Pension Savings in Germany

Portoroz

Dr. Paul Varga
May 2011
Agenda

1. Introduction: Retirement Provisions in Germany
2. Retirement Provisions without Govt Subsidies
3. Riester Pensions
4. Rürup Pensions
5. Company Retirement Pensions
6. Working Time Accounts
7. Women and Retirement Provision
8. Technical Details
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6. Working Time Accounts
7. Women and Retirement Provision
8. Technical Details
Pension Savings in Germany

<table>
<thead>
<tr>
<th>Fewer children + more pensioners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who is paying for my pension?</td>
</tr>
<tr>
<td>Earnings</td>
</tr>
<tr>
<td>– Standard pension</td>
</tr>
<tr>
<td>Pension shortfall</td>
</tr>
<tr>
<td>+ Income from Pillar 2</td>
</tr>
<tr>
<td>+ Income from Pillar 3</td>
</tr>
<tr>
<td>Total pension income</td>
</tr>
</tbody>
</table>

PENSION
The Three Pillars of Retirement Provisions in Germany

Action Still Needed for capital-cover Retirement Provisions

85% Basic pensions and comparable systems
5% Company retirement pensions
10% Private retirement provisions

Source: Alterssicherungsbericht (ASID) 2008 [Retirement Pension Report 2008]
From the Pillar Model to the Layer Model

New "Three-Layer Model" Starting in 2005

The "Three-Layer Model"

<table>
<thead>
<tr>
<th>Layer 1</th>
<th>Layer 2</th>
<th>Layer 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic provisions</td>
<td>Supplementary provisions</td>
<td>Investment products</td>
</tr>
<tr>
<td>deferred taxation</td>
<td>deferred taxation</td>
<td>taxed in advance</td>
</tr>
</tbody>
</table>

Products / Pensions

- Non-subsidised products for personal retirement provisions
- Riester pensions
- Company pensions with capital coverage
- Statutory pensions*
- Rürup pensions

* Includes professional and agricultural pensions
Pension System

History

Otto von Bismarck: Founder of the statutory pension system
Otto von Bismarck introduced the statutory pension system in 1891. Workers received a pension starting at age 70 if they had previously made contributions for 30 years. The employee and employer each paid half of these contributions.

Thanks to the reform act, housewives and the self-employed were also given the opportunity to receive a pension starting in 1972. Individuals could make generous additional payments in order to acquire future entitlements. The retirement age falls to 63 years of age.

Konrad Adenauer – Father of the current pay-as-you-go system
The cabinet of Chancellor Konrad Adenauer approved a new pension funding system in 1957. The contributions paid by employers and employees pay the benefits received by pensioners, and the Bundestag set the size of the pensions.

Walter Riester – Father of a bestseller
The Riester pension, named after the person who promoted it, former minister of labour Walter Riester (SPD), is intended to console employees for the reduction in pensions starting in 2002. Now that the government is also subsidising residential real estate, significantly more Germans are investing in Riester pensions.

Retirement in 2030 – Fear about poverty in old age
Final stop old-age poverty? The statutory pension may be certain, but what an individual actually receives in the end depends not only on his own employment history, but also on political decisions. Those who want to maintain their standard of living in retirement have to make provisions today.
## Introduction

As a rule, the investment horizon of private investors is far too short. A euro investor can achieve average returns of approx. 7.75% over an investment period of 10 to 15 years, versus 3.25% for government bonds. Placing a larger share of the invested capital in equities means a more stable outlook for retirement provisions, while strengthening the domestic capital market due to a higher market capitalisation. This in turn promotes the local economy.

### Pay-as-you-go system

A method for funding **social security**, in particular retirement provisions, but also **health insurance** and **unemployment insurance**. The contributions that are paid in are immediately used to fund the benefits that are paid out (i.e. in practice, they are immediately paid out again to benefit recipients). The **social security funds** can also form small reserves (e.g. the **sustainability reserve** [Nachhaltigkeitsrücklage] for the statutory pension system). In return for his contributions, the contributor receives an entitlement to benefits in the case of need such as **unemployment**, **illness**, and **old age**.

### Capital-cover system

A method for funding **insurance** and **social security**, in particular retirement provisions, but also **health insurance**, **nursing care insurance** and **unemployment insurance**.

The savings portion of the insured's contributions is invested in the **capital market** and for each insured a **cover fund** is formed that is intended to cover the benefits paid after the saving period has ended. This individual coverage capital is used to pay all current and future claims.

