Retirement Savings Laboratory

Sending emails to independent workers to increase their contributions to the pension system

COLOMBIA

COUNTRY

WHAT IS IT?

The Colombian pension system introduced obligatory contributions of independent workers in 2003. Despite this, in 2018, only three (3) out of five (5) independent workers with an obligation to contribute (given that they have sufficient income) were contributing to their pension. To promote pension savings of independent workers affiliated to the Proteccion Pension Fund Administrator, a messaging strategy aimed at motivating behavioral changes via email was developed. This intervention sought to promote mandatory savings by independent workers who had not been contributing, and voluntary savings by those who had already been making mandatory contributions, but not voluntary savings contributions. On the one hand, messages that challenged the belief that independent workers do not contribute to their pension were tested, highlighting statistics related to the number of independent workers who already performed the desired behavior and. on the other hand, messages that highlighted the expected differences between pension contributors

IMPACT

- In the total sample, no significant effect was found on the probability of saving nor the amounts saved when using either of the two email strategies.
- 2. However, evidence that emails have a positive and significant effect on the probability of making voluntary contributions in some subsegments of independent workers, particularly those with medium and high income, was found.

or non-contributors, and between employees (who contribute over 100% of their income, partly supported by the employer) and independent workers (who usually contribute 40% of their income, the minimum allowed by the system).

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TITLE

Sending emails to independent workers to increase their contributions to the pension system.

MESSAGE

Emails informing independent workers that compulsory contributions or voluntary contributions to pensions are common have failed to encourage those who are not contributing to do mandatory contributions, and emails that prompt social comparison of independent workers vis-à-vis employees fail to increase voluntary pension savings of those independent workers who are already making mandatory contributions.

TOPIC OF STUDY

Long term pensions savings.

SUB-TOPIC

Information.

YEAR

2018

AUTHORS

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AUTHOR OF THE SUMMARY

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OBJECTIVE

Increase voluntary retirement savings for low-income people with emails designed to help people overcome their behavioral biases.

TOOL

Messages to overcome behavioral barriers that hinder long-term savings.

EXECUTIVE AGENCY

Proteccion S.A., (Fondo de Pensiones y Cesantías, for its Spanish acronym).

TARGET POPULATION

Independent workers affiliated to the individual savings scheme.

MECHANISM

Emails.

SAMPLE SIZE

110 367 independent workers affiliated to *Proteccion*.

EVALUATION DESIGN

Randomized Controlled Trial (RCT).

FINANCING

IDB LAB and MetLife Foundation.

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Retirement Savings-Laboratory

> Voluntarily saving for a pension is a challenge for all individuals, especially for independent workers. In Latin America, these types of workers are generally low-income, are not integrated into the financial system, don't have a culture of saving, and prefer avoiding the fiscal costs of formalization in an environment where evading contribution obligations is relatively easy. In Colombia, in 2018, 42% of all workers were independent and only 13.15% of these were contributing to their pension —many because their income was below the minimum wage, the minimum base income for contribution—(SIMS, 2020).

> Independent workers, like the general population, face various psychological biases, making voluntary pension savings difficult for them. Studies show that: many tend to follow others' behavior (doing what they believe is common) instead of consciously evaluating their particular case; others, who do evaluate their case, tend to assess their well-being relative to their reference group and not based

on their individual results, which leads to competition; and there are those who, in the face of complex processes, tend to postpone their decision. While salaried workers also exhibit these behavioral biases, having their employer automatically deduct their pension contributions helps them overcome barriers to long-term savings.

At the beginning of the pilot, in the case of *Proteccion* (the second largest Pension Fund in the country, with 30% of account holders), of its 350,171 independent workers with an account (16% of the total system), 94% were contributing an income less than or equal to four times the minimum wage, the vast majority (87%) only had savings from mandatory pensions, and even among those who made contributions to mandatory pensions, three out of five did not contribute regularly. Finally, less than 3% of account holders voluntarily saved for their pension.

INTERVENTION DESIGN

To promote pension savings of independent workers affiliated to Proteccion, two behavioral campaigns were developed: Common Savings and Social Comparison. The first challenged the common belief that independent workers do not contribute to their pension, particularly when it comes to voluntary savings. Although this belief could be considered incorrect when starting the pilot, this was not the case a few years ago. In 2003, contribution of independent workers to social security became mandatory in Colombia, but it was only until 2010 when the Pension and Parafiscal Unit (UGPP, for its Spanish acronym) began operating and implementing measures to control the evasion and avoidance of contributions, that the percentage of independent workers obligated to contribute and who effectively contributed grew from approximately 19.9% in 2012 to more than 62% in 2018 (UGPP, 2018). In other words, the campaign sought to change the preconceptions of independent workers' situation derived from recent changes, with the goal of increasing savings.

The second campaign highlighted the expected differences in income during old age that results from not contributing compared to contributing, or contributing only based on 40% of income - the minimum required by law and the option most independent workers select— versus those who are employees and who contribute based on 100% of their income. In the first case, the aim was to encourage obligatory contributions, while in the second, the aim was to encourage voluntary savings.

