

LUNCHTIME SEMINAR SERIES 2018

Incentives, Contract Design and Pension Contribution: Evidence from Sri Lanka

We conduct a randomized controlled trial in Sri Lanka to study what incentives and contract designs generate higher participation and savings in the micro pension. We conduct a 3 by 2 factor design in the two dimensions of contract design: the method of delivering subsidy, and the degree of commitment. Individuals are randomly assigned to a control group, a free installment group, and a matching group. Individuals are also randomly assigned to a low commitment group and high commitment group. We find that a free installment for the first month contribution increases the pension participation from 13 percentage points to 43 percentage points, and increases the pension contribution by 230 %. A 100% matching for the first month contribution also increases the participation and contributions, but the effect is smaller. Although higher degree of commitment (higher withdraw punishment) slightly reduce the pension participation, it has small or positive impact on the pension contribution. Moreover, conditional on participation, high penalty increases the allocation to the commitment account by 12.2 percentage points. We show that the results can be explained by that high commitment contract attracts more sophisticated agents, and sophisticated agents are more likely to participate in the pension and allocate more to the commitment account.



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Changcheng Song is an Assistant Professor in Economics at National University of Singapore. He received his Ph.D. in Economics from University of California, Berkeley. His primary research interests are in household finance, psychology and economics, and development economics, using both experimental data and observational data. He has conducted field work in China, Kenya, Sri Lanka and Uganda. In developing countries, he studies the individual constraints to participate in pension system and weather insurance, and the effects of financial education to overcome these constraints. His research also includes banks' response to competition and borrowers' behavioral bias in US mortgage market.

CHAired BY: **A/PROF LIU HAOMING**

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DATE: **14 MARCH 2018 | TIME: 12.00NN - 1.30PM**

VENUE: **AS7-06-42 - FASS RESEARCH DIVISION SEMINAR ROOM**

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REGISTRATION IS REQUIRED.

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