The actual implementation of capital coverage, e.g. for private pensions and endowment insurance, consists of three components: the capital accumulation mentioned above, a profit distribution to benefit recipients, and a transfer of payments received to benefit recipients.
Save Now to Live Well in Old Age!

The dark side

The nightmare of growing old

- The likelihood of needing nursing care increases with age
- Insurance does not cover all health care and nursing care costs
- It is extremely important to have a financial buffer that ensures you are well provided for, especially in the case of illness or the need for nursing care
Common Errors With Respect to Retirement Provisions

"Home ownership guarantees prosperity"

Because:
- No rental payments during old age
- Can be sold

However…
- Maintenance costs: average 2% per year
- The older the building, the higher the maintenance costs
- Future market value is a big unknown

Home ownership is a sensible part of a retirement portfolio. But one shouldn't rely on it alone!
**Common Errors With Respect to Retirement Provisions**

"The government will take care of me, why should I torture myself with saving"

<table>
<thead>
<tr>
<th>Because ...</th>
<th>However...</th>
</tr>
</thead>
<tbody>
<tr>
<td>- The government guarantees the minimum subsistence level, if one's pension is too small</td>
<td></td>
</tr>
<tr>
<td>- Private retirement provisions are worthwhile for those who would like to enjoy more luxury in their old age</td>
<td></td>
</tr>
<tr>
<td>- Needs-oriented basic assistance has been available since 2003</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Only those in need for no fault of their own are supposed to claim government assistance</td>
</tr>
<tr>
<td></td>
<td>- It is highly likely that social assistance in the future will be significantly lower than today</td>
</tr>
<tr>
<td></td>
<td>- The government first draws on the assets and income of relatives before paying social assistance benefits</td>
</tr>
</tbody>
</table>

**Private retirement provisions are also essential for low-income earners!**
I am frugal, a pension of 1500 euros is enough for me

Because ...
- I live modestly
- 1,500 euros a month is enough for me now, so it will also be enough when I retire

However...
- Every euro continuously loses purchasing power due to inflation
- Life during old age tends to be more expensive, because you need help for many things (e.g. cleaning, gardening) that you are still able to do yourself today

Private retirement provisions can maintain your standard of living
Retirement Provisions Using Investment Funds

Good Reasons for Using Investment Funds for Retirement Provisions

GfK survey of German fund investors in the first half of 2009

- **Insolvency protection** (74.7%): "The insolvency protection (protection against total loss) that investment funds offer is important to me."

- **Cost transparency** (72.1%): "I like the fact that investment funds have transparent costs."

- **Saving** is possible even **with small contributions** (43.1%): "The fact that investment funds allow you to save even with small contributions is important to me."

Associated in particular with security aspects, cost transparency and return orientation
Population Forecast Signals a Decline

One thing is sure: the population is shrinking

- The German population will begin a long-term decline starting no later than 2010
- Population forecasts are considered to be quite reliable
- Although immigration could reduce the downward trend, even this would be unable to reverse it

Sources: World Bank, DekaBank
The Age Distribution is Changing Radically

The pyramid is becoming an onion

Population pyramid 1950

Age distribution: 1950
Germany

Population pyramid 2050

Age distribution: 2050*
Germany

Sources: Statistisches Bundesamt [German Federal Statistical Office], DekaBank
## The New Mortality Tables

The Capital has to Last Longer

<table>
<thead>
<tr>
<th>Age</th>
<th>Women</th>
<th>Men</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>New</td>
<td>Old</td>
</tr>
<tr>
<td>0</td>
<td>103.1</td>
<td>99.6</td>
</tr>
<tr>
<td>20</td>
<td>99.2</td>
<td>95.8</td>
</tr>
<tr>
<td>35</td>
<td>96.5</td>
<td>92.9</td>
</tr>
<tr>
<td>50</td>
<td>94.2</td>
<td>90.5</td>
</tr>
<tr>
<td>65</td>
<td>92.4</td>
<td>89.6</td>
</tr>
<tr>
<td>75</td>
<td>92.6</td>
<td>89.4</td>
</tr>
</tbody>
</table>

Sources: Deutsche Aktuarvereinigung [German Actuarial Association], DekaBank
A study done by TNS Infratest for the German federal government found that 65% of the gross income of the population aged 65 years of age and over came from statutory pensions in 2007.

Other income came from retirement provision entitlements (e.g. civil service pensions, professional pensions, private pensions)

and company retirement pensions), from employment, investment income and government transfer payments.
Digression
Stock Market

While the great importance of the pay-as-you-go pension system in Germany means that a considerable share of the national savings are channelled away from the capital market, in a capital-cover pension system a capital fund must be formed and the income of the fund used to make pension payments.

