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Kathrin Brandmeir, Arne Holzhausen

The yield on private financial assets – Germany in an international comparison

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AUTHORS:

KATHRIN BRANDMEIR
Tel. +49.89.3800-19012
kathrin.brandmeir@allianz.com

DR. ARNE HOLZHAUSEN
Tel. +49.89.3800-17947
arne.holzhausen@allianz.com

1. INTRODUCTION: ASSET YIELDS IN THE LOW INTEREST RATE ENVIRONMENT

Low interest rates have been the order of the day in Germany since 2010. Although interest rates, measured in terms of the yield on German government bonds with 9-10 years to maturity, have been on a downward trend since the 1990s, it was not until 2010 that a new phenomenon emerged: since then, interest rates have been significantly and permanently lower than nominal economic growth. In other words: the interest rate level can no longer be explained by the fundamental data, i.e. by a drop in growth and inflation, but is biased downwards.

It doesn't take much imagination to find the culprit: the unconventional monetary policy. Since the outbreak of the euro crisis, the ECB has been doing everything in its power to stop the spiral of mistrust and the increasing fragmentation of the euro financial market: by making unlimited liquidity available to banks in the long term with the first, limited ad hoc purchase program for government bonds (SMP) and with the promise to buy up an unlimited volume of government bonds if need be (OMT). The last in this series of moves has been the decision, taken by the ECB at the start of the year, to launch a large-scale purchase program for government bonds and other securities (quantitative easing, or QE for short). This is the ECB's most potent weapon to date in the fight to get the euro area back on to a sustainable growth and inflation path.

But although this ongoing "euro bailout policy" has proved a success in some respects – the markets have settled down and the economy is bouncing back – it is also important not to underestimate the side effects: zero interest rates are eating away at capital gains, putting long-term obstacles in the way of anyone trying to build up savings. Some even go as far as to accuse the ECB of expropriating savers and creating an environment in which saving isn't worth anyone's while anymore. And indeed, real returns on bank deposits have been negative since the end of 2010, as the Bundesbank emphasized in its monthly report for October[1]. Although negative real returns on bank deposits are not uncommon, a trend lasting this long is unprecedented.

But when it comes to assessing the impact of the low interest rates on financial assets, this is only half the story. After all, savers have other assets in their portfolios in addition to bank deposits – shares, bonds, investment funds and, first and foremost, receivables from insurance companies – that are generating positive returns even in this low interest rate environment, some of which have actually benefited from the ECB's zero interest rate policy (shares). This is why, according to the Bundesbank, the real total return on financial assets was actually much higher on average in the period between 2008 and early 2015, coming in at 1.5 percent.[2] While this is very low in a long-term comparison, which bears testimony to the extremely challenging environment that the low interest rates are creating for savers, it is still well in the black. So are the warnings about the implications of the zero interest rate policy much ado about nothing?

The fact is that, taken in isolation, the level of the asset yield says very little. Rather, the real question is whether this yield is sufficient to allow individuals to meet their savings objectives – or whether, for example, they should be stepping up their efforts to set money aside. Ultimately, this is a question that can only be answered on a case-by-case basis. The return generated can, however, at least be assessed on an ex post basis; albeit

[1] Deutsche Bundesbank (2015): Das Spar- und Anlageverhalten privater Haushalte in Deutschland vor dem Hintergrund des Niedrigzinsumfelds, monthly report for October 2015, pp. 13 -32.
[2] Deutsche Bundesbank (2015), p. 22.

not by way of a historical comparison as suggested by the Bundesbank (times have changed, after all), but rather using an international comparison, particularly with other EMU countries that are suffering the same monetary policy plight. This allows us to look at the returns achieved by German savers in recent years against the backdrop of the bigger picture and to find an answer to the key question: have their savings habits been commensurate with the low interest rate environment, the "new normal", or not?

This sort of international comparison is precisely what this paper wants to achieve. The remainder of the paper is organized as follows: the next chapter provides a brief overview of the development in private financial assets in Germany since 1960; this clearly shows that, as assets increase, returns become one of the key factors determining asset development. The main part of the paper can be found in chapter 3, which analyzes and compares the total returns on financial assets in various EMU countries; this reveals marked differences in yields despite the same overall monetary and market framework. The reasons lurking behind these differences also come to the fore as the analysis continues. The fourth chapter delves a little deeper and analyzes different income groups. Once again, the yields vary considerably. Finally, the fifth chapter summarizes the main results.

2. ASSET DEVELOPMENT IN GERMANY SINCE 1960

Germany's economic development in the period following the end of the Second World War and the resulting increase in prosperity are reflected, not least, in the accumulation of private assets. By the end of 2014, the financial assets[3] of private households had climbed to around EUR 5.2 trillion in total. Asset development was particularly dynamic in the boom years of the "Economic Miracle", when more and more households were able to build up a financial nest egg thanks to rising incomes. In the period between 1960 and 1970, for example, annual growth rates well in excess of 10% were not uncommon. During this period alone, the asset base trebled, growing by a further 180% by 1980 before asset growth slowed to an average of around 7% a year in the decade that followed. Bolstered by the positive performance on the stock markets, financial assets were still growing at an average annual rate of almost 7% in the 1990s.

