



# Why do elderly Germans save?

Mainly to bequeath and to hedge longevity risk

March 5, 2019

## Authors

Orçun Kaya  
+49 69 910-31732  
orcun.kaya@db.com

Heike Mai  
+49 69 910-31444  
heike.mai@db.com

## Editor

Jan Schildbach

Deutsche Bank AG  
Deutsche Bank Research  
Frankfurt am Main  
Germany  
E-mail: [marketing.dbr@db.com](mailto:marketing.dbr@db.com)  
Fax: +49 69 910-31877

[www.dbresearch.com](http://www.dbresearch.com)

DB Research Management  
Stefan Schneider

## In focus: Why do elderly Germans save?

**Saving money is near and dear to Germans.** Their saving rate is almost twice and three times the euro area and EU averages respectively. Along with pronounced saving during the entire working life, there is an uptick in household saving rates in the second half of retirement.

**45% of Germans aged 75 and older save for a potential emergency situation, which underlines the important role of late-life risks for the elderly.** Bequest motives become notably relevant, too: 50% of elderly Germans would rather pass on their savings to their children than consume themselves.

**Germans particularly care about their heirs' financial well-being.** Some 50% of potential bequeathers aim to increase the wealth and improve the living conditions of their heirs. As 25% of future heirs will receive a bequest worth EUR 100,000 and more, intergenerational transfers might affect wealth distribution in a society in the long run.

## Bank lending and deposits of households in Q4 2018

**Net new borrowing reached a record EUR 48.9 bn in 2018, pushing the annual growth rate above the 4% mark for the first time since 2000.** In the final quarter of the year, mortgage lending was once again the main driver (EUR +10.3 bn). Consumer loan growth fell to EUR 1 bn, but was very high for the year as a whole at over EUR 8 bn. Private households benefited from further slight decreases in interest rates.

**Due to competitive pressure, margins for mortgage loans fell yet again.** However, the credit standards used in the approval process of loan applications remained unchanged, and the number of declined loan applications continued to rise. In light of the economic slowdown, no easing can be expected in the current quarter either.

**Private households added EUR 108.7 bn to their bank accounts in 2018 – more than ever since the introduction of the euro.** Inflows stood at EUR 46.1 bn in Q4, resulting in a strong 5.2% yoy growth rate. Most recently, savings banks have benefited disproportionately from these inflows.

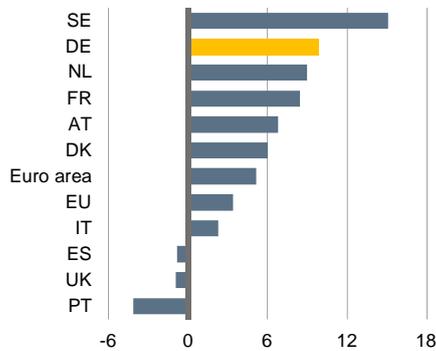


## Why do elderly Germans save?

The Germans' saving rate is among the highest in Europe

1

% of household disposable income, 2017



Sources: OECD, Deutsche Bank Research

### Germans love to save

Saving money is near and dear to Germans. Their saving rate (saving relative to disposable income) is significantly higher than that of most of their European peers. For example, it was around 10% in 2017, i.e. almost twice and three times the euro area and EU averages respectively. Only Swedes saved more, while Spanish and British households actually had negative rates.<sup>1</sup> Furthermore, the saving rate of Germans has been more or less stable since re-unification. Despite rock-bottom interest rates, bank deposits, arguably the safest form of savings, have remained the most important means of saving in Germany. They made up 42% of Germans' financial assets in 2018 (amounting to a huge EUR 2,157 bn).

Remarkably, German households have relatively high saving rates throughout their entire lifecycle. This has significant implications for wealth distribution.

