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New Research from EBRI:

Tax Incentives for Retirement Plans: Lessons from Denmark?

WASHINGTON—A recent study found that tax incentives for retirement savings in Denmark had virtually no impact on increasing total savings But are those findings relevant to the United States?

Maybe not, according to a new report by the nonpartisan Employee Benefit Research Institute (EBRI): The two retirement systems have some similarities but also major differences—mainly that, unlike in the United States, in Denmark the availability of employment-based, tax-deferred retirement plans is not tied to the tax-deferred status of the accounts.

At issue are so-called “tax expenditures” in the United States—preferential tax treatment for public policy goals such as retirement, health insurance, home ownership, and a variety of other issues—that currently are under heavy scrutiny in the debate over the federal debt, taxes, and spending.

The authors of the study on Danish savings behaviors offered statistical evidence that changes in tax preferences for Danish work place retirement savings plans had virtually no effect on total savings of those affected by the change. This has drawn the attention of those interested in considering a modification of the long-standing tax preferences for employment-based retirement savings plans in this country.

However, aside from the differences in incentive structures between the two countries, the EBRI report notes that study of Danish workers examined only the impact that changes in tax incentives for work place retirement plans might have on *worker* savings behaviors—but did not address how *employers* might react to changes in retirement savings tax incentives.

The EBRI report notes recent surveys have found many American private-sector plan sponsors have expressed a desire to offer no plans at all in the absence of tax incentives for workers. If this happened, low-wage workers—who are generally less prepared for retirement—would suffer on several counts, said Sudipto Banerjee, EBRI research associate and co-author of the report.

“The Danish study provided insight into the savings behavior of Danes, conditioned by the culture and influences of public policies and programs of Denmark,” Banerjee said. “But the ‘success’ of work place retirement plans in the United States depends on the behavior of two parties: workers who voluntarily elect to defer compensation, and employers that sponsor and, in many cases, contribute to them.”

“While the study of Danish savings behaviors presented the impact of tax-incentives and the ‘nudges’ of automatic mandatory savings as an ‘either/or’ solution, the optimal solution—certainly for a voluntary system such as the one currently in place in the U.S.—may well be a combination of the two,” noted Nevin Adams, co-director of the EBRI Center for Research on Retirement Income, and co-author of the report.

The full report is published in the January 2013 *EBRI Notes*, “Tax Preferences and Mandates: Is the Danish Savings Experience Relevant to America?” online at www.ebri.org

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