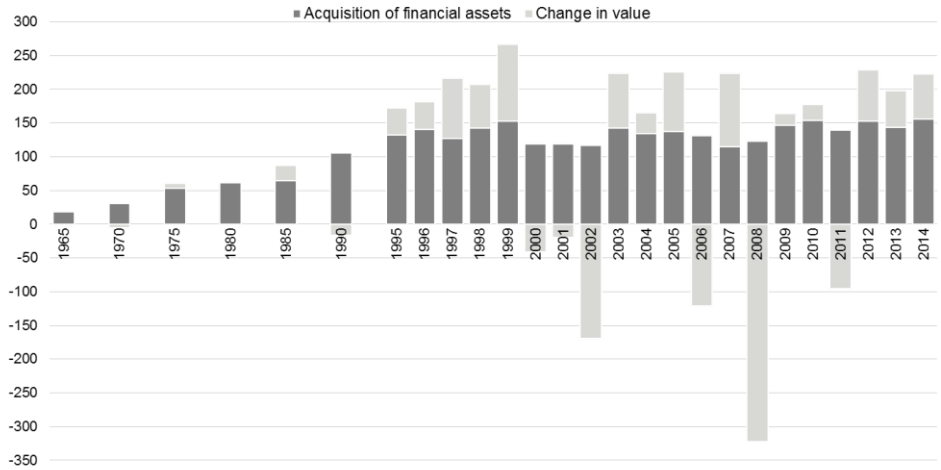
For a long time, private financial assets were accumulated first and foremost via household savings, i.e. from the net inflow of "fresh" savings, as opposed to via value gains. Between 1961 and 1990, the latter only account for a good 3% of the increase in financial assets. Value gains only started to play a more significant role in the 1990s, with the 1996 IPO of the German telecommunications giant Deutsche Telekom, in particular, whetting private investor appetites for shares (see Chart 1). In the second half of the 1990s, value gains accounted for no less than around one-third of financial asset growth on average, meaning that they were starting to take the place of savings efforts to some extent. After all, if we look at the decade as a whole, we can see that the savings rate was on a continual decline, dropping back from 12.6% in 1991 to 9.5% in 1999.

[3] including private non-profit organizations.

Chart 1

Acquisition of financial assets and change in value in Germany

in EUR bn



Values up to 1990: Western Germany. Due to the changeover to ESA 1995 (data from 1991 up to 1998) resp. ESA 2010 (data from 1999 onwards) data comparability is limited. The negative change in value in 2006 is primarily owing to conceptual changes in the valuation method and extensive data revisions regarding the financial instruments debt securities, shares and investment fund shares; the results from 2006 onwards are not comparable with previous years.

Sources: Deutsche Bundesbank, Allianz SE.

When the dotcom bubble burst in 2002, however, households were hit, for the very first time, by an asset slump to the tune of 1.5%. The outbreak of the global financial crisis six years down the line triggered a further slump of 4.5%. This means that, over the entire first decade of the new millennium as a whole, the asset base reported only modest growth averaging 2.6% a year. Value gains contributed nothing to this development, but rather, taken in isolation, actually shaved a total of EUR 330bn off the asset base

Since then, the annual asset growth rate has bounced back a bit to an average of 3.6%. Over the past four years, value gains have only accounted for 14.5% of total asset growth on average, mainly due to the value losses of EUR 96bn in 2011.

After having their fingers burned in the first decade of the new millennium, more and more private investors have been turning their back on shares in recent years, despite what has been very robust stock market performance on the whole. According to the German Equities Institute[4], around 4.4 million people have opted to bid equities and equity funds farewell since 2001 – the year in which the number of shareholders soared to a record high – a trend that would appear to be continuing. This explains why securities only play a minor role in the asset portfolios of German households today. By contrast, private households hold around two-fifths of their financial assets in the form of low-risk, but also low-return, investment products like bank deposits. Even the zero interest environment seen over the past few years has done nothing to change this portfolio structure, which can be described as conservative on the whole.

Asset structure is one of the main factors determining returns. The section below takes a closer look at financial assets and the average returns generated on these assets in nine European countries (Belgium, Finland, France, Germany, Italy, the Netherlands, Austria, Portugal and Spain). We will concentrate, in particular, on the period of low interest rates that has persisted since 2010.

[4] Deutsches Aktieninstitut (2014): Aktionärszahlen des Deutschen Aktieninstituts 2014, p. 2.

BOX: HOW IS THE TOTAL RETURN ON THE ASSET PORTFOLIO CALCULATED?

The financial accounts published by the European statistics authority, Eurostat, which form part of the national accounts, provide an overview of the financial assets of private households. They provide information not only on the amount and structure of the asset base by asset class, but also on annual fund inflows and outflows.

The (nominal) total return on an investment is calculated based on the value gains, the amount of which can be derived directly from the financial accounts (level at the end of a period less the level at the start of the period and financial asset formation during this period) and current income, e.g. interest and dividends. These constitute private household income, which is also recorded in the national accounts.

In particular, the calculation of the total return used data on the income from investments, i.e. interest and other capital gains. The latter comprise income from insurance policies, receivables from pension systems and from investment fund units. This are allocated to the corresponding items in the asset balance sheet. A weighted annual average interest rate[5] was calculated for investment income from overnight money deposits, savings and term deposits with banks, while a return of zero percent was applied to cash. A residual parameter was calculated for income from investments in bonds and other receivables, i.e. the total investment income from interest[6](taken from the national accounts) less the income on bank products resulting from the weighted annual average interest rate. Since some countries do not make any distinction between profit distributions and withdrawals in their national accounts, the income on assets held in equities is calculated based on the domestic dividend yield in each case[7].

An average annual portfolio was created for all items in the asset balance sheet (bank deposits, bonds, equities, investment fund units, receivables from provisions relating to insurance companies and pension systems, and other receivables) and the average return generated in the current year was calculated in each case. This study has left assets and income from other equity interests out of the equation.

The nominal total return for a given year, less the average annual rate of change in consumer prices, produces the real total return.

[5] Allianz SE, Economic Research (2015): Low interest rates, incomes and assets: the winners and the losers, Working Paper 190.
[6] In the case of interest rates, we have only included the interest actually received.
[7] MSCI Austria DY, MSCI Belgium DY, MSCI Germany DY, MSCI Finland DY, MSCI France DY, MSCI Italy DY, AEX Index Datastream DY, Euro Stoxx 50 DY (for Portugal), S&P 500 Composite Datastream DY; Source: Thomson Reuters.

