The German Insurance Association’s (GDV’s) Approach to Financial Education

OECD Financial Education Conference 21/22 September 06
Dr. Wilhelm Ruprecht
GDV shares OECD‘s understanding of the general tasks of financial education* …

- Developing consumers skills and confidence to become more aware of financial risks and opportunities;

- Providing orientation knowledge on general product types available and their major characteristics;

- Providing orientation knowledge on how to gather further information (when) needed on products;

Since motivation is the precondition of any learning process it is necessary, in addition, to foster the motivation to deal with financial matters on one’s own (reinforcing cultural change)

... and is actively engaged in financial education

<table>
<thead>
<tr>
<th>Tasks</th>
<th>Instruments</th>
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<tr>
<td>Fostering the motivation to deal with financial matters on one’s own</td>
<td>-&gt; Initiative „Eigenvorsorge-Report“ (integrated pension information);</td>
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<td></td>
<td>-&gt; Klipp + Klar (information center of the German insurers): several activities</td>
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<td>Developing consumers skills and confidence to become more aware of</td>
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<td>financial risks and opportunities</td>
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Agenda

1. Eigenvorsorge-Report: Provision of integrated pension information

2. Klipp + Klar: The activity spectrum of the information center of the German insurers

3. Pensions: financial education supports the formation of a critical mass
1. Eigenvorsorge-Report: Provision of integrated pension information

Background: empirical study on pension planning in Germany (Allensbach Institute 2006)

- Existing annual pension information provided by the statutory PAYG-financed pension system and by occupational and private pension providers have a positive influence on actual behavior:
  - Decisive inducement for engaging in the field of old age provision;
  - Intensive usage in the pension planning process.

- As major causes for sofar undone pension planning were identified:
  - subjectively perceived impossibility to find out, how much money is available in old age;
  - „Lack of time“, „necessary effort prohibitively high“; „complexity prohibitively high“.
Eigenvorsorge-Report: The basic idea

- Support for systematic combination of existing pension information (statutory PAYG-financed pension system, occupational pensions, private pensions)

- Alleviation of regular pension planning:
  - Insureds are enabled to get an overview on their individual total pension provision of all three pillars;
  - By comparing the current pension provision with their individually fixed provision goals insureds can calculate their individual pension needs and – if necessary – fill their pension gaps.
The concept in detail

- Declaration of monthly pension benefits in the age of 65 (analogous to pension information of statutory PAYG-financed pension system);
- Declaration of an annuity factor for the conversion of a capital sum available in the age of 65 into monthly pension benefits;
- Declaration of monthly disability benefits (analogous to pension information of statutory PAYG-financed pension system);
- Inflation note (analogous to pension information of statutory PAYG-financed pension system);
- Gross income approach (information on taxes and social security contributions);
- Simultaneous mailing with annual pension information of occupational and private pensions;
- Completion by electronic pension calculator (www.eigenvorsorge-report.de).
# Eigenvorsorge-Report print version: basic scheme

## Overview of the expected monthly benefits …

<table>
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<tr>
<th></th>
<th>In old age</th>
<th>In the disability case</th>
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<tbody>
<tr>
<td></td>
<td>1</td>
<td>3</td>
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<tr>
<td><strong>Pensions in the age</strong></td>
<td><strong>65</strong>*</td>
<td><strong>thereof already</strong></td>
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<tr>
<td></td>
<td><strong>today guaranteed</strong></td>
<td></td>
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<tr>
<td><strong>... by private pensions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>... by occupational pensions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>... by the statutory PAYG-financed pension system</strong></td>
<td></td>
<td></td>
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<tr>
<td><strong>SUM</strong></td>
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</table>

* The surplus profit included in this value is not guaranteed. Please, note our explanations on the not-binding nature of the surplus profits in our annual pension information.
In the case of lump-sum payments: declaration of an annuity factor

„In case that you plan to annuitize a lump sum payment from private or occupational old age provision contracts (e.g. from a life insurance), you can convert this payment into a monthly annuity and add it to the other monthly pension benefits. From today’s perspective and according to a rule of thumb a capital payment of 10.000 Euro in your 65th year will lead to a life long monthly annuity of approximately 45 to 50 Euro."

