Deutsches Aktieninstitut
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Savings and Retirement accounts as part of the Capital Markets Union

Success stories of old-age provisions in international comparison

Contribution to the discussion on the Capital Markets Union, 7 November 2024

1 Capital Markets Union: How to mobilise domestic savings?

At the heart of the ongoing debate at European Level on the Capital Markets Union is the objective of mobilizing capital of retail investors, which could be used to finance the European economy. Proposals from key players to accomplish this objective include a "market based savings product" (European Commission), a "low-cost retail investment product" (Eurogroup), a "cross-border market based investment/savings product" (Belgian Presidency), a "European Savings Product" (Noyer-Report), a "EU Long-Term Savings Product" (Letta-Report) or a "voluntary 'basic' investment product label" (ESMA) or "long-term saving products (pensions)" (Draghi-Report).

The discussion references examples of tax-incentivised retail investment products that already exist in many Member States. There are two different systems regarding tax-incentivised retail investment products:

- Investment savings accounts: Tax-incentivised accounts that promote long-term investments in securities and have no or only a short minimum holding period. For example, the rules for the Italian Piani individuali di risparmio a lungo termine or the French Plan d'Epargne en Actions only require a minimum holding period of 5 years, otherwise tax advantages are not granted. However, there are also investment savings accounts without any withdrawal restrictions, for example the Investeringssparkonto in Sweden.

- Retirement savings accounts: Accounts, that are explicitly provided for tax incentivised retirement purposes. Therefore, any withdrawal before reaching the retirement age is only allowed for limited purposes (e.g. residential construction or training/education). Tax benefits must be repaid in the event of an early withdrawal, or a penalty tax will be due. Such an account was introduced in France in 2019 (Plan d'épargne Retraite) and is currently being discussed in Germany.

As a contribution to the ongoing discussion in Germany, Deutsches Aktieninstitut and Deutsche WertpapierService Bank AG have conducted a comprehensive analysis of retirement savings accounts in Australia, France, Ireland, Canada and the USA. In these countries, retirement accounts reach a broad range of demographic groups and are very popular. It is also very important to note that these accounts primarily rely on share investments. These experiences could be beneficial to the European legislator and the answer on the question how to unlock savings for capital market financing purposes.

2 Introducing retirement saving accounts: Key recommendations

Based on our analysis, we came up with five key recommendations for action.

2.1 Enable investment in shares by waiving capital guarantees

The analysis showed that people saving with retirement savings accounts focus primarily on shares: The average share investments amount to 65 percent in the US, 55 percent in France and 49 percent in Australia. The high equity ratio results from the fact that there are no statutory capital guarantees or minimum interest rates. Capital guarantees require a high proportion of fixed income products, as these instruments do not reveal much price volatility. Despite short-term fluctuations of stock prices, high share ratios lead to higher returns in the long term.

Legislation should therefore dispense with a capital guarantee or a minimum interest rate to promote higher investments in shares.

2.2 Enable a broad range of products from different providers without additional bureaucracy

In the countries considered, there is a variety of retirement savings accounts from many competing market participants. The providers are almost exclusively highly regulated financial institutions such as banks or insurance companies. An additional bureaucratic hurdle, such as the regulatory certification of retirement accounts or providers, does not exist in most of the countries analysed.

We recommend that the European legislator should follow these examples and dispense with additional requirements.

2.3 Allow standard products and individual composition

Retirement savings accounts must be simple and easy to understand so that as many people as possible can use them. In the countries analysed, there is a wide range of standard products for retirement savings accounts provided by the private sector. In some cases, private providers are obliged by simple and easy-to-implement legal requirements to offer such a standard product.

In Australia, for example, the standard products ("MySuper") must...

- ...either follow a simple investment strategy: In practice, a share component of up to 85 percent has emerged, supplemented by fixed-interest instruments and liquidity.
- ...or pursue a life cycle concept: This means an investment strategy in which the proportion of shares is adjusted to age and thus to the respective age-typical interests.

In other countries, for example the US or Canada, a market standard has developed independently of the legislator.

Savers who do not want to choose a standard product but want to select the financial products themselves should have this option.

2.4 Provide attractive tax incentives

Attractive tax incentives are necessary for the widespread use of retirement savings accounts. As a rule, the money saved in the retirement savings account can be deducted from taxes up to a maximum limit. This is an important factor for success.

- In France, contributions to retirement savings accounts are deductible up to a maximum limit of 10 percent of taxable income. Irrespective of the amount of the contributions, at least EUR 4,399 and a maximum of EUR 37,094 per year can be deducted.
- In Ireland, contributions for the retirement savings account, which are deductible, increase with age. For example, they amount to 15 percent over 30 years and 40 percent of taxable income over 60 years. The maximum amount of taxable income taken into account when calculating the percentage is EUR 115,000 per year.
- In Canada, contributions to retirement savings accounts are taxable up to 18 percent of income with a cap of CAD 30,780 per year. Unused deductions are carried forward to future years and can be used later.
- In the USA, deductible contributions of up to USD 6,500 are possible per year (and USD 7,500 from the age of 50 onwards).

In order to grant attractive tax incentives, an amount of at least EUR 6,000 in deductible contributions is required. This would correspond to the US example.

2.5 Ensure flexibility in the payout phase

In the countries considered, the withdrawal plan is particularly popular because only the assets required for the respective period (e.g. one year, one month, etc.) are sold. With payout phases of around 20 years or more, at least part of the retirement assets remains invested in shares and thus continue to generate attractive returns.

There is no obligation to guarantee a certain pension income until the end of life (annuitization) in the countries we looked at. On the contrary, it has been shown that pensioners withdraw money so carefully that their savings are not used up during their retirement. As a result, four out of five of the countries surveyed have introduced minimum annual withdrawal requirements.

The flexibility to choose a payout plan without mandatory annuitization should also be part of European legislation.

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