SMS Messages to Increase Voluntary Retirement Contributions in Mexico

Researchers:

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Sector(s): Finance

Fieldwork: Innovations for Poverty Action (IPA)

Location: Mexico

Sample: 400,000 account holders from 10 Mexican AFORES

Partner organization(s): CONSAR

In Mexico, as in many other countries, retirement savings levels are low. The situation is worse for informal workers and the unemployed, who cannot rely on employer contributions to help build their nest eggs. To investigate ways to increase voluntary retirement contributions in Mexico, Innovations for Poverty Action is collaborating with the Inter-American Development Bank and CONSAR, the government regulator in charge of overseeing the Mexican retirement system, to conduct three waves of rapid-fire randomized evaluations that will measure the impact of text messages on retirement savings behavior. Researchers are conducting related research in Colombia on the impact of different messaging strategies on savings contributions to retirement savings.

Policy issue

While saving for retirement is essential for the future well-being of working age people, saving for the future is difficult and voluntary contribution levels tend to be low across the world. Research has shown that barriers to saving are wide-ranging: they include transaction costs (both monetary and non-monetary), a lack of information or knowledge, social constraints, a lack of trust in the financial system, ill-designed regulation, as well as human tendencies that hinder good decision-making ("behavioral biases").[1], Behavioral biases are now considered a significant, but often overlooked, contributor to the problem of under-saving. Research suggests that even those with access to convenient and trusted financial products and a thorough understanding of financial concepts still face significant behavioral barriers to following savings plans. In spite of their best intentions, individuals tend to spend on day to day consumption, giving in to temptation or more immediate needs, rather than prioritizing saving for future needs that are less salient.In developed countries, interventions aimed at overcoming these behavioral biases have been found to be successful in increasing employee savings for long-term retirement fund products.[2] However, there is a need for more evidence on the use of behaviorally-informed tools to promote retirement savings in the developing world, and in Latin America in particular.

Context of the evaluation

In Mexico, retirement savings levels are low. Although 6.5 percent of an employee's salary is automatically deposited into long-term savings, that amount is too low to ensure a comfortable retirement: workers can expect to receive about 40 percent, or less, of their salary upon retiring.[3] Meanwhile, those who are employed in the informal sector or who are unemployed cannot rely on employer contributions to help build their nest eggs, putting elderly Mexicans at risk of poverty. In this context, voluntary

retirementcontributions are vital to increase savings levels for workers in all sectors and for those who are unemployed.

This research builds upon previous evidence, of the impact SMS reminders can have on savings and on a pilot study that IPA conducted with Colpensiones, the public defined-benefit provider in Colombia, in late 2016, which examined the impact of using text messages to increase savings behavior. While results from these interventions indicate that messages can improve savings behaviors, IPA is now working with CONSAR and the IDB's Labor Markets Unit to further investigate the impact of a variety of messaging strategies on the retirement savings behavior of a sample of inactive accounts (accounts that have not been making voluntary contributions).

Details of the intervention

Researchers are partnering with CONSAR and the IDB's Labor Markets Unit to conduct a series of randomized evaluations on the impact of various messaging strategies on retirement savings behavior. Researchers will conduct three rapid fire randomized evaluations over one year, each lasting approximately four months, which will each address different behavioral- and information-based barriers to saving for retirement. This iterative research design enables researchers to optimize the messages tested and quickly inform CONSAR of the most effective and lasting strategies for improving savings behavior.

Behavioral messages: The first wave will test the effectiveness of three different behavioral-based messaging strategies. Among the 1.4 million eligible account holders, from ten of the eleven Mexican AFORES, 400,000 users will be randomly sampled to participate in the study. From the study sample, 200,000 users will be randomly selected to receive one of the messaging strategies while 200,000 users will not receive any messages and will serve as a comparison group. The specific language used in the messages will vary depending on the employment status of the recipient (formal vs. informal). Furthermore, each message will include a different behavioral framing, which builds upon a framework identified by Ideas42[4] : making retirement feel vivid and present, making retirement visible and common, and reducing the sense of loss associated with saving.

- **Information messages**: The second wave will test the effectiveness of adding several information-based messaging strategies aimed at correcting common misconceptions around saving in the Mexican retirement system. The content of the information messages will be informed by information from CONSAR's in-house research. Among the 200,000 users in the behavioral messages treatment group, 125,000 users will be randomly selected to receive either information messages, behavioral messages, or a mix of both, in the second wave. The remaining 75,000 users will stop receiving any messages.
- **Long-term impacts**: The third wave will focus on measuring the persistence of effects observed in the first and second waves over four, eight, and twelve months following the intervention. During this wave, among the 125,000 users that kept receiving SMS during wave 2, 50,000 users will be randomly selected to continue receiving messages, and the remaining 75,000 users will stop receiving messages after the second wave. The messages will be designed based on the best performing strategies identified in the previous waves.

The research team will collect transaction-level administrative data to measure the impact of these different messaging strategies on the number of savings transactions and savings account balances of the AFORE account holders.

Results and policy lessons

Project ongoing; results forthcoming.

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2. Thaler, Richard, and Shlomo Benartzi. 2004. "Save More Tomorrow: Using Behavioral Economics to Increase Employee Saving." *Journal of Political Economy*112(S1): S164-S187.

3. CONSAR. 2016. "El ahorro en una AFORE: ¿suficiente o insuficiente?" Retrieved at https://www.gob.mx/consar/articulos/el-ahorro-en-una-afore-suficiente-o-insuficiente?idiom=es

4. Fertig, A., Lefkowitz, J., & Fishbane, A. 2015. *El uso de las ciencias del comportamiento para aumentar los ahorros para el retiro, una nueva mirada a las aportaciones voluntarias a las pensiones en México*. Ideas 42.