3. GERMANY IN AN INTERNATIONAL COMPARISON

In the middle of the rankings in terms of total assets and asset growth

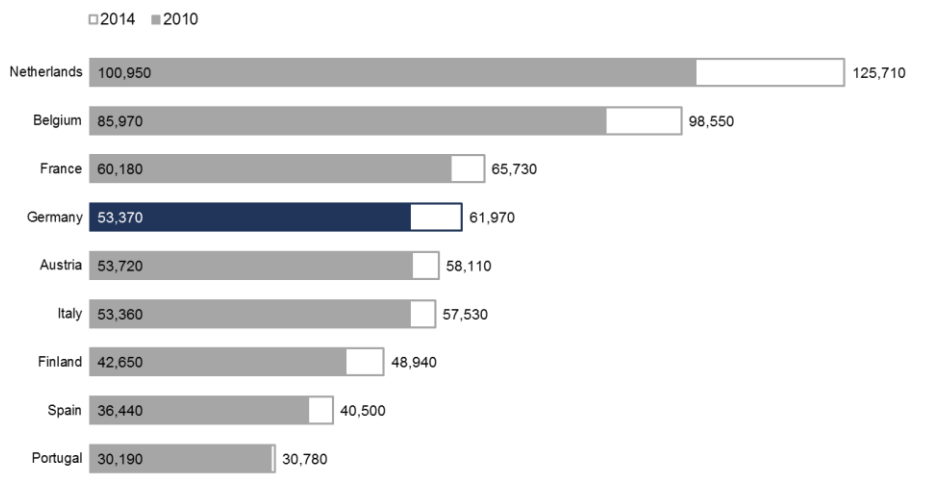
In contrast to the dominant role that Germany plays in economic terms, Germany's households are only in the middle of the European rankings as far as financial assets[8] are concerned. With average per capita assets of EUR 61,970, they lag behind the Netherlands, Belgium and France (see Chart 2). The fact that Dutch households have assets that are twice as high as those held by their German counterparts is largely due to the strong position of retirement provision in the Netherlands. The European crisis countries Spain and Portugal can be found towards the bottom of the rankings, with per capita financial assets coming in at an average of EUR 40,500 and EUR 30,780 respectively.

The rankings remain similar if we look at the average rate of asset growth over the past five years: Germany comes in fourth – well behind the Netherlands (see Chart 3). Nevertheless, the average annual growth rate of 3.8% is slightly higher than the average rate for the countries included in this analysis. It comes as little surprise to see that the countries with the lowest rates of asset growth are those located in the south of Europe: Spain, Italy and Portugal.

Chart 2

Financial assets per capita

Year-end total, in EUR



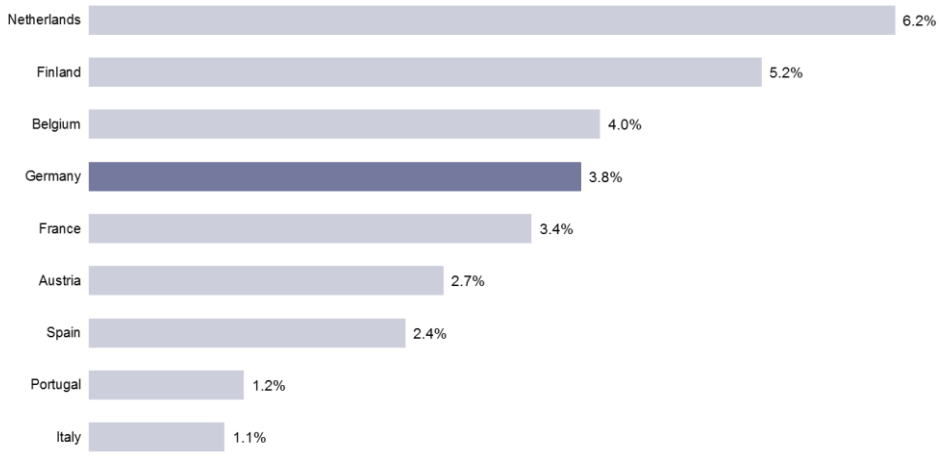
Sources: Eurostat, Allianz SE.

[8] All of the figures cited for financial assets below relate to gross financial assets, excluding other equity interests.

Chart 3

Growth of financial assets

Compound annual growth rate 2010 to 2014



Sources: Eurostat, Allianz SE.

Conservative investment behavior

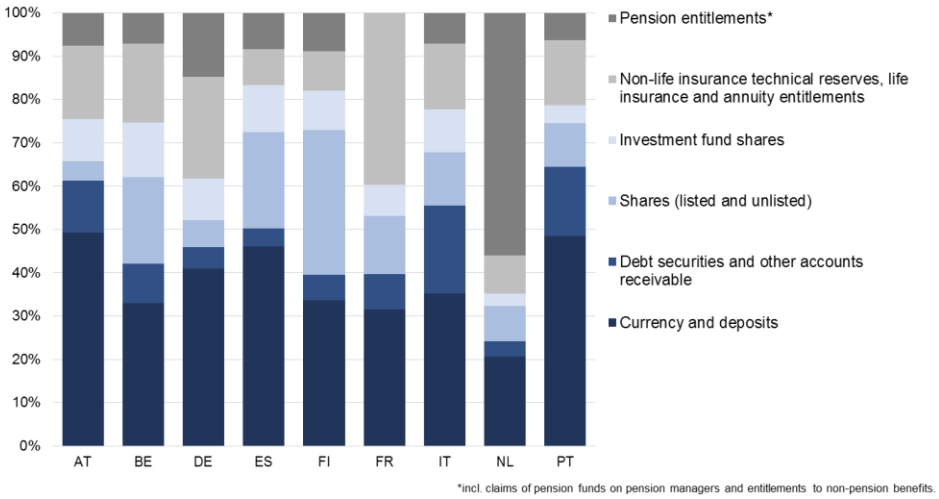
German savers have traditionally entrusted banks with a significant share of their assets. Looking at 2014 on average, total cash and deposits accounted for 40.9% of the portfolio, five percent higher than the average value for the countries included in our analysis (see Chart 4). In fact, despite the ongoing drop in interest rates, almost half of total financial asset accumulation, i.e. the balance of inflows and outflows, has been attributable to this asset class over the past five years on average. In addition to bank deposits, households are particularly keen on insurance policies and pensions, which account for a total of 38.3% of financial assets. There are only two countries where this asset class accounts for an even higher share than in Germany: France (39.8%) and the Netherlands (64.9%).

