STUDY SUMMARY

Financial Literacy, Short-run Impatience, and the Determinants of Saving and Financial Management in Chile

Previous research suggests that many people lack the skills needed to calculate expected returns or present discounted values, which may cause them to make suboptimal financial decisions. Previous work by Hastings and Tejeda-Ashton in Mexico showed that the way that returns to a pension program were presented (in pesos versus as an annual percentage) affected price sensitivity. Another explanation offered for sub optimal financial decisions is the present bias of many decision makers, who are impatient and consistently choose immediate gratification instead of a more measured approach that allows for optimal saving for future consumption.

This project makes use of the biannual Encuesta de Protección Social (Social Protection Survey, EPS), a nationally representative panel survey of 17,000 households, to undertake two experiments that seek to better understand the determinants of saving and financial management decisions.

Chile has had a privatized national defined contribution system since 1981, in which participants can select which of five fund managers will handle their retirement accruals. Workers select the fund in which to place their money, and the government provides published statistics on load fees and past returns. In the first experiment, we will provide information on returns net of fees to individuals in one of these randomly-assigned formats: either expected pension account gains or expected pension account costs over a ten year period, and either presented in Chilean pesos or in Annual Percentage Rates. Participants will view the information and be asked to indicate how they would rank the funds. They will then be given the information sheet to keep. Using dministrative data in the Chilean pension system, we will track the impact this information has on the fund people choose.

The second experiment will allow researchers to create a measurement for the participants' ability to delay gratification. We will use this measure to examine how well this ability to forgo current gratification to gain higher returns later explains pension investment decisions, weight and health investments, and propensity to spend on impulse products and carry credit card debt. At the end of each survey, the participant will be asked to participate in an additional survey that will earn them a git certificate to the largest grocery store chain in Chile. They can choose to do the survey now for a set amount reward, or do the survey within the following month, and upon mailing it back receive a higher credit to the card. The difference between immediate payment and future payment will be randomized so that the return on waiting ranges from 20 to 60 percent. Links to both EPS and grocery store data (including store credit cards) will allow us to track future pension and consumption decisions and draw conclusions based on revealed ability to delay gratification.

Policy Issue

Evaluation Context

Details of the Intervention

Results and Policy Lessons

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COUNTRY
Chile

PARTNER

PROGRAM AREA
Financial Inclusion

TOPICS
Consumer Protection, Financial Capability, Savings

TIMELINE
Not available

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