

# Personalizing Information to Improve Retirement Savings in Chile



Can giving pension account holders personalized information about the financial implications of increasing their contributions, formalizing employment, and delaying retirement age help them make more informed retirement planning decisions? Researchers partnered with Chile's national pension authority to evaluate how providing government workers with personalized retirement information, via self-service kiosks at government offices, impacts their financial knowledge and decisions about labor market participation and retirement planning. Preliminary results indicate that personalized information increased the amount of voluntary contributions, but that the impacts faded over time.

## Policy Issue

Defined contribution retirement savings plans, through which employees contribute a mandatory amount deducted directly from their salaries, are common in many developing countries. Such plans generally allow individuals to supplement their plan with voluntary contributions, but individuals may lack the financial knowledge needed to select the most beneficial contribution amount, or may not be aware of the effects on retirement payouts of failing to make sufficient voluntary contributions, working in the informal sector, or retiring early. Personalized retirement savings information tailored to each individual's financial situation may be an effective way to increase knowledge and encourage low-income individuals in the labor force to adopt habits that lead to increased pension payouts.

## Evaluation Context

Chile requires formally employed workers to contribute approximately 10 percent of their taxable income to a pension account. However, contribution rates remain low; people may not be formally employed, may avoid contributing, may stop contributing whenever unemployed, or may fail to contribute enough to retire comfortably. Low-income individuals, who comprise 65 percent of all pension account holders, can be most affected by low contributions. Lack of financial knowledge and low levels of understanding about the pension plan may also contribute to sub-optimal outcomes. A 2009 survey indicated that most members of the Chilean national pension system did not know how their pension would be calculated, and many who claimed to know were unable to answer questions



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### COUNTRY

Chile

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### PROGRAM AREAS

Financial Inclusion, Financial Capability

### TOPICS

Behavioral Design, Financial Capability, Information & Communications Technology (ICT), Savings

### TIMELINE

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about the topic when asked.

## Details of the Intervention

Researchers partnered with the *Superintendencia de Pensiones* (SdP) in Chile to evaluate the impact of providing personalized retirement savings information on pension contributions of low-income, working-age individuals.

The SdP installed self-service kiosks in eight government offices in the metropolitan region of Santiago. At the kiosks, individuals were prompted to identify themselves with their fingerprint and national ID number (RUT). Based on their RUT, each individual was randomly assigned into one of two groups: A comparison group that received publicly available, *generic* information on how to improve their retirement savings, and a treatment group that received a *personalized* online simulation session showing how changing their current contribution levels would affect their expected retirement savings balance. The two information types were designed to make sure that the intervention isolated the impact of personalized information and did not simply “nudge” savings behavior by increasing the salience of retirement savings.

The personalized simulation used a combination of users’ personal financial information (pulled from the government database using their RUT) and information users directly entered, such as their desired retirement age and estimated years of contribution towards their retirement fund. Based on this information, the simulator showed users a projection of their post-retirement finances, and users could then change parameters to see how their eventual pension payout would be affected.

Users from both groups were surveyed at the kiosk on topics including financial knowledge and retirement fund contribution levels. In addition, government-provided administrative data allowed researchers to measure impacts on labor force participation and savings behavior up to one year later.

## Results and Policy Lessons

Preliminary results indicate that the personalized information increased the average amount of voluntary contributions by 12 percent during the one year following the intervention, but did not significantly impact the average number of mandatory contributions, the probability of enrolling in the pension fund system, or active management decisions of pensions by those who were enrolled. Researchers found no evidence that the increase in voluntary contributions came at the expense of savings outside the pension plan. However, the impacts on the amounts of voluntary contributions appear to dissipate over time - they were significant only for the first eight months following the intervention, and were insufficient to significantly alter future pensions.

The impacts varied across different groups. For example, women increased voluntary savings more than men. Also, users who had previously *overestimated* their pension payout (i.e. those who were told by the simulator that their payout would be less than they had expected) increased their voluntary contributions while those who *underestimated* their payouts decreased their mandatory contributions. This variation suggests that the personalized information provided in this study did not act as a simple nudge to change savings behavior, but rather, influenced decisions through an information channel

that increased understanding of the pension plan and the financial implications of voluntary contributions, labor market participation, and retirement age.