The following extremely simplified rough estimates can be made in this regard: According to figures from the Statisches Bundesamt [German Federal Statistical Office], the German pay-as-you-go system currently pays out around EUR 230 billion in pensions each year.

Assuming an average interest rate of 5 per cent, this would require a capital fund of EUR 230 billion / 0.05 = EUR 4.6 trillion. If 50 per cent of this capital fund was invested in equities, and 50 per cent of this amount was in turn invested in German equities, then, as a rough estimate, the average stock market capitalisation during the 2000s would have been 100 per cent, instead of 50 per cent, of gross domestic product, which would not have been far from the level in English-speaking countries. ... Although one cannot ignore the fact that equity market volatility causes large fluctuations in the relationship between gross domestic product and stock market capitalisation, these fluctuations should even out over long periods of time.
Net long-term financial assets rose from close to 9 per cent in 1991 to just under 23 per cent in 1998.

In spite of the financial market crisis, they were a good 37 per cent at the end of 2008.

This corresponds to an increase of almost 30 percentage points, that is, a change of a similar magnitude as the increase in stock market capitalisation.

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**Fig. 16: Long-term net monetary wealth of private households and non-profit organisations, including company retirement pension entitlements**

In % of gross domestic product

- Long-term insurance claims
- Investment certificates
- Bond market investments
- Company retirement pension entitlements
- Equity market investments
- Long-term loans

Source: Deutsche Bundesbank [German Central Bank], calculations by the Technische Universität München [Munich University of Technology]
## Digression

### Stock Market

- The gradual introduction of the deferred taxation rule in the Retirement Income Act [Alterseinkünftegesetz] results in interest income remaining effectively tax-exempt, but only for the few forms of investment permitted under the act.

- This benefits the financial services sector. However, it also creates a tax disadvantage for private direct investments in capital markets.

- This systematic discrimination against personal direct investments is a trend that has been taking place for many years. For example, equity market investments made via investment funds have enjoyed a tax privilege compared to direct equity investments for many years.

### Stock market capitalisation (2007)

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Deutschland</td>
<td>150</td>
</tr>
<tr>
<td>F, NL, B, P (Euronext)</td>
<td>200</td>
</tr>
<tr>
<td>Großbritannienn</td>
<td>250</td>
</tr>
<tr>
<td>Schweiz</td>
<td>300</td>
</tr>
<tr>
<td>USA</td>
<td>350</td>
</tr>
</tbody>
</table>

Quellen: Deutsches Aktieninstitut, DekaBank

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*XETRA/Deutsche Börse, Growth and independence through equity financing Study* Structural change and solution approaches for the German middle class during the current financial and economic crisis, p. 34 ff
Think About Tomorrow Today
High Return Funds Should be Part of Every Retirement Pension

EUR 100.00 monthly savings contribution

Capital

Monthly payout during capital depletion*

5% or 8% p.a. after 30 years:

8% p.a.

5% p.a.

Total amount saved

30 years

141,831

81,886

36,000

234

533

924

Source: in-house calculations
* Capital depletion over 20 years; return of 5% assumed during payout phase
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<thead>
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<th>Agenda</th>
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<td>Riester Pensions</td>
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<tr>
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<tr>
<td>6</td>
<td>Working Time Accounts</td>
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<tr>
<td>7</td>
<td>Women and Retirement Provision</td>
</tr>
<tr>
<td>8</td>
<td>Technical Details</td>
</tr>
</tbody>
</table>
Importance of Fund-based Retirement Provisions Rising

... to the Detriment of Pure Insurance Solutions

Trends in retirement provision

- More than 1.58 million fund-based pensions were opened in 2008. This is almost twice as many as in 2005, and represents 23.7% of the total new business of life insurers.

- The ratio of fund-based pensions to total new life insurance business rose steadily from 11.7% in 2005 to 15.9% in 2006, 21.8% in 2007 and 23.7% in 2008.

