What enables people to save long-term?

7th Global Pension and Savings Conference
Pensions: Persuasion and Portfolios
Ernesto Brodersohn
Sept 19th
World Bank
Washington, DC
Overview of Mexico’s Pension System

- Population 120 million
- Working age population of 56 million
- GDP: $1.2 Trillion US
- Growth Rate: ~2-3%

- In 1997 the Pension System was reformed for the private sector
  - The DB system was modified to a DC system with a transition generation
  - Specific pension fund administrators were created (Afores)
    - They are different entities from banks, but they can be part of a financial or economic group
  - Each Afore administrates a set of funds (Siefores) which must comply with an investment regime

Even if workers had a contribution density of 100%, replacement rates at 6.5% contribution levels will only yield a 20-30% replacement rate
Mandatory contributions are not enough

Out of 14.5 million workers that were contributing in 2009, how many have “constantly” (over 60%) been contributing since 2009?

Only 6.4 million workers keep contributing regularly.

Drop in 56%
Consar’s strategy on complementing voluntary savings

How do we make 55 million people in the system contribute to their individual account to increase their replacement rate

Increased in replacement Rate

Greater need for Voluntary Contributions

Contributors

Intermittent

Non Contributors

Voluntary Contributions or Savings

Mandatory Contributions (6.5%)
Overall Strategy for Increasing Voluntary Savings

- Significantly increase the ease by which people can make a voluntary savings contribution
  - In 2 years we have incorporated 6 “retain chains” with over 5,000 NEW contact points to make voluntary savings (100%)
  - Automatic savings with auto-escalation
  - Modified regulation to increase Afores appetite to go after savings
    - Switching rules
    - New service indicator comparing Afores performance
Increasing Contribution Collection Points

Strategic alliances have been established with different:

- **+2,000** sucursales
- **+1,600** Branches (614 of which without any other bank presence)
- **+14,000** retail points
- **+1,000** sucursales
- **+500** Branches
- **+877** sucursales
I want to make a Voluntary Savings deposit, please. Please, give me your CURP or cellphone number. $200 pesos, please. How much would you wish to deposit in your Account? Sure, wait a second. My CURP is LOMJ750911HDFZTF01.
Increasing Voluntary Savings Points via Retail Chains

Here, this is your Receipt

You have received a Voluntary Savings Deposit for $200

Llamando a AFORE

Finalizar
Some data from the Retail Store Savings

Even though the minimum contribution was set as $50 pesos ($2.6 USD), the average contribution in the last 1.5 years has been $600 pesos ($32 USD)

Operational expense for collections is set at 4 pesos/contribution ($0.24 USD), irrespective of the amount being collected to ensure there is a business case.

100% increase annually
Voluntary savings contributions have doubled since the beginning of the current administration.
Overall Strategy for Increasing Voluntary Savings

- Various studies to understand how to influence savers
- Incorporate and increase tax advantages (Modified 2015)
- Behavioural Research and Pilots
Using behavioural economics in the pension system

Behavioural barriers to make deposits

- Setting up simple voluntary savings channels is the first step, we need to look at how to make people use new channels and change behavior towards savings

http://www.ideas42.org/blog/pathway-better-retirement-mexico/

- The conclusions of the study pointed to new behavioral implementation policy currently being evaluated through RCT pilots underway include
  - New balance statement
  - SMS reminder messages to make voluntary savings contributions
  - Using Afore’s sales force to promote voluntary savings
  - Punch Cards
New Balance Statement completely re designed with different behavioural components
Pension’s Thermometer

Visualize how much can you gain by saving

Your Retirement Thermometer

Insufficient  Weak  Basic  Healthy

If you act today, you will have better returns to enjoy with your family

Will your monthly pension be enough for you? And for your family?

Why start now?
In 20 years, a $3,000 pesos contribution can become

If you wait and start in 10 years  If you contribute Today

$4,250  $6,600

Contribute $_______ per month to get $_______ per month when you retire
This can be the difference between:

This Future

Or

This Future
Self Commitment Mechanisms

To increase savings you only have to follow these 3 steps

1. **Identifica tu CURP** para depósitar tu aportación en tu Cuenta Individual
2. **Crea un plan**: Voy a aportar $______________ cada _______________ empezando el __/__/2016
3. **Elige tu forma de ahorro y haz tu primera aportación**:

   **En persona**
   Realiza tus aportaciones en persona con la frecuencia y cantidad que desees en cualquiera de las sucursales de tu AFORE, 7-Eleven, Telecomm-Telégrafos, Tiendas Extra y CK.

   **Domiciliación**
   Haz que tus aportaciones se transfieran de tu banco a tu AFORE de manera regular y automática llamando al 01 800 400 1000 o ingresa al portal www.e-sar.com.mx

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**Phase II**
Reminders through SMS
Incorporating Voluntary Savings with Sales Agents Process when a customer is enrolling for the first time or switching from one Afore to another one

Awarding badges to Sales Agents who do attract more customers to voluntary savings

PRIZE!!!!
Pilot Study: Punch Cards

Be explicit about the Opportunity Cost

Free Coffee if you make a contribution

Those clients who finish the punch card have the chance to get a PRIZE!!!!
Conclusions

• Voluntary savings strategy needs to be sustainable in time
  • Retail chains have shown they work and have a great potential
  • Automatic voluntary savings is more efficient

• Preliminary results from behavioural pilots are promising
  • 107,000 customers were included in the first pilot which finished in August
  • The 4 treatment groups for the first pilot show promising results
  • Teaser: Roughly twice as many people make voluntary savings contributions in treatment groups than the control group. However, the numbers are still very small.

There is no one size fits all solution, customers react differently to different stimuli
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