Summary

Findings:
• When mandated savings increase there is no observed offset of savings in individual savings accounts
• Change in tax treatment of capital pensions has impact, but some is shifted to other accounts
• Cannot assess impact on total household savings

Authors’ Conclusions:
• Most savers are passive; violation of neoclassical model
• Savings incentives not as effective as mandates
• Results relevant to U.S.

Key assumptions:
• Identify individuals that are not at a “corner”
• Savings in individual accounts and mandated savings are close substitutes
• Denmark is like the U.S.
Discussion

- Denmark is not like the U.S.
- Mandatory savings and savings in individual accounts are unlikely to be close substitutes
- Questions on job change
- Tax treatment in Denmark differs from U.S.
- The U.S. retirement system
Denmark is not like the U.S.

• Pillars of the Danish System
  ▪ Universal pension (basic + targeted)
  ▪ Defined contribution (DC) plans (ATP, occupational pensions)
  ▪ Individual accounts

• Occupational Pensions
  ▪ Compulsory occupational schemes negotiated as a part of a collective bargaining agreement cover about 90% of full-time workers (OECD)
  ▪ Typically: 15% contribution for white collar, 9% for others
  ▪ 1/3 contributions employee; 2/3 employer

• DC plan does not mean individual control
  ▪ “Agreement based benefit with collective sharing of investment risk”
  ▪ Annuity payout is prominent in descriptions
Little Need to Supplement Mandated Savings In Denmark

Replacement rate of pre-retirement average earnings net of tax and contributions; amounts in constant 2008 dollars; discussant’s calculation

<table>
<thead>
<tr>
<th></th>
<th>Middle Earner</th>
<th>High Earner</th>
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<td></td>
<td>(amounts in thousands of US$)</td>
<td>(amounts in thousands of US$)</td>
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<tr>
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<td>98% Replacement Rate</td>
<td>94% Replacement Rate</td>
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<td>Gross Income</td>
<td>Working</td>
<td>Retired</td>
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<td></td>
<td>Basic</td>
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<tr>
<td>Working</td>
<td>35.6</td>
<td>10.5</td>
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<td>Net Income</td>
<td>22.2</td>
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<tr>
<td>Retired</td>
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</table>

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OECD Simulations Produce Similar Results

Gross replacement of earnings; individual earnings expressed as a percentage of average earnings

Source: OECD (2011) *Pensions at a Glace*

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Is Mandatory Savings a Close Substitute for Savings in an Individual Account?

- Why aren’t most Danish at a corner?
- Who are the 27% who contribute to an individual account?
- Are individual accounts typically capital pensions or annuity pensions?
- If mostly capital pensions, does this suggest that desire to control account an important consideration?
- If so, a mandatory 1% contributions to account invested by ATP would not be a close substitute for saving in an individual account.
- Who with income of $6,000 a year is making contributions to an individual account? Or is this measuring any employee contribution, including mandatory occupational schemes?
Questions on Job Change

• Description of occupational pensions
  ▪ 90 percent covered by collective bargaining agreement
  ▪ 15% contributions for white collar; 9% lower-earners

• Is this description correct? If so, what is the source of variation in contributions rates at job change?

• Any information about occupational pensions? If draw of individual accounts is control of investments, occupational pensions that offer control would be closer substitutes.
Danish Tax Treatment Differs from U.S. Tax Treatment

• U.S. defers tax
  - No tax when labor income is earned
  - No tax on investment returns
  - Distributions taxed as ordinary income

• Denmark
  - No tax when labor income is earned
  - 15% on accruals
  - Distributions taxed as ordinary income

• Changes in tax treatment reduce tax benefits more for older workers
Summary of Discussion

• Danish retirement system is not like the U.S. retirement system
• Danish system crowds out voluntary retirement savings for large portion of the population
• Study attempts to isolate those not at a corner
• I’m not convinced it succeeds
The U.S. Retirement System

• Mandatory system for all: Social Security
• Voluntary system for those who need to supplement Social Security
• Compensation set aside for retirement taxed in retirement