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Why Germans do not save correctly

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Abstract

German investors have a disastrous preference for nominal values, which has not changed significantly, even in the 10th year of a low interest-rate policy. This fits well with the common association of risk in investments with volatility. Paradoxically, German private investors expect an annual return of more than two percent – or even three percent – per year and increased inflation. This can only be explained by a lack of knowledge about fundamental relations concerning the financial markets. The German investor not only has a problem of implementation, but above all a problem of knowledge.

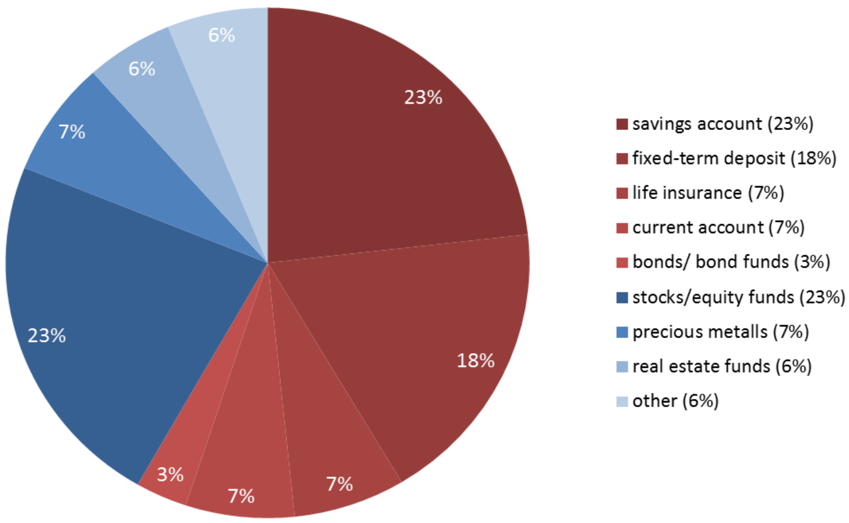
The investment behavior of Germans is the subject of many discussions. The Flossbach von Storch Research Institute wanted to dig deeper and commissioned GfK's largest survey to date on financial investments with 10,000 participants. A survey of this magnitude allows a meaningful analysis of relevant subgroups along the lines of age, gender, income and education. The results provide a detailed insight into the attitude of Germans towards the topic of investment.

All participants were asked not only about their actual investment behavior, but also about how they would invest in hypothetical cases and what their expectations are for the future. The results show that there is a tendency among the younger generation, women and people with a lower level of education to show backlog demand when it comes to investing money. The success of long-term accumulation of wealth is primarily decided in the mind and not by the size of the wallet. The survey data allow the conclusion that many people lack the necessary knowledge about basic relations on financial markets. An investment in nominal assets such as a savings account or current account cannot achieve sustainable success in an environment of low interest rates and rising inflation.

The introductory question was: "*Suppose you save 100 euros per month for the birth of your child or grandchild for at least 18 years. How would you prefer to invest your money?*"

Almost 60 percent of the participants would invest in low-interest nominal values.

Figure 1: Preferred investment of 100 euros each month for 18 years in %



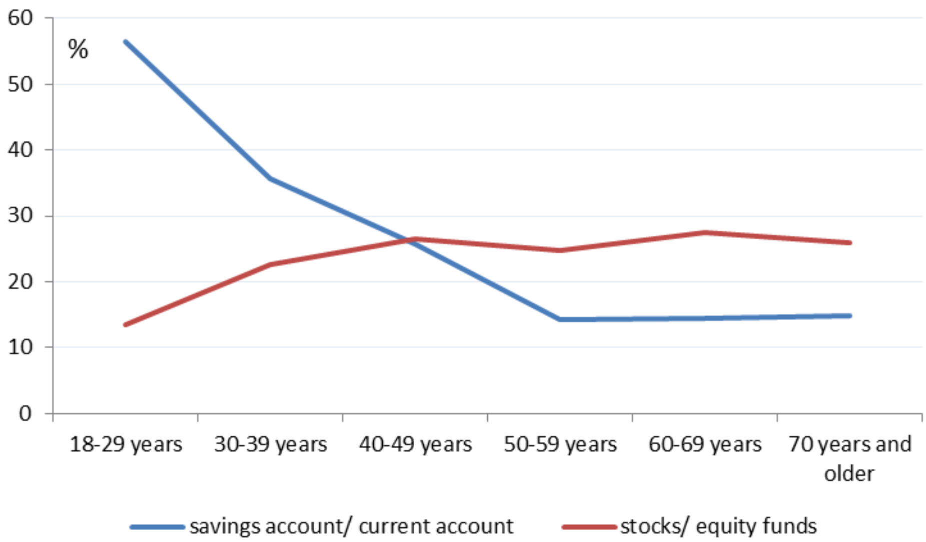
Source: Flossbach von Storch Research Institute in cooperation with GfK

Although 23 percent of Germans decided to invest their money long-term and continuously in equities and equity funds, a majority of almost 60 percent would invest in low-interest nominal values (fields marked in red) and thus reduce the chance of long-term wealth accumulation.