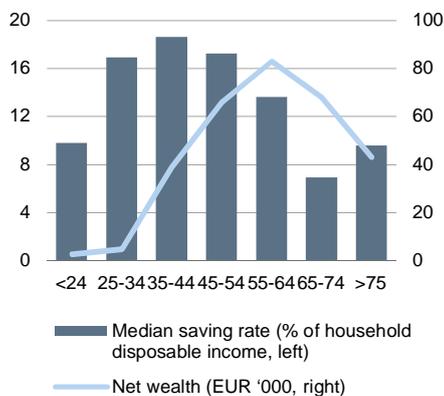
### Saving rate increases in the second half of retirement

The life-cycle hypothesis, the benchmark approach for modelling consumption and saving, suggests that in order to smooth consumption, individuals save more when they are middle-aged and reduce their savings gradually towards retirement and beyond. In line with these ideas, a hump-shape relationship between the saving rate and age is observable for German households, at least until their retirement.<sup>2</sup> The saving rate increases as people move from youth to middle age. It reaches its peak when they are in their late 30s or early 40s. Household net wealth usually correlates with saving decisions. For instance, well-off households tend to save more – in absolute as well as in relative terms. A hump shape is also observable in the age distribution of net wealth, though with a lag compared to the saving rate. Of course, younger people usually have a low wealth level to start from, and can only save limited amounts because their income is still relatively low. Household net wealth peaks at some EUR 80,000 shortly before retirement and comes down afterwards. These figures only partly capture changes in the age structure and in the income distribution between cohorts over time, i.e., the decline in net wealth during retirement may not be due to consumption exceeding income (the saving rate remains in positive territory) or negative asset price developments. Instead, the main reason might be a generational effect as those who are currently older than 75 suffered from the structural break of the Second World War.

Household saving and wealth:  
Hump shape until retirement

2

2013, by age of head of household\*



\* based on survey responses from around 43,000 households

Sources: DIW (13+14 / 2018), Deutsche Bank Research

Although the lowest savings rate occurs shortly after retirement, decline with respect to age is not monotonic.<sup>3</sup> Elderly households increase their saving rate in the second half of their retirement period, i.e. when they are aged 75 years or older. Although they save less compared with their early 40s, their saving rate remains remarkably high. Compared with those 65-74 year olds who probably have a pre-retirement lifestyle but more time for extra activities, those who are 75 and older most likely (have to) reduce their spending on these activities. Moreover, roughly 10 years after retirement, net wealth is relatively high, too. But why do elderly Germans continue saving in the second half of retirement? There could be several reasons for the lack of dissaving: i) reduced consumption, in part due to immobility, ii) the risk of longevity or iii) bequest becoming increasingly relevant as a motive. We will look at each of these in more detail.

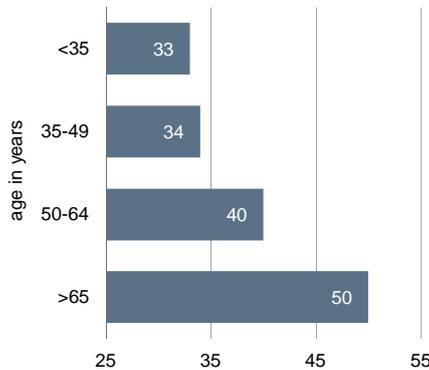
<sup>1</sup> There are significant differences in social security schemes across Europe which affect the level of saving rates.  
<sup>2</sup> The saving rate in Chart 2 is significantly higher than the one shown in Chart 1 due to the survey nature of the data, whereas the macro data in Chart 1 stems from national accounts. See DIW (13+14 / 2018) Box 1 for more information.  
<sup>3</sup> For a detailed overview, see Ansgar Belke, Christian Dreger and Richard Ochmann (2015), Do Wealthier Households Save More? The Impact of the Demographic Factor, *International Economics and Economic Policy*, 12-2, 163-173.



## Why do elderly Germans save?

### Leaving a bequest as a saving motive 3

% of respondents who "agree" or "fully agree" that: "I would rather pass on my savings/wealth to my descendants than consume them myself."



