

# Household wealth and retirement savings

*What we have learned from a joint research with OECD and OEE*

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# Introduction

Retirement is one of the major policy and financial issues for the present generations

The current widespread debates are, however, not always based on reliable and updated figures, for example as far as household assets and liabilities are concerned

The aim of this presentation is to highlight the nature of some of the issues and challenges on the basis of an original piece of research

- We will show that better macro-figures on the structure of household wealth in different industrialized nations can indeed bring useful insights. More research on institutional factors as well as on individual motives and incentives is however necessary.



# Agenda

- **The OECD-OEE- Pioneer Investments Research on Households Financial Assets**
- Household financial assets: global trends, local responses
- The potential for growth in the retirement and managed assets areas
- Macrofigures, microbehaviour and policy challenges for II pillar pensions



# The OECD-OEE- Pioneer Investments Research on Households Financial Assets

*An original piece of work that originates from a new situation....*

For many years statistics on household wealth have been a “residual” item in domestic accounts with limited interest given their relatively static composition until the early nineties

Three main changes have occurred:

- Household portfolios have become more complex and may need to change further in relation with retirement issues
  - The Euro has created a unified money market with new cross-border monitoring needs
  - A broad liberalization of financial flows make international comparisons of greater interest
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- So we need a higher level of detail than the data provided by Central Banks and National Accounts Statistics. Moreover we need to understand if and on what basis international comparisons can be made



# The idea of a comparative study on household asset and liability composition across Europe, US and Japan.

...was greeted with great interest given the widespread feeling that these statistics could help improve our understanding in many related areas, such as

**Equilibrium between resources and their allocation**

**Financial savings in comparison with gross real saving**

**Equilibrium between financing and type of investment (real or financial)**

**Propensity towards risk**



# Figures on real and financial wealth and liabilities have been brought together in one broad picture

## Financial assets

Currency and transferable deposits.  
Time deposits, savings and other deposits.

Money market funds.  
Securities other than shares.

Shares and other equity.  
*Listed shares.*  
*Unlisted shares and other equity.*

Mutual funds.  
*Equity funds.*  
*Bond funds.*  
*Hybrid funds.*

Claims on life insurance companies.  
*Unit linked vehicles*  
*Non Unit linked vehicles*

Claims on non-life insurance companies.  
Pension funds.

*Defined-benefit funds.*  
*Defined-contribution funds.*

Other investments.

+

Real estate

-

Liabilities

**Mortgages**  
**Consumer credit**  
**Other credits**

(e.g. credits for individual enterprises)

=

**Total net wealth**



**PIONEER**  
Investment



Other investments.

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# The results

## Intuitive:

- The structure of household assets reflects the difference between countries where Bancassurance dominates and countries where Market Intermediation dominates
- Households have broadly followed the market swings as far as their appetite for risk is concerned