Indication of the impact of inflation

„When revaluating the expected benefits, please, take into account that when you arrive the age of 65 an amount of 100 Euro, e.g. in the case of an average annual inflation rate of 1,5 %, will have a purchasing power of only ____ * Euro measured in today‘s prices."

* This field is to be individually completed by insurance companies/ staff insurance companies/ pension funds in accordance to the corresponding year of birth. In the case of a person aged 35 today the purchasing power of 100 Euro in 30 years will amount to only 63,50 Euro.
Who gets the print version of the new Eigenvorsorge-Report?

- Insurance clients having private or occupational pension contracts (Rieste annuity, new basic annuity, private annuities, life insurance, occupational pension vehicles that have the form of insurance);

- **Precondition**: duration of the contract at least until the age of 60;

- Base for the implementation by the insurance companies: recommendation of the German Insurance Association (not-binding);

- Introduction: 2006 (coverage rate of companies representing almost 50% of the market until the end of 2006).
www.eigenvorsorge-report.de

The Eigenvorsorge-Report print version is completed by an electronic pension calculator:

- Assistance in comparing the individually fixed provision goals with the total expected benefits from all three pillars;

- Comparison of results with and without taking inflation into account;

- Assistance also for persons which have so far not placed an occupational or private pension contract;

- Integration in the consumer-oriented website of the information center of the German insurance industry „Versicherungen Klipp + Klar“.
Electronic Pension Calculator: [www.eigenvorsorge-report.de](http://www.eigenvorsorge-report.de) (also integrated into the website of Klipp & Klar: [www.versicherungen-klippundklar.de](http://www.versicherungen-klippundklar.de))
2. The information center of the German insurers

- was founded by GDV in 1999
- is the central contact point for consumers with regard to insurance related topics,
- provides up-to-date tips and recommendations on financial planning and security,
- informs factually and in a competition-neutral way,
- is perceived as a credible and competent institution,
- does **not** give any product-related recommendations **nor** provides any comparison between products,
- does **not** handle any complaints (-> Ombudsman),
- does **not** provide legal advice.
Flexible communication: the service spectrum of Klipp + Klar

- Service and information hotline for consumers
  - free of charge
  - Main topics 2004/05:
    - life insurance (disability insurance, private annuities, occupational pensions, "Riester annuity")
    - vehicle insurance
- Order service (by phone, fax, mail or online)
  - Booklets
    - 8 ZUKUNFT klipp + klar life cycle booklets
    - 15 product specific booklets
  - Literature lists, address and link lists
  - Teaching materials (CD-ROM, DVD, print material)
- Internet
  - Providing online information: www.klipp-und-klar.de
ZUKUNFT klipp + klar: group specific life cycle booklet series

- Tips and information for school leavers
  Jetzt geht´s los
- Tips and information for graduates
  Startklar
- Tips and information for employed and employment-seeking persons
  Lebenslauf
- Tips and information for founders of new businesses
  Aufbruch
- Tips and information for singles
  Einzelausgabe
- Tips and information for young couples
  Zeit zu zweit
- Tips and information for parents
  Menschenskinder
- Tips and information for the retirement
  Fortschritt
Versicherungen klipp + klar: product specific booklet series

- Insurance: public and private
  Sozial- und Individualversicherung in Deutschland (Statutory and private insurance in Germany)

- Attractive for employers and employees
  Die betriebliche Altersversorgung (occupational pensions)

- Old age provision and term coverage
  Lebensversicherung – Ihre private Vorsorge (life insurance)

- Insurance products for self-employed persons
  Mehr Sicherheit für Betriebe und Freiberufler (more security for companies and professional persons)

- Old age provision with security
  Die neue Rente (the new pension annuity)

- Term coverage and disability provision
  Die private Berufsunfähigkeitsversicherung (The private disability insurance)
The media package „Safety1st”

- students’ magazin, teachers’ book, internet platform
  - Safety1st basic
    (for beginners; classes 8 to 10/ Sek. I at secondary schools)
  - Safety1st plus
    (for advanced; classes 11 to 13/ Sek. II at grammar schools)
- Topics
  - Social security system
  - Pensions and old age provision
  - Insurance and career start
- Winner of the Comenius-Siegel, a high-reputation price for didactic multi-media products
How is the teaching material‘s neutrality with respect to specific products and providers ensured?