Government Subsidies Determine Product Success

Example: RP Funds

- Retirement Provision investment funds (RP funds) [Altersvorsorge-Sondervermögen] were introduced in Germany in 1998
- RP funds invest up to 75% of their capital in equities
- Up to 30% of the assets of the fund may be invested in real estate funds
- Foreign currency investments are limited to a maximum of 30% of the fund assets
- Hedging the fund assets using modern financial instruments is permitted; no speculative investments
- Since the legislation does not provide tax subsidies, RP funds are relatively insignificant (15 funds, EUR 910 million according to BVI Investment 2009 [German Investment Fund and Asset Management Association])

Created solely for retirement provisions in Germany, but little volume due to a lack of government subsidies
The Classical Advantages of a Government Certified Riester Pension

- **100 per cent guarantee**: All payments to the fund (including direct subsidies) are guaranteed at the beginning of the payout phase
- **Government subsidies**: Attractive Riester subsidies. Payments not eligible for Riester subsidies are also exempt from withholding tax [Abgeltungssteuer], additional "12/60"* tax benefit in the payout phase
- **Inheritable**: The saved portion of the fund assets can be inherited; repayment of Riester subsidies not required if transferred to a spouse with a retirement pension
- **Hartz IV protection**: If the event of unemployment, the accumulated contributions and Riester subsidies are not considered "realisable" assets and 23.7% in 2008

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**Contribution guarantee (all payments)**

- The guarantee of contributions at the beginning of the payout period covers contributions with and without Riester subsidies

**Insolvency protection (all assets)**

- Investments in Riester fund-based saving plans are secure against potential insolvency of the investment company or custodian bank
- DekaBank is a member of the Sparkassen Finanzgruppe joint liability scheme [Haftungsverbund]

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* If the pension has been subscribed to for at least 12 years and payout takes place after age 60, only half of the value increase is taxable at the individual's personal tax rate upon payout
Riester Pension: Subsidy Worthwhile for All

...Clients Subject to the Compulsory Pension Plan and Civil Servants

<table>
<thead>
<tr>
<th>Civil servants</th>
<th>Families with children</th>
</tr>
</thead>
<tbody>
<tr>
<td>- No company assistance possible</td>
<td>- High subsidy per child € 185*</td>
</tr>
<tr>
<td>(company retirement pension)</td>
<td>- Basic subsidy of up to € 308*</td>
</tr>
<tr>
<td>- High government Riester subsidy</td>
<td>- Additional special expenses deduction of up to € 2,100</td>
</tr>
<tr>
<td>with tax benefits</td>
<td>if directly eligible for subsidies</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Singles / high earners</th>
<th>Singles / low income earners</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Special expenses deduction of</td>
<td>- Attractive returns can also be earned</td>
</tr>
<tr>
<td>€ 2,100*</td>
<td>from annual contributions as low as € 60 and subsidies</td>
</tr>
<tr>
<td>- Basic subsidy € 154*</td>
<td></td>
</tr>
</tbody>
</table>

* Annual subsidies and special expenses deduction starting in 2008. The annual child subsidy is € 300 for children born during or after 2008. A one-time increase of € 200 in the basic subsidy is granted to individuals who are eligible to receive subsidies and have not reached age 25 at the beginning of the contribution year.
Riester Pension Mitigates Effects of Pension Reforms

The (statutory) pension* is now secure! (at a low level)

- **Pension reforms 2001/06:** Pension level reduced to basic protection
- **Pay-as-you-go financing** will be "ramped down" in coming years
- This will make personal provision more important, similar to the pension systems in Great Britain, the Netherlands, Switzerland and the USA

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* in % of last gross income; model calculations (see Pension Report 2009)
Sources: German Federal Ministry of Labour and Social Affairs, DekaBank
Riester Subsidies
Upward Trend for Fund-based Pensions

Change in number of fund-based Riester savings plans

Number of pension plans

<table>
<thead>
<tr>
<th>Year</th>
<th>Bank savings plans</th>
<th>Fund-based savings plans</th>
<th>Pension plans</th>
<th>Building loan agreements</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>316,000</td>
<td>1,231,000</td>
<td>1,922,000</td>
<td>72,10%</td>
</tr>
<tr>
<td>2005</td>
<td>574,000</td>
<td>1,922,000</td>
<td>2,386,000</td>
<td>95,55%</td>
</tr>
<tr>
<td>2006</td>
<td>1,231,000</td>
<td>2,386,000</td>
<td>2,629,000</td>
<td>19.55%</td>
</tr>
<tr>
<td>2007</td>
<td>1,922,000</td>
<td>2,629,000</td>
<td>2,815,000</td>
<td>4.94%</td>
</tr>
<tr>
<td>2008</td>
<td>2,386,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>2,629,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>2,815,000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Approx. 20% market share

Source: German Federal Ministry of Labour and Social Affairs
As at: 31/12/2010
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Rürup Pensions