Younger investors tend more towards savings accounts and current accounts than shares. Over 55 percent of the participants, who are between 18 and 29 years old, would put 100 euros on a savings account or current account every month for 18 years. This would make long-term asset accumulation considerably more difficult.

Younger investors prefer savings accounts and current accounts for long-term investments.

Figure 2: Preference for equities and equity funds vs. preference for savings book and current account by age with investment of 100 euros each month for 18 years in %.



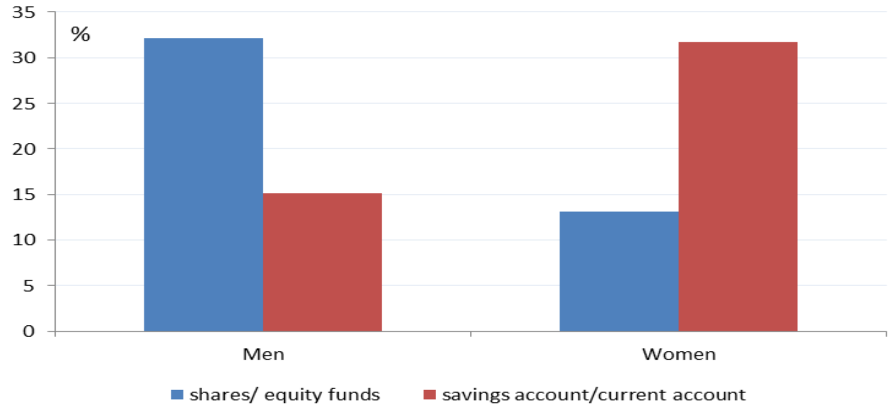
Source: Flossbach von Storch Research Institute in cooperation with GfK

There are also significant differences in preferences between women and men. While men tend to prefer shares and equity funds for long-term investments, the opposite is true for women. They tend to prefer savings accounts and checking accounts.

Income and education also play an important role in the attitude to investment. The lower the income, the more the savings account or current account is preferred. On the other hand, people who have completed their studies tend to prefer shares and equity funds rather than people with a secondary school diploma (Hauptschule or Realschulabschluss or Abitur).

Men tend to invest more in equities or equity funds than women in long-term investments.

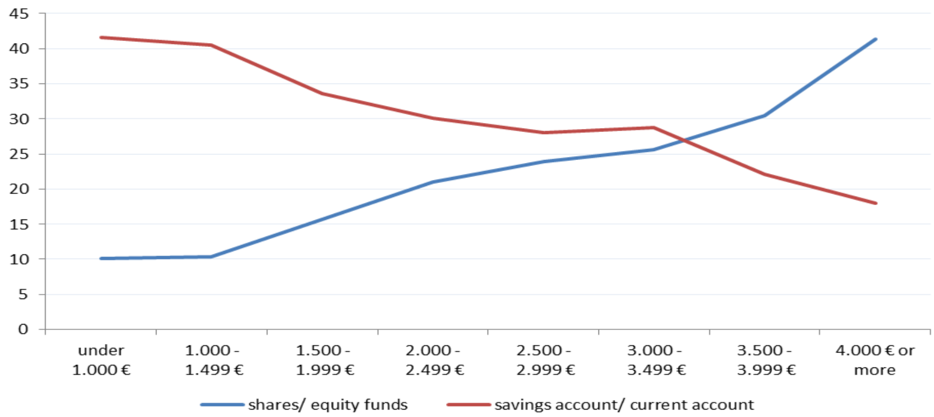
Figure 3: Preference for equities and equity funds vs. preference for savings account and current account by gender with investment of 100 euros each month for 18 years in %



Source: Flossbach von Storch Research Institute in cooperation with GfK

The higher the income, the more likely German investors are to choose equities or equity funds.

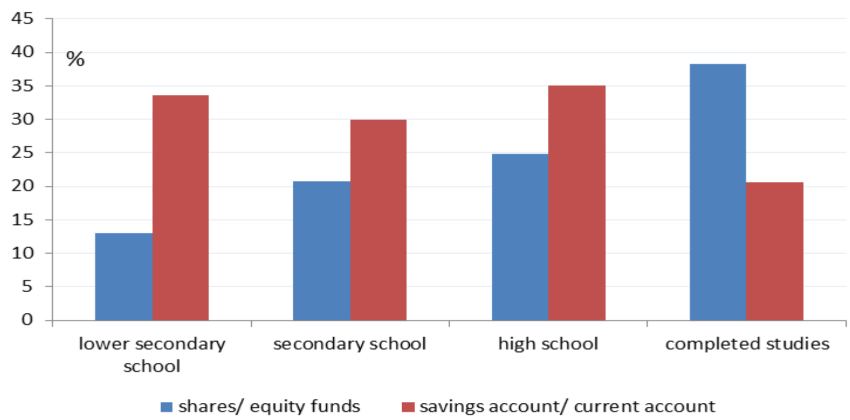
Figure 4: Preference for equities and equity funds vs. preference for savings book and current account by income when investing 100 euros each month for 18 years in %



Source: Flossbach von Storch Research Institute in cooperation with GfK

The higher the level of education, the more likely German investors are to choose equities or equity funds.