Sources: Deutsche Bank, IfD Allensbach

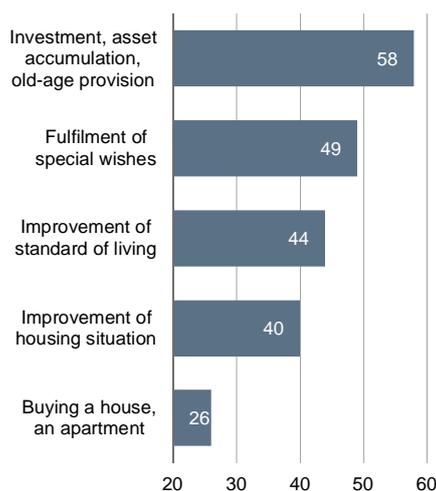
To some extent, households aged 75 years and older have different expenditure compositions than younger ones. They usually have lower financial commitments as they do not have to support children, and elderly homeowners have mostly repaid their mortgages. They also have lower expenses for daily routines such as transportation costs. However, health-related expenses make up 8% of the total expenses of elderly households compared to only 3% for younger households. Moreover, donations and gifts to younger generations are particularly high for the elderly, accounting for 11% of expenses. The share of other expenses on goods and services such as food, clothing, communication and leisure etc. are more or the less the same across different age groups. Taken together, while the pattern of expenses changes for elderly households, the high saving rates of the elderly may not be due solely to lower consumption or immobility. At the same time, income levels typically fall in retirement, and absolute spending also falls as a result.

Survey responses provide insights into other factors that motivate elderly households to save.<sup>4</sup> They show that precautionary saving is a particularly important driver: 45% of those who are 75 and older say they are saving for a potential emergency situation. This points to the important role of longevity or late-life risks (such as uncertain medical or nursing expenses) in the eyes of the elderly. Also, bequest motives become remarkably relevant. Around 80% of retirees intend to bequeath to their heirs.<sup>5</sup> When households are asked whether they "would rather pass on their savings/wealth to their children than consume themselves", there is an almost linear relation between positive responses to this question and age. A staggering 50% of the elderly fully or partly agree. All in all, elderly Germans apparently have both strong precautionary and strong bequest motives.<sup>6</sup>

## Why do Germans leave bequests?

### Bequest motives: Altruism and warm glow 4

% of responses to: "Suppose you could decide – what should your heirs use the inheritance for?"



Sources: Deutsche Bank, IfD Allensbach

Older people may have several reasons for intentional bequests. Potential motives include i) the utility that the elderly draw from passing on wealth to descendants (altruism), ii) the utility gained from the direct act of giving (warm glow) or iii) compensation of heirs for providing services to the bequeathing individual (strategic bequest). In surveys, four out of five bequeathers report that they fully or partly care about what descendants might do with their inheritance. With regard to the various options, almost 60% of the bequeathers report that they wish their heirs to invest or accumulate assets. 50% of bequeathers would like their heirs to fulfil special wishes. And some 40% would like to improve the standard of living and housing situation of their heirs through their bequest. This points to the importance of altruistic and warm glow motives. Put differently, elderly Germans probably embed descendants' consumption into their own utility function.

Bequests – i.e. intergenerational transfers – might change (or amplify) wealth distribution in a society. For example, some 60% of Germans expect to bequeath money and/or real estate, pointing to significant wealth transfers. Estimates suggest that bequests in general increase the wealth of recipients by about one third on average.<sup>7</sup> In Germany, one quarter of heirs receive bequests with a value of EUR 100,000 and more. However, while wealthy individuals be-

<sup>4</sup> See German Panel on Household Finances, 2014.

<sup>5</sup> For a detailed analysis, see Deutsche Bank (2018), Erben und Vererben.

<sup>6</sup> Literature differentiates between unintentional and intentional bequest motives. The former refers to individuals passing away unexpectedly and their unused resources becoming an accidental bequest to their heirs. The latter refers to individuals who always aimed to leave a bequest.

<sup>7</sup> See Boserup, Simon H., Wojciech Kopczuk and Claus T. Kreiner (2016), The Role of Bequests in Shaping Wealth Inequality: Evidence from Danish Wealth Records, American Economic Review, 106(5), 656-661.



## Why do elderly Germans save?

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quest large sums, low-income individuals are capable of saving and bequeathing less or nothing at all. As a result, the uneven intergenerational transfers may increase inequality in Germany in the long run.

