

Retirement Savings Laboratory



How much time do you have left to receive your pension? Redesigning pension contribution account statements to improve their understandability

WHAT IS IT?

In Colombia, four out of five workers affiliated to the defined benefit pension system fail to obtain a pension. This low coverage rate is due, in part, to (i) low levels of productivity associated with informality; (ii) informal workers that should contribute but prefer not to, affiliates that make an error, or simply forget, thus not completing the minimum number of contributions to receive a pension; and (iii) cases in which affiliates have formally worked the required number of weeks, but not all of their contributions are registered in the system.

When this pilot started, the account statements of the defined benefit pension system in Colombia were complex and difficult to understand. Affiliates did not review the information included in the statement frequently or completely, and as a result, they found it difficult to detect and correct errors in their labor history, failing to report them on time. Therefore, this study sought to improve the clarity and relevance of the information found in the account statements so that affiliates could make better decisions.

To encourage workers to verify the registration of their contributions to the pension system and, if necessary, correct

any mistakes promptly, the account statement was redesigned incorporating insights from the field of behavioral sciences. A randomized controlled trial was then conducted in order to measure the impact of the redesigned account statement on (i) the affiliates' understanding of their account statement, measured through a telephone survey of a representative sample, and (ii) the number of corrections made in a timely manner to any mistakes found in affiliates' labor history, measured using the responses to a telephone survey as well as other administrative data.



IMPACT

The results of a telephone survey yielded the following information on the impact of the redesign of the account statements:

1. The probability of finding the information regarding the remaining number of weeks that the affiliate must contribute to the system to retire increased between 14 and 22 percentage points.
2. The probability of finding the total number of weeks that the member has contributed did not change in a consistent or conclusive way (some groups of affiliates were more likely to find the total number of weeks while others were less likely to do so).
3. The probability that the affiliate (i) finds the detail of the contributions made in 2017, (ii) reviews his data, or (iii) finds errors that he had not previously identified in his statement did not change in a significant way.

Despite the third result, **administrative data shows that:**

4. The redesigned account statement led to a significant increase of between 0.4 and 0.5 percentage points in the proportion of affiliates that requested corrections to their information.

TITLE

How much time do you have left for your pension? Redesigning pension contribution account statements to improve their understandability.

MESSAGE

Redesigning the annual account statement sent by Colpensiones (the public administrator of the Colombian defined benefit pension system) to its affiliates increased their understanding and encouraged them to request corrections, if necessary, of the information contained in the statements.

STUDY AREA

Pensions, long-term savings.

SUB-AREA

Information.

YEAR

2018

AUTHORS

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SUMMARY AUTHOR

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OBJECTIVE

Simplify Colpensiones' annual account statement to improve its affiliates' understanding of the information presented and encourage them to verify and request corrections, if needed.

TOOLS

Information simplification, including specific instructions to review and request corrections to the statement, if needed.

EXECUTING AGENCY

Colombian defined benefit pension administrator Colpensiones (State agency).

TARGET POPULATION

Adults affiliated to the Colombian defined benefit pension system.

MECHANISM

Account statements sent through a certified postal service.

SAMPLE SIZE

48,072 adults affiliated to the defined benefit public pension system.

EVALUATION DESIGN

Randomized Controlled Trial (RCT).

FINANCING

IDB Lab and MetLife Foundation.

COST

Cost of printing redesigned annual account statements in color: \$860 USD.

- Savings from not printing the old annual account statement in black and white: \$480 USD.

- Savings due to reduction of pages in the account statements: \$720 USD.

= Net savings: \$340 USD.



CHALLENGE

In Colombia, as in many other countries in Latin America and the Caribbean, workers face many barriers when it comes to saving for retirement. One of these barriers is related to the role that employers and self-employed workers have in making mandatory pensions contributions. The law requires that both the self-employed and employers make contributions to the pension system. However, errors and omissions in making these mandatory payments are common. Between October 2012 and December 2017, Colpensiones processed more than three million requests to correct information in account statements (Colpensiones, 2018), also known as labor histories. Having an incomplete labor history is especially problematic for low-income workers who often have had multiple employers and may make less regular contributions.

There are many reasons why an affiliate's labor history may be inaccurate or incomplete. On the one hand, periods worked may not appear in the records of the defined benefit regime

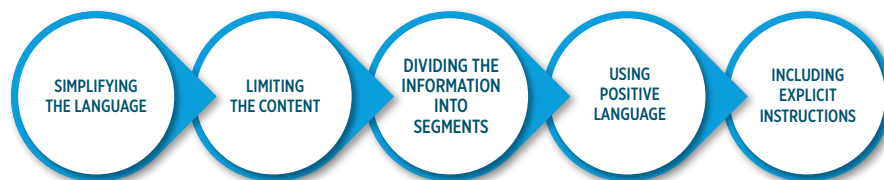
(RPM, for its Spanish acronym) as a result of an error when contributing. These errors range from mistakes when typing the identification number, to cases in which the contribution was incorrectly made to a private Pension Fund Administrator (AFP, for its Spanish acronym) and not to the RPM. On the other hand, there are also cases in which the employer simply fails to make the required contribution.

Early identification of potential errors is essential to ensure that the affiliate receives their pension on time. Most errors in the labor history can be corrected, but, depending on the complexity of the case and the time that has elapsed since the error, it can take several months or even years. The affiliate is the best person to identify incomplete periods in their labor history. Therefore, it is vital that each affiliate is able to quickly and accurately understand and verify the information provided on account statements.

INTERVENTION DESIGN

The group of researchers worked together with the Colpensiones team responsible for managing the defined benefit pension scheme to test the effect of a redesigned account statement. The redesign was based on the following guiding principles:

FIGURE 1. GUIDING PRINCIPLES USED IN REDESIGNING THE ACCOUNT STATEMENT.



Applying these principles, the new account statement aimed to encourage three concrete actions among the affiliates:

1. Revision of the total number of periods contributed to the system.
2. Detailed verification of the contributions made during the last year.
3. Verification of the affiliate's contact information, providing clear instructions on what to do in case of finding any inconsistencies.

Additionally, the statement was personalized with a directed greeting and included a reminder of the number of contributions needed to gain access to a pension (1,300 weeks and 62 years of age for men or 57 years for women), which is something the affiliates usually fail to know (Villar et al, 2015).

From the sample of all affiliates, we randomly sampled individuals from three groups: employees, independent workers,

and a low-income group that receives a 75% subsidy from the government to pay their contributions. The three random samples, of about 8,000 members each, 24,016 in total, received the redesigned statement. The rest of the affiliates were sent the standard account statement. To measure the impact of the new design on affiliates' understanding of the data, and whether they managed to identify the incorrect parameters printed on their statements, 4,000 telephone interviews were conducted (2,000 among members of the treatment group and another 2,000 of the control group). Colpensiones' administrative data regarding the frequency of requests to rectify information on the statements (contact data or contribution history) were also collected and analyzed. Figure 2 shows the first page of the original statement, the one used in the study pilot and the one finally adopted by Colpensiones. Please note that while we followed several guiding (design) principles in the redesign of statements, we were not able to test which guiding principles in particular were most useful.

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