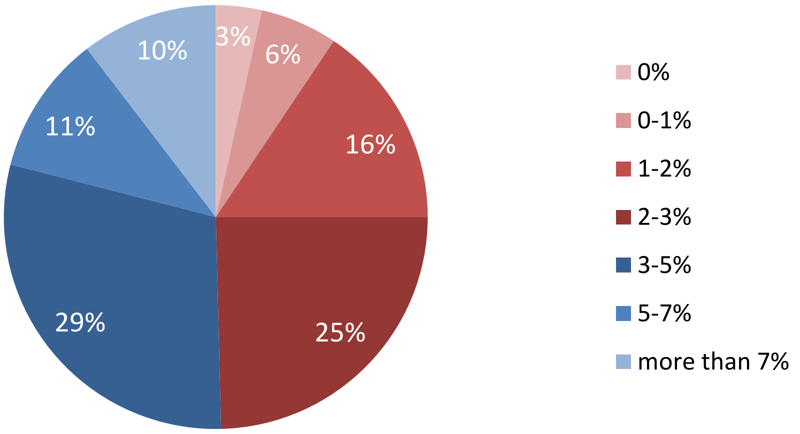
Graph 5: Preference for equities and equity funds vs. preference for savings book and current account by educational level with investment of 100 euros each month for 18 years %



Source: Flossbach von Storch Research Institute in cooperation with GfK

75 percent of savers expect a return of more than 2 %.

Figure 6: Expected return on annual savings in %



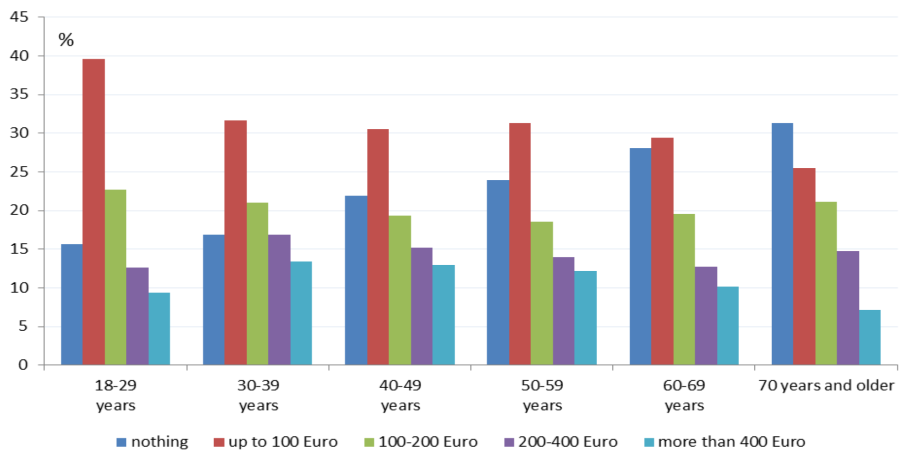
Source: Flossbach von Storch Research Institute in cooperation with GfK

The expected return does not reflect the preference for investment in nominal values. Assuming in the current situation an interest rate for nominal values such as savings books, fixed-term deposits or federal bonds of about 0.5% p.a., there is a big difference between entitlement and reality. 75 percent of respondents expect a return on their savings of over 2 percent per year. In this group, in turn, two thirds of all savers want a return of over 3 percent per year, which is more than half of all savers in total.

The actual monthly savings volume is uniformly distributed across age groups. Almost 40 percent of the participants between the ages of 18 and 29 say they save up to 100 euros a month. In the 70+ age group, more than 30 percent are not saving anything anymore.

The monthly savings volume is distributed relatively evenly across the age groups.

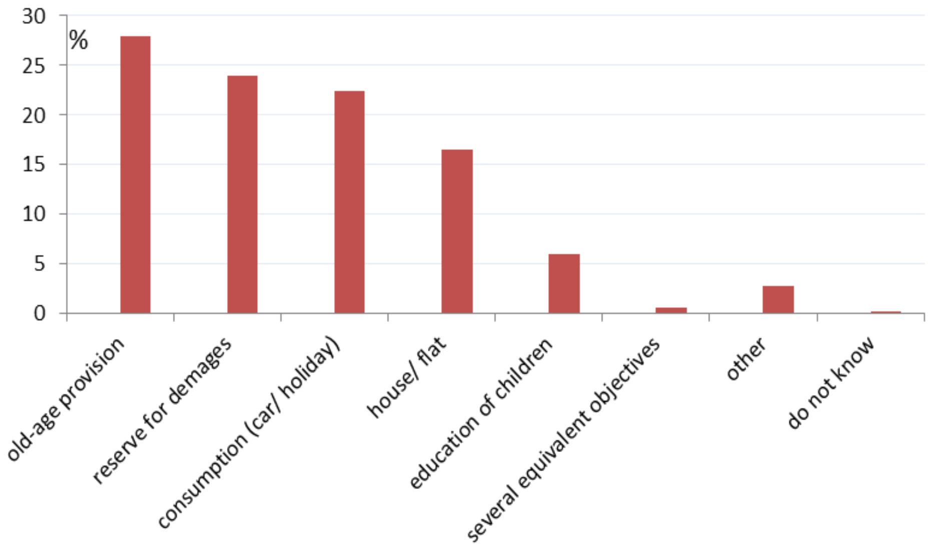
Figure 7: Monthly savings volume of Germans by age in %