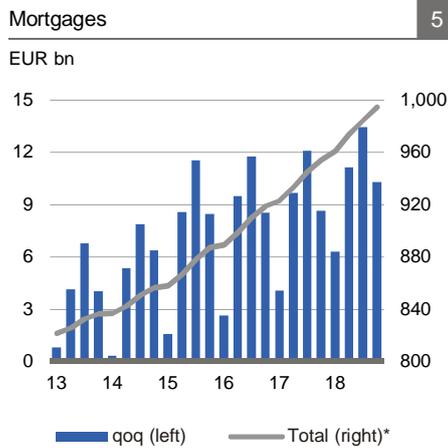
Orçun Kaya (+49 69 910-31732, [orcun.kaya@db.com](mailto:orcun.kaya@db.com))



## Why do elderly Germans save?

### Bank lending and deposits of households

#### Loan volumes



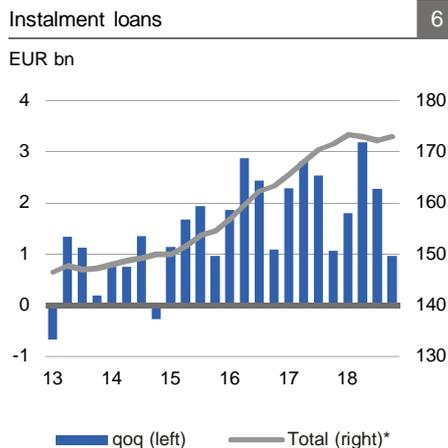
\*includes significant reclassification in Q3 18.

Source: Deutsche Bundesbank

Private households in Germany took out EUR 11.7 bn in net new loans in Q4 2018, the highest figure for the final quarter of a year in this millennium. All told, net new household borrowing set a record of EUR 48.9 bn in 2018, outstripping even last year's high figure of EUR 41.7 bn. In 2018, the annual growth rate exceeded the 4% mark for the first time since 2000. Since 2012, household loan growth has been higher in Germany than the euro area average, which stood at 3% in 2018.

Lending growth in Germany in Q4 was primarily based on brisk mortgage lending, with private households taking out EUR 10.3 bn in net new mortgages. The annual growth rate increased once again and now stands at 4.3%. As in the past, cooperative banks (EUR 3.5 bn), savings banks (EUR 2.7 bn) and large banks (EUR 2 bn) were the main players expanding their mortgage book in the fourth quarter.

The booming real estate market is being fuelled by excess demand for housing. This is likely to remain a driving factor for many years to come due to a lack of available building plots, government subsidies to buy property and the high level of capacity utilisation in the construction sector. The expectation of further price increases is also pushing demand, with many fearful that it could become even more expensive to buy property in the future. Historically low interest rates and positive household income development are helping soften the blow of high prices. The number of workers increased yet again in 2018, pushing the unemployment rate down to 5%. What is more, workers covered by collective wage agreements saw their salaries rise considerably. Since the economic slowdown has yet to affect the labour market, dynamic mortgage lending looks set to continue this year.

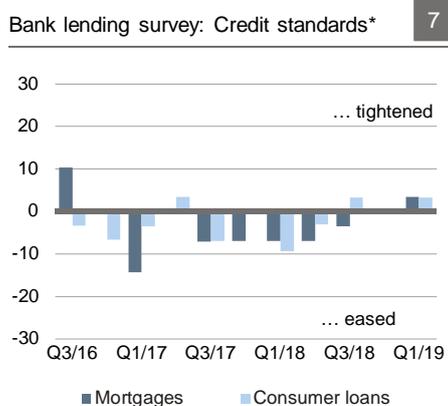


\*includes significant reclassifications in Q3 13, Q2 & Q3 18.

Source: Deutsche Bundesbank

Consumer loan volume grew by EUR 1 bn qoq this past autumn (4.8% yoy). All told, the increase stood at over EUR 8 bn for the third consecutive year in 2018, which is more than twice the long-term average for the German market. In the final quarter of 2018, almost all net new consumer loans were attributable to regional banks (EUR 1.3 bn) – including foreign banks – whereas large banks virtually stagnated in this segment (EUR 140 m). Savings banks (EUR -240 m) and cooperative banks (EUR -80 m) even recorded a decline in their portfolios. Other loans and debit balances increased slightly by EUR 480 m.

Loan demand picked up once again in the final quarter of the year, as reported by 10% of the German banks in the bank lending survey (BLS). The rise in demand was supported by strong consumer confidence. According to 24% of the banks surveyed, the higher demand for mortgages was also attributable to low interest rates, with 14% citing the outlook for the residential real estate market as an additional factor. Consumer lending also benefited from interest rates, albeit to a lesser extent (6%), and from purchases of durable consumer goods such as cars and furniture (6%). Banks remain optimistic for the current quarter, with 10% expecting to see a further rise in demand for mortgages and consumer loans.



