

# A push in the right direction: Are mandatory pension contributions boosting retirement savings?

By David Burgherr

**Many countries have tried to boost retirement savings by making workers contribute to workplace pension schemes. But are these measures effective? New evidence shows mandatory pension contributions have had a surprising effect on workers' voluntary pension contributions.**



Ageing populations and rising life expectancies have raised concerns that people are saving too little to maintain an adequate standard of living in retirement. To improve people's financial preparedness for old age, governments in many countries have introduced policies aimed at boosting pension savings.

One of the most promising measures is to make workers contribute to an employer-sponsored pension account that they can only withdraw funds from after retirement. Often this is achieved by firms automatically enrolling new hires in work pension plans unless they actively choose to opt out. In the UK, employees earning more than £10,000 per year are automatically enrolled in a workplace pension scheme. In the US, the SECURE 2.0 Act of 2022 introduced similar rules.

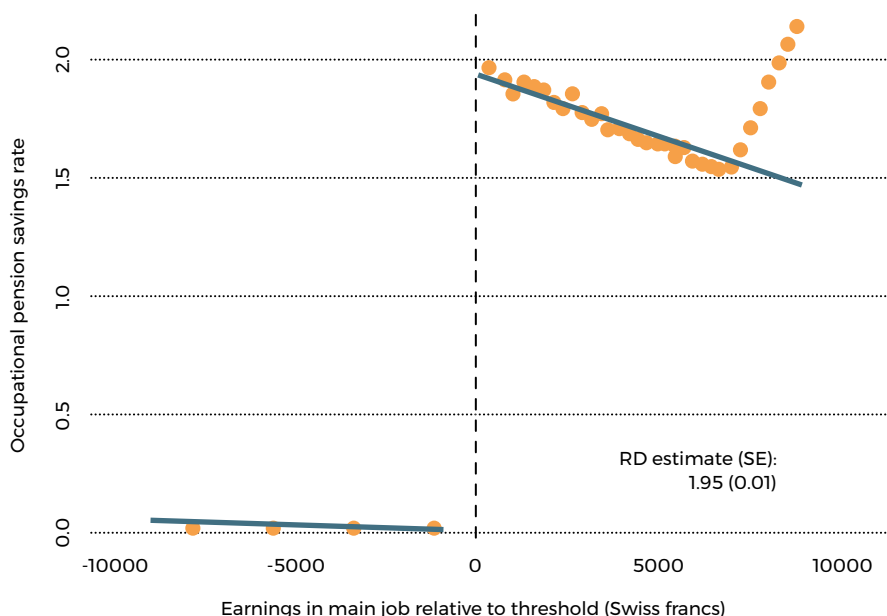
Policies nudging or even forcing workers to contribute to occupational pension plans have proven effective at raising pension participation. But whether these policies succeed in boosting retirement savings depends on how mandatory saving affects people's decisions to make voluntary pension contributions. If people use mandatory occupational pensions *instead* of voluntary pension schemes, they will ultimately be no better off. So, do state mandates and nudges crowd out private action?

I study the saving responses to the occupational pension mandate in Switzerland. Employees earning more than around 22,000 Swiss francs (roughly £20,000) are required to contribute a chunk of their salary to an employer-sponsored pension account.

In contrast to automatic enrolment, the mandate is binding; people above the earnings threshold cannot opt out. Contributions are calculated by multiplying qualifying earnings by the age-specific (minimum) contribution rate.

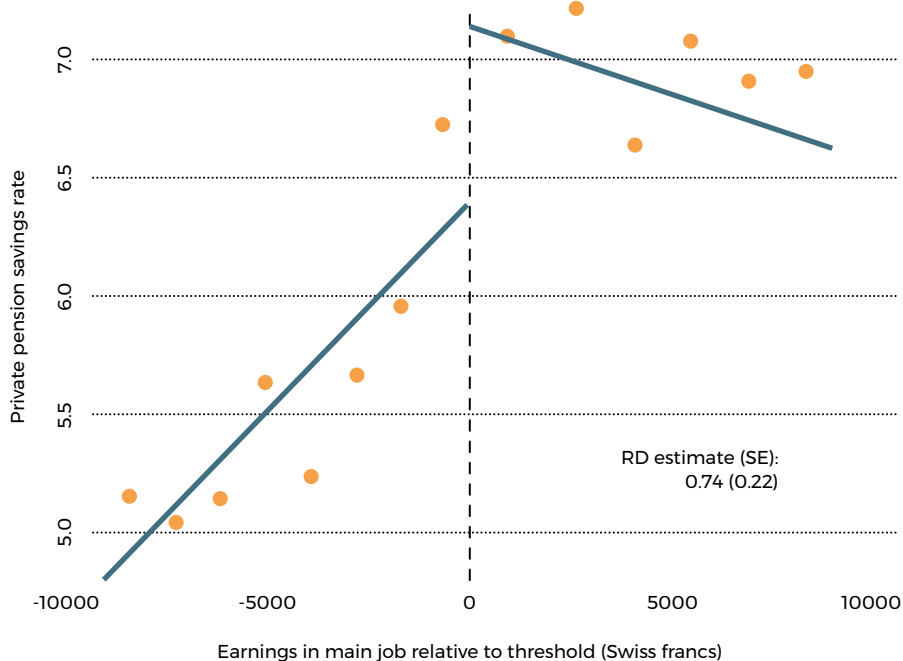
Swiss law sets a lower limit for mandated contributions that varies

