

Equity-Based Pensions: A Fresh Start



At the end of March, the German Bundestag passed legislation intended to encourage citizens to take their first steps toward a capital-funded private pillar of retirement provision. The motivation behind this law is commendable. With the new law, the government is signaling to its citizens that Germany's previous exceptional path has failed and requires reform.

Of course, it will not be possible to make up for decades of lost returns now. In essence, it has been known for decades that a pay-as-you-go system, in which current workers pay for current retirees, was bound to fail due to unfavorable demographic trends. The demographic shift can be traced back to the birth statistics of the 1960s. Instead of following the example of the vast majority of countries, however, the problem was ignored and papered over with tax-funded pension payments. The commendable attempt by the Schröder/Fischer government, as part of Agenda 2010, to establish a third, funded pillar of retirement provision under the name "Riester pension" failed due to structural shortcomings.

But now the public finances are strained, and the government must take on enormous debt, in

part to finance pensions. To some extent, the federal government seems to have realized that supplementing the pay-as-you-go system with a funded pension component would have been wise. Essentially, the term "funded" means "invested in stocks". Historical data clearly shows that stock investments are the most effective way for most people to build long-term wealth. Unfortunately, the low level of financial literacy among German politicians and citizens has meant that Germans have not become a nation of stock investors. This also explains why Germans are less wealthy than most of their neighbors when it comes to financial assets.

Regrettably, the federal government lacked the insight and courage to completely overhaul the issues of retirement planning and the capital markets as part of a

major tax reform. After all, there is actually no need for government-sanctioned products to make stock investing attractive to everyone. First, it is important to remember that the minimum investment for stock funds is often as low as 25 euros. The biggest enemies of good returns on stock investments are "taxes" and "inflation". If the government allows wealth accumulation from gross income and keeps taxation low, then stock investments can fully realize their return advantages. But as is well known, distributed dividends are effectively taxed at nearly 50 %, and capital gains are subject to capital gains tax, the solidarity surcharge, and, where applicable, church tax. Therefore, it would have been better if the government had significantly improved investment conditions. Moreover, if the government were to allow the offsetting of any stock losses

against other types of income, it would dispel the deeply ingrained but mistaken belief among the population that stock investments are particularly risky. Incidentally, it is worth noting that capital gains from gold and cryptocurrencies are tax-free after a one-year holding period.

Ironically, given the superior returns on long-term equity investments, the national budget would be the biggest beneficiary of such a reform. A look at Switzerland

makes it abundantly clear that low taxes, sound government budgets, and high levels of prosperity among the population go hand in hand. Whether in policy toward Russia, energy policy, or pension policy: learning from our neighbors means being successful. Germany's tendency to go its own way – and the arrogance that comes with it – must be avoided at all costs in the future in order to prioritize the prosperity of the country's citizens going forward.

Your fund manager and co-investor



Dr. Christoph Bruns

This text was originally published in German.

Contact us



Ufuk Boydak
Executive Board

boydak@loys.de

Tel. +49 (0)69 2475444-0



Sebastian Erdmann
Sales Manager

erdmann@loys.de

Tel. +49 (0) 69 2475444-24



Franziska Grosch
Sales Manager

grosch@loys.de

Tel. +49 (0) 69 2475444-16



Peter Maser
Sales Manager

maser@loys.de

Tel. +49 (0) 69 2475444-02



Alexander Piira
Sales Manager

(LOYS Suisse AG)

piira@loys.de

Tel. +41-41 766 77 35



Tom Roth
Sales Manager

roth@loys.de

Tel. 069 2475444-11

Impressum - Company Details

Publisher:

LOYS AG

Barckhausstraße 10

60325 Frankfurt am Main

Contact us:

Telephone: +49 (0) 69-2475444-0

info@loys.de

Responsible person:

Ufuk Boydak

CEO LOYS AG

www.loys.de