Source: Flossbach von Storch Research Institute in cooperation with GfK

The most important savings purpose is retirement provision.

Chart 8: Most important savings purpose in %



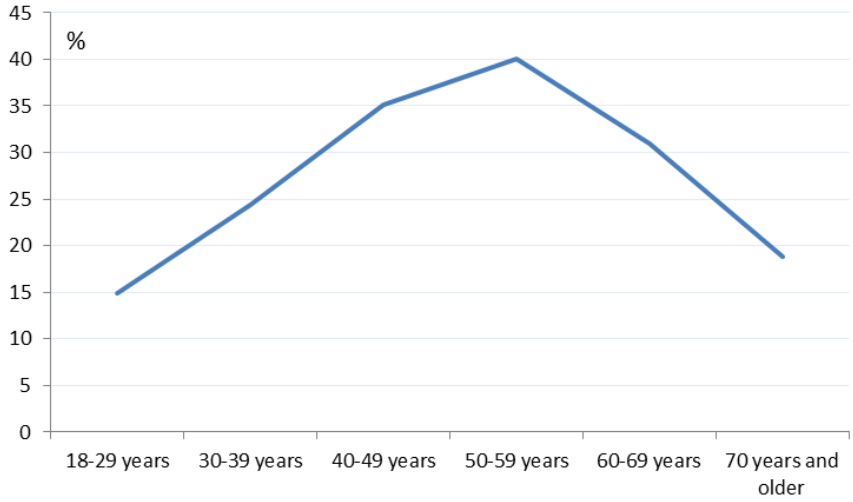
Source: Flossbach von Storch Research Institute in cooperation with GfK

For most people, the most important purpose of saving is retirement provision, followed by reserves for claims and consumption projects. Slightly beaten in fourth place is real estate saving.

However, old-age provision only gains priority at a later age and reaches its highest level of 40 percent in the 50-59 age cohort. This could at least be interpreted as an indication that the importance of old-age provision is often recognised too late.

It is only at the age of 50-59 that old-age provision reaches the relatively highest priority.

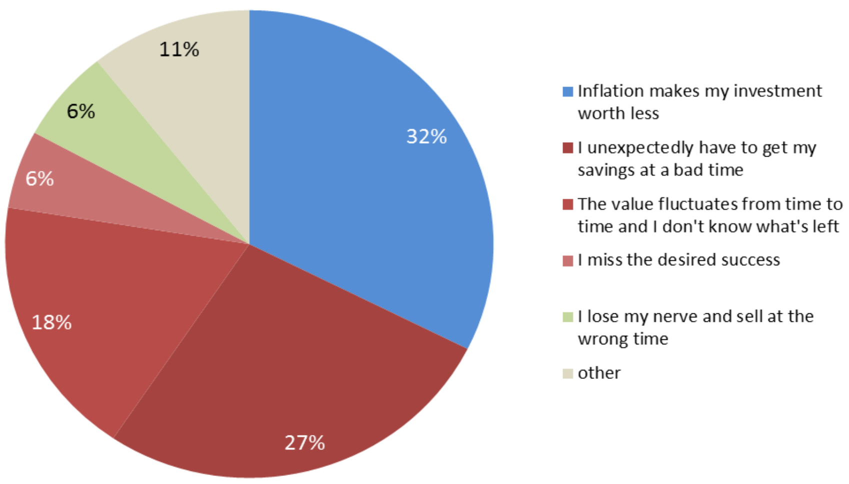
Figure 9: Most important purpose of saving is old-age provision by age in %



Source: Flossbach von Storch Research Institute in cooperation with GfK

Figure 10: Largest risk in financial investments in %

For most Germans, volatility is the greatest risk when it comes to investing money.



