

GERMANY

Key characteristics of the pension funds market



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1 Introduction

1.1 General

The German pension market is structured around two main occupational pension schemes: Pensionskassen and Pensionsfonds, each offering two different occupational pension plans. Both Pensionskassen and Pensionsfonds fall under the scope of the IORP Directive (Directive 2008/41/EC).

All occupational pension schemes are defined benefit (DB) plans (both Pensionskassen and Pensionsfonds offer one contribution based DB plan). As for members' exposure to investment risks, Pensionskassen and Pensionsfonds have one plan which is not exposed to investment risk and another one with a capital guarantee.¹

As of end 2017 (2017 Q4), 167 Institutions for Occupational Retirement Provision (IORPs) submitted their reporting package to the German National Supervisory Authority (NSA). These institutions account for approximately 11,2% of the IORPs within the European Union (EU). More granular data on the German submissions are shown in the table below, which illustrates the German submissions by pension funds' activities and the importance of the country relative to other EU member states, based on total assets.

Table 1 – Occupational pension funds by type

| In Mio EUR | Amount | % |
|--|----------------|----------------|
| Defined Benefit schemes (DB) | 234 708 | 100,00% |
| Defined Contributions schemes (DC) | 0 | 0,00% |
| Hybrid schemes (HY) | 0 | 0,00% |
| Total | 234 708 | 100,00% |
| Total assets DE / Total assets EU % | | 6,36% |
| Ranking DE based on Total assets EU | | 3 |

Source: EIOPA EEA pension statistics and Deloitte-CEPS analysis

1.2 Balance sheet

At the end of 2017 (2017 Q4), Germany is ranked third in the EU pension funds market in terms of German pension funds' total assets, which are reported at close to 235 billion EUR.

Germany is also ranked third in terms of total investments, which are reported as 223 billion EUR. As for other pension fund markets in the EU region, these account for the majority (93,2%) of pension funds' total assets. The remaining assets are accounted for by reinsured technical provisions and other assets which make up 2,4% and 2,3% of total assets, respectively.

76,5% of the total liabilities related to technical provisions for pensions, while 3,2% represents other liabilities. This implies 47 500 million EUR excess of assets over liabilities for and places the German pension funds as second largest among EU Member States, after the Netherlands.

¹ Source: Deloitte-CEPS analysis of EIOPA Database of pension plans & products in EEA

**Table 2 – Balance sheet and EU comparison of occupational pension funds**

| in Mio EUR | DE | | | EU | | | | |
|--|----------------|----------|----------------|----------------|----------------|----------------|----------------|---------------|
| | Amount | Rank | % | % | Avg | Min | Max | StD |
| Total investments | 223 814 | 3 | 95,36% | 92,32% | 89,43% | 0,00% | 100,00% | 21,25% |
| Reinsured technical provisions | 5 539 | 5 | 2,36% | 1,60% | 3,11% | 0,00% | 26,78% | 7,68% |
| Other assets | 5 355 | 4 | 2,28% | 6,08% | 4,21% | 0,46% | 18,90% | 5,00% |
| Total assets | 234 708 | 3 | 100,00% | 100,00% | 100,00% | 100,00% | 100,00% | 0,00% |
| Technical provision for pensions | 179 584 | 3 | 76,51% | 99,26% | 80,16% | 0,42% | 150,71% | 38,15% |
| Other liabilities | 7 571 | 1 | 3,23% | 0,66% | 7,67% | 0,34% | 70,91% | 18,13% |
| Total liabilities | 187 155 | 3 | 79,74% | 99,93% | 67,74% | 0,00% | 151,82% | 48,56% |
| Excess of assets over liabilities | 47 553 | 2 | 20,26% | 0,07% | 32,26% | -51,82% | 100,00% | 48,56% |
| Total liabilities + Excess of assets over liabilities | 234 708 | 3 | 100,00% | 100,00% | 100,00% | 100,00% | 100,00% | 0,00% |

Source: EIOPA EEA pension statistics and Deloitte-CEPS analysis

2 Investments

2.1 Asset exposure

From an asset exposure perspective, the pension funds market in Germany is mostly invested in UCITS, which make up 49,7% of total investments. Within this category, debt securities and other UCITS make up the majority of investments, 20,3% and 19,9% respectively. The remaining investment in UCITS is either through equity securities or real estate (5,9% and 3,4% respectively). Total investments in UCITS reached 111 billion EUR at the end of 2017, at which point German pension funds became the largest investors in UCITS among pension funds within EU Member States.

