

Active vs. Passive Decisions and Crowd-Out in Retirement Savings Accounts: Evidence from Denmark

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Do retirement savings policies – such as tax subsidies, employer-provided pensions, and savings mandates – raise total wealth accumulation or simply induce individuals to shift savings across accounts? This question is central for understanding the optimal design of retirement savings policies. In this paper, we analyze this question using a panel dataset with 45 million observations on savings in both retirement and non-retirement accounts for the population of Denmark from 1994 to 2009. We compare the effects of several policies targeted at raising savings, including price subsidies and automatic contributions. We find that a policy's impact differs between “active” and “passive” savers, but that there are many more passive savers than active savers.

We divide our empirical analysis into several sections. First, we analyze how saving changes when people change jobs, and move to firms that contribute more to their retirement account. We find that the total saving of individuals switching firms rises immediately by more than 85 percent of the increased employer contribution, even when these individuals could fully offset this “automatic” increase by reducing other saving. Most individuals do not change voluntary pension contributions, savings in taxable accounts, or liabilities at all when they switch firms, consistent with passive behavior. The changes in total saving caused by the automatic increases in contributions persist for ten years after the firm switch and ultimately result in higher wealth balances at the age of retirement.

Second, we analyze the impact of a Mandatory Savings Plan (MSP) that required all Danish citizens to contribute 1% of their earnings to a retirement savings account from 1998 until 2003. We find sharp increases in total saving in 1998 and sharp reductions in total saving in 2004. We estimate that the MSP raised total saving by roughly 1% on average, meaning that there was little or no offset in other accounts. The MSP raised total saving even for individuals who were previously saving more than 1% of their earnings in voluntary retirement savings accounts, which are nearly a perfect substitute for MSP. We conclude that automatic contributions, whether from firm policies or national mandates, generate relatively little crowd-out and increase total wealth accumulation significantly.

The full working paper is available on our website, www.nber.org/programs/ag/rrc/books&papers.html as paper NB13-01.

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