\*Q1/19 expected value

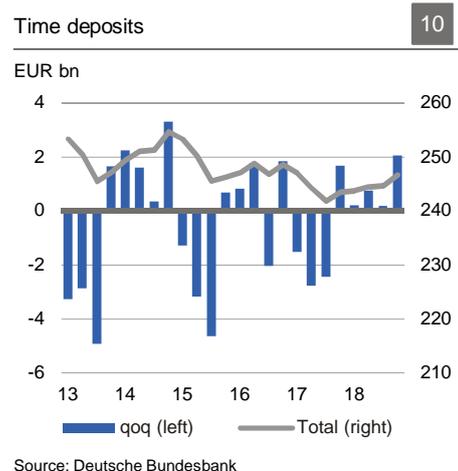
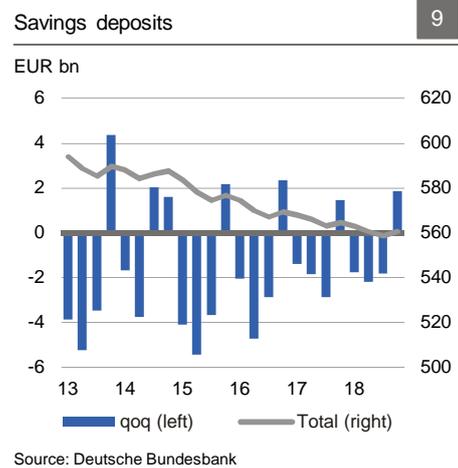
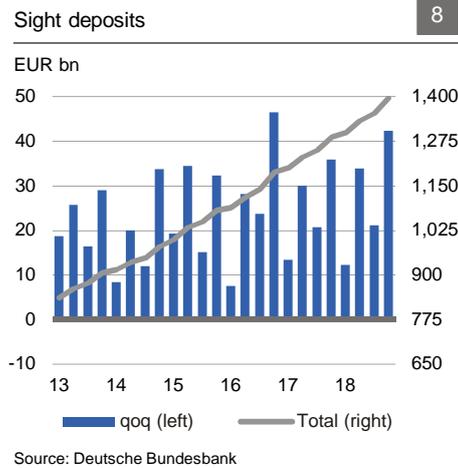
Source: Deutsche Bundesbank

#### Credit standards for approving loan applications

Banks left the credit standards for approving both mortgages and consumer loans unchanged in Q4. However, the number of rejected loan applications increased in both cases, as reported by 10% and 6% of banks, respectively. A few banks plan to tighten their credit standards in the current quarter. For mortgage lending, this would be the first tightening since mid-2016. One of the factors behind this decision could be the slower pace of economic growth, which is likely to have an effect on banks' risk assessments going forward.



## Why do elderly Germans save?



### Terms and conditions governing loan contracts

Nevertheless, competitive pressure in the mortgage market is weighing down banks' margins. According to the BLS, margins have shrunk in every quarter since early 2017. In the final quarter of 2018, a net 14% of banks reported lower margins on average mortgage loans, with 10% of lenders reporting lower margins on higher-risk mortgages. The margins for consumer loans, where competitive pressure was lower, were left unchanged.

### Deposit volumes

Retail deposit inflows are always high at the end of the year. At EUR 46.1 bn, however, they were unusually high in the final quarter of 2018, which corresponds to the fourth-largest quarterly rise since 2000. Throughout 2018, private households added EUR 108.7 bn to their bank accounts – more than ever since the introduction of the euro. The annual growth rate reached a remarkable 5.2%, which exceeded the growth in retail deposits in the euro area. Germany accounted for 31% of all private household deposits in the euro area at the end of 2018.

As in previous quarters, German households invested the lion's share of their new deposits in sight deposits (EUR 42.2 bn qoq, 8.5% yoy). Time deposits increased by a relatively strong EUR 2 bn in Q4 (1.3% yoy). Savings deposits grew by EUR 1.9 bn, but were still down 0.7% yoy due to outflows over the course of the year. For years now, savings deposits have seen growth only in the final quarter. Savings banks were the main beneficiaries of the increase in deposits in Q4, receiving EUR 28.8 bn in new sight deposits – or nearly two-thirds of total volume – despite only accounting for a much smaller market share of a bit more than one-third in this segment. Savings banks also took in EUR 5 bn in savings deposits.