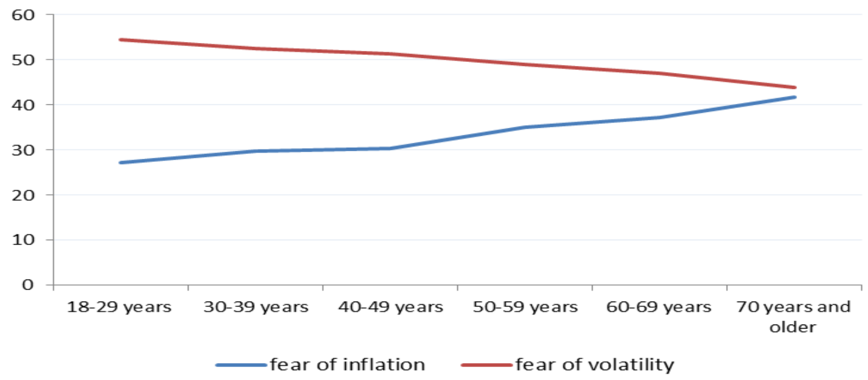
Source: Flossbach von Storch Research Institute in cooperation with GfK.

In order to record the attitudes towards investment, we also asked the participants: "*What is the biggest risk in investment for you?*
Most investors see the greatest risk in volatility. All answers that were aimed at this are marked in red in graph 10. For about one third of all investors, inflation is the greatest risk.

The answer to this question also reveals differences between younger and older participants. With increasing age, fear of inflation becomes more important and fear of volatility decreases.

The older the participant, the more likely inflation is to be the greatest risk when investing money.

Figure 11: Largest risk in financial investments by age in %



Source: Flossbach von Storch Research Institute in cooperation with GfK

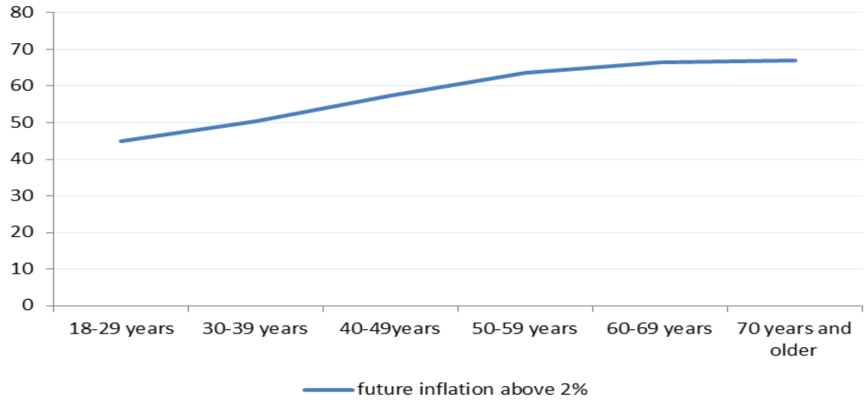
In fact, younger investors in particular could withstand volatility, while older people with a naturally shorter investment horizon would have to pay more attention to fluctuations and less to long-term inflationary trends. In fact, it appears that older people also have slightly higher inflation expectations than younger people. The next question was, *"What annual inflation rate do you think is realistic for the next 2-3 years?"*

Higher inflation has a particular impact on the investment performance of nominal values. If inflation rises and interest payments remain unchanged, a relative loss of purchasing power must be expected.

Even more than consumer price inflation, the low interest rate policy has an impact on savers' wealth. We therefore wanted to know from the participants: "Have you changed your saving behavior due to the low interest rates? The vast majority of investors has denied this. Younger investors even more often than older ones.

The older the participant, the more likely the participant is to expect higher inflation.

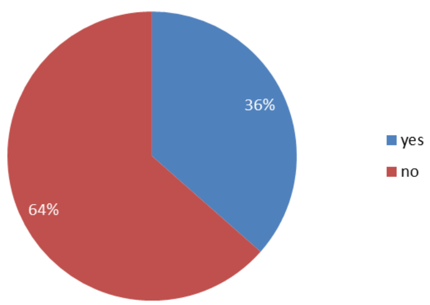
Graph 12: Percentage of participants expecting inflation to exceed 2 percent in the next 2-3 years



Source: Flossbach von Storch Research Institute in cooperation with GfK

Most Germans have not adapted their savings behavior to the low interest rate policy.

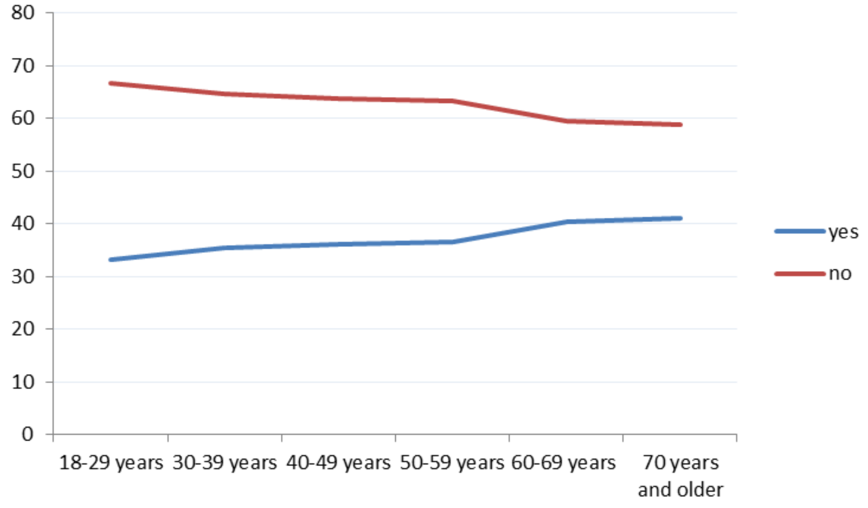
Figure 13: Percentage of participants who changed their saving behavior due to low interest rates



Source: Flossbach von Storch Research Institute in cooperation with GfK

The younger, the more likely it is that Germans will not have adapted to the low interest rates.

