

# Financial Literacy and Privatized Social Security in Mexico



The study is designed as a survey with an embedded experiment and took advantage of Mexico's privatized social security system, which requires workers to choose their retirement investment funds (AFOREs) from an approved list. This research project will collect detailed survey data and implement a series of field experiments in order to further understand the factors that determine workers' investment choices. The survey will collect information on financial planning, financial literacy, and investor perceptions of the privatized social security market.

The survey will also contain two field experiments. The first will examine if survey participants are more likely to switch funds when provided with transparent information on the fees each AFORE charges. The second will test if financial literacy can be taught by providing simplified information on the importance of compounding interest, coupled with information about fees charged by the AFORE. The survey results will allow for estimates of the impact of each piece of information on fund choice and sensitivity to fees. This information can be combined with information on market-level responses by AFOREs, with regard to their fees and total number of investors.

If most people (regardless of income) choose funds to minimize fees, AFOREs will compete on price. But if more people choose based on brand names or convenience, then funds will be less concerned with price and more concerned with brand promotion. Previous research has suggested that more-educated consumers choose funds to minimize fees, while less-educated consumers choose funds based on brand name or convenience. Because lower income individuals are likely to have less education, market outcomes may lead to lower net returns for low-income households.

Since social security is intended to be a safety net that provides income in old age to all citizens, differences in individuals' investment behavior (and firm response) across demographic groups is critically important for understanding the impacts of privatization on income distribution.

## Policy Issue

## Evaluation Context

## Details of the Intervention

## Results and Policy Lessons

### RESEARCHER

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### COUNTRY

Mexico

### PARTNER

### PROGRAM AREAS

Financial Inclusion, Governance

### TOPICS

Financial Capability, Product Design,  
Training & Mentoring

**TIMELINE**

Not available

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