Investment by German pension funds in debt and other fixed income securities is also substantial, and is reported as 32,0% of total investments as of end 2017, making pension funds in the German market the third largest investor in these securities among pension fund markets in EU Member States.

On the contrary, German pension funds have, as of end 2017, relatively lower investments allocated to equity and other variable-yield securities (excl. UCITS). For this year, investments in the previously mentioned securities are reported at 800 million, ranking German pension funds 12th among EU Member States.

Loans, real estate investments and other investments formed the remainder of the German pension funds' investments portfolio. The share of these investment categories was relatively modest with the exception of loans which are reported as 9,8% of total investments. Finally, investments in real estate are reported as 3,0% and other investments as 5,0%.

Table 3– Total investments of occupational pension funds

| in Mio EUR | DE | | | EU | | | | |
|--|----------------|----------|----------------|----------------|----------------|----------------|----------------|--------------|
| | Amount | Rank | % | % | Avg | Min | Max | StD |
| Debt and other fixed income securities | 71 705 | 3 | 32,04% | 53,75% | 49,23% | 12,51% | 74,75% | 17,30% |
| Sovereign | 9 804 | 5 | 4,38% | 34,52% | 35,19% | 4,38% | 66,07% | 18,72% |
| Financial | 29 014 | 2 | 12,96% | 10,37% | 10,66% | 1,45% | 26,19% | 7,89% |
| Other | 32 887 | 2 | 14,69% | 8,86% | 13,27% | 0,11% | 68,50% | 15,52% |
| Equity and other variable-yield securities (excl. UCITS) | 885 | 12 | 0,40% | 31,75% | 21,78% | 0,40% | 68,00% | 18,34% |
| Equity - listed | 581 | 11 | 0,26% | 27,94% | 18,43% | 0,26% | 47,44% | 14,27% |
| Equity - other | 304 | 5 | 0,14% | 3,78% | 8,42% | 0,14% | 68,00% | 21,01% |
| UCITS | 111 179 | 1 | 49,67% | 4,65% | 30,43% | 1,58% | 77,59% | 22,99% |
| Debt securities | 45 538 | 1 | 20,35% | 1,88% | 13,21% | 0,43% | 37,05% | 12,36% |
| Equity securities | 13 417 | 1 | 5,99% | 0,98% | 15,63% | 3,14% | 33,48% | 12,24% |
| Real estate | 7 617 | 1 | 3,40% | 0,30% | 2,16% | 0,43% | 3,92% | 1,45% |
| Other | 44 607 | 1 | 19,93% | 1,48% | 13,33% | 2,55% | 40,07% | 13,07% |
| Derivative instruments | n/a | n/a | n/a | 0,00% | 0,13% | -0,04% | 0,64% | 0,22% |
| Loans | 21 980 | 1 | 9,82% | 1,21% | 1,78% | 0,00% | 9,82% | 3,16% |
| Real estate investments | 6 754 | 3 | 3,02% | 5,96% | 3,81% | 0,05% | 11,37% | 3,56% |
| Other investments | 11 311 | 2 | 5,05% | 2,68% | 9,23% | 0,72% | 23,20% | 6,41% |
| Total investments | 223 814 | 3 | 100,00% | 100,00% | 100,00% | 100,00% | 100,00% | 0,00% |

Source: EIOPA EEA pension statistics and Deloitte-CEPS analysis

2.2 Equity exposure

The equity exposures of pension funds can be calculated and presented in different ways. The list below includes the following equity exposure views:

- Equity exposure as the sum of direct investments in equity: listed and other equity (e.g. unlisted equity).
- Equity exposure as the sum of both direct and indirect investments in equity. The indirect investments in equity include the holdings of equity by UCITS funds held by the pension funds.



Overall, the listed and unlisted equity amounts reported are considered and integrated as an equity exposure indicator.

