



## CMF issues instructions to life insurance companies on advance payment of life annuity pensions

- *The Commission instructed life insurance companies on the steps they must take to begin receiving applications for life annuity advances on Monday, May 3 at 9 AM.*
- *Insurance companies shall strengthen their customer service channels to inform policyholders of the scope of the law; the procedure for requesting an advance payment of their annuities; and the effect it will have on the amount of their future pension.*
- *In addition, the General Rule on the determination of risk equity, net equity and investment obligation of insurance companies that pay annuities was amended to facilitate the payment of the pension advances established by Law No. 21,330.*

**April 30, 2021** – The Financial Market Commission (CMF) informs that it issued instructions to life insurance companies to adopt special measures destined at facilitating the process of voluntary advance payment of life annuity pensions as established by [Law No. 21,330](#). The Commission requested insurance companies to strengthen their customer service channels and prioritize the use of remote means to inform policyholders on the scope of this law. In addition, companies must inform their policyholders on how they can request an advance payment of their life annuities, the effect that such advance payment will have on the amount of their future pension, and resolve any inquiries in a timely manner.

### Application Process

According to Law No. 21,230, the advance payment may be requested only once and on a voluntary basis by pensioners and/or beneficiaries. By Monday, May 3 at 9 AM, insurance companies shall provide applicants with a form to fill in and submit their requests for advance payments. The form must contain the following information:

- Full name.
- National ID number, as well as the ID card's serial number.
- Full physical address.
- Phone number.

- A valid email address.
- Any other instructions to fill the form without any issues.

The application form must state that the advance payment requested will be paid in the same way as the applicant's regular pension. Once the advance payment request is made, the company shall notify the applicant of its formal submission through the contact data (such as email and phone number) previously registered in its databases, as well as any other means of contact mentioned in the request.

Insurance companies have four business days following the application's submission to validate it and inform pensioners, surrogates, or beneficiaries whether it was accepted or rejected. Should the latter occur, the company must state in detail its reasons for rejection and the requirements for filing a new application.

To reduce possibilities of fraud as much as possible, companies must take utmost care to control and validate all received applications.

Should the application be accepted, insurance companies must disclose the withdrawal options and the effect they will have in future pensions, including the resultant amounts. Pensioners and/or beneficiaries can opt for an advance ranging between 1 and 10 percent of their technical reserves with a maximum of UF 150.

## **Confirmation and Payment**

From the moment pensioners and/or beneficiaries receive the options from the company, they may accept any of the advance payment alternatives. Payments will be made within a maximum of 30 calendar days from the time the first request was submitted. The process will be terminated if no advance payment percentage is requested.

The company must provide applicants with a proof of receipt stating, at a minimum, the confirmation date, the requested option, and an ID number for the application.

Companies are required to inform paying institutions of the account numbers to generate the intangibility mechanism established in the law. If the advance payment is made on the same day as the regular pension deposit, the portion corresponding to the early withdrawal of life annuities should be clearly distinguishable.

To ensure an orderly, continuous payment of these requests, insurance companies should adequately schedule the dates to pay the advances, making all necessary arrangements with banks and other paying institutions.

Policyholders may also request the advance of funds in person upon showing their valid ID card and complying with the health measures and recommendations currently in force.

## **Alimonies**

The application form for advance payments must include a statement from the insured person indicating whether they have pending alimony payments. Answering this question is mandatory. Insurance companies shall not pay advances to pensioners or beneficiaries owing alimonies, in accordance with the instructions received from the Law Courts on this matter. Companies shall also be subject to the Courts' procedures on how to handle and pay pending alimonies.

## **Pension Adjustments**

Companies must estimate the maximum amount to be withdrawn by pensioners and/or beneficiaries considering their technical reserve. Therefore, under the new law, withdrawals made by pensioners or beneficiaries who choose to request it will be imputed to the monthly amount of their future life annuities, pro rata, proportionally and in the same percentage as the amount actually withdrawn. Accordingly, the new pension amount will be estimated by applying the withdrawal percentage to the current pension defined in the life annuity policy. If an applicant withdraws 10 percent of their reserve, their pension will also decrease by 10 percent.

Once the withdrawal is made, companies must re-estimate their technical reserves based on the new pension amount, applying the current rules regulations established for this purpose.

## **Addendum: CMF issues regulation that allows life insurance Companies to increase their indebtedness level**

Given that the 10-percent advance payment of life annuities may generate greater liquidity needs for insurance companies, so they comply with their legal obligations, the Financial Market Commission introduced amendments to [General Rule No. 323](#).

The CMF estimates that the liquidation of instruments by life insurance companies will overlap the same process taken by Pension Fund Administrators, resulting on a lower price for these instruments. To avoid potential value losses, the indebtedness capacity of insurance companies was expanded for a year. The amendments are as follows:

- Temporarily increase from 1 to 1.5 times the maximum financial indebtedness available to insurance companies that pay life annuities. This new regime is valid until April 30, 2022.
- The requirement for risk equity related to financial indebtedness, contained in General Rule No. 323, is also temporarily adjusted.

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