By contrast, households are very hesitant when it comes to investing in shares: assets held in equities account for only 6.2% of the portfolio in Germany, around half the average rate for the overall group of countries. Austria is the only country in which this rate is even lower again, at 4.5%. Finnish households lead the field, investing around one third of their savings in equities, followed by households in Spain (22.2%), Belgium (19.9%) and France (13.4%). At least in terms of indirect investments in equities, the Germans are slightly above-average: they invest 9.6% of their financial assets in investment fund units, one percentage point ahead of the average. In the other countries in our analysis, the rates range from 2.9% in the Netherlands to 12.7% in Belgium. On average, households in the countries analyzed invest 8.9% of their portfolio in bonds and other receivables, compared with only 4.9% in Germany.

Chart 4

Structure of financial assets

Annual average 2014



Sources: Eurostat, Allianz SE.

Considerable volume of savings in Germany

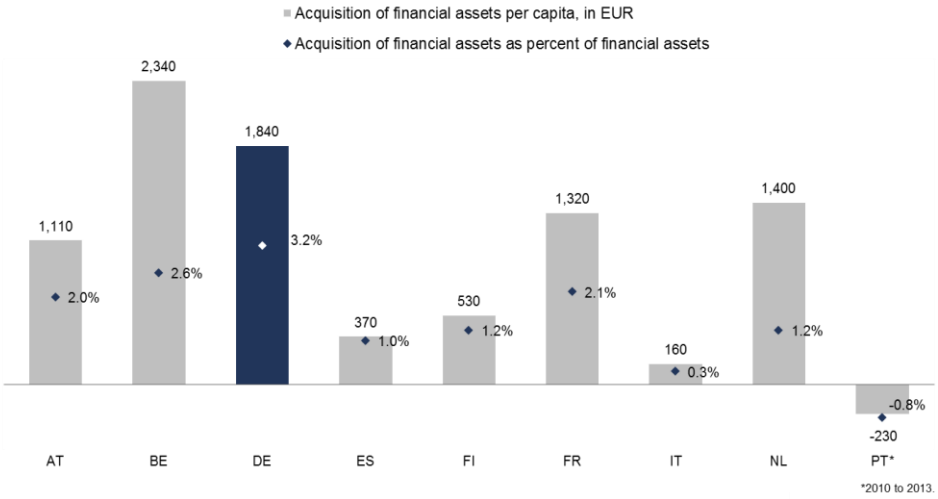
The financial asset accounts confirm the stereotype of the Germans being keen savers. In the period between 2010 and 2014, households saved an average of EUR 1,840 per capita and year, a whopping 75% more than the average for other countries (see Chart 5). This is topped only by households in Belgium, which set aside an average of EUR 2,340. Households in the Netherlands (EUR 1,400), France (EUR 1,320) and Austria (EUR 1,110) also put aside an above-average amount. At the bottom of the scale, but at least still in the black, we can find Spain (EUR 370) and Italy (EUR 160), whereas households in Portugal are actually consuming their savings to the tune of EUR 230 per capita and year on average.

Germany leads the field when it comes to annual savings in relation to total financial assets: at 3.2%, this figure comes in at almost twice the average (1.8%) and no less than 0.7 percentage points ahead of Belgium. As with financial asset formation per capita, households in southern Europe are below-average in this respect as well.

Chart 5

Acquisition of financial assets per capita and as percent of financial assets

Average 2010 to 2014



Sources: Eurostat, Thomson Reuters, Allianz SE.

What does the increase in assets measured over a given period comprise?

The increase in assets measured over a given period, i.e. the difference between the level at the end and the start of the period, comprises three components:

- savings from income from employment,
- savings from income from investments (e.g. interest and dividends)[9] and
- the change in the value of assets (e.g. equities which are valued at their market value at the end of each period).

The method used to calculate the change in the value of assets and the income from investments is set out in the box on p. 6. As part of disposable income, this income from investments can, of course, also be saved, providing the asset base with another boost. In this respect, we assume that households follow a process of implicit "earmarking": in order to reach their savings objectives, households first of all use their income from investments; it is only when this has been used up, but the savings objective has not yet been reached, that part of their income from employment is also saved; this means that savings from income from employment can be calculated as a residual parameter (=increase in financial assets less change in value and income from investments). This also means that, as the income from investments rises, households tend to put less of their income from employment aside.[10] Chart 6 provides an overview of the total increase in financial assets between 2010 and 2014 and the components described, in each case in per capita terms.

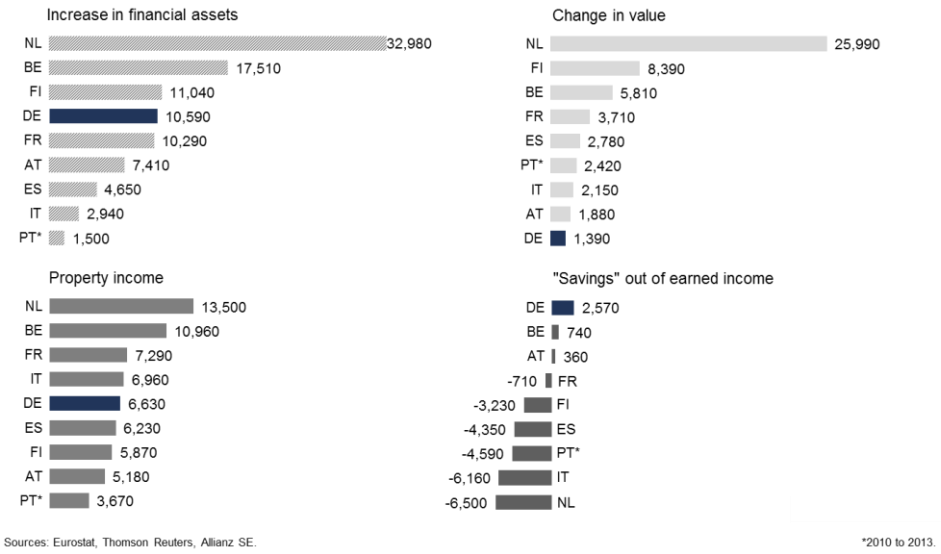
[9] In some cases, however, e.g. when capital gains from insurance policies are involved, the income referred to is notional income, i.e. it was never actually received by the households, but is reported as an increase in assets right away. In other words: the increase in assets is mentally separated into two steps in the national accounts that basically look like this from the perspective of the households: inflow of income from investments and outflow (amounts saved) in the same amount.

