

**Nudging long-term savings.  
Might the “Save More Tomorrow” approach work in Spain?**

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*Abstract*

This paper analyses the effectiveness of a nudging mechanism to promote long term saving adapted from Save More Tomorrow (SMART) by Benartzi & Thaler (2004). To this end, the authors analyze the results of a field experiment based in a pilot program implemented with 450 employees of a Spanish leading life insurance and pensions company. This program consist of an automatic enrollment scheme that is applied to those employees who obtained a pay rise in 2016. After automatic enrollment (default option), any employee can opt-out at any time. The automatic enrollment saving program has been applied since February. The program is currently running in 2017, when automatic enrollment continues for new eligible participants as well as automatic increases in contributions coming from wage increase by 10% annually.

Under this program, 284 employees have been started to save part of their wage increases as contributions to their pension plan on a monthly basis. After the enrollment by default, program participants with voluntary contributions raised 72.56 percentage points and - after a year – 85.11% of individuals maintain their monthly voluntary contribution. In summary, this program significantly increases voluntary saving and helps people enjoy a better retirement by helping them save more for long term. Moreover, this increase is important specifically among the groups that had the lowest saving levels: young people, women and lowest wages. The results of this field experiment confirm then the effectiveness of leveraging the default option to increasing long-term saving patterns in Spain.

In conclusion, we show that the “Save More Tomorrow” approach is also effective in Spain and helps employees to save closer to the predicted life cycle savings rates and is a welcome aid in making decisions about their savings. This result is very relevant in the context of the Spanish public pension system. This system consists of a single, earnings-related benefit in the contribution level, with a means tested minimum pension. The most important challenge for Spain is the old-age dependence ratio. In 2015, the number of individuals aged 65 and over per 100 people of working age was 29.6, and the projection for 2050 is 73.2 (OECD, 2015). In this context, alternative solutions have been proposed to guarantee the sustainability of Spanish public pensions system, such as tax increase resources for public pensions, structural reforms to increase the employed population and wages, and acceptance of the reduction of the average pension and compensate with more resources from private savings (Rafael Doménech, 2016).

This study contributes to fill the gap in the literature transferring the practice of Smart system to other cultural environment, specifically to the Spanish context. Previous studies in the US, Chile, Mexico, Denmark and Sweden show that automatic enrollment of employees in retirement savings plans with opt-out option is a very effective way to increase pension savings, being very well received among the employees. The default option equals partial participation differences regarding gender, race, age and compensation (Madrian and Shea 2001; Beshears, Laibson, Choi and Madrian 2006, Chetty, Friedman, Leth-Petersen, Nielsen and Olsen 2013).

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