“The Pied Piper of Pensioners”

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Abstract

We document how pension investments by individuals in the Chilean social security system are influenced by portfolio recommendations of Happy and Loaded (H&L), a pension advice firm. Following H&L's recommendations about which of five portfolios to invest in, investors shift amounts that often exceed 20% of portfolios value and 1.3% of Chilean annual GDP, in a week. We uncover what drives investment recommendations, the resulting return consequences for the Chilean stock market and social security portfolios, and the characteristics of followers and their investment outcomes. Paradoxically, investors who followed H&L's advice would have earned more by sticking with their original portfolio over time, regardless of the portfolio selected. These findings provide a cautionary tale for the design of privatized social security systems.