[10] Allianz Dresdner Economic Research (2007): Vermögensreport 2007, Working Paper Nr. 89, p. 17.

Chart 6

Increase in financial assets and its components

Sum 2010 to 2014, per capita in EUR



Sources: Eurostat, Thomson Reuters, Allianz SE. *2010 to 2013.

As far as Germany is concerned, two extremes really stand out: while German households fare the worst as far as changes in value go, they have what is by far the largest volume of savings from income from employment; income from investments in Germany is on a moderate level. This puts German households in the middle of the rankings as far as overall asset growth is concerned. This means that, although they cannot reap many benefits from value gains due to their portfolio structure, which focuses on low-risk investments, they can compensate for some of this "deficit" thanks to the considerable amount that they save from income from employment. The fact that financial assets continued to show moderate growth in Germany even during the period of low interest rates is largely due to the significant amount of money saved by German households, i.e. the inflow of "fresh" funds: in recent years, asset growth has first and foremost been the result of positive income development.

The situation in the Netherlands is precisely the opposite: there is no other country in which the changes in value and income from investments are as high as they are here. The total of these two components is even higher than the total increase in assets, producing a "surplus" for private households. This means that households have no need to "save" income from employment in order to reach their savings objectives. Rather, the surplus boosts their disposable income and can be used for consumer spending (thus explaining the minus sign).

On the whole, one thing that is striking about this calculation is that, in the majority of the countries analyzed, private households do not use their income from employment to save. While in the Netherlands, this can largely be explained by the level of income from investments, the main factor explaining this trend in the three southern European countries (Italy, Spain and Portugal), in particular, is likely to be the poor income development resulting from the euro crisis: income from investments is essential in order to safeguard one's standard of living. The very low rates of growth in financial assets are the inevitable consequence of so little being saved. The fact that private assets in these countries have increased at all during the euro crisis and despite the zero interest rate policy is largely thanks to the positive changes in value.

How high is the total return achieved?

There is also another way of describing the relationship between value increases, income from investments and savings based on income from employment: the higher the asset yield (=value increases and income from investments expressed as a percentage of total assets), the lower the "real" savings efforts can be.

As the combination of a very high level of savings and only moderate asset growth suggests, the analysis for the years from 2010 to 2014 shows that German households generated less from their financial assets than households in most other countries (see Chart 7): our calculations indicate that the average nominal return during this period came in at only 2.8% a year, with the lion's share (2.4 percentage points) coming from income from investments; the remaining 0.4 percentage points were attributable to value gains. Only Austrian savers fare worse than their German counterparts with a total return of 2.6%. This is likely due, among other things, to the fact that Austrians invest even more in bank deposits and even less in equities.

At 7.2%, households in the Netherlands achieve the highest average yield, which, unlike in Germany and Austria, consists largely of value gains. This can be explained by the fact that Dutch investment portfolios feature a percentage of insurance policies and pensions that is well above average, allowing households to benefit indirectly from the positive stock market performance. Households in Finland, which held an average of 33.4% of their portfolios in shares in 2014, have reaped direct benefits from the strong capital market performance. All in all, the average total return came in at 6.5% and, like in the Netherlands, consisted primarily of value gains. In this sense, these two countries resemble the US. Private households on the other side of the pond tend to pursue a more risk-oriented investment strategy, investing an average of just under 38% of their financial assets in equities and investment fund units in 2014. The strategy has certainly proved to be a success: our calculations suggest that US households have generated an average return of 6.8% over the past five years.

A high proportion of shares is not, however, always a guarantee of high yields, as the example of Italy shows. Although Italian households have more of a risk appetite than their German or Austrian counterparts, for example, holding no less than 22.3% of their assets in equities and investment fund units in 2014, Italian shares have been hit by particularly hefty losses in recent years, triggering a total slump of 43% in the equity assets of Italian households in 2010 and 2011 alone. At the end of 2014, equity assets were still down slightly on the value reported at the end of 2009 and the country's leading index was also around 18% lower. This weak development has, however, been offset by the solid performance of bonds – which have traditionally been a key component of Italian asset portfolios. The average total return came in at 3.3%, which still puts Italy ahead of Austria and Germany, roughly on a par with France (3.6%) and Belgium (3.7%).

All in all, this analysis shows that the returns based on income from investments are moving within a relatively narrow range, meaning that there are no major disparities between the individual countries. To a certain extent, this reflects the integrated European financial market: interest rates, for example, are at basement levels everywhere and even the dividend policies of major companies are starting to look increasingly similar. The biggest differences in returns arise mainly as a result of value gains: the level of the total return depends first and foremost on whether or not the portfolio contains assets that offer the potential for (substantial) value gains, and if so, how much.

Chart 7

Return on property income and total return (nominal)

Average 2010 to 2014

Sources: Eurostat, Thomson Reuters, Allianz SE.

