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. Individual 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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