Table 4 – Equity exposures of pension funds

| in Mio EUR | DE | | | EU | | | | |
|--|---------------|----------|--------------|---------------|--------------|---------------|---------------|--------------|
| | Amount | Rank | % | % | Avg | Min | Max | StD |
| Equity and other variable-yield securities (excl, UCITS) | 885 | 12 | 0,40% | 31,75% | 21,78% | 0,40% | 68,00% | 18,34% |
| Equity - listed | 581 | 11 | 0,26% | 28,60% | 28,60% | 28,60% | 28,60% | 28,60% |
| Equity - other | 304 | 5 | 0,14% | 3,60% | 3,60% | 3,60% | 3,60% | 3,60% |
| UCITS | | | | | | | | |
| Equity securities | 13 417 | 1 | 5,99% | 0,98% | 15,63% | 3,14% | 33,48% | 12,24% |
| Total equity exposure | 14 302 | 5 | 6,39% | 27,47% | 1,80% | 68,00% | 16,17% | 0,00% |

Source: EIOPA EEA pension statistics and Deloitte-CEPS analysis

In Germany, we note that equity exposures coming from UCITS amount to 6,0% and are higher than the listed and unlisted equity exposures which in total amount to 0,4% of total investments. In 2017, the pension funds in Germany invested 14 times more in indirect equity (93,8% of total equity) than in direct equity (6,2% of total equity). Within the direct equity category, listed equity has a slightly larger share than the unlisted equity.

3 Occupational pension schemes

3.1 Cash flow

For cash flows, Germany ranks relatively high in terms of net flows and reinsurance (for both contributions ceded and benefits received). As of end 2017, net cash flows are reported at approximately 2 800 million EUR, ranking German pension markets fourth among EU Member States.

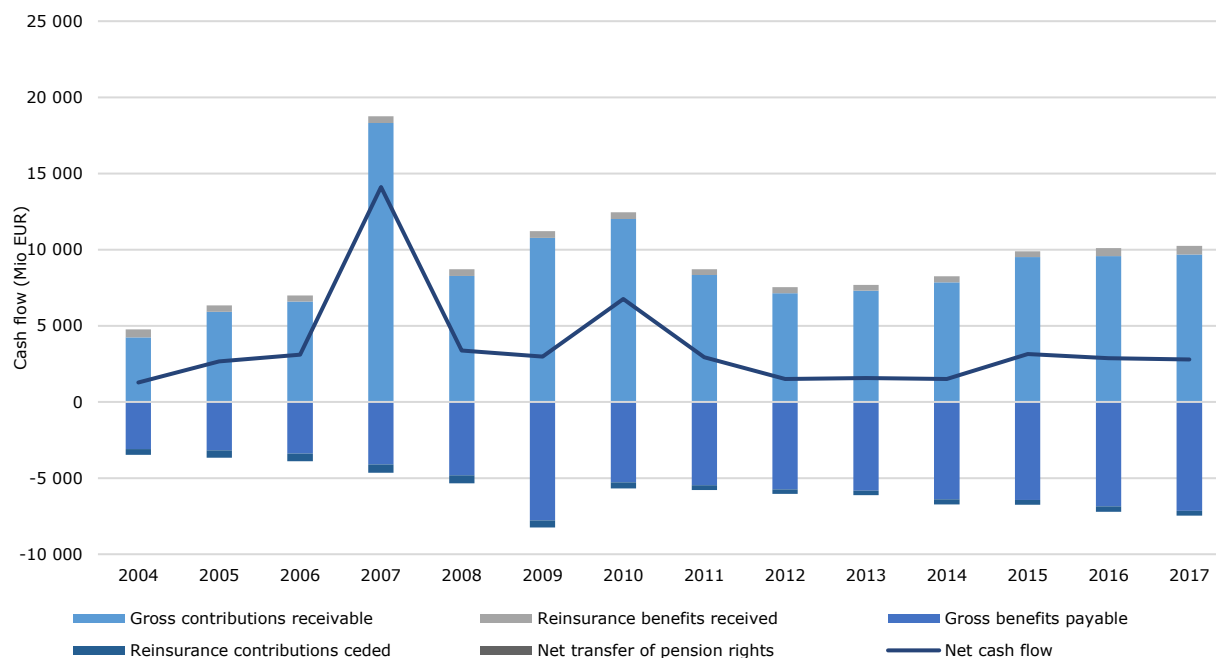
Table 5 – Cash flows of occupational pension funds

