

# Discussion of Active Versus Passive Decisions and Crowd-Out in Retirement Savings Accounts: Evidence from Denmark

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# 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

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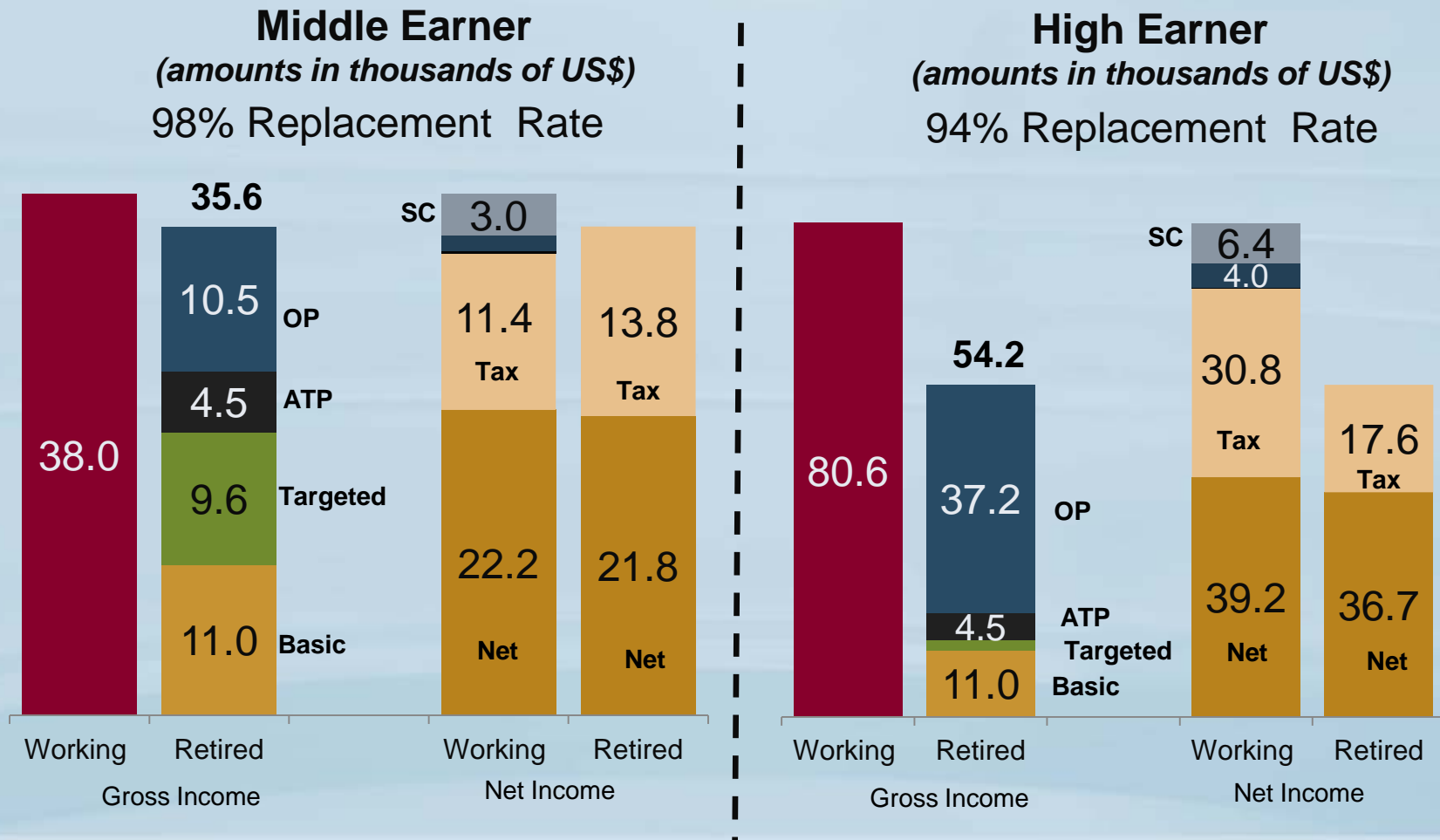
- Denmark is not like the U.S.
- Mandatory savings and savings in individual accounts are unlikely to be close substitutes
- Questions on job change
- Tax treatment in Denmark differs from U.S.
- The U.S. retirement system

# 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

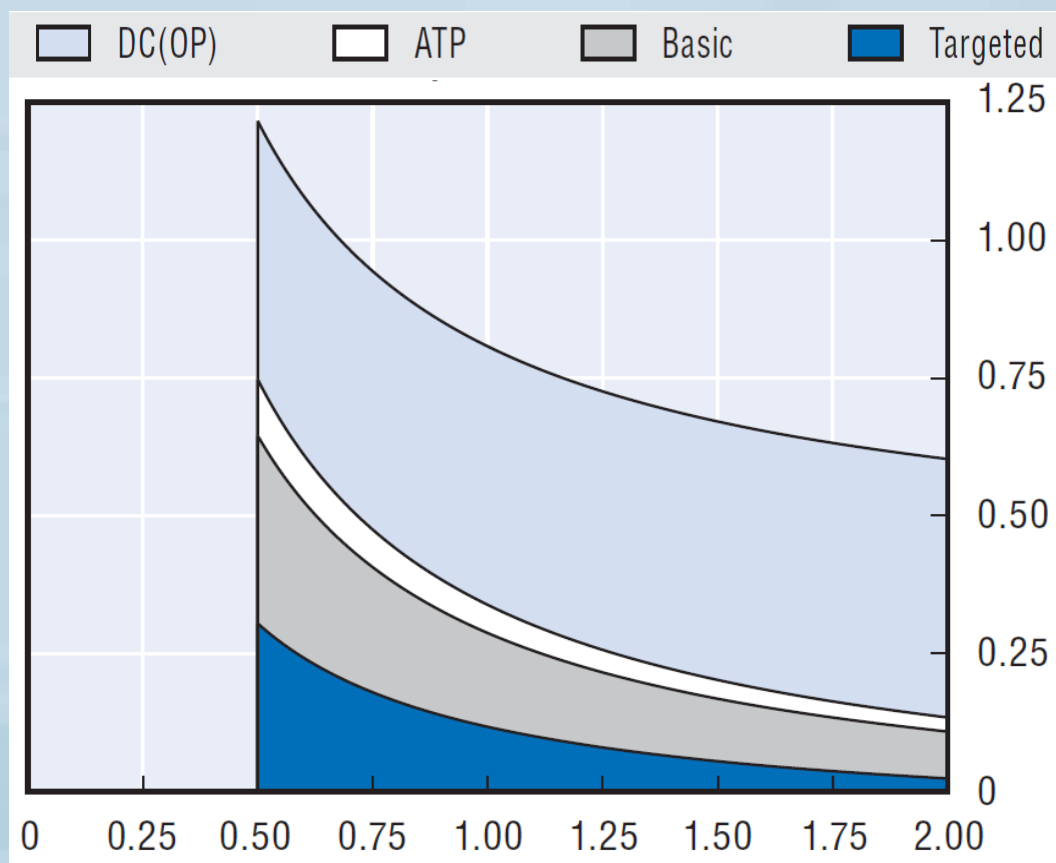
*Replacement rate of pre-retirement average earnings net of tax and contributions; amounts in constant 2008 dollars; discussant's calculation*



# OECD Simulations Produce Similar Results

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

*Individual earnings, proportion of average earnings*



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

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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

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- 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

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