Chart 14: Adjustment of savings behavior to low interest rates by age in %

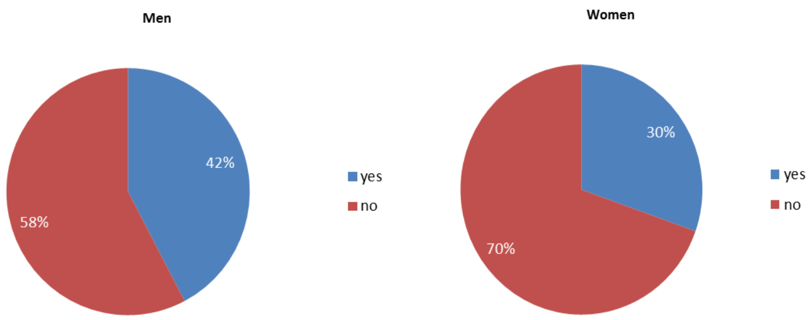


Source: Flossbach von Storch Research Institute in cooperation with GfK

Again, this question shows a difference between women and men and a dependence of the answer in terms of income and educational attainment.

Men have tended to adapt more to low interest rate policies than women.

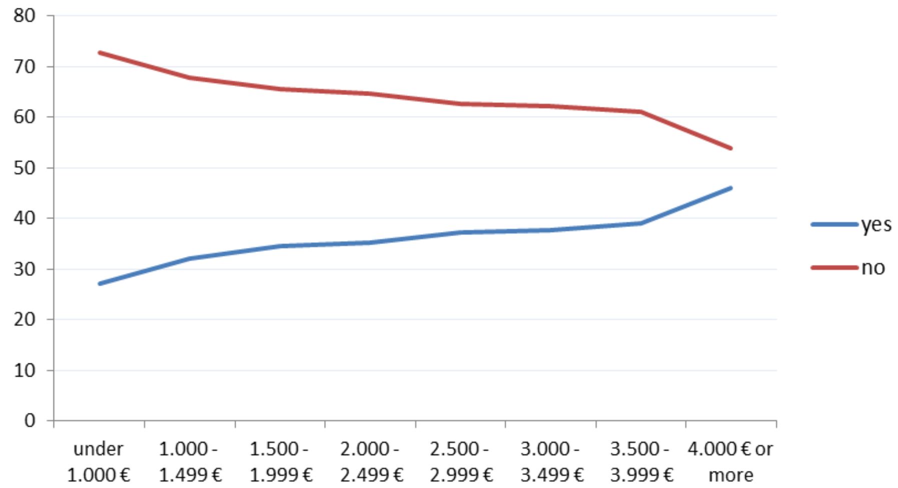
Chart 15: Adjustment of savings behavior to low interest rates by gender in %



Source: Flossbach von Storch Research Institute in cooperation with GfK

Chart 16: Adjustment of savings behavior to low interest rates by income in %

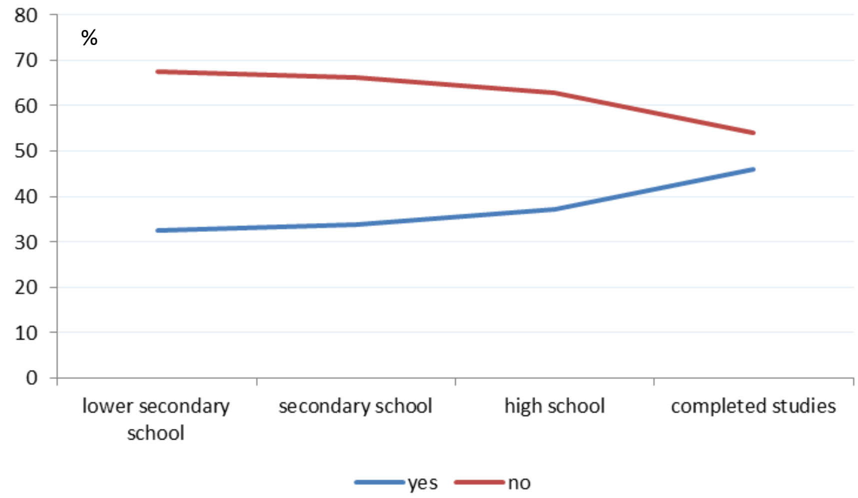
Higher income groups have adapted more to the low interest rate policy than lower income groups.



Source: Flossbach von Storch Research Institute in cooperation with GfK

Figure 17: Adjustment of savings behavior to low interest rates by educational attainment as a percentage

People with a higher level of education tend to adapt more to low interest rate policies than people with a lower level of education.