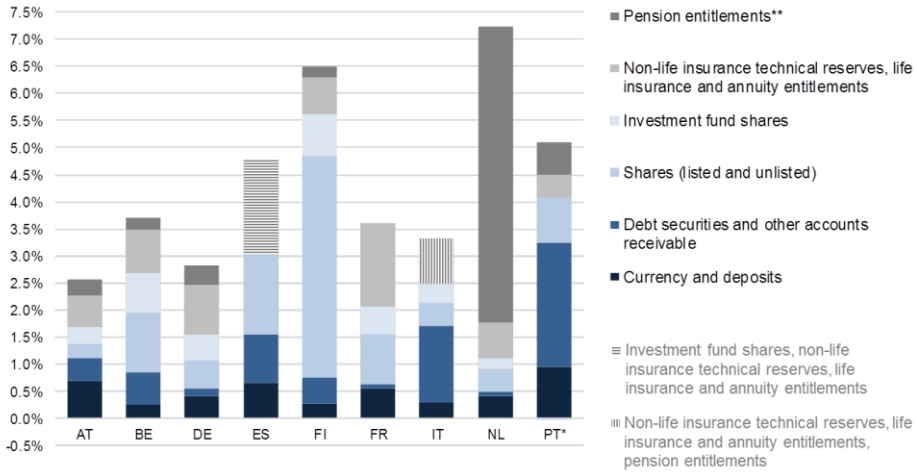
Chart 8 highlights this by demonstrating exactly what contribution the individual asset classes have made to the total nominal return.[11] This also shows, once again, that in the Netherlands, the pension system is the main factor promoting personal asset accumulation – even if households will have to wait until retirement until they can really feel the benefit in their wallets. The Netherlands are, however, the exception here, at least among the countries included in our analysis. Elsewhere, on the other hand, it is not only the case that receivables from pension companies and insurance funds make much less of a contribution to the overall return. The contribution is also roughly the same in all of the countries analyzed, coming in at around 1.5 percentage points. This also applies to the contribution made by bank deposits, which tends to come to only 0.5 percentage points or so. Even for German and Austrian households, whose investment strategies focus on bank deposits, this asset class only makes a contribution to the total return that is well below average despite accounting for a fairly sizeable portfolio of the investment portfolio as a whole. This means that the component that is ultimately decisive in terms of determining the overall return achieved is the securities asset class (equities, bonds, investment funds). Returns on this asset class vary considerably from country to country because this is the asset class in which the biggest value gains – or losses – tend to arise.

[11] An overview of the nominal returns on the individual asset classes can be found in the Appendix.

Chart 8

Contribution of individual asset classes to nominal total return

Average 2010 to 2014



Sources: Eurostat, Thomson Reuters, Allianz SE.

*2010 to 2013.
**incl. claims of pension funds on pension managers and entitlements to non-pension benefits.

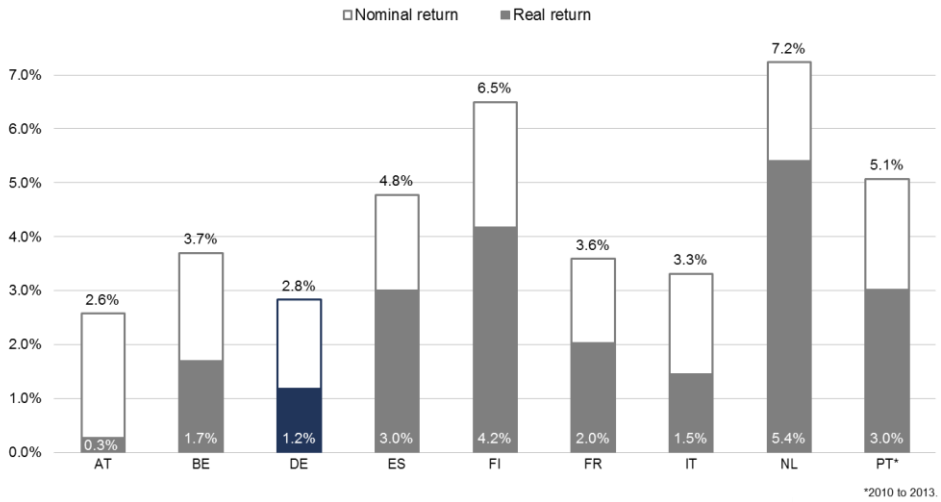
Chart 9 shows the extent to which inflation-induced losses have an impact on the nominal yield. Austria comes bottom of the league with a real return of only 0.3%, behind Germany (1.2%) and Italy (1.5%). For savers, the deflationary trend that is the hot topic on everyone's lips does not pose any threat in the low interest rate environment that has been with us for years now. Inflation, on the other hand, does: an increasing loss of purchasing power would only eat even further into nominal returns, which, in some cases, are already rather meager to begin with.

The conclusion to be drawn from this yield comparison is: even in the low interest rate environment that has dominated the last few years, savers can achieve high real returns, as households in the Netherlands and Finland have shown. The key lies in the composition of the asset portfolio, i.e. ultimately in investment behavior: a greater focus on the capital markets, be it directly or indirectly, certainly pays off. This is likely to be the reason why, for example, households in Spain and Portugal, two countries that have had to weather severe crises in recent years, have nonetheless scooped up real returns on their financial assets that are almost three times as high as those of German households.

Chart 9

Total return – nominal versus real

Average 2010 to 2014



Sources: Eurostat, Thomson Reuters, Allianz SE.

4. ASSET YIELDS OF DIFFERENT INCOME GROUPS

So far, the international yield comparison has looked at private households as a whole, or at a simple average (per capita analysis). But total assets and asset structures do not just vary *from country to country*, but also from income group to income group *within* the individual countries – this means that, if we delve deeper into the figures that make up the average national yield, we can find that completely different results apply to individual household groups.

With the help of data from the ECB's large-scale asset survey entitled, "The Eurosystem Household Finance and Consumption Survey" (HFCS)[12], the asset yields of individual income groups can also be investigated in greater detail. The same procedure as the one used above to analyze the total return achieved by private households has been used, but instead of looking at a single asset portfolio, for example for the German household sector, we have now examined a total of five different portfolios for the individual income groups.[13]

Chart 10 provides an overview of the asset structure of the different income groups for the countries included in our analysis. This confirms the expectation that, on average, households start investing less in bank deposits as their income levels rise; instead, higher-earners tend to hold more securities and also have more receivables from insurance companies and pension funds.

[12] ECB (2014): The Eurosystem Household Finance and Consumption Survey, Statistics Paper Series No. 2, European Central Bank.