Approximately 110,000 independents workers affiliated to *Protección* in October 2018 (32% of total independent workers affiliated to *Protección*) were assigned to receive an email every two weeks for three months. In total, 36,790 account holders were assigned to the control group, 36,788 to the social comparison treatment, and 36,789 to the common savings treatment. Of those who received the emails, at the beginning of the study, a total of 75,882 account holders had already been making mandatory contributions while 34,485 had not.

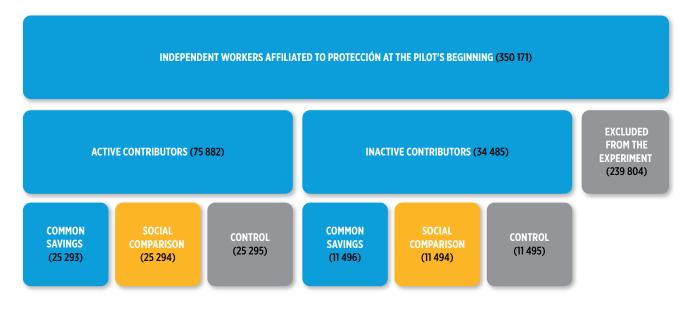
www.iadb.org/savingslab





FIGURE 1. EXAMPLE OF EMAILS SENT TO INDEPENDENT WORKERS: COMMON SAVINGS (LEFT) AND SOCIAL COMPARISON (RIGHT).

FIGURE 2. SUMMARY ASSIGNMENT OF PILOT TREATMENTS.

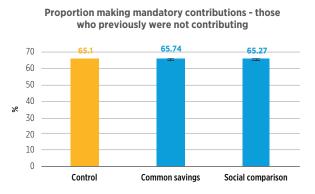




IMPACT

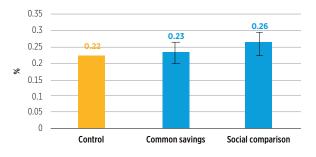
Although for the treatment groups there was a greater probability of making voluntary contributions among those workers who had not been making contributions, and voluntary savings among those who had only been making mandatory contributions, the differences were not significant. While 65.1% of the control group, who had not been contributing before, were making their mandatory contributions in any given month, in the Common Savings group this percentage was 65.74%. Similarly, among those who had already been making mandatory contributions, 0.22% of the control group made voluntary contributions in any given month, while 0.26% of the social comparison group did.

FIGURE 3. EFFECTS ON THE PROPORTION OF ACCOUNT HOLDERS MAKING THE INCENTIVIZED TYPE OF CONTRIBUTION.



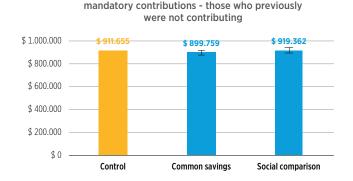
Regarding the amounts saved, no significant effect was observed neither in the base on which they made their mandatory contributions nor in the amounts of voluntary savings. If any-



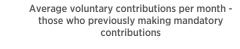


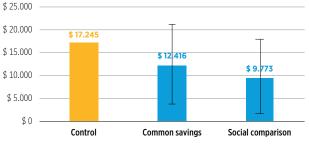
thing, the treatment groups decreased their voluntary savings from 17,245 in the control group on average to 9,773 in the social comparison group, but this difference is not significant.

FIGURE 4. EFFECTS ON THE AVERAGE MONTHLY AMOUNTS OF THE INCENTIVIZED TYPE OF CONTRIBUTIONS.



Monthly contribution base income reported for





Despite the lack of aggregate impacts, evidence finds that the campaigns can be effective in some account holder segments. On the one hand, lower-income account holders targeted with the Common Savings campaign had a 70% higher probability of making voluntary contributions (3.7 per every thousand compared to 2.2 per thousand in the control group). On the other hand, middle-income account holders targeted with the Social Comparison campaign had an 88% higher probability of making voluntary contributions (4.2 per every thousand).



LESSONS FOR PUBLIC POLICY

These results suggest that independent workers' decision to contribute to their pension and the savings amount they choose are not based on beliefs related to the common savings behaviors that independent workers follow. They also suggest that providing information today on income differences in the future does not determine the levels of pension savings either. The latter may be because, in the present, people tend to undervalue the differences that will appear in the future. This psychological bias makes the future seem very distant, so it becomes intangible and people decide not to save.

The results of this intervention also suggest that, in aggregate, there were no significant effects in the treatment group, neither in the probability of saving nor in the amounts saved. However, the evidence collected suggests that email information campaigns could be effective in some account holder segments. In particular, for groups of independent workers with low and middle incomes who contribute, since a greater probability of voluntary savings was found.

Even in the segments where these campaigns were effective, the effects were relatively small. This can be explained by the low effectiveness of emails. Despite counting valid email addresses for all account holders who participated in the experiment, only 20% of emails were opened (a typical email open rate), and less than 7% used the email links included in the messages. With limited open rates, observing considerable effects would require high-impact campaigns among those who actually open the emails. In this case, to obtain an effect on the target population, the campaign would have to generate approximately five times that effect among those who do open the emails and are exposed to the campaigns.