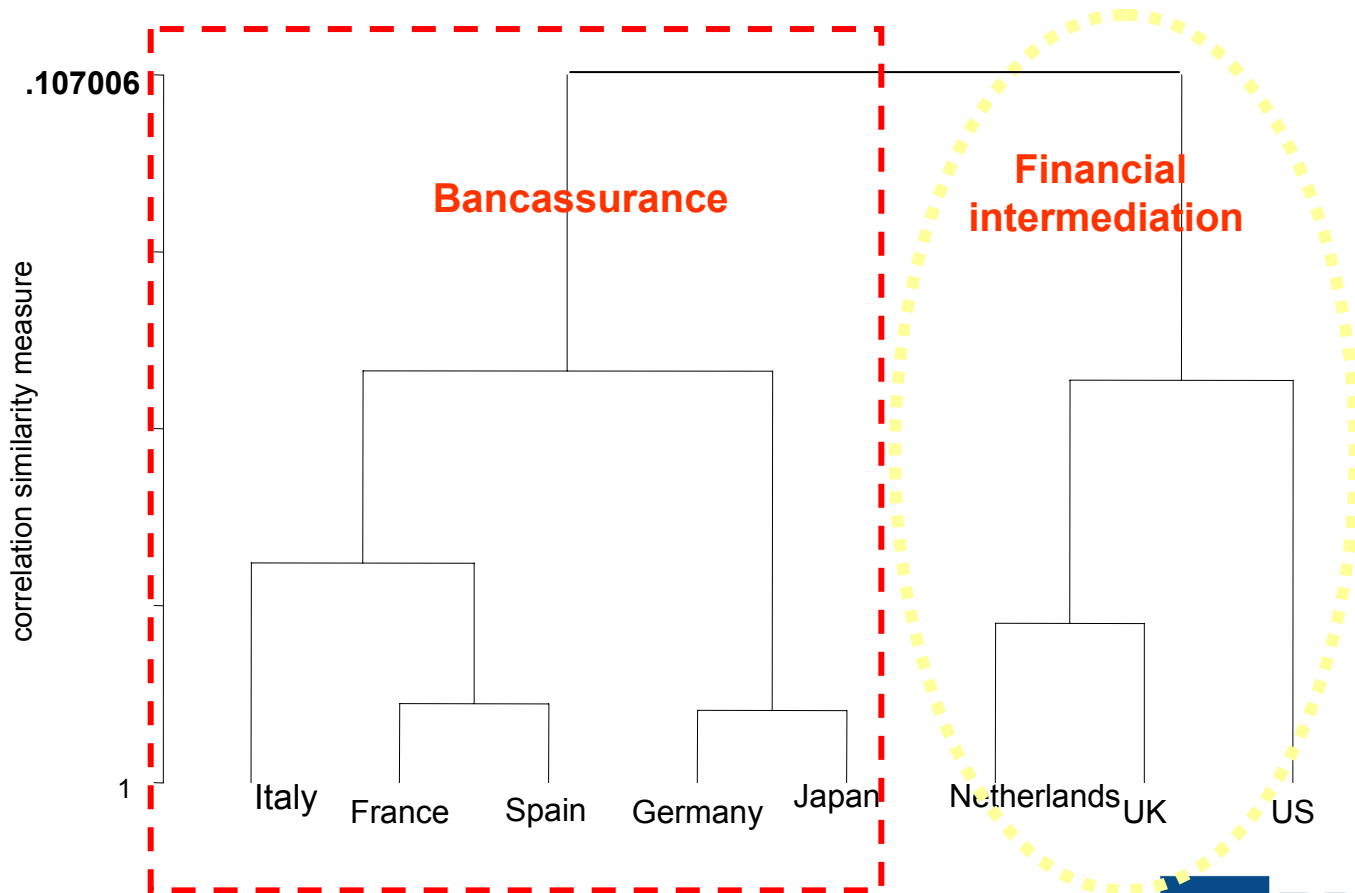
## Counterintuitive:

- No visible trend towards convergence in the structure of financial instruments across countries





# Not surprisingly there are two clusters: countries with market-oriented financial intermediation and countries with bancassurance-oriented intermediation



# **Adventures and misadventures of European investors 1995-2002**

## **-1995-1999 The crazy years**

- **Financial assets increasing by about 11% yearly (a bit more than 4% for household income)**
- **A significant rise in liabilities: 74% of disposable income in 2000 compared to less than 60% in 1995**
- **An increasing importance of risky assets.**

## **- 2000-2002 Looking for safety**

- **Tendency of savings rate to increase (lack of confidence)**
- **Declining use of credit (crisis of the real estate sector and banks in Germany)**
- **Growth in real assets (both in terms of volume and prices), while financial assets stand still (negative performance effect compensated by new financial flows)**
- **As far as financial choices are concerned, 2002 has led to a « reunification » of Europe, with all households moving towards safer portfolios**



**As expected, from 1995 to 2000 households, with the only exception of Japan, have shifted to more risky portfolios**

Safe and risky assets mix

2000/1995	Spain	Italy	France	Germany	Japan	Netherlands	Uk	USA
Δ share of risky assets between 2000- 1995	<u>+23</u>	<u>21%</u>	<u>+17%</u>	<u>+10%</u>	<u>0%</u>	<u>+6%</u>	<u>+4%</u>	<u>+6%</u>

**.. But from 2002 they moved back to safer vehicles**

Safe and risky assets mix\*

2002/2000	Spain	Italy	France	Germany	Japan	Netherlands	Uk	USA
Δ share of risky assets between 2002- 2000	<u>-14%</u>	<u>-14%</u>	<u>-9%</u>	<u>-7%</u>	<u>-3%</u>	<u>nd</u>	<u>-6%</u>	<u>-7%</u>

\* Provisional data from Central Banks subject to revision and PGAM Research estimates



