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Does Front-Loading Taxation Increase Savings?: Evidence from Roth 401(k) Introductions

by [John Beshears](#), James J. Choi, David Laibson and Brigitte C. Madrian

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Abstract

Can governments increase private savings by taxing savings up front instead of in retirement? Roth 401(k) contributions are not tax-deductible in the contribution year, but withdrawals in retirement are untaxed. The more common before-tax 401(k) contribution is tax-deductible in the contribution year, but both principal and investment earnings are taxed upon withdrawal. Using administrative data from eleven companies that added a Roth contribution option to their existing 401(k) plan between 2006 and 2010, we find no evidence that total 401(k) contribution rates differ between employees hired before versus after the Roth introduction, which means that the amount of retirement consumption being purchased by 401(k) contributions increases after the Roth introduction. A survey experiment suggests two behavioral factors play a role in the unresponsiveness of contribution rates to their tax treatment: (1) employee confusion about or neglect of the tax properties of Roth balances and (2) partition dependence.

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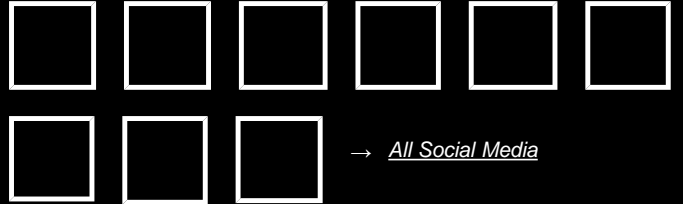
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