| in Mio EUR / % of total investments | DE | | | EU | | | | |
|---|--------------|----------|--------------|--------------|---------------|---------------|---------------|--------------|
| | Amount | Rank | % | % | Avg | Min | Max | StD |
| Total gross contributions receivable | 9 674 | 4 | 4,32% | 8,01% | 0,19% | 17,86% | 5,00% | 0,00% |
| Reinsurance contributions ceded | 315 | 3 | 0,14% | 0,88% | -0,01% | 4,69% | 1,52% | 0,00% |
| Total net contributions receivable | 9 359 | 3 | 4,18% | 7,59% | 0,19% | 17,86% | 5,03% | 0,00% |
| Total gross benefits payable | 7143 | 3 | 3,19% | 4,19% | -3,98% | 10,99% | 3,36% | 0,00% |
| Reinsurance benefits received | 566 | 2 | 0,25% | 0,63% | 0,00% | 3,02% | 1,09% | 0,00% |
| Total net benefits payable | 6577 | 3 | 2,94% | 3,83% | -4,02% | 10,99% | 3,05% | 0,00% |
| Transfer of pension rights (entrants) | n/a | n/a | n/a | 5,81% | 0,00% | 56,47% | 15,00% | 0,00% |
| Transfer of pension rights (leavers) | n/a | n/a | n/a | 1,37% | -0,09% | 5,51% | 1,70% | 0,00% |
| Net cash flow | 2 782 | 4 | 1,24% | 6,34% | -6,20% | 57,54% | 12,69% | 0,00% |

Source: EIOPA EEA pension statistics and Deloitte-CEPS analysis

The figure below presents an overview of the evolution of cash flows for occupational pension funds in Germany between 2004 and 2017 by flow.

Graph 1– Evolution occupational pension funds cash flows



Source: EIOPA EEA pension statistics and Deloitte-CEPS analysis



4 Prudential regime, accounting & tax framework

4.1 Accounting framework

Typically, German pension funds produce their financial accounts in accordance to the German Commercial Code (Handelsgesetzbuch). Yet, in accordance with the EU Accounting Regulation, all domestic publicly traded companies are required to produce their financial accounts following the IFRS standards. IFRS Standards are permitted for unlisted companies but their use is not mandatory. Hence, the majority of German pension funds use local GAAP for their financial reporting.²

4.2 Prudential regime

In Germany, the applicable prudential regime is different across the two main occupation pension schemes. Pensionskassen have been consistently subject to a stricter prudential measures.

Since 2002, Pensionsfonds are not subject to general equity investment ceiling. On the contrary, the total exposure limit of Pensionskassen is set to 35,0% for listed equity and 15,0% for unlisted equity. These regimes are still in place as of 2018. Furthermore, for retail investment funds, the “look through principle” applies for investment in equity for Pensionskassen. Pensionskassen is also subject to investment limits on equity investment from a single issuer of up to 1,0%. For Pensionsfonds, the corresponding limit is set at 5,0%. Prior to 2002, both Pensionskassen and Pensionsfonds could not exceed the limits of 30,0% and 10% for investment respectively in listed and unlisted equity.³

4.3 Tax framework

Pension Funds in Germany are subjected to a special tax regime: the so-called “Exempt-Exempt-Taxed” (EET) where beneficiary’s contributions and funds’ returns on the investments (including equity and dividends) are exempted, while withdrawals are subject to taxation.⁴

² Source: Deloitte-CEPS analysis of annual reports of Belgian pension funds and IFRS country profiles.