# A more surprising result: Products segmentation is high and shows no sign of diminishing, even across countries belonging to similar groups

## Correlation among financial products mix\* across countries

	Italy	France	Germany	Netherlands	Spain	UK	US
	95/00/01	95/00/01	95/00/01	95/00/01	95/00/01	95/00/01	95/00/01
Italy	1						
France	<b>0,73 / 0,72 / 0,66</b>	1					
Germany	<b>0,88 / 0,76 / 0,79</b>	<b>0,93 / 0,88 / 0,86</b>	1				
Netherlands	<b>0,22 / 0,13 / 0,10</b>	<b>0,33 / 0,23 / 0,23</b>	<b>0,43 / 0,31 / 0,32</b>	1			
Spain	0,78 / 0,82 / 0,75	<b>0,94 / 0,90 / 0,81</b>	<b>0,93 / 0,82 / 0,81</b>	<b>0,41 / 0,31 / 0,30</b>	1		
UK	0,33 / 0,34 / 0,23	0,61 / 0,68 / 0,57	0,61 / 0,61 / 0,57	<b>0,85 / 0,80 / 0,82</b>	0,61 / 0,62 / 0,54	1	
US	0,33 / 0,64 / 0,45	<b>0,3 / 0,45 / 0,24</b>	<b>0,28 / 0,29 / 0,24</b>	<b>0,55 / 0,52 / 0,48</b>	0,41 / 0,67 / 0,63	<b>0,48 / 0,49 / 0,36</b>	1

\*) The products considered are: currency and deposits, money market funds, securities other than shares, listed and non-listed shares, unit linked life insurance, non unit linked life insurance, defined contribution pension funds and defined benefit pension funds

N.B. Data update to 2002 forthcoming. Data from Netherlands not available with sufficient detail as yet



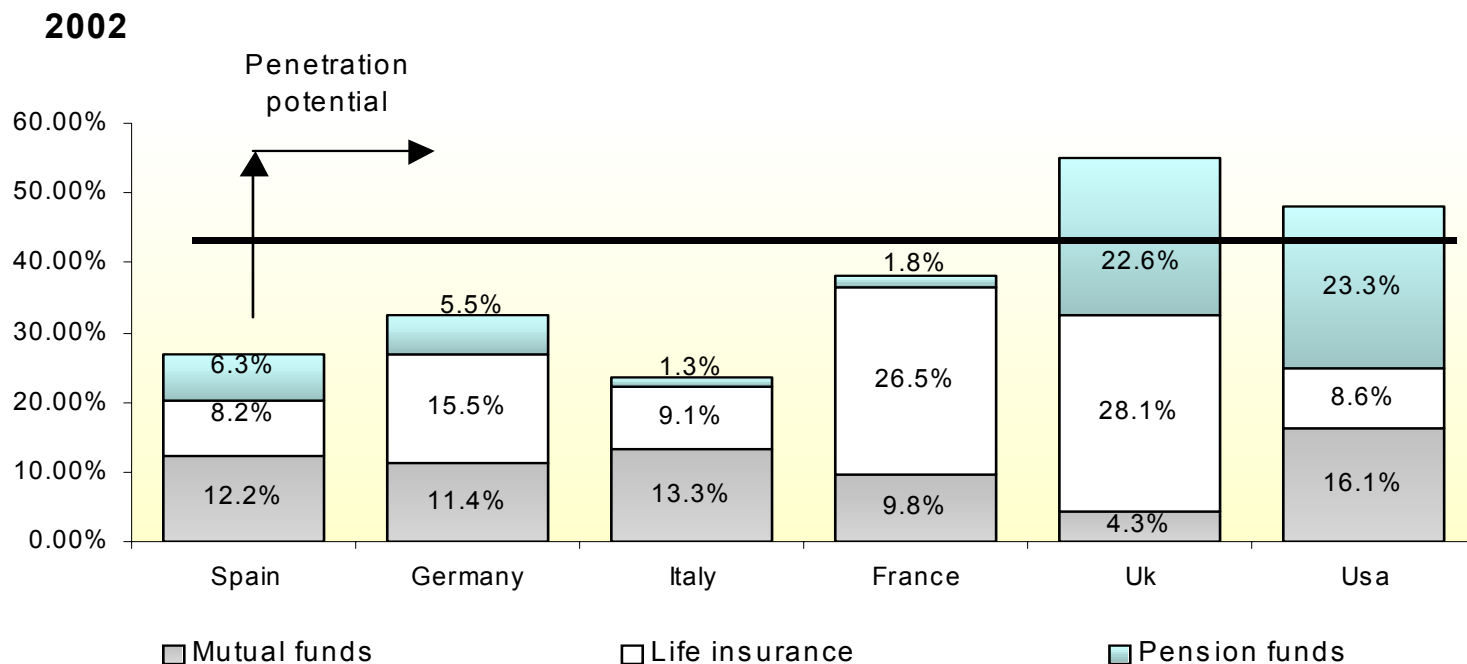
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# For most European countries financial accumulation for retirement purposes has still a long way to go