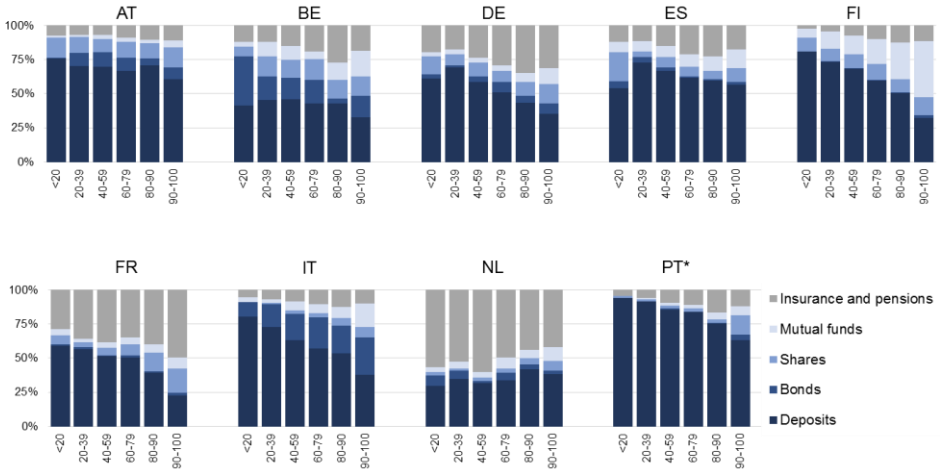
[13] There are two reasons, however, why a direct comparison with the previous calculations is impossible: first, the analysis is static, i.e. it ignores changes in the portfolios over time, and second, different data is taken as a basis, because the asset data for each income group is based on surveys - and deviates, sometimes substantially so, from the "official" wealth account data. Nevertheless, we can arrive at a satisfactory estimate of the deviations in the yields caused by differences in asset structures for the different income groups.

This does not, however, apply to all countries. One thing that is striking, for example, is that poorer sections of the Dutch population have more receivables from insurance companies and pension funds in *relative* terms due to the popularity of occupational pensions, which are more or less obligatory and cover 90 percent of employees. In Spain, on the other hand, equities are particularly popular among the lowest income group. This does not necessarily mean, however, that this income group has opted for a particularly long-term risk-oriented investment style. It may simply be the case that this group is also home to a large number of people who have inherited substantial amounts and other rentiers who have no income to speak of, but have substantial assets at their disposal. Similar phenomena can also be found in Germany and Belgium as far as the lowest income group is concerned. As is commonplace with data that comes from household surveys, it is important to remember not to take each and every result of the HFCS data too seriously, because this survey method can never ensure 100% precision.

Chart 10

Portfolio structure by income groups

Since 2010



*2010 to 2013.

Sources: The Eurosystem Household Finance and Consumption Survey, Eurostat, Allianz SE.

The next step involves using the different portfolio composition to calculate a total asset return for each individual income group (see Chart 11). Due to the differences in the pool of data, however, these results can only be compared with the figures for the household sectors as a whole, as set out above, to a limited extent. The absolute return levels are less interesting than the differences between the income groups.

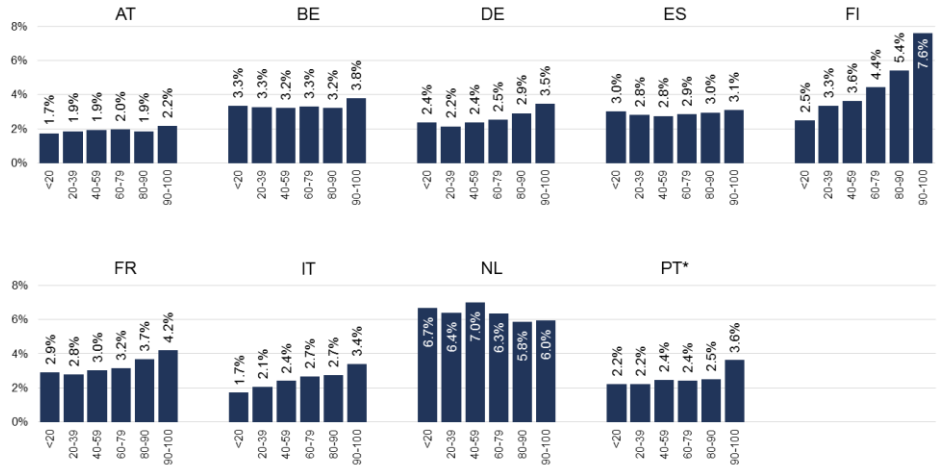
The figures bear impressive testimony to the theory that, particularly when interest rates are low, investing in longer-term, riskier assets pays off. With the exception of the Netherlands, the highest income group is also the group with the highest asset yield in all of the countries in our analysis. The yield gap is especially pronounced in Germany, France, Italy, Portugal and, in particular, Finland: in these countries, yields increase more or less in tandem with incomes. In Austria, Belgium and Spain, on the other hand, the fact that all income classes are equally predisposed to investing (or rather "parking") their savings primarily with banks serves to even yields out to some extent, particularly as far as the mid-range earners are concerned.

The Dutch march to a different tune entirely: here, the asset yield generated by the highest-earners is significantly lower than the yield achieved by the country's lower income groups. This once again reflects the strength of the Dutch pension system, which places particular emphasis on funded occupational pensions that not only cover almost every household, but also operate very successfully on the capital markets thanks to their long-term investment policy and high proportion of share investments.

Chart 11

Nominal total return by income groups

Average 2010 to 2014



**2010 to 2013.

Sources: Eurostat, The Eurosystem Household Finance and Consumption Survey, Thomson Reuters, Allianz SE.

Nevertheless, the analysis of asset yields by income group in the era of low interest rates is an extremely sobering one: in general, the current low interest rate backdrop exacerbates wealth differences as higher income groups generate higher returns thanks to the greater emphasis on risk and the long-term nature of their portfolio structure. As a result, their assets can grow much faster than the average even without additional savings efforts. But the example of the Netherlands shows that this connection is by no means immutable. A prudent pension policy can help to achieve inclusive wealth growth by at least counteracting the trend towards an automatic widening of the wealth gap.