Subsidised Target Group

- High earning employees
- Self-employed
- Civil servants

- As a supplement to Riester and company retirement pensions
- In particular small business operators
- Professionals
- Other self-employed
- As a supplement to Riester
Rürup Pensions: Government Subsidy I
Tax Treatment / Contribution Phase

Max. contribution per calendar year
- Single: € 20,000 / Married: € 40,000*

Subsidy
- By means of special expenses deduction
- 70% in 2010
- Increasing by 2 percentage points annually to 100% in 2025

Tax-exempt income
- Interest and income are exempt from income tax until retirement
- No exemption application needed

* Payments to the statutory pension system and professional pension funds reduce the maximum amounts.
Rürup Pensions: Government Subsidy II
Tax Treatment / Pay-out Phase

**Taxation**

- Taxation is similar to the statutory pension system.
- The tax rate is set for the rest of the person's life in the year of retirement.
- The taxable portion increases annually by:
  - 2 percentage points, from 60% (2010) to 80% (2020)
  - 1 percentage point, from 81% (2021) to 100% (starting 2040)
- Assessment base for the taxable portion is the total pension paid out (incl. profit earned to date).
Company Retirement Pensions

Coverage Capital (€ 438.8 billion)

<table>
<thead>
<tr>
<th>The five types of company retirement pensions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pensionskasse</strong> pension fund (23.2%)</td>
</tr>
<tr>
<td><strong>Pensionsfonds</strong> pension fund (3.2%)</td>
</tr>
<tr>
<td>Direct insurance (11.0%)</td>
</tr>
<tr>
<td>Defined benefit pension (54.4%)</td>
</tr>
<tr>
<td>Welfare funds (8.2%)</td>
</tr>
</tbody>
</table>
Company Retirement Pensions
Upward Trend Since 2002

- In 2002 all German employees were given the right to receive deferred compensation in their company retirement pensions.

- The importance of company retirement pensions has grown rapidly in Germany since then.

- Defined benefit pensions are the most significant form, representing 54% of the coverage capital(pension provisions).

- Defined benefit plans are the traditional form, especially for large companies.

- Company retirement pensions continue to be underrepresented in German small and medium-sized companies.
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Principle of Lifetime Working Time Accounts

Design Flexibility

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**Employee**

- Contribution of money and/or time
  - Regular earnings
  - Bonuses, special payments
  - Time from short-term working-time account, vacation, overtime

**Employer**

- Balance in money
- Capital invested based on an investment fund concept
- Capital protection, fixed interest rate, employee bears risk-return

**Management / interest**

**Employee**

- Training, advanced training, sabbatical, parental leave
- Reduction in working life
- Transfer to company retirement pension

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DekaBank
## Lifetime Working Time Accounts

### Benefits for Both Sides

<table>
<thead>
<tr>
<th>Employer benefits</th>
<th>Employee benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outlet for flex-time account overflow</td>
<td>More flexibility in personal life planning</td>
</tr>
<tr>
<td>Alternative for early retirement agreements</td>
<td>Better balance between career and family</td>
</tr>
<tr>
<td>Replacement for block model partial retirement</td>
<td>Further training without loss of job</td>
</tr>
<tr>
<td>Match personnel resources to current order situation</td>
<td>Early retirement without penalty</td>
</tr>
<tr>
<td>Advantages acquisition and loyalty of employees and know-how</td>
<td>Saving exempt from taxes and social security contributions</td>
</tr>
<tr>
<td>Management of internal company demographics</td>
<td>Assets freely inheritable</td>
</tr>
</tbody>
</table>

**Summary: Ensures productive efficiency and flexibility of the company**

**Summary: Flexible tool for life planning and planning retirement provisions**
Working Time Accounts
Changes Due to Flexi II and
German Federal Ministry of Finance Letter in 2009

- Narrower definition of terms for credit balance agreements (e.g. balances only in money in the future, no longer in time)
- Option to transfer lifetime working-time account credit balances to company pension free of social security charges in the case of an accident is eliminated in the future
- Improved insolvency protection for employees
- Lifetime working-time accounts for members of a corporation’s board of management and controlling shareholder managing directors are no longer recognised for tax purposes
- Secure investment of account balances required (investment in accordance with the German Social Code [SGB])
- In general, no more than 20% may be invested in equities and equity funds, higher percentages may be permitted for collective bargaining and company agreements or for lifetime working-time accounts limited to early retirement related leaves

Source: Hernstein, OGM / Graphic: "Die Presse" newspaper / HR
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 Longer Life Expectancy for Women

Women can enjoy retirement longer ...

