

EXECUTIVE SUMMARY

Fidelity International has carried out a comprehensive survey of the provision status of Germans gainfully employed. 2,010 individuals aged between 20 and 65 years were asked on the basis of their household to give information about all the pension provision measures taken so far and the pension entitlements they had accrued to date – statutory, company and private. On the basis of this data, an econometric capital market model was used to project gross household income before and after the start of retirement. This data yielded a concrete assessment taking into account all three mainstays of pension provision to give an indicator of the financial circumstances of Germans in their retirement. This index allows the provision situation of the German population to be assessed for the first time and presented in a key indicator – the Fidelity Pension and Retirement Security Index (Fidelity REAL Index), and two supplementary indexes:

- Fidelity REAL Index – provision level achieved
- Estimated provision level
- Requirement coverage achieved

The results of the indexes:

- Germans currently in employment will on average achieve 56 percent of their final gross household income before retirement after they have retired (Fidelity Real Index – level of provision achieved). This indicates that the total pension gap is 44 percent taking into account all provision measures.
- Germans currently in employment estimate on average that following retirement they will achieve 70 percent of the final gross household income they receive before they retired. (estimated level of provision). The Germans are therefore calculating more optimistically than the situation they will actually be confronted with.
- Germans currently in employment will on average achieve 63 percent of the pension income they believe that they require (achieved level of requirement coverage). Although they have reduced their aspirations – they believe that they only require 89 percent of their final gross household income during retirement – they will fall significantly short of even this modest goal and will still have a subjective pension gap of 37 percent.

Overview of the key findings of the study:

- Germans currently in employment will on average only achieve just over half of their final gross household income in the form of retirement income.
- Most Germans currently in employment estimate that their pension income will be significantly higher than will actually be the case
- Most Germans currently in employment who also make additional provision for their retirement (private and/or company) will have to accept significant restrictions.

- There is a lower level of provision throughout all levels of the population, irrespective of amount of income, level of education, marital status or the age at which individuals started working.
- Financial advice in itself is no guarantee for maintaining an individual's standard of living during retirement.
- Civil servants have much better provision than other professional groups and are able to virtually maintain their standard of living at the same level as before retirement. Although they only represented 6 percent of the interviewees, the Fidelity Real Index would fall to 54 percent without civil servants and the provision gap would even increase to 46 percent.
- The products most used for private pension provision are the classic endowment insurance policy, the savings account and the home loan savings policy.
- On an international comparison, company pension provision plays a subordinate role in Germany. Not even every fifth interviewee regards the company pension as the most important source of income for retirement.
- Individuals with a high level of provision tend to invest increasingly in products for pension provision with high returns compared with individuals with a lower level of provision.

Implications

1. Knowledge transfer and changing mindsets:

People in Germany need to have their current pension gap explained. At the same time, they need to have their knowledge about pension provision products extended in order to be in a position to take concrete action. In this context, it is important to communicate the information that it is also necessary to invest in products that are more strongly geared to yield in order to make proper provision for retirement.

2. Creating the environment:

External initiatives are necessary to change mindsets. This is an area where politics can provide incentives, for example by tax breaks, additional specific measures and stable framework conditions. Companies can also take key initiatives on company pension provision through strategic incentive systems such as increasing the amounts paid in by employees.

3. Improving products, developing new products:

The state has to make private provision products attractive for all groups of the population and move company pension provision forward with even greater commitment. Product providers have to develop convincing and easily comprehensible products and offer solutions tailored to individual needs.