

## **IS THE DANISH SAVINGS EXPERIENCE APPLICABLE TO THE U.S.? RESPONSE TO BANERJEE AND ADAMS (2013) EBRI REPORT**

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In a recent Employee Benefits Research Institute (EBRI) [report](#), Banerjee and Adams (2013) raise three potential concerns about whether Chetty et al.'s (2012) [results](#) on retirement savings behavior in Denmark are applicable to the policy debate in the United States. We clarify our position on these important issues by responding to the three concerns below.

*EBRI Concern #1: Reduced subsidies will lead employers to limit employee access to 401(k) plans in the U.S.*

Response: While we agree that access to employer-sponsored plans is an important consideration in the U.S., this is not a strong argument to retain tax expenditures on retirement savings accounts for two reasons. First, firms bear very little cost to provide employees access to 401(k) plans. Hence, a targeted tax credit to firms would likely be adequate to address any concerns about provision of such plans; it is implausible that one must subsidize retirement accounts at rates of up to 40% through the income tax system simply to encourage employers to complete the administrative work needed to set up such accounts for their workers. Second, and more importantly, there is no special reason that employers should be the sole conduit for access to retirement savings accounts (Munnell 2013). IRA's already operate independently of employers and could be expanded if employers were to reduce access to 401(k) plans. And recent proposals for "auto-IRAs" would allow individuals to contribute directly to IRA accounts via payroll deductions independent of their employer. Hence, while we agree that access to employer-sponsored plans and the impact of the ERISA non-discrimination rules should not be ignored, these factors do not themselves make a strong case for subsidies.

*EBRI Concern #2: Savings rates in Denmark are much lower than in the U.S. according to national accounts, suggesting that the fraction of "active savers" may be higher in the U.S.*

Response: The numbers cited in the EBRI report are aggregate national savings rates, including saving by working-age individuals and dissaving by retired individuals. Dissaving by retired individuals is higher in Denmark both because the population is older and because Danish citizens deplete more of their assets while retired. Our study focuses exclusively on the savings behavior of working age individuals. In this group, savings rates are very similar in Denmark and the U.S. The median savings rate (including pension contributions) for the working-age individuals in our sample is 11%. The median savings rate for comparable working-age households in the United States is very similar, at approximately 14% (Dynan et al. 2004). More importantly, the rate of passive savings behavior within retirement accounts is very similar in studies using U.S. data (e.g. Madrian and Shea 2001), so it would be very surprising if the overall fraction of active savers differed significantly across countries.

*EBRI Concern #3: The early retirement age changed in 1999, potentially contaminating the analysis.*

Response: Our quasi-experimental research design, which compares individuals' behavior just above and below the top income tax cutoff, is entirely unaffected by this policy change. The age distributions of individuals just above and below the top income tax cutoff are virtually identical. As a result, the change in early retirement age in 1999 affects individuals just above and below that cutoff identically and does not affect our estimates. In the terminology of a science experiment, both the "treatment" and "control" groups are equally affected by change in the early retirement age, and hence it has no impact on our results.

## Works Cited

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Madrian, Brigitte C. and Dennis F. Shea. 2001. "The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior." *Quarterly Journal of Economics* 116 (4): 1149-1187.

Munnell, Alicia. 2013. "Must we bribe employers to help us save?" Market Watch blog, February 6, 2013. <http://blogs.marketwatch.com/encore/2013/02/06/must-we-bribe-employers-to-help-us-save/>