5. EXECUTIVE SUMMARY

- German savers have always pursued a conservative investment policy, with securities playing only a subordinate role in the asset portfolio. The upshot: Changes in value have in the past contributed very little to asset growth; only in the second half of the 1990s did savers briefly flirt with shares, with value gains contributing about one-third to growth.
- The low interest rate environment that has prevailed since 2010 poses new challenges for investors. At first glance, German savers have been coping pretty well: over the entire period, financial assets have risen by an average 3.8% a year, with the increase adding up to more than EUR 10,000 on a per capita basis.
- However, a closer look reveals that this performance is first and foremost due to the high level of savings: no other country in our analysis saves as much in relation to financial assets. What is more: nowhere is the proportion of savings stemming from earned income higher than in Germany. By contrast, households in the majority of the other countries feed their financial asset formation exclusively from asset income.
- With their large "genuine" savings, German savers compensate for the key Achilles' heel of their asset portfolio: the very low increases in value; with only just under EUR 1,400 on average since 2010 (per capita), they bring up the rear in this international comparison. Even households in crisis-torn Spain and Portugal were able to record absolute gains in value approximately twice as high – although per capita assets are much lower.
- The low increases in value in the portfolio are also reflected in the meager return on assets: since 2010 German households have generated an average annual yield of 2.8%; over this period only the Austrians did worse (2.6%). Leading the field, by contrast, are the Dutch (7.2%) and the Finns (6.5%).
- The asset class of the securities (shares, bonds and investment funds) is the key to the return on assets: the scale of value gains determines the difference in returns. On the other hand, bank deposits make only a marginal contribution to performance in all countries. By contrast, claims against insurances and pension funds prove to be a yield anchor, making a similarly solid contribution to returns everywhere. The sole exception is the Netherlands, where company pensions are the main driver of yields.
- In real terms the return on assets for German households melts to an average 1.2% a year. Compared with other eurozone countries, this is disappointing: since 2010 even households in crisis-plagued countries such as Spain and Portugal have scooped up real returns on their financial assets almost three times those of German households.
- So asset yields are determined less by prevailing market conditions but are rather a function of investment behavior. Finland and the Netherlands show that real returns of over 4% and 5% respectively can be generated even in a challenging environment.
- The importance of savings behavior and the composition of assets is confirmed by the analysis of returns for households with different incomes. Households with higher incomes not only have a higher proportion of securities in their portfolio, they also generate a higher yield. In Germany the gap in returns amounts to a good percentage point.

- The current low interest rate backdrop thus exacerbates wealth differences as higher income groups generate higher returns thanks to the greater emphasis on risk and the long-term nature of their portfolio structure. As a result, their assets can grow much faster than the average even without additional savings efforts.
- But the example of the Netherlands shows that this connection is by no means immutable. With the help of a prudent pension policy, inclusive wealth growth is achievable.

At the end of the day, the lesson is sobering: German households save a lot, but with little to show for it. Low returns cannot be blamed on adverse circumstances alone, they are first and foremost the upshot of savers' own behavior. Our neighbors show us how it can be done. It is high time for Germans to rethink their savings strategy.

TABLE: OVERVIEW OF NOMINAL ASSET YIELDS BY ASSET CLASS

Average 2010 to 2014

excl. change in value	AT	BE	DE	ES	FI	FR	IT	NL	PT*
Currency and deposits	1.1%	0.9%	1.1%	1.5%	0.7%	1.7%	0.9%	1.9%	2.0%
Debt securities and other accounts receivable	2.6%	4.8%	4.7%	8.5%	4.3%	0.5%	4.9%	1.3%	6.0%
Shares (listed and unlisted)	3.0%	2.8%	3.1%	6.1%	4.4%	3.8%	4.1%	3.1%	3.3%
Investment fund shares	2.1%	2.1%	3.1%	n/a	2.6%	2.5%	1.3%	1.7%	1.7%
Non-life insurance technical reserves, life insurance and annuity entitlements	3.2%	3.7%	3.9%	n/a	5.4%	3.0%	n/a	3.1%	3.2%
Pension entitlements	2.8%	2.9%	2.0%	n/a	1.5%	n/a	n/a	2.7%	4.0%
Sum of investment fund shares, non-life insurance technical reserves, life insurance and annuity entitlements, pension entitlements				3.9%					
Sum of non-life insurance technical reserves, life insurance and annuity entitlements, pension entitlements							2.5%		
Total	*1.9%*	*2.4%*	*2.4%*	*3.4%*	*2.7%*	*2.4%*	*2.6%*	*2.5%*	*3.1%*
incl. change in value									
Currency and deposits	1.1%	0.9%	1.1%	1.5%	0.7%	1.7%	0.9%	1.9%	2.0%
Debt securities and other accounts receivable	3.4%	5.1%	2.7%	13.8%	8.7%	0.8%	5.8%	2.0%	14.6%
Shares (listed and unlisted)	5.7%	5.6%	9.3%	7.1%	13.1%	7.4%	4.6%	4.8%	8.8%
Investment fund shares	3.6%	6.3%	5.2%	n/a	9.3%	7.0%	4.1%	6.9%	-0.6%
Non-life insurance technical reserves, life insurance and annuity entitlements	3.3%	4.3%	3.9%	n/a	7.5%	3.9%	n/a	7.0%	2.9%
Pension entitlements	4.3%	3.1%	2.6%	n/a	2.0%	n/a	n/a	10.5%	8.3%
Sum of investment fund shares, non-life insurance technical reserves, life insurance and annuity entitlements, pension entitlements				6.9%					
Sum of non-life insurance technical reserves, life insurance and annuity entitlements, pension entitlements							3.9%		
Total	*2.6%*	*3.7%*	*2.8%*	*4.8%*	*6.5%*	*3.6%*	*3.3%*	*7.2%*	*5.1%*

*2010 to 2013

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These assessments are, as always, subject to the disclaimer provided below.