2025.
- In October 2027, 2.6 million pensions will receive the readjusted benefit.

Long-term impacts include:

- Projected coverage for 2.8 million retirees by 2027.
- Improved replacement rates and reduced inequality.
- The FAPP is expected to reach over 10% of GDP by 2050 and 15% by 2080, contributing to the system's long-term sustainability.

From a fiscal perspective, the reform is expected to generate an additional public expenditure of approximately USD 140 million in 2025, growing to USD 5 billion by 2040.

5. Challenges and Lessons

The implementation of the 2025 Pension Reform faced several challenges. Political negotiations were complex, requiring compromise between differing views on the role of public versus private management of pensions. There was resistance from sectors concerned about the redistribution mechanism of the Social Insurance component. One unintended consequence was initial confusion about how new contributions would be split and managed.

To address these challenges, the government engaged in multi-stakeholder dialogues and launched public education campaigns. Legal and regulatory adjustments ensured transparency in AFP bidding and eligibility for benefits. A phased implementation allowed time for adaptation. The reform's alignment with a broader social protection agenda helped consolidate political support.

Key lessons include the value of inter-ministerial coordination, clear communication, and maintaining a balance between long-term fiscal sustainability and social feasibility.

Partnerships with multilateral institutions will be important to monitor and refine implementation.

THE RUSSIAN FEDERATION

Bringing employees into the legal field ensures the protection of the rights and interests of employees and businesses. Informal employment directly affects the development of the SME sector. Firstly, it hinders healthy competition in business. Secondly, labor productivity is declining: low-skilled jobs often prevail in the informal economy. Targets for reducing informal employment are being met, among other things, by introducing special tax regimes that can be used by organizations and the self-employed.

1. Experiment for organizations in the field of public catering to introduce a “transitional tax regime”

The COVID-19 pandemic imposed restrictions on visiting public catering enterprises¹, which led to significant revenue losses. In response, a "transitional tax regime" was introduced for these enterprises on 1 January 2022.

The regime includes the following provisions:

- public catering services are exempt from VAT if their total income does not exceed USD 24 million, provided that at least 70% of this income came from catering services in the previous year;
- the maximum number of employees has been increased in order to recognize catering enterprises as SMEs from 250 to 1500 people, which allowed them to apply reduced insurance premium rates.

One of the main goals of introducing benefits for catering companies was to “whitewash” the industry. The whitewashing of the industry is confirmed by the reliability and completeness of the declaration of revenue and payroll.

¹ Public catering enterprises encompass a variety of establishments, including restaurants, cafes, bars, fast food outlets, buffets, cafeterias, canteens, snack bars, and cooking departments within these facilities, as well as other similar dining venues.

As of 2024, more than 2000 enterprises have used the right to apply VAT exemption for catering services. Compared to 2021, there is a gradual increase in their observed indicators in 2024 (based on a “monitoring group” of 1500 taxpayers that are continuously active):

- revenue (adjusted for inflation) – by 2 times;
- the quarterly volume of payments and other employee benefits – by 3.2 times;
- number of employees – by 1.7 times;
- the average monthly salary – by 2 times.

The interim monitoring results show the trend in the catering industry towards declaring revenue, as well as payments to employees.

2. My Tax is a special mobile app for self-employed individuals – those who apply a Tax on professional (earned) income

Tax on professional income is a special tax regime for self-employed citizens, which can be applied from 2019. This regime will be in effect for 10 years. An experiment to establish a special tax regime is being conducted throughout the Russian Federation. The transition to a special tax regime is carried out voluntarily.

Individuals who have switched to a special tax regime (self-employed) can pay tax on income at a reduced rate. This allows to legally conduct business and earn income from part-time work without the risk of receiving a fine for illegal business activities. The self-employed do not need to submit reports and buy a cash register – My Tax App itself keeps records of income, calculates tax, etc. The application provides analytics tools for detailed financial analysis of your business. In 2021 we had 3,8 million users and by now – more than 13 million users.

Key factors to success:

- During the COVID-19 pandemic, many people were searching for new ways of earning money, with self-employment becoming a popular choice. Consequently, the launch of the My Tax App was both timely and relevant.
- Effective promotional campaigns across every Russian region (roundtables, seminars, webinars, usage of the ambassador practice)

- Collaboration with digital platforms and fintech companies. For instance, Avito or Yandex taxi helps to involve more individuals in the program. Integration of those platforms with My Tax App allow their users to get legal status, like taxi drivers.