## Mutual funds, life insurance and pension funds as % of total household financial assets in European countries

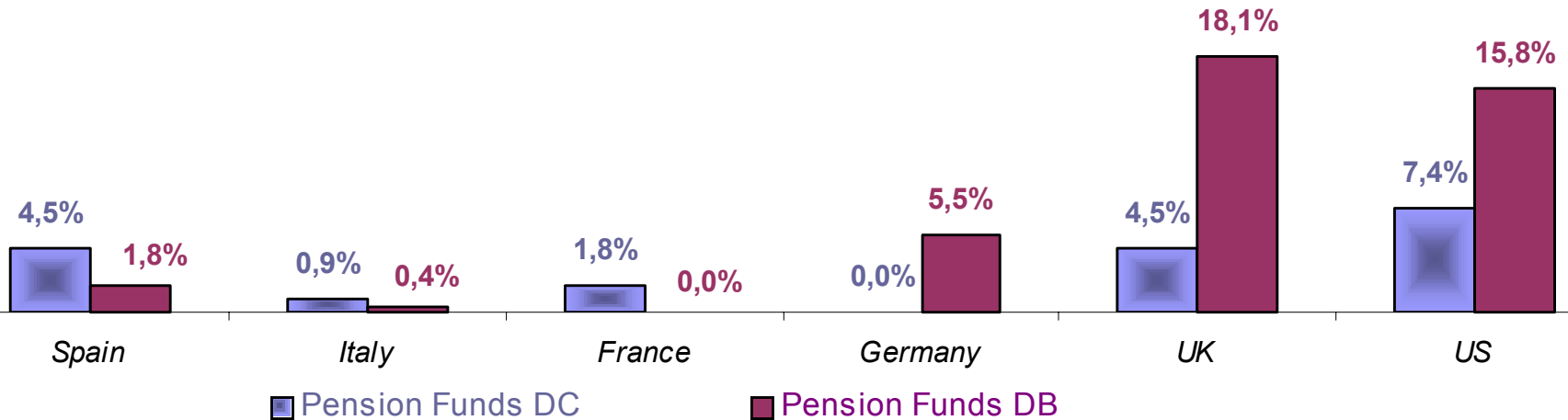


Source: PGAM Research, OECD, OEE

# Pension funds

- Virtually non-existent in most of Continental Europe
- Defined benefit still dominant, but defined contribution relevant

Pension funds as percentage of total household financial assets: DB and DC in 2002

