CULTURA DE AHORRO Y ECONOMÍA DEL COMPORTAMIENTO EN EL ÁMBITO PREVISIONAL

Seminario Internacional AIOS
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AGENDA

1. Motivation
2. Pension Projections: Online simulator
3. Experimental evaluation (product test) of a simplified version of the pension simulator
4. Pay-out phase implications
5. Final remarks

MOTIVATION

- **Adequacy without compromising the financial sustainability of the scheme.**
  - Several countries have chosen to move to a DC system.
  - DC require much more financial knowledge from its participants than DB.
- **Information and Education are relevant**
  - Can we improve pension savings by providing personalized information to participants on how to increase them?
- **Timing is important**
  - In Chile, where the pension system became a DC scheme in 1981, the first cohorts of affiliates are near to retire:
    - Low pension savings is a concern.

MOTIVATION

- **Financial knowledge is low**
  - What is the contribution rate? 11% (EPS 2009)
  - How is the total pension computed? 10% (EPS 2009)
  - Which type of fund? 55% (FHS 2012)
  - Actual amount in your personal saving account? 37% (FHS 2012)
- **Individual Behavior can be sub-optimal**
  - No active involvement. Inertia.
  - Decisions based on past performance.
  - Funds changes with a short horizon view (Fuentes, Searle & Villatoro (2015))
  - Poor planning of savings → Pension Outcomes negatively affected
- **Pension Expectations**
  - Actual pension levels do not live up to the expectations of the population.
  - Individuals desire/expect a pension closer to their actual/final salary.
  - There is a gap between what is obtained and desired

PENSION SIMULATOR

Pension Simulator to increase pension knowledge and awareness

- This is one of the main initiatives taken by the Superintendence
- It is publicly available at www.spensiones.cl
- It is a user friendly web tool that gives individuals a pension projection based on personal characteristics and administrative data.
- This was a project initiated in 2011 as a collaboration with the OECD
- Antolin & Fuentes (2012) OECD working paper
- High interest among users. More than 600,000 visits since it was launched in September of 2012. It has more than 15,000 average monthly visits.

It is distinguished by:

- Bringing expectations of future pension, often unclear, to real numbers.
- Including the dimension of risk in the final result.
- Evaluating the effect of changing different parameters such as investment strategy, voluntary savings, retirement age.

PENSION SIMULATOR

Project stages

1) Pre-evaluation (1st quarter 2011)

Focus groups
To assess the knowledge on pension and risk terms
Evaluation of different alternatives to give info about risks

2) Design and evaluation (2nd quarter 2011)

Visual Design and basic programming
Evaluation through Usability tests

3) Advanced programming (2nd semester 2011-1st semester 2012)

Linking visual design with the pension risk model
Final calibration of the parameters used

4) Implementation (2st semester 2012-3rd semester 2012)

Implementation of the pension simulator as a web tool in the SP web page
Unification of assumptions used by PFMs simulators
Improved PPP to make it consistent with the simulator

5) Improvements to the tool (2014-2015)

Administrative records were considered to simplify the input-entry process for users (since 2014)
Data and projection model assumptions were updated (2015)

6) Experimental evaluation-IPA grant (2014-2016)

The SP and J-Pal were awarded a product test grant by the GFII-IPA to make an experimental evaluation of the Pension Simulator.

The aim of the experiment is to measure the impact of offering personalized information about pensions on long-term savings and employment decisions.

CHALLENGES FROM THE POINT OF VIEW OF THE INFORMATION PROVIDED

- **Key issue for the regulator: How to deliver a simple but informative solution to users?**
  - Low degree of knowledge of pension concepts (differences according to educational level).
  - Knowledge of some concepts without association to the relevant technical language.
  - Difficulties to understand information about risk (e.g. confidence intervals).
  - Risk tend to be associated with negative outcomes (ignoring right tail)
  - Individuals do not evaluate how their history of contributions or lack of contributions affect their pension forecast.
  - Low degree of knowledge of measures that affiliates can take to have an effect on their pensions.
  - High interest in the existence of accessible (i.e. without much technical terms) help.
  - High interest in the possibility of obtaining information related to pension benefits.
  - The tool was designed taking the recommendations and comments of users obtained from focus groups and usability tests.

PENSION SIMULATOR

How the pension simulator works

- Users enter the web tool through a main page that welcome them to use the simulator.
- The pension risk simulator uses affiliates' characteristics as inputs:
  - Gender and Age
  - Salary
  - Current pension savings balance (mandatory and voluntary)
  - Investment strategy
  - Expected salary and beneficiaries

Main outcomes

- The expected pension at retirement and the risk associated to this forecast

How to improve the expected pension

- The users receives information regarding measures they can take to improve their forecast: postpone retirement, increase voluntary savings, contribute more, choose a different investment path.

EXPERIMENTAL EVALUATION

- **Pension Simulator Experimental Evaluation**
  - A product test grant by the Global Financial Inclusion Initiative-IPA was awarded to the SP and J-Pal.
  - Randomized Control Trial: Personalizing Information to Improve Retirement Savings
  - Project Timeline: 2014-2016
  - Goal: to measure the impact of offering personalized information about pensions on long-term savings and employment decisions.

