Saving Behavior Across the Wealth Distribution: The Importance of Capital Gains *

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Abstract

Do wealthier households save a larger share of their incomes than poorer ones? We use Norwegian administrative panel data on income and wealth to examine how saving rates vary across the wealth distribution. We compare our findings to the prediction of canonical models of household saving that saving rates are either independent of or decreasing with wealth. We find that the relation between saving rates and wealth depends on whether saving includes capital gains. Saving rates net of capital gains ("net saving rates") are approximately constant across the wealth distribution, seemingly consistent with canonical models. However, saving rates including capital gains ("gross saving rates") increase markedly with wealth. The proximate explanation is that wealthier households own assets that experience persistent capital gains which they hold onto instead of selling them off to consume ("saving by holding"). Since standard theories of wealth accumulation are about gross saving, our findings challenge them. In contrast, our empirical findings are consistent with theories with time-varying discount rates or with multiple assets and portfolio adjustment frictions. Between 1995 and 2015 Norway's aggregate wealth-to-income ratio rose from 4.5 to 7 and "saving by holding" accounts for between sixty and one hundred percent of this increase.

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