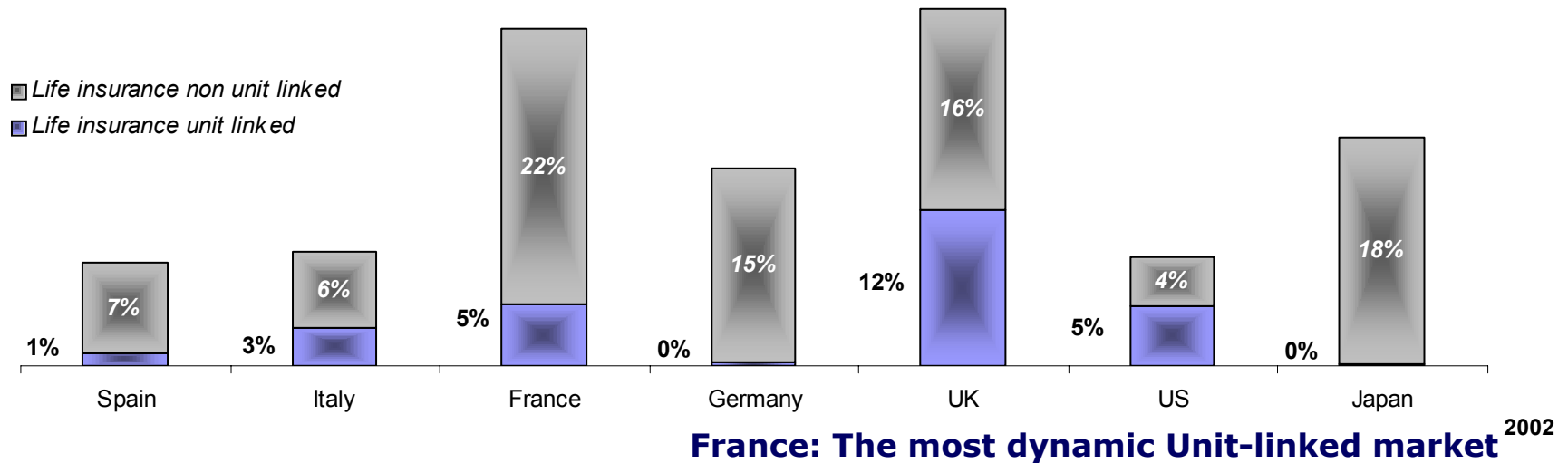


Source: PGAM Research, OECD, OEE

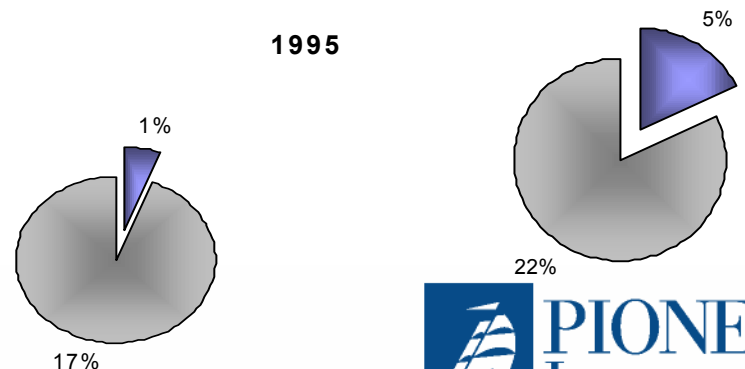
# Life insurance

- unevenly spread
- unit linked important in many countries

Life insurance as percentage of total household financial assets: unit linked and non-unit linked in 2002



