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RETIREMENT SAVINGS ADEQUACY IN U.S. DEFINED CONTRIBUTION PLANS

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The paper

Evaluates retirement savings adequacy in the US in a comprehensive simulation exercise

Models a wide range of important determinants of retirement wealth

Finds that savings are inadequate, in particular for cohorts closer to retirement

The variation in outcomes is large, and related to heterogeneity in employer contributions, individual savings rates, and asset allocations

Main comments

Highly relevant, well executed and very thorough analysis

A central parameter, the adjustment factor for current consumption φ, is assumed to be 0.8. Does it in practice vary across households? Should it be age or family type specific? What about insurance?

What about the impact of
- Crowding out?
- Low-for-long?
- Sample selection?

Scope for using the setup and estimates from the literature to rank policies?

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Crowding out and policy responses

Recent long-run evidence: Higher pension savings crowded out by debt, but also contributing to increasing housing wealth in the long run ([Andersen et al., 2021](#))

Crowding out may be important:

- For assessment of policy responses
- For modelling (e.g. model link between liquid wealth, debt, housing, and pension wealth)

Even more scope for policy analysis. Your setup, combined with estimates from the literature, could be used to evaluate policies such as

- Tax incentives ([Chetty et al., 2014](#)),
- Default settings (e.g. automatic enrollment, default contribution rates) ([Beshears et al, 2021](#))

relative to mandatory contributions

Low for long

Natural real interest rates have declined dramatically over the past decades, and in particular since the financial crisis ([Holston et al., 2017](#)).

- What is the impact on consumption and savings behavior?

- Does the income effect dominate when rates become low enough?

- Can parameters estimated over the past decades be used to model future savings behavior and yields?

- Could reallocation of portfolios (e.g. higher share of stocks) be sufficient for retirement adequacy?

Consumption, per cent of disposable income

Borrowers

Savers
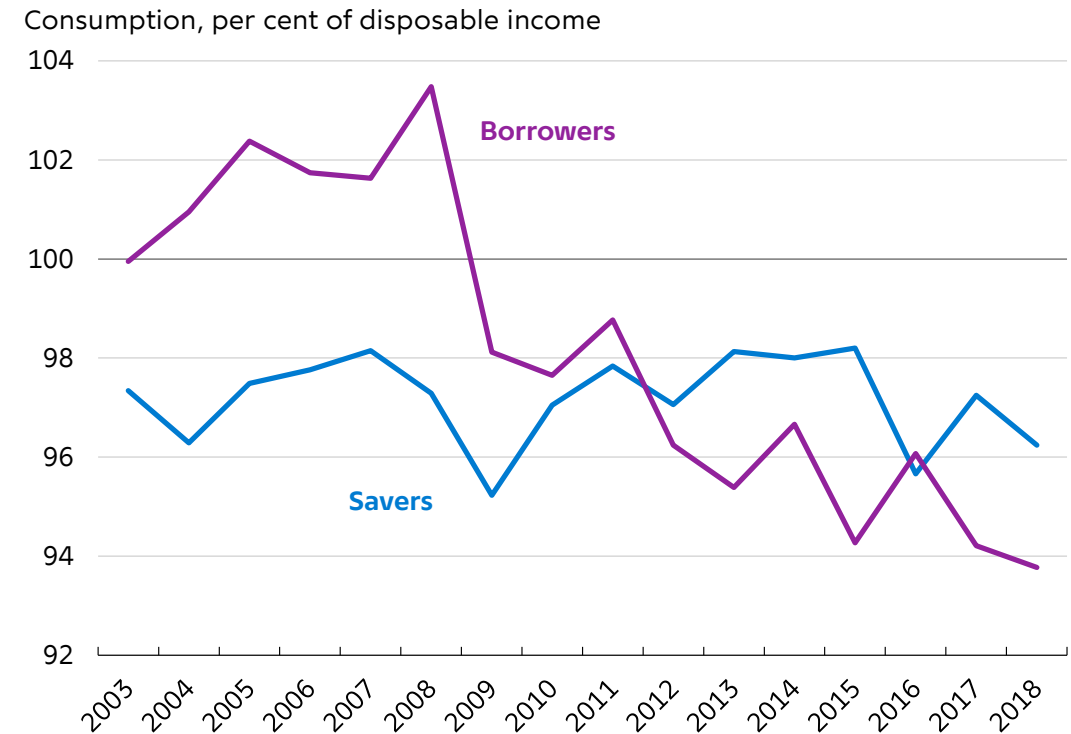
Source: [Hviid and Kuchler (2017)](#), updated

Sample selection

Large sample, but from few, old firms

Can we generalize the results to larger groups of US households?

How to prioritize retirement savings policies for workers versus e.g. selfemployed and/or people with a marginal attachment to the labor market?

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Conclusion

Well executed and very thorough analysis

Necessary to consider heterogeneity in the adjustment factor for current consumption?

Factors to consider when assessing policy recommendations:

- Crowding out (Do people offset additional savings? How to design interventions to avoid that?)
- Impact of low-for-long on savings behaviour and yields
- How to prioritize between workers in large firms (current paper), selfemployed, unemployed, etc.?
- Could changes to portfolios be sufficient for retirement adequacy (e.g. higher shares of stocks)

Results to be seen in light of a more general issue: Financial decisions are increasingly individualized; may be problematic in the presence of financial illiteracy, present bias, etc.

Thanks for a very interesting paper!

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