### Interest rates

The average overnight deposit rate increased slightly by 1 bp to 0.02% in the fourth quarter. However, it remains below the EMU average of 0.04%. The Eonia stayed put at -0.36%, and yields on 10-year Bunds fell slightly to 0.24%. Given the negative ECB deposit rates, a noticeable rise in deposit rates for private individuals is not on the horizon.

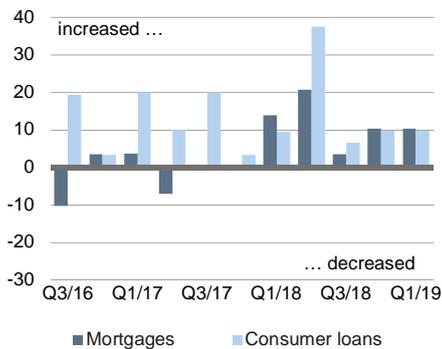
Rates for newly originated mortgage loans saw yet another marginal decline by 2 bp to 1.90%. The interest rate for new consumer loans fell by 16 bp to 5.80%. Both figures are well below the EMU averages for new mortgage loans (2.1%) and consumer loans (5.97%). All told, interest rates in Germany as well as the euro area trended sideways or saw a minimal decline over the past year. However, the gap in mortgage rates between Germany and the overall euro area narrowed in 2018.

Heike Mai (+49 69 910-31444, heike.mai@db.com)



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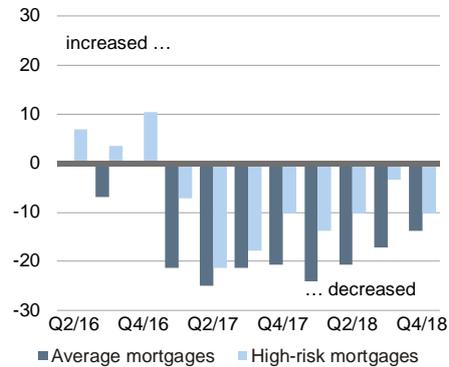
Bank lending survey: Credit demand\* 11



\*Q1/19 expected value

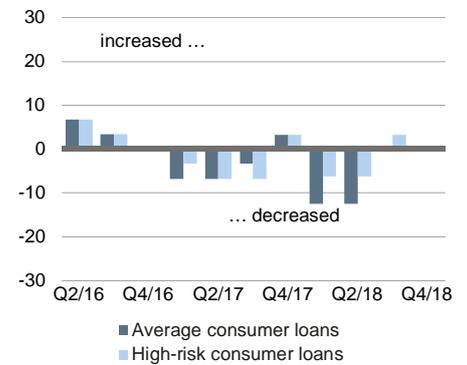
Source: Deutsche Bundesbank

Bank lending survey: Mortgage margins 12



Source: Deutsche Bundesbank

Bank lending survey: Consumer credit margins 13



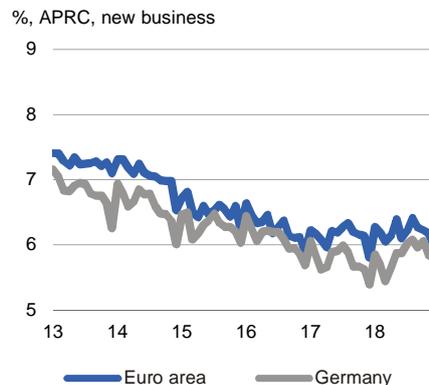
Source: Deutsche Bundesbank

Mortgage rates 14



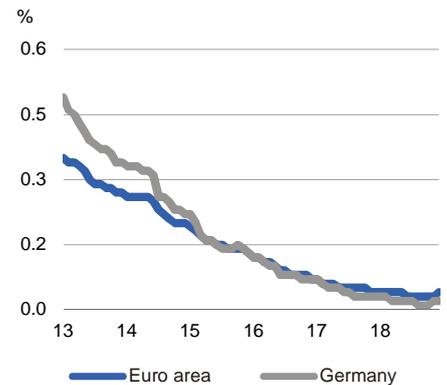
Source: ECB

Consumer credit rates 15



Source: ECB

Overnight deposit rates 16



Source: ECB

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