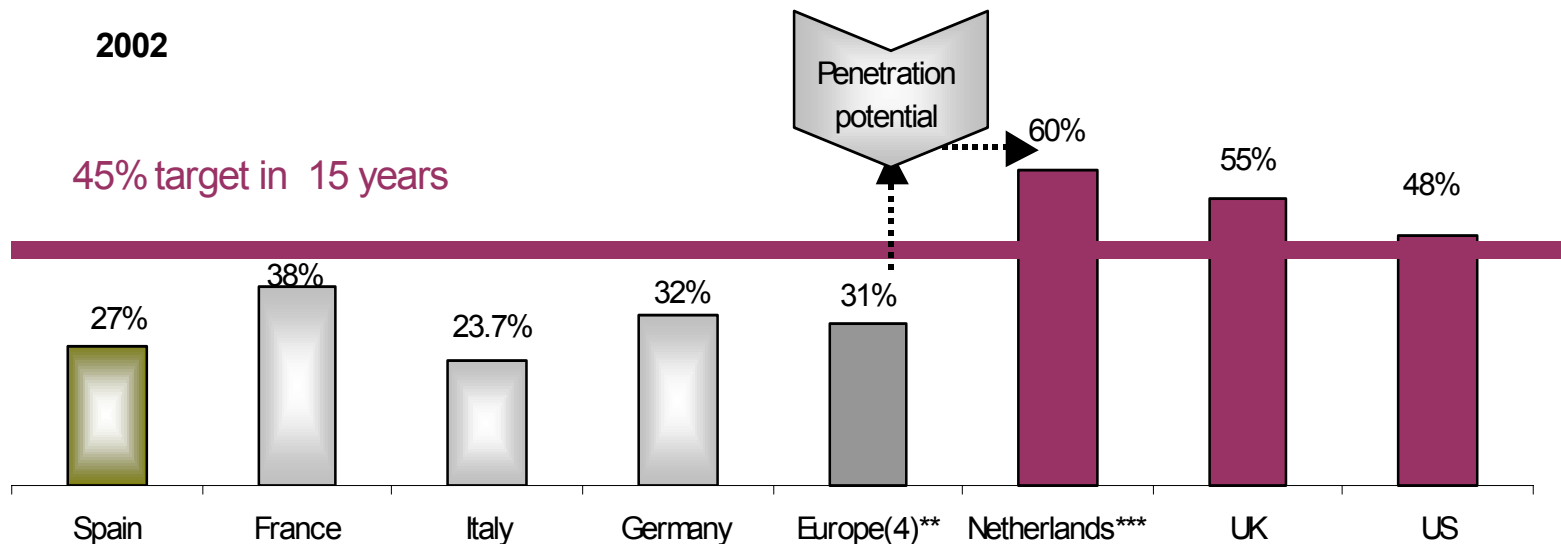
Source: PGAM Research, OECD, OEE





# Plenty of scope for an increase in the share of managed assets in Continental Europe

Total household managed assets\* / Total household financial assets



\*) i.e. They include mutual funds pension funds, life insurance and mutual funds in segregated accounts

\*\*\*) Europe(4)= France, Germany, Italy and Spain

\*\*\*) 2001 data

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# Scope for increase does not necessarily imply effective increase of retirement wealth

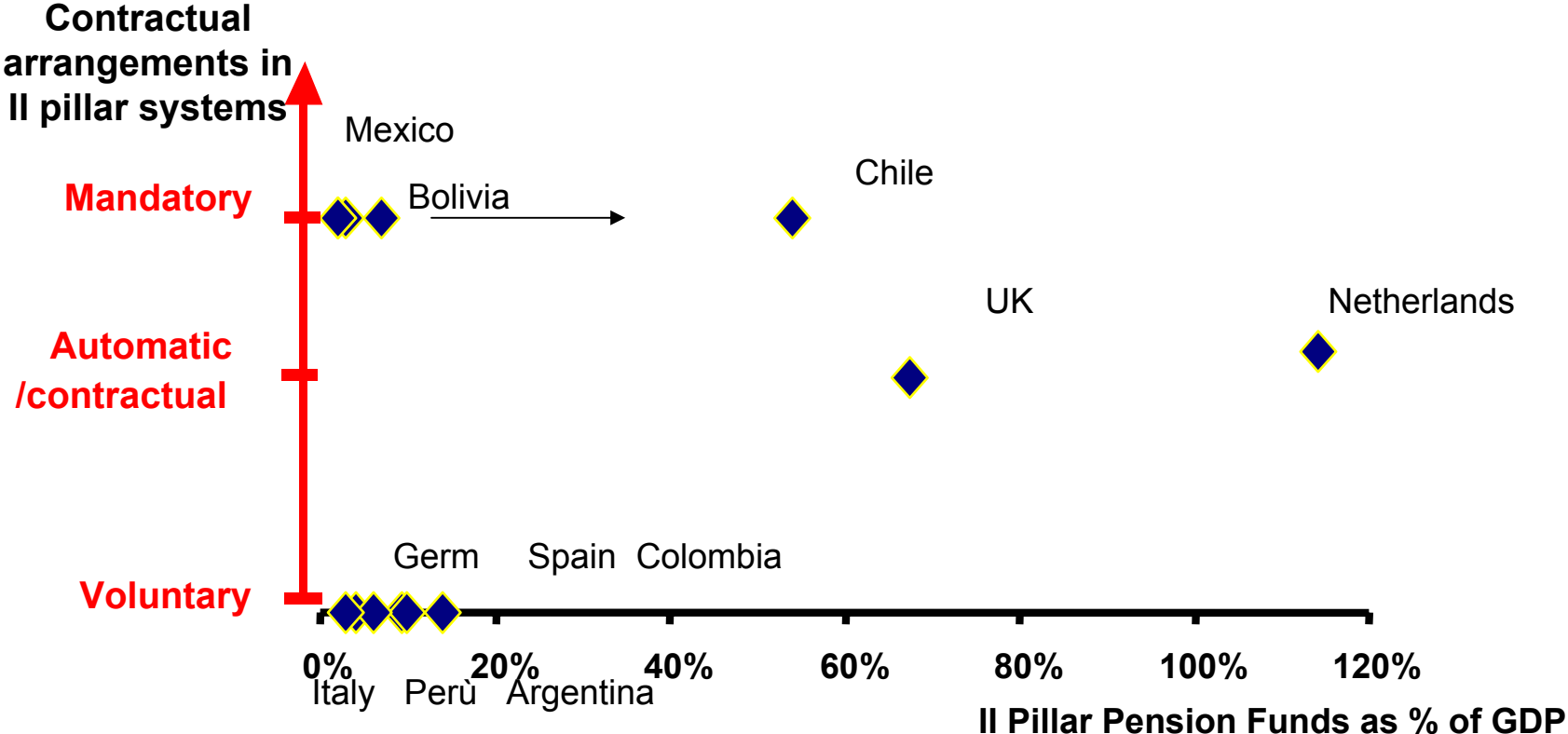
In order to address the policy challenges we need to shift the focus towards the motives for individual and institutional behaviour

