

Chile's private pension funds lose billions: Legalized robbery of the working class

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23 October 2026

The revelation that Chile's private pension fund administrators (AFPs) have destroyed billions of dollars of workers' retirement savings through reckless speculation in US interest-rate derivatives has produced a predictable political spectacle. Lawmakers from every party have rushed to express outrage, introduce bills, demand investigations and file lawsuits. What none of them will say is that the losses now convulsing the pension system are the normal, lawful operation of a system whose entire purpose, from the day it was imposed by the Pinochet dictatorship in 1981, has been to convert the compulsory savings of the working class into a reservoir of capital for the Chilean oligarchy and the international financial markets.

The scale of the destruction is now coming into view. Fund E, the system's most "conservative" fund, posted a real decline of 10.39 percent between January and September 2026, including a 4.92 percent collapse in September alone. According to figures published by Bloomberg, the AFPs' positions in foreign interest-rate derivatives swung from a positive valuation of US\$1.4 billion a year ago to a negative valuation of US\$7.7 billion by September. An investigation by *Diario Financiero*, based on the portfolios published by the Superintendency of Pensions, estimated that the devaluation of interest-rate swaps reduced the value of the pension funds by approximately US\$11.6 billion in 2026, of which roughly US\$1.4 billion corresponds to Fund E.

Seven private administrators (Capital, Cuprum, Habitat, Modelo, PlanVital, Provida and Uno) manage the compulsory savings of the working class. Each runs the same five funds, labeled A through E, which differ only in their mix of stocks and bonds. Fund A, the riskiest, allows up to 80 percent of its portfolio in variable income; Fund E, the most conservative, allows just 5 percent. It is Fund E that is marketed to workers at or near retirement age, who have no time to recover from losses. And it is Fund E that has been devastated.

The mechanics of how the money was lost

Over the past two years, the seven AFPs piled into "receiver swaps," contracts under which they received a fixed long-term interest rate in dollars and paid a short-term variable rate. The strategy was a bet that US interest rates would continue to fall. When rates fall, long-duration fixed-income instruments rise in value, and the funds profited handsomely: Fund E returned 8.06 percent in 2025, its best performance in years.

The scale of the gambling is almost impossible to grasp. The "notional value" of the swap contracts (the reference amount on which the payments are calculated) ballooned from US\$5 billion at the start of 2024 to US\$500 billion at the end of 2025—a 100-fold increase. It peaked at US\$700 billion in early 2026 and stood at around US\$525 billion in August, even after the regulator began forcing reductions. To put that in

perspective: the entire Chilean economy produces roughly US\$350 billion a year. The AFPs were running derivative positions worth approximately twice the Chilean economy, on bets about the direction of US interest rates. This was not the prudent management of retirement savings. It was a casino, and the chips were the wages of millions of workers.

The exposure grew at a reckless pace. According to a Citigroup analysis, the AFPs' receiver swap positions left them exposed to swings of about US\$131 million for every one-basis-point move in yields by April 2026, up from just US\$10.6 million at the start of 2024. That is a twelve-fold increase in risk in roughly two years. A "basis point" is one-hundredth of one percent (0.01 percent), a microscopic change in a foreign interest rate that moves more money than most Chilean workers could earn in a thousand lifetimes.

The origins of the strategy are themselves damning. The tactic began after the pandemic-era withdrawals, when workers were permitted to rescue a portion of their own savings during the health emergency. The withdrawals drained the funds of actual bonds and other fixed-income assets. Rather than prudently rebuild those positions, the AFPs turned to swaps as a cheap shortcut to obtain the same interest-rate exposure, and, crucially, to chase the returns that would restore the fee base the withdrawals had reduced. The withdrawals did not force them to gamble; they chose to gamble, and they kept gambling because it was generating strong returns and fat bonuses.

But the same sensitivity that produced those gains worked in reverse when the bet failed. The US-instigated war against Iran, the resulting oil price shock, and the trade war launched by the Trump administration reignited global inflation, drove US Treasury yields to a 24-year high, and forced the Federal Reserve to raise interest rates for the first time since 2023. The yield on the 10-year US Treasury bond rose from 4.18 percent at the end of 2025 to 5.29 percent by the end of September 2026. The AFPs' swap positions collapsed in value.