**Figure 1: The mandate increases the occupational pension savings rate by 2 percentage points**



Notes: Effect of the occupational pension mandate on occupational pension savings rates in 2017. Points are local sample means. Solid lines are linear fits estimated separately on each side of the cut-off. The earnings variable on the x-axis is recentred around the mandate threshold of 21,150 Swiss francs, indicated by the dashed vertical line.

**Figure 2: Voluntary private pension savings jump up at the mandate threshold**



Notes: Effect of the occupational pension mandate on private pension savings rates in 2017. Points are local sample means. Solid lines are linear fits estimated separately on each side of the cut-off. The earnings variable on the x-axis is recentred around the mandate threshold of 21,150 Swiss francs, indicated by the dashed vertical line.



## “Mandatory pension plan enrolment has the potential to directly affect not only how much people save for retirement but also their attitudes and awareness of saving options.”

with workers' age. For example, a 45-year-old worker qualifying for the mandate must contribute at least 550 Swiss francs per year to their workplace pension. This means workers just above the earnings threshold have to contribute a significant sum to their occupational pension pot while those just below do not. This provides a great quasi-experiment to study saving responses. For workers just above and just below the earnings threshold, it is as good as random whether they are subject to the mandate or not. Comparing similar workers in these two groups allows me to understand the causal effect of the policy.

While automatic enrolment is a relatively recent trend, the Swiss mandate was introduced back in 1985 so there are decades of experience to draw on. I use de-identified tax microdata on income, wealth and savings covering the full population in one of the largest Swiss cantons, Bern. I can measure different types of pension savings and private savings, enabling me to comprehensively track the saving responses to the mandate.

Figure 1 shows that workers above the cut-off contribute on average around 2% of their salary (about 400 Swiss francs per year) to an occupational pension account.

### How do these workers adjust their other savings in response?

Figure 2 documents that they raise their voluntary pension savings rate in tax-deductible accounts by 0.7 percentage points – a relative increase of about 12%.

I also find a smaller but significant

increase in voluntary lump-sum contributions to occupational pension accounts.

Workers appear to lower their private savings in assets not earmarked for retirement, such as bank accounts, securities, or property, by the same amount as their pension savings increase. This suggests that total savings are unchanged. However, statistically I cannot rule out that the mandate had no effect on private savings so conclusions about total savings should be taken with a grain of salt.

Given that occupational and private pension accounts have very similar features, it seems surprising that the occupational pension mandate crowds in voluntary retirement savings. To test these findings and investigate the underlying mechanisms, I study the 2005 reform of the occupational pension system that lowered the earnings threshold for the mandate substantially, roughly from 25,000 to 19,000 Swiss francs.

Comparing workers newly covered by the mandate to those close to the cut-off but still not subject to it after the reform over time, I find very consistent results.

Exploring mechanisms, the positive impact on voluntary pension savings turns out to be completely driven by workers who had not contributed to private pension accounts before the reform. This suggests that the reform particularly encouraged people to save for retirement who had not previously been aware of the importance and advantages of contributing to pension pots.

Being enrolled in an occupational pension plan due to the mandate could have achieved this by providing information about the need to save for retirement, the saving vehicles available for doing so, and the tax benefits associated with them, as well as by boosting salience of the pension system.

However, I find that only workers in high-income households, who are likely secondary earners, respond by increasing voluntary pension savings. Individuals who are more likely to live hand to mouth because they do not have other sources of income or a partner who is earning more reduce voluntary pension savings once they are forced to contribute to an occupational pension pot.

To assess whether pension policies boost retirement savings in the long run, researchers need data tracking workers' saving decisions over their entire careers. For most countries we don't yet have data spanning such a long period.

Nevertheless, the evidence from Switzerland is suggestive. It shows that mandatory pension plan enrolment has the potential to directly affect not only how much people save for retirement but also their attitudes and awareness of saving options.

This implies that governments could do more to prepare people for retirement by enhancing financial literacy, improving knowledge about the pension system, and motivating people to develop a financial plan for old age. ◀

### About the author

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