

## PROPOSAL ABSTRACT:

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<b>Proposal Title:</b>	Facilitadores y distractores en la selección de pensiones

Describe the main issues to be addressed: goals, methodology and expected results. **The maximum length for this section is 1 page** (Must use letter size, Verdana size 10 or similar).

If one types ‘Me quiero pensionar Chile’ into Google —a common search phrase for people who want to start their retirement process in Chile— one finds that second from the top is a website called ‘Cul es el proceso para jubilarse?’ and the information on the link suggests it is the official government website —That would seem like a good place to start. However, if one clicks on the [official website](#), the link leads to an orange and white page, full of other links with names and acronyms of things one does not understand, written in small font, the online equivalent of a call center with too many alternatives. It is simple to imagine the level of anxiety that a person, who wants to start their retirement process, must face when they encounter the website. The stakes are high, bad decisions can lead to worse economic conditions for the rest of their lives.

It is, therefore, not surprising that between the years 2004–17, of the total of annuities, 82.7% of people paid someone for advice on what pension mode and provider to select ([FNE, 2018](#), p.52). This number is not intuitively surprising, however, it is high if one considers that the retirement process in Chile is highly regulated through the *Sistema de Consultas y Ofertas de Montos de Pensión* (SCOMP) in which people inform insurance companies (CSV) and Pension Fund Administrators (AFP) of their desire to retire, and the CSV and AFP present their pension offers in the multiple comparisons structure.

A [FNE \(2018\)](#) report, based on analysis of Chilean administrative data on pension offer decisions, indicates that people on average sacrifice 2% of the monetary value of their pension. That is, on average, people selected pension offers that were 2% lower than the one they could have obtained had they selected a different provider — what is referred to here as ‘selection error’. In the National Economic Prosecution Service’s (FNE) assessment, this translates into substantive economic loss for 80% of people included in their study ([FNE, 2018](#), p.13). The results correspond with [Illanes and Padi \(2017\)](#) findings, which indicate that 17% of the people in his sample (restricted to singles with no beneficiaries) accepted an offer that was strictly economically inferior to others that were available to them through SCOMP. In short, people are asking for advice and still not selecting their best options.

Different mechanisms could explain this state of affairs, pension sales agents appear to have some influence, however, this project argues that part of this behavior can be explained because of low levels of ‘financial literacy’ (cf. [Lusardi and Mitchell, 2007](#); [Gathergood and Weber, 2017](#); [McGrath, 2015](#)) in the population and the ‘cognitive overload’ (cf. [Sweller, 1988](#); [Kahneman, 2011](#)) many people face when they have to make relevant decisions and there is too much information to process. If this is the case, changes to the way information is portrayed can positively and substantively improve retiree’s welfare. This project uses two online experiments to address the question regarding what information and formats facilitate or distract people from making good pension decisions.

Experiment 1, SCOMP Metrics and Formats, uses an online experiment to test whether variations in the types of metrics and formats in which the SCOMP information is provided can help reduce selection error (facilitates decisions) and what information simply distracts people. The argument is, that selection errors can be reduced by simplifying the information provided to people and making it more visually attractive. The different treatments have been elaborated in conjunction with the Research Division of the Pensions Superintendency (SP). The treatments include suggestions to SCOMP modifications proposed by the FNE, the CMF, SP and the PI in this grant application.

Experiment 2, Education Through Online Resources, experimentally compares two different ways of presenting information (written v. video) and two different website structures (product v. profile oriented) in a classic 2x2 design. The argument is that changes to the way information is organized on a website —from product to profile centered— and the way the information is provided —from text to video— can increase the number of people that want to get informed and, ultimately, helps improve pension mode and offer selection. Both the FNE and the CMF have expressed the need to improve the levels of information people have about pension options as a mechanism to improve the pensions market.

This project will contribute directly to the generation of information that is relevant for pressing public policy reforms as well as provide relevant contributions to the literature on the impact of financial illiteracy in retirement decisions ([Lusardi and Mitchell, 2007](#); [Lusardi and Mitchell, 2011, 2007](#)), financial market regulations and ‘choice architecture’ ([Campbell et al., 2011](#); [Thaler and Sunstein, 2009](#), among many others); education on complex financial matters ([OECD, 2005](#); [President’s Advisory Council on Financial Literacy, 2008](#); [Drexler et al., 2014](#); [Kast et al., 2012](#), among others), as well as on the use of short modern education videos to provide relevant pension information. As ([Lusardi and Mitchell, 2014](#), p.30) indicates, very little has been done so far in terms of a cost-benefit evaluation of which sorts of financial education programs are most appropriate, and least expensive, or for whom, and this is a high priority area. This project contributes to that literature by conducting cost-benefit evaluation informed by causal experimental results of education and regulation measures on retirement decisions.

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