The receiver swap positions alone subtracted 5.9 percentage points from Fund E's nominal return for the year—80 percent of its nominal decline and nearly 57 percent of its real loss. The AFPs compounded the damage by betting against the dollar itself, selling forward contracts equivalent to nearly 150 percent of the dollars they actually held in the portfolio, stripping the fund of the one buffer that might have offset the losses.

All seven administrators lost money in almost identical proportions, from 10.93 percent at AFP Modelo to 9.91 percent at AFP Uno. This was not coincidence. As the Bloomberg investigation revealed, executives at the AFPs themselves reportedly asked regulators to impose limits on derivatives transactions, because no fund manager wanted to unilaterally abandon a strategy while its competitors continued to profit from it. The system's relative-return rules, which penalize any AFP that deviates too far from the industry average, actively incentivize this collective recklessness. As one expert put it, when everyone makes the same mistake together, no one falls behind.

Crucially, the warnings were there. The Central Bank flagged the risks

in its November 2025 Financial Stability Report. The Superintendency of Pensions warned the fund managers repeatedly through meetings and formal communications beginning in late 2024. In April 2026, the regulator finally imposed new limits on derivatives risk, with a compliance deadline of November 5. The AFPs knew the restrictions were coming as early as October 2025 and did nothing.

The theater of parliamentary concern

Faced with this catastrophe, the political establishment has staged a display of indignation that is as transparent as it is cynical.

The Communist Party (PC) and aligned independents caucus introduced a bill, grandly titled “Give the Money Back,” that would compel the AFPs to compensate members of Fund E for their losses. PC representative Marcos Barraza declared it “unacceptable that the AFPs only win and never lose.” Pseudo-left congresswoman Ana María Gazmuri denounced the AFPs as a “veritable cartel” that “acted like a runaway herd.” The Broad Front (FA), through its president Gael Yeomans, announced its own bill to change the basis on which fees are calculated and to bring forward the penalties contained in the 2025 pension reform. The pseudo-left aligned NO+AFP called for financial audits, civil lawsuits against the AFPs, a subsidiary suit against the Treasury, and a “voluntary registry” of affected members.

The right has joined the chorus. National Renewal (RN) demanded “immediate and compelling explanations” and a “thorough” investigation. The People’s Party (PDG), whose congressional caucus includes Pamela Jiles, the demagogue who rode the pension-withdrawal movement to prominence, floated yet another 10 percent withdrawal. Former Finance ministers Marcel, Briones and Grau, former superintendents, and economists from Sebastián Edwards to Álvaro Clarke all weighed in with demands for accountability, investigations of executive bonuses and reviews of board minutes.

This cross-party unanimity is the most revealing fact of the whole affair. It demonstrates that every faction of the political establishment, from so-called “left” to the far-right Kast government, is united in defense of the same thing: the private pension system itself, and the finance capital it serves. Not one of these forces proposes the abolition of the AFP system. None proposes the expropriation of the banks and financial institutions that hold the workers’ savings. None proposes that the wealth created by the working class be taken out of the hands of the ruling class.

It bears mentioning that the pseudo-left, the PC, the FA, are the very forces that, under Gabriel Boric, “reformed” the pension system that preserved mandatory individual capitalization and expanded the private sector’s role in the system. The PC’s current posturing is the familiar routine of a party that denounces the excesses of capital while administering its rule.

The courts as instruments of finance capital

The same week that the political establishment was staging its display of concern over the AFP losses, the Supreme Court delivered a ruling that lays bare the real function of the state in this affair. On October 19, the Court’s Third Chamber confirmed the illegality of the regulations issued by the Financial Market Commission (CMF) in 2021 to implement the advance payment of up to 10 percent of life annuities that was the third and final pension withdrawal approved during the pandemic, which for the

first time was extended to those who had already retired under the annuity system.

The ruling upheld the claims of the insurance companies (Penta Vida, 4 Life, Bice Vida and Renta Nacional) which had argued that the CMF had exceeded its authority and that the advance payments constituted an “expropriatory” act against their assets. The Court’s reasoning is instructive. In three of the cases, the companies had already succeeded in having the core provision of the law declared inapplicable on constitutional grounds; without that foundation, the Court concluded, the CMF’s directive was “devoid of legal basis.” The insurers had, in effect, won the right to refuse to return to pensioners a portion of their own savings, and the Supreme Court has now ratified that victory.