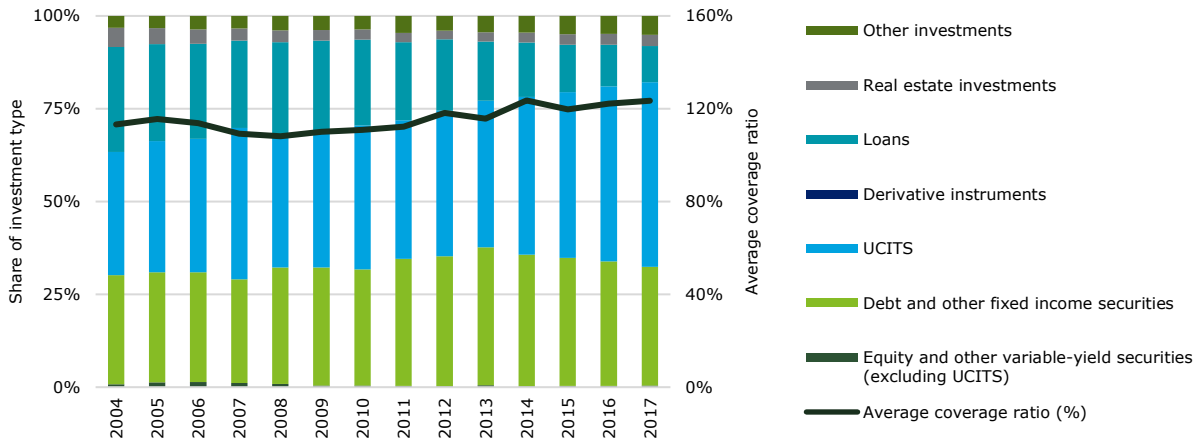
³ Source: Deloitte-CEPS analysis of the OECD Annual Survey of Investment Regulation of Pension Funds

⁴ Source: OECD (2015) Stocktaking of the tax treatment of funded private pension plans in OECD and EU countries

5 Historical data

The evolution of investment by German pension funds, broken down by types of investment, between 2004 and 2017 are displayed in the figure below. Furthermore, the figure illustrates the change in the average coverage ratio for Germany.

Graph 2 – Evolution investments and average coverage ratio

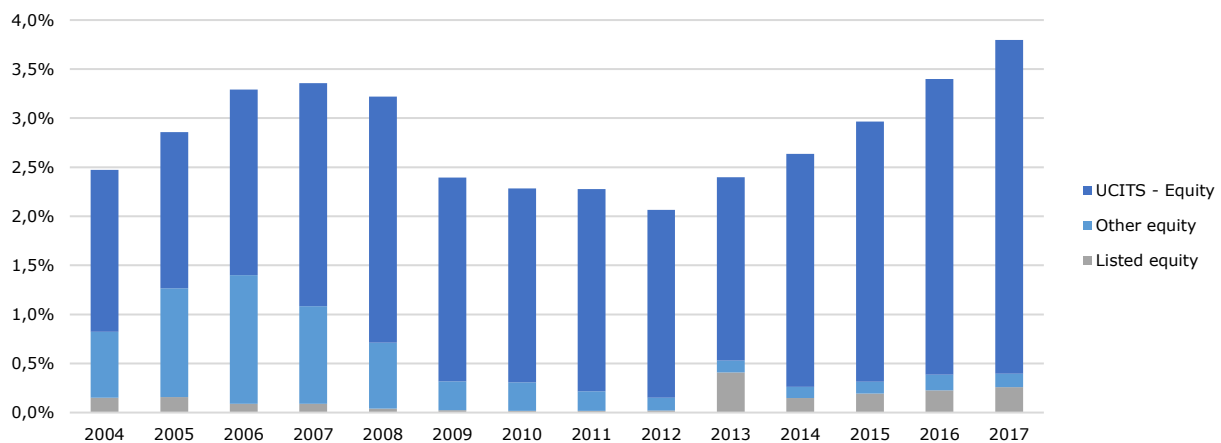


Source: EIOPA EEA pension statistics and Deloitte-CEPS analysis

The composition of German pension funds investment portfolios has remained relatively stable over time with a slight preference for UCITS. German pension funds' investment in equity increased in the period before the financial crisis in 2008. In the period that followed, the investments decreased up to the end of sovereign debt crisis in 2012. In most recent years, we observe a gradual increase in equity exposures which is driven by indirect investments in equity through UCITS.

The trend in equity investment for Germany, broken down by type of equity, is shown in the figure below.

Graph 3 – Evolution of investments by equity type



Source: EIOPA EEA pension statistics and Deloitte-CEPS analysis