EXPERIMENTAL EVALUATION

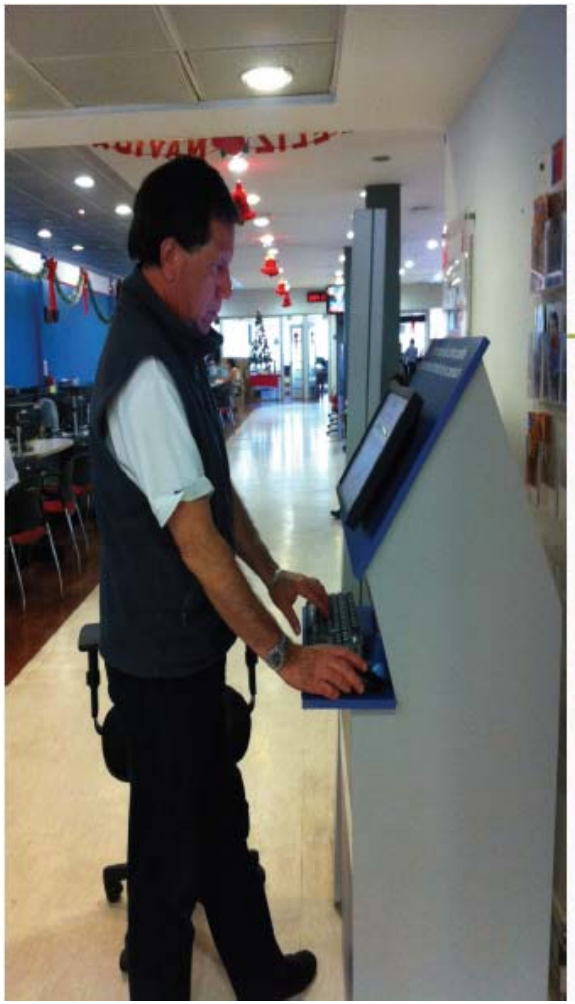
Implementation to reach the target population

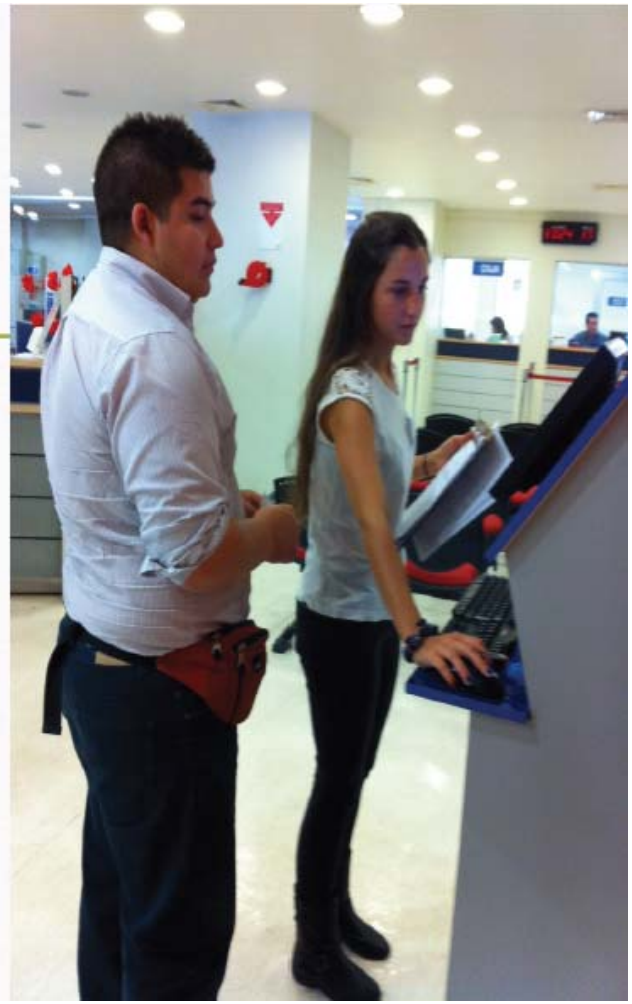
- We built 8 self-service modules and installed them in the offices of "Chile Atiende"
- A government office which centralizes all the interactions that citizens may have with the government, including payments of social benefits.
- We anticipated that this would allow us to reach a poorer population than the online version of the simulator. This is the case.

Randomization

- Randomly assigned participants (by their national ID number) to having access to their:
  - Personalized simulation (treatment group) or to some generic pension advice (control group).
- Then using administrative records, we can follow the behavior of individuals and see the impact on decisions to have been treated.

EXPERIMENTAL EVALUATION





EXPERIMENTAL EVALUATION: PRELIMINARY RESULTS

- **The experimental evaluation indicates that**
  - The simulator seems to provide new valuable information to the participants.
  - Many individuals strongly overestimate or underestimate their pension prospects
  - Suggests the need to interact our treatment effect by what type of "news" is provided to the participants.
  - In the aggregate, voluntary contributions increase. Average effect suggests that there is increased savings into the pension funds.
- **Closing the gap**
  - The positive effect is driven by those who expected a higher pension than the one simulated.
- **Scaling-up the project**
- It would face some challenges as take-up is low without a human helper, which is a useful result by itself.
- Permanent change in behavior versus transitory

IMPLICATIONS FROM BEHAVIORAL ECONOMICS

- **Participants need to have the right information in advance**
  - To take decisions on savings to improve their pension outcomes.
  - A Pension simulator or other type of personalized information can be very useful on this.
- **Default Mechanisms are part of the solution**
  - Default Investment strategy
  - Default provider
- **Retirement age is a key variable participants need to choose**.
  - Legal retirement age in the case of Chile is a minimum requirement.
  - For early retirement participants need to fulfill some conditions.
- **SCOMP has improved the decision making in the pay-out phase**
  - Eliminating information asymmetries between participants and providers
  - Information and pricing on all pension products available

FINAL REMARKS

- The regulator in the case of Chile is actively involved in providing more and better information to members, including initiatives in financial education.
- Continue the efforts to increase financial education and awareness
- Communicate the long term perspective of pension savings
- Improve the necessary information and tools available in order to promote active participation and affiliates wellbeing during retirement
- Financial education is one of the main strategic goals for the Superintendence of Pensions.

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