The significance of the ruling extends far beyond the technical question of regulatory authority. It is a declaration, from the highest court in the land, that the property rights of the insurance companies take precedence over the claims of the working class to their own savings. The same state that now professes outrage over the destruction of US\$11 billion in pension funds has, through its judiciary, just confirmed that the financial industry’s title to the workers’ money is inviolable. The courts, the regulators and the state are instruments for the protection of finance capital against the working class. The workers who are now being told to wait for the markets to “recover” are the same workers whose legal claims to their own money have just been struck down.

The Riesco report and the historical truth

Manuel Riesco of the research foundation CENDA published a report on October 12 that is worth particular attention, because it cuts through the official mythology. Riesco calculates that the AFP fund lost more than US\$18 billion in September 2026 alone, and that the system’s internal rate of return on net contributions since 1981 averages just 0.6 percent annually. The accumulated gross returns of the fund, which peaked at US\$179 billion in January 2021, have fallen to around US\$138 billion, a level not seen since the eve of the 2008 subprime crisis.

Riesco’s most important point is his demolition of the claim, repeated endlessly by the AFP industry and its political defenders, that the pension withdrawals of 2020-2021 caused the system’s decline. The losses were caused not by workers withdrawing their own money, but by the speculative investments of the fund managers.

The AFP system was created by the Pinochet dictatorship in 1981, under the direction of the “Chicago Boys,” as a mechanism for channeling the compulsory savings of the working class into the financial markets. It was never a system of social security. It was a system of primitive accumulation, a legalized robbery in which a portion of every worker’s wage was diverted, month after month, into a handful of oligarchic clans and the international banks. The commissions paid to stockbrokers, which Riesco estimates at US\$20 billion, are only the most visible expression of the parasitic character of the whole arrangement.

The parasitic character of finance capital is expressed with brutal clarity in the current crisis. The AFPs collect their fees regardless of whether the funds gain or lose. The executives who authorized the reckless swap positions were likely rewarded with bonuses for the short-term returns they generated in 2025, while the losses they produced in 2026 are borne entirely by the workers whose savings they gambled. Meanwhile, most of Chile’s seniors receive pensions that are insufficient to survive. The system’s own data show that the state’s direct tax subsidies cover nearly two-thirds of the cost of the pensions the AFPs pay out, a confession that the private system cannot even perform the minimal function for which it was supposedly created.

The pension losses are unfolding amid a general crisis of the Chilean economy and a collapse of the Kast government's political authority. Unemployment has reached 9.6 percent, its highest level since 2021. The economy has been contracting for months, with mining output plunging 17.4 percent in August alone. Inflation is running at 4 percent for the year, driven by food and transport costs: potatoes up 8.6 percent, lettuce up 10.5 percent, gasoline up 2.7 percent, diesel up 10.2 percent in a single month. The government's decision to end the fuel price stabilization mechanism has sent diesel prices soaring, with another increase of 90 pesos per liter projected for this week.

Kast's approval rating has collapsed to 30 percent, with disapproval at 65 percent, a 27-point drop in seven months. The government is hemorrhaging personnel, with 51 authorities having left their posts since March. This is the context in which the political establishment's theatrical expressions of concern over the AFP losses must be understood. The parties of the right and the pseudo-left alike are terrified of the social explosion that the combination of mass unemployment, rising prices and the destruction of retirement savings is preparing. Their machinations are for containing that anger by channeling it into the courts and the Congress, where it can be safely managed.

The Chilean events are not a national peculiarity but a specific expression of the deepening crisis of the world capitalist economy, in which the major imperialist powers, led by the United States, are resorting to war, protectionism and the militarization of trade to deal with contradictions they cannot resolve peacefully. The very mechanism of the AFP losses, the rise in US interest rates, was set in motion by the US war against Iran, the oil shock it unleashed and the trade war of the Trump administration. The workers of Chile are being made to pay, through the destruction of their retirement savings, for a war waged on the other side of the world in the interests of American imperialism.

This is the essential character of finance capital in its epoch of decay. It produces nothing. It appropriates everything. It converts the accumulated labor of the working class into a casino for speculation, and when the bets fail, it demands that the workers themselves absorb the losses. The parasitic domination of finance capital over every aspect of economic and social life is the fundamental fact of the present period, and it can be ended only by the expropriation of the banks and the financial institutions and the establishment of a planned, socialist economy.



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