Retirement Savings Laboratory

How to increase the effectiveness of automatic enrollment? Tax refunds and retirement savings in Chile

COUNTRY

CHILE

WHAT IS IT?

For many years, self-employed workers in Chile have not been subject to obligatory pension contributions. A recent set of reforms has tried to incorporate them gradually.

Since 2008, Chilean independent workers who issue invoices have an automatic savings mechanism through the Chilean Internal Revenue Service (SII, for its Spanish acronym). If these workers do not opt out explicitly, their tax refund goes directly to their individual retirement savings accounts. Contrary to expectations, the vast majority (around 80%) opt out. This intervention provided relevant information using various principles of behavioral economics at the time of seeking to opt out to motivate independent workers to stay in the default option of saving for retirement through their tax refund.

IMPACT

No statistically significant (5%) difference was found between the treatment and control group in aggregate or in any of the subgroups considered.

TITLE

How to increase the effectiveness of automatic enrollment? Tax refunds and retirement savings in Chile.

TAGLINE

In Chile independent workers who issue invoices have an automatic savings mechanism through their annual tax refund. If workers do not explicitly opt out, the tax refund goes directly to their individual retirement savings accounts. This intervention provides relevant information to taxpaying independent workers at the time of seeking to opt out, to motivate them not to resign. The results show no impact of the intervention.

FIELD OF WORK

Pensions and Savings.

SUBTOPICS

Retirement Savings.

YEAR

2018

AUTHORS

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SUMMARY AUTHOR

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AIM

Motivate independent workers not to opt out of depositing their tax refund to their individual retirement savings accounts, by presenting information just when the independent worker is seeking to opt out on the website of the Chilean Internal Revenue Service.

BEHAVIORAL TOOLS

Information provision, nudges.

EXECUTING AGENCIES

Inter-American Development Bank (IDB), Chilean Internal Revenue Service (SII), Chilean Pension Superintendence.

TARGET POPULATION

Taxpayers who issue invoices and who are eligible by law to opt out of the obligation to contribute to their pension.

DELIVERY MECHANISM

Text with specific information on the SII website, delivered to taxpayers when they seek to opt-out of the default option to deposit their tax refund into their retirement savings account.

SAMPLE SIZE

714,000 taxpayers.

EVALUATION DESIGN

Randomized Controlled Trial (RCT).

FUNDING SOURCE

IDB Lab and MetLife Foundation.

COST

Practically null, since it only meant adding a paragraph to the message on the SII web page that self-employed workers see when deciding whether to contribute to their pension.

CHALLENGE

In 2008 a pension system reform stipulated that independent, self-employed workers who issue invoices would be required to contribute to the obligatory retirement savings systems starting in 2012, a date that was later postponed several times until the provision came ultimately into effect in 2019. During the transition period, lawmakers created an automatic voluntary retirement savings mechanism through the SII. For those independent workers who issued fee-based invoices, the SII deposited their tax refund (in case they were eligible for one) automatically into their individual retirement savings account. This default savings mechanism is based on behavioral economics that predicts that inertia should cause the majority workers to let the tax refund be transferred to their individual account. These independent workers had the option of expressing their desire not to contribute through a digital affidavit before the SII.

Contrary to expectations, the vast majority of independent workers opted out of the automatic savings mechanism, meaning that they expressed their explicit desire to not contribute, so that their taxes would be refunded to them directly. This is the main challenge that motivated this intervention. The objective of the intervention was to reduce the probability that an independent worker who issues invoices would choose not to contribute. To do this, these workers were shown information at the moment they tried to perform the opt-out which combined elements of behavioral economics and psychology, based on hypotheses proposed in their respective literatures.

INTERVENTION DESIGN

The intervention was carried out during the 2018 tax declaration period, between January and April 2018, and consisted of adding a paragraph informing taxpayers about the implications of their decision to not contribute for their pension savings.

The text was placed on the website of the SII, in the section where the person must express their willingness to opt out. In it, the benefits of contributing were detailed, and a link was included to access the Pension Superintendence web page. Specifically, the text read as follows: *"Keep in mind that your future pension will depend on the contributions made during your working life, among other factors. Therefore, by selecting the option of "willing to not contribute," you will be missing out on the opportunity to increase your pension fund. For more information on independent workers' obligation to contribute, we invite you to visit the Pension Superintendence's web site, through the following link Pension Superintendence."*

This message, received by workers in the treatment group, has four components that contain aspects associated with the academic literature on behavioral economics, in its application to voluntary savings. First is the framing of not contributing as a loss ("you will be missing out on the opportunity to increase your pension fund") as the loss aversion literature suggests. Second is the access to easily understandable information regarding the benefits of contributing, helping to overcome cognitive limitations that make it difficult to understand the problem of saving for the future. Third is that the message was highlighted in red letters (in contrast to the black letters of the rest of the text), in order to direct attention and generate a feeling of importance. Finally, the message comes from a highly credible public entity, the SII. As such, taxpayers may have perceived the message as expert advice.

The modified web page was randomized among taxpayers who entered the SII's website. Taxpayers with an identity number (RUT) ending in an even number were exposed to the original web page, without additional information, while those ending in an odd number were shown the modified web page providing access to this information.

A total of 357,000 workers were exposed to the modified web page (treatment group) and a similar amount were exposed to the original web page.

Impact was measured through the probability of a worker opting out of their pension contribution and comparing the decisions of the workers in the treatment and control groups.

IMPACT

No statistically significant (5%) difference was found between treatment and control groups in aggregate or in any of the subgroups considered; that is by sex, age group, income level and previous accumulation level in the pension system.

POLICY LESSONS

The Chilean experience with an automatic savings mechanism through the tax system is revealing. Despite the relatively low rate of adherence to this mechanism that motivates this intervention, it is important to remember that facilitating the contribution through the tax return ensures that 20% of independent workers that issue invoices voluntarily contribute for retirement, a high figure compared to any other mechanism that encourages voluntary savings and one with a relatively low cost.

However, this intervention shows that reducing the percentage of independent workers who opt out of automatic savings can be a difficult task. Contributing means forgoing the tax refund now, which means access to immediate liquidity. It is possible that workers have a use for the refund that they value more than putting it towards retirement (with or without myopia regarding their future). In addition, it is possible that they face limited liquidity and that, therefore, the marginal utility of consumption associated with the funds that are returned or the additional resources that they must come up with to contribute are particularly high. They may also wish to save in vehicles other than their individual pension fund account.

One lesson of this study is that policymakers must conceive of interventions that are more impactful and timelier. While this initiative was ambitious in reaching more than 700,000 independent workers, only one paragraph could be communicated at a very late stage in the worker's decision-making process (just before opting out of saving). Thus, the intervention was "too little, too late."

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Inter-American
Development Bank