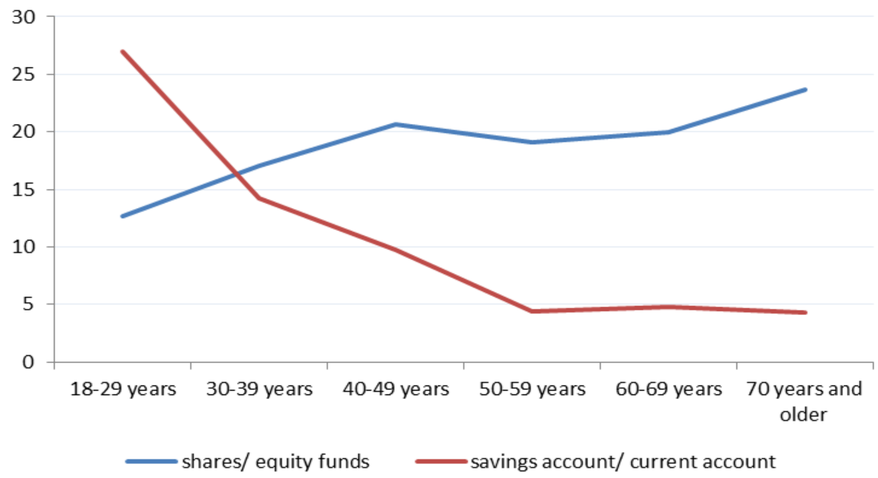
Source: Flossbach von Storch Research Institute in cooperation with GfK

Finally, as in question 1, a hypothetical question was asked again, in order to capture this time the fundamental attitude in the long-term investment of a large sum of money: *"Assuming you would inherit 100,000 euros today with the condition that you have to invest the money for 20 years and only then be able to dispose of it, where would you prefer to invest it?*

This question also shows the relatively high popularity of current accounts and savings books. Younger people tend to prefer savings books and current accounts, as do women and people with a lower level of education.

Older generations tend to invest more likely in shares or equity funds than younger generations.

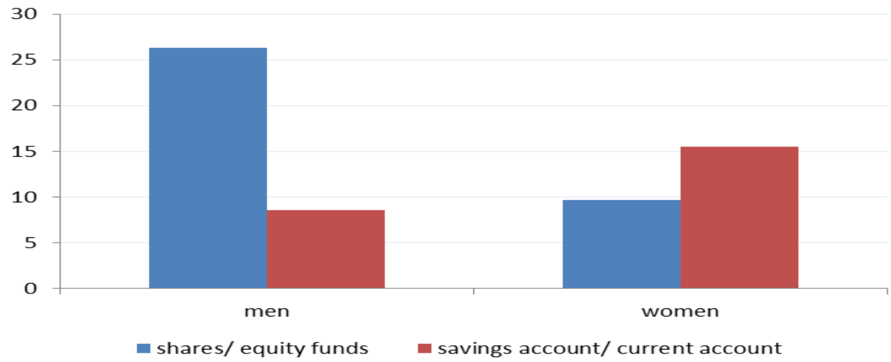
Figure 18: Preference for equities and equity funds or savings account and current account by age for investment of 100,000 euros for 20 years fixed in %



Source: Flossbach von Storch Research Institute in cooperation with GfK

With an investment of 100,000 euros for 20 years, men tend to be more likely to invest in equities or equity funds than women.

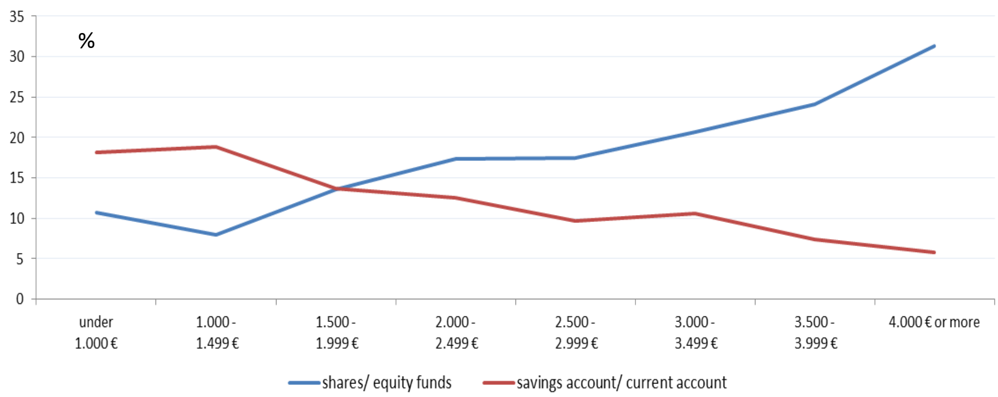
Figure 19: Preference for equities and equity funds or savings account and current account by sex for investment of 100,000 euros for 20 years fixed in %



Source: Flossbach von Storch Research Institute in cooperation with GfK

With an investment of 100,000 euros for 20 years, lower income groups tend to prefer savings books and current accounts to higher income groups.