<table>
<thead>
<tr>
<th>Year</th>
<th>Pension length</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>10</td>
</tr>
<tr>
<td>1965</td>
<td>12</td>
</tr>
<tr>
<td>1975</td>
<td>14</td>
</tr>
<tr>
<td>1985</td>
<td>16</td>
</tr>
<tr>
<td>1995</td>
<td>18</td>
</tr>
<tr>
<td>2005</td>
<td>20</td>
</tr>
</tbody>
</table>

- Whether due to a healthier lifestyle or genes, women have a longer life expectancy
- The length of time as a pensioner is therefore significantly longer than for men
- On average, a woman enjoys almost 20 years of retirement
- Advantage: The "return" on statutory pension plan contributions is considerably higher than for men

Sources: Deutsche Rentenversicherung [German Statutory Pension Plan], DekaBank
Typical Investment by Women

Women's investment principles

- Risk-conscious
- Well-considered decisions
- Safety buffer
- Flexibility
- High return
- Good feeling
## Why save?

<table>
<thead>
<tr>
<th>Women's reasons for saving</th>
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<tbody>
<tr>
<td>For large and small purchases</td>
</tr>
<tr>
<td>For children's education and support</td>
</tr>
<tr>
<td>For own purchases – clothes, shoes, travel, going out, ...</td>
</tr>
<tr>
<td>For a good life in retirement</td>
</tr>
</tbody>
</table>
Lower Average Pensions for Women

... but is there enough money?

- Women contribute to pensions for a shorter period of time: time off work for children and to take care of parents or parents-in-law
- Women earn less money on average: part-time work, tendency to choose low-pay occupations
- Covered through spouses, but
  - if the spouse dies: a widow's pension is only a good half of the husband's pension
  - risk of divorce

Average pension payments*

<table>
<thead>
<tr>
<th>€ 1,000</th>
<th>€ 800</th>
<th>€ 600</th>
<th>€ 400</th>
<th>€ 200</th>
<th>€ 0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Women</td>
<td>Average</td>
<td>Men</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* 2007; in euros per month; former West Germany
Sources: Deutsche Rentenversicherung [German Statutory Pension Plan], DekaBank
Introduction: Retirement Provisions in Germany
Retirement Provisions without Govt Subsidies
Riester Pensions
Rürup Pensions
Company Retirement Pensions
Working Time Accounts
Women and Retirement Provision
Technical Details
Individual Client Control over Securities Account During the Savings Period

At the beginning: Investment mix with maximum equity allocation (up to 100%)

Securities account value

Client securities account checked each day during saving period

Term

Start of high water mark protection

The securities account value, total contributions and remaining term determine the current mix proportions for each client individually
**Value increase = payment less amounts contributed**

*** If withdrawals are made before this requirement is satisfied, the entire value increase is taxable at the individual's personal tax rate.

**** Only the so-called profit portion [Ertragsanteil] of the life annuity is taxable. The size of the profit portion depends on the age of the pensioner at the start of the pension. For example, the profit portion is 22% when the pension starts at age 60%, and 5% at age 85 (as at December 2009).
Advantages and disadvantages of personal securities account management

Pro

☑ More precise management: The allocation is based on the exact age of the investor and takes into account his personal savings behaviour, instead of being based on a fixed end point for all clients. This allows more precise allocation management that is tailored to each client, and can also be differentiated according to client group, maturity bands, etc.

☑ Avoidance of concentration risks: Client allocations and capital accumulation differ widely when individual savings behaviour and the precise remaining term are taken into account, and do not react uniformly to market movements. This allows, for example, the triggering of stop losses for all clients to be avoided following a drastic downturn in the market ("concentration effect").
Advantages and disadvantages of personal securities account management

**Pro**

- **Total flexibility:** The investor can choose any term and savings behaviour. The investor can also choose optional high water mark protection, and the type and duration of such protection, or can decide, for example, to protect only x% of his contributions.

- **Good storyline:** Sales can clearly highlight and link the product to keywords like "personal, dynamic allocation", "daily monitoring", "full flexibility", etc.

- **No need to create a fund:** Since the concept is based on existing equity and bond funds, an institutional fund does not have to be established, which means that there are no expenses for establishing the fund, seed money, minimum investment volume, etc.

- ...
Annex

Retirement is when the living is easy and the payments are hard.

The question isn’t at what age I want to retire, it’s at what income.