The aggregate figures are not representative of individual behaviour

- Wealth and income are very unevenly distributed and so are behavioural factors. We know that some important groups of individuals have very low levels of wealth and/or voluntary savings:
  - Because of low income
  - Because of “hyperbolic” discount factors
- Differing institutional arrangements matter
- The public authorities consider retirement savings as a “merit” good but there is no agreement about the policy implications, for example about the right mix of information, incentives, redistributive and mandatory measures.



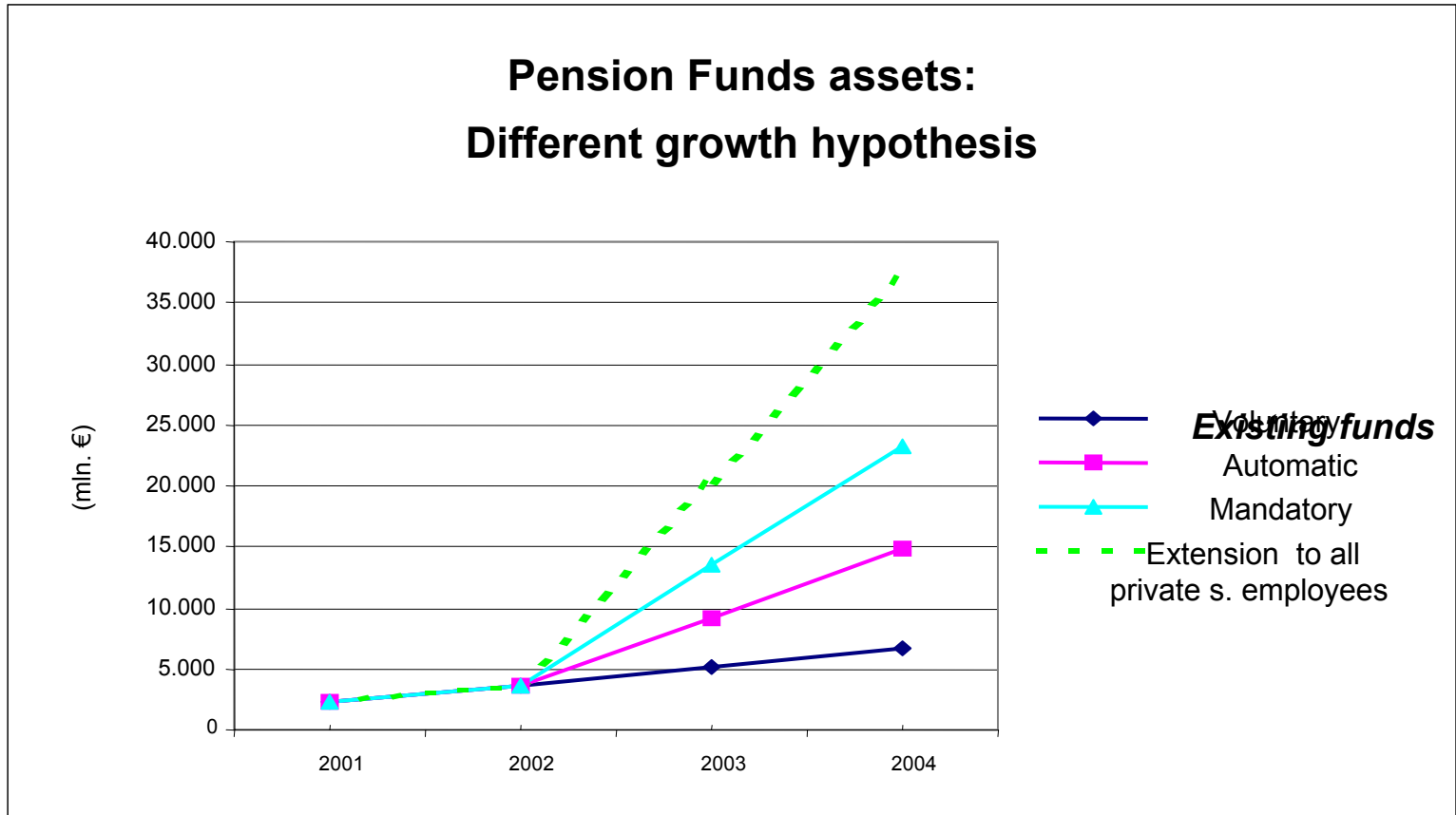
# The differences in voluntary vs. automatic or compulsory II pillar systems are a good example of how institutions and microbehaviour can affect macro trends