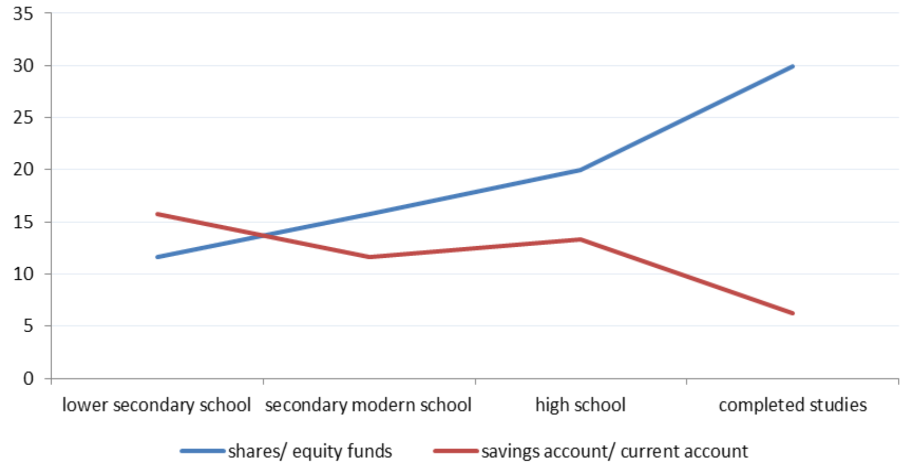
Figure 20: Preference for equities and equity funds or savings account and current account by income when investing 100,000 euros for 20 years Fixed in %



Source: Flossbach von Storch Research Institute in cooperation with GfK

Figure 21: Preference for equities and equity funds or preference for savings account and current account according to income when investing 100,000 euros for 20 years fixed in %

Investors with a higher level of education tend to prefer equities and equity funds to investors with a lower level of education.

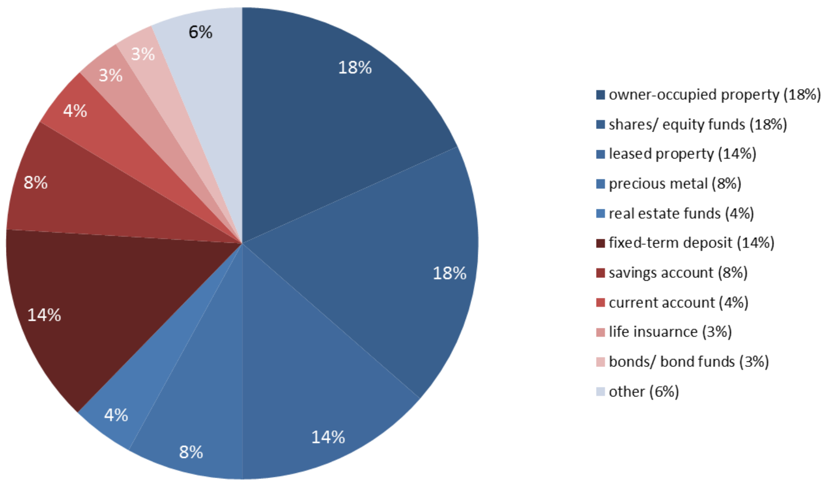


Source: Flossbach von Storch Research Institute in cooperation with GfK

Finally, however, there is a small positive message. The possibility of investing a large sum of money in real estate, either for one's own use or for renting out, shows in this question an overall overweight of the real values over the nominal values. 62 percent of the respondents are willing to invest the money in tangible assets. Almost 60 percent of this group would invest in real estate in the broadest sense, a total of 36 percent of the participants.

Figure 22: Preference for investment product when investing 100,000 Euro for 20 years fixed in %

German investors invest 100,000 euros for 20 years, mostly in tangible assets, especially real estate.



Source: Flossbach von Storch Research Institute in cooperation with GfK

Conclusion:

German investors have a disastrous preference for nominal values, which has not changed significantly in the tenth year of the low interest rate policy. The majority association of risk in investments with volatility fits in well with this. Paradoxical in this situation is the expectation of an annual return of more than 2 percent or more than 3 percent and increased inflation. This can only be explained by a lack of knowledge about fundamental interrelationships on the financial market. The German investor has not only an implementation problem but above all a knowledge problem.

The differences in the sub-groups age, gender and educational attainment are revealing and a first starting point for working towards improvements. While older generations tend to be willing to change their investment behavior due to the low interest rate policy, younger generations in particular remain loyal to nominally interest-bearing investment products such as the savings book. A similar trend can be seen in the comparison between men and women and between higher and lower levels of education.

A cautiously positive signal firmly suggests the question of the investment of 100,000 euros for 20 years. With the possibility of investing in real estate, German investors are orienting themselves more strongly towards real values. The "concrete gold" still exerts a stronger attraction than the "gold of company participation".

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