

UC Irvine

Final Reports

Title

Consumption smoothening, financial literacy and old age vulnerability: Experiences of success and failure with a private pension system in Chile (Synopsis of Research Results)

Permalink

<https://escholarship.org/uc/item/2h17q02x>

Authors

Madariaga, Aldo

Pérez, Nicolás

Figueroa, Rodrigo

Publication Date

2011-09-01

Copyright Information

This work is made available under the terms of a Creative Commons Attribution-NonCommercial License, available at <https://creativecommons.org/licenses/by-nc/4.0/>

Peer reviewed

Consumption smoothening, financial literacy and old age
vulnerability: Experiences of success and failure with a private
pension system in Chile

You are here: [imtf](#) [research](#) [2010](#)

2010

[Funded Research 2015](#)

[Funded Research 2014](#)

[Funded Research 2013](#)

[Funded Research 2012](#)

[Funded Research 2011](#)

[Funded Research 2010](#)

[Funded Research 2009](#)

Project Year

2010

Region(s)

Latin America and the Caribbean

Country(ies)

Chile

Project Description

This project suggests that studying the successful experiences of inclusion in the Chilean pension system and comparing the experiences of failure from the perspective of the actors themselves can obtain knowledge that will allow reforms to make effective solution to the inclusion independent of the poorest and most vulnerable to the mechanisms of saving for old age.

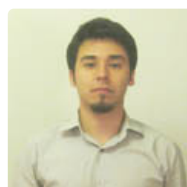
Researcher(s)

Aldo Madariaga, Nicolás Pérez, Rodrigo Figueroa

About the Researcher(s)



Aldo Madariaga is a sociologist at the University of Chile, where he has taught economic sociology. He is currently obtaining a diploma (PGDip) in Public policy analysis at the same university. He has carried several funded research oriented towards public policy and pension systems. At the present he is a research assistant in the Social Development Division at the Economic Commission for Latin America and the Caribbean (ECLAC).



Nicolás Pérez has a degree in sociology from the University of Chile and a diploma (PGDip) in advanced social data analysis by the Pontifical Catholic University of Chile. He is currently working as Director of Studies in a local private consultant agency where he has participated in research related to the field of finance, telecommunications and small business.



Rodrigo Figueroa has a degree in sociology from the University of Chile (1998) and a master in Labor Economy and Work Relations from the Pontifical Catholic University in Peru. He has developed an academic and research experience in the fields of



economic development, small business and rural economy, poverty, middle classes and the performance of labor institutions. He received a doctoral fellowship from the Fulbright Commission, and is currently a doctorate student at the University of Connecticut.

Synopsis of Research Results

Pension systems constitute a social protection mechanism whose objective is to smooth the decrease of consumption in the old age. Likewise other forms of saving, it distributes consumption along the life cycle, specifically, they take resources from the active part of the working life to that in which people cease to receive a salary.



Photo: pension fund slip, different administrators

With the pioneering experience of Chile in the 1980s a new type of pension systems started to diffuse throughout the world, based on individual retirement accounts administered by private companies who were in charge of investing the workers' contributions in financial markets. These systems assume that the workers can -and are willing to- make rational choices with respect to different parameters of the system (the company that will administer their account, the level of contributions, the target of the investments, etc). They also incorporate a moral dimension associated with the individualization of the responsibility for social protection, thus a bad performance of the system is processed as result of the bad choices individuals make.

Surprisingly, the evaluations and studies made have left almost unexplored the relationship between individual decisions and the system's performance. Our study investigated it more profoundly, assuming that decisions are culturally and socially embedded. In this sense, it tried to trace the process by which people frame a certain domain in order to make it less uncertain and more calculable to be able to make complex decisions. The study consisted in a qualitative research conducted in low-income workers in Santiago, Chile. The choice of the population under study comprised both a concern with respect to the situation of vulnerability of these workers, and also an effort to study decision-making processes in a context where the assumptions of the neoclassical rational actor tend to be absent.

The study describes the way low-income workers perceive the effectiveness of different social protection mechanisms and the actions they engage in to administer and integrate them, stressing the way these people manage different options in the context of certain objective and subjective constraints. The relationship they develop with the pension system can be understood as a social experience, i.e. a series of perceptions, actions and behaviours, intentioned but underdetermined, and heterogeneous in their orientation, by which people assign meanings and are able to integrate the different social protection mechanisms as part of a comprehensive social process.

What we call "experiences of pension management" constitute a synthesis of the historical relations low-income workers establish with the pension system and the rest of the social protection mechanisms throughout their lives. Different actions, decisions and omissions are made according to the way people perceive their possibilities of effectively using and managing them.

Low-income workers develop diverse ways of managing the different social protection mechanisms - including the pension system- and use them to generate income for their old age. These modalities depend heavily on the level of current and/or future perceived need and are shaped by certain objective conditions such as the work trajectories, the family structures, and the level of knowledge. They also build parameters of evaluation and calculation, and combine them with patterns of action they import from other domains in which they have utilized them. For example taking the "average" choice when

confronted with complex decisions, or using income-generating mechanisms that have been successful for contexts different than old age. Although this entails a loss of effectiveness in the strict sense of what the pension system requires as rational choices, it provides coherence and efficacy in the context of the specific social environment in which low-income workers operate.

The workers who show a relatively stable history of contributions to the pension fund perceive that they will have a better pension, and thus, tend to rely more on this mechanism, complementing it with sporadic independent work, plus a vigilant administration of the pension fund. On the contrary, those who expect worse results based on their work trajectories, have less room to rely on the pension system as their main social protection mechanism. They have been less vigilant in the past, so when they find out about events that affect their pension funds -i.e. steep downturns of the stock exchange or global financial crises that are communicated through the TV or newspapers- they react with a greater degree of mistrust. The latter can become a trigger for punitive actions -e.g. punish the administrator by changing to another company- or even contrary ones -e.g. stop contributing. The loss of confidence with the pension system manifests in its rejection as a social protection mechanism and the feeling of being cheated.

In relation to the family, those who expect a lesser degree of need tend to see a reduced familiar component in their old age, viewing it only as a complement or a mechanism they would use only in case of emergency. On the contrary, with higher levels of perceived necessity the familiar mechanism is more present, especially when the family structure and relations permit it.

The degree of necessity also generates differences in the extent work is considered a social protection mechanism for the old age. For those who have lower levels of perceived necessity work is only complementary to the AFP pension, and it is also a better designed strategy in terms of the activity they plan to develop and the way of managing it. Conversely, with higher degrees of perceived necessity people are more open to manage different social protection mechanisms at the same time, meaning that the management of work is also more diffuse and unspecified.

A higher degree of necessity is also highly related to the fact that the prevision of the future tends to decay *vis á vis* the current necessities and the income generation strategies are mostly focused on present consumption, thus provoking actions that can be contrary to the management of the old age.

connect with us

