STUDY SUMMARY

# The Impact of Matching Contributions on Retirement Savings in Peru

Pension systems aim to prevent poverty among the elderly and to help ensure people have adequate income across their lifetime. But, only a small proportion (25 percent) of the global labor force contributes or accrues pension funds, and in developing countries essentially no small firms' employees have pension coverage. In Lima, Peru, Innovations for Poverty Action is working with researchers and Peru's pension administrator to rigorously measure the impact of 50-percent and 100-percent matching contributions on enrollment and contributions to pensions among workers of small firms who lack pension coverage.

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**COUNTRY**
Peru

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**PROGRAM AREA**
Financial Inclusion

**TOPIC**
Savings

**TIMELINE**
2017-2018

## Policy Issue

Pension systems aim to prevent poverty among the elderly and to help ensure people have adequate income across their lifetime. But, only a small proportion (25 percent) of the global labor force contributes or accrues pension funds, and in developing countries essentially no small firms' employees have pension coverage. In both developing and developed countries alike there is public concern about how uncovered workers will support themselves in retirement. To this end, policymakers from developing countries are increasingly focusing on matching contributions as a means to increase coverage among informal workers. Matching contributions consist of transfers made by the government into a worker's pension account conditional on the worker's own contributions. These contributions could incentivize pension saving by employees and may cost less for government in the long-term by ensuring individuals can provide for their own needs in old age.[1] This research will shed light on whether matching contributions effectively increase pension coverage in developing countries and will provide input for policymakers during the design stage of these programs.

## Evaluation Context

This study will take place among informal workers at small firms, defined as employers with 10 or fewer workers, who are not enrolled to the pension system in Lima, Peru. In Lima, one of the Latin America's largest urban areas, only 20 percent of the labor force contributes to the pension system. The government previously passed legislation to develop two pension reforms, which include a matching contributions scheme for uncovered workers of small firms, but has yet to implement the reforms. This offers a good opportunity to generate evidence that could inform the Peruvian government's design of these programs.

## Details of the Intervention

An IPA research team is working with Peru's pension fund administrator to rigorously test the impact of matching contributions, on enrollment and contributions to pensions among workers in Lima, Peru. To measure this, researchers will randomly assign 1,104 firms, comprised of approximately 2,800 workers, to one of three groups:

1. **Fifty percent match:** The first group will receive information on pension savings and a 50 percent match, subject to a maximum amount, on their personal contributions to their pension for four months.
2. **One hundred percent match:** The second group will receive information and a 100 percent match of pension contributions (subject to a maximum amount) for the same period of time.
3. **Comparison group:** The third group will receive only information on the importance of saving for retirement.

Researchers will conduct an initial survey before the program is rolled out, and will use administrative data from the AFP on the enrollment and contribution of the target workers. The AFP will provide data periodically during the four months of the program and the six months after the program ends.

## Results and Policy Lessons

Project on-going; results forthcoming.

## Sources

[1] Ribe, Helena, David A. Robalino, and Ian Walker. *Achieving effective social protection for all in Latin America and the Caribbean: from right to reality*. World Bank Publications, 2010.

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