Source: OECD, Eurostat on 2000 data



# The Italian case: very high potential rate of growth in the case of automatic/mandatory



Source: Mefop

# Main findings

## Prospects

Local fragmentation of instruments is still dominant

There is potential for growth in the retirement area, especially in European “bancassurance” countries and in emerging markets

The keys to make this growth effective rely in a better understanding of institutional and individual factors. Voluntary savings are not a solution “per se” and further research in investor behaviour, alternative institutional arrangements and product development should help



# Appendix

## Tables and graphs

1. Household financial assets in the main European countries
2. Household financial assets in Europe, USA and Japan



# Household financial assets in the main European countries

Household financial assets	<i>Spain</i>			<i>Italy</i>			<i>France</i>			<i>Germany</i>			<i>UK</i>		
	2002	2000	1995	2002	2000	1995	2002	2000	1995	2002	2000	1995	2002	2000	1995
Deposits and money funds	49%	39%	56%	31%	25%	41%	38%	32%	43%	38%	35%	43%	28%	22%	24%
Bonds	2%	2%	4%	24%	19%	31%	2%	3%	6%	11%	10%	13%	2%	1%	2%
Equity	21%	34%	19%	17%	28%	15%	16%	25%	16%	10%	16%	11%	11%	17%	16%
Mutual funds	8%	10%	6%	11%	16%	3%	8%	9%	9%	10%	10%	6%	4%	6%	4%
Life insurance unit linked	1%	1%	0%	3%	2%	0%	5%	5%	1%	0%	0%	0%	12%	12%	12%
Life insurance non unit linked	7%	5%	4%	6%	4%	3%	22%	18%	17%	15%	13%	12%	16%	16%	16%
Pension Funds DC	5%	3%	2%	1%	1%	0%	2%	1%	2%	0%	0%	0%	5%	3%	2%
Pension Funds DB	2%	2%	2%	0%	0%	1%	0%	0%	0%	5%	5%	6%	18%	19%	20%
Others	5%	4%	6%	6%	6%	7%	8%	7%	7%	11%	10%	9%	5%	4%	5%

Source: OECD, Eurostat, Central Banks

\*PGAM estimation based on Central Banks data





# Household financial assets in Europe, US and Japan

2002-2000-1995

Household financial assets

	<i>Europe</i>			<i>US</i>			<i>Japan</i>		
	2002	2000	1995	2002	2000	1995	2002	2000	1995
Deposits and money funds	35%	29%	38%	18%	14%	16%	56%	53%	50%
Bonds	8%	7%	11%	8%	6%	9%	4%	4%	8%
Equity	13%	21%	14%	27%	33%	32%	6%	8%	11%
Mutual funds	8%	10%	5%	12%	13%	10%	2%	2%	2%
Life insurance unit linked	5%	5%	4%	5%	4%	3%	0%	0%	0%
Life insurance non unit linked	15%	13%	12%	4%	3%	4%	18%	18%	17%
Pension Funds CD	2%	2%	1%	7%	8%	7%	10%	10%	8%
Pension Funds DB	7%	7%	8%	16%	16%	16%	0%	0%	0%
Others	7%	6%	7%	3%	2%	2%	4%	4%	4%

Source: OECD, Eurostat, Central Banks

\*PGAM estimation based on Central Banks data