• As an industry association GDV does neither offer insurance products itself nor promotes certain providers;
• Material is developed in cooperation with the reputable Working Group „Jugend und Bildung“ (Members: didactics experts of the ministries of education of the Länder, of the social partners, the European Parliament, associations and companies) in strict orientation at the curricula of the Länder
• The quality is checked for hidden advertisements by a public institution (Konferenz der Landesfilmdienste).
• Regular evaluation and testing of acceptance by teachers (questionnaires); Extensive realization of the proposals by teachers;
• Gain of various awards provide additional evidence for the quality (-> Appendix)
Several cooperations with public and private institutions provide distribution channels for Safety 1st

- Unterrichtshilfe Finanzkompetenz Verbraucherverbände, in Zusammenarbeit mit dem Bundesministerium Familie, Senioren, Frauen und Jugend
- Informationsportal Kursraum Geld Initiative Finanzstandort Deutschland
- Bundesarbeitsgemeinschaft Kinder- und Jugendschutz Broschüre „Richtig Geld ausgeben“
- Bundesarbeitsgemeinschaft Schule/Wirtschaft Broschüre „Wirtschaft informiert Schule“
- Lehrer online Bundesministerium Bildung und Forschung
- Stiftung Jugend und Bildung Veranstaltungsreihe Finanzielle Allgemeinbildung
- NRW-Netzwerk „Gewusst wie!“ Arbeitsgruppen Finanzwissen Ministerium für Umwelt und Naturschutz, Landwirtschaft und Verbraucherschutz NRW
- Handelsblatt macht Schule
- Jugendzeitschriften
  - handfest Jugendmagazin des Handwerks
  - Spießer
- Berufsbildungswerk der Deutschen Versicherungswirtschaft Deutsche Versicherungsakademie
3. Pensions: financial education supports the formation of a critical mass

Starting point

- In Germany, due to population ageing the ratio of benefit recipients to contributors in the dominant PAYG financed pension system will nearly double until 2050;

- If living standard in old age is to be sustained supplementary funded pensions are increasingly necessary.

=> Challenge for financial education: Contributing to a high participation rate of funded products complementing PAYG financed benefits while simultaneously enabling consumers to make the best of their choices according to their individual situation.
Automatic enrolment versus financial education

<table>
<thead>
<tr>
<th></th>
<th>Automatic enrolment</th>
<th>Financial education</th>
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<tbody>
<tr>
<td><strong>argument</strong></td>
<td>Diffusion of complementary funded pensions does not sufficiently fast take place</td>
<td>Diffusion of complementary funded pensions does not sufficiently fast take place</td>
</tr>
<tr>
<td><strong>Causal analysis</strong></td>
<td>People are in principle willing to provide but are prevented from acting by passivity and inertness</td>
<td>People lack awareness of the necessity to provide for old age; People lack skills and “absorptive capacity” that is necessary for selecting and understanding useful information:</td>
</tr>
<tr>
<td><strong>solution</strong></td>
<td>Introducing opting-out in occupational pensions together with defaults on standard products and contribution rates (meritoric want approach)</td>
<td>Fostering a critical mass by 1. Propagating new attitudes (from governmental to (partly) individual provision); 2. Improving awareness of financial risks in old age; 3. Developing consumers’ financial skills.</td>
</tr>
<tr>
<td><strong>Underlying behavioural assumption</strong></td>
<td>People act often irrationally; Human behaviour is static.</td>
<td>People may often act irrationally but they are capable of learning; Human behaviour is dynamic</td>
</tr>
</tbody>
</table>
In Germany, the acceptance of funded pension annuities is increasing.

Newly effected annuity insurance contracts since 1992*

*Direct insurance contracts, staff pension insurance contracts and pension fund contracts recorded by GDV
The concept of critical masses: the „frequency – dependency effect“

Efficient financial education contributes not only to attain but also to lower the critical mass!

Automatic enrolment contradicts financial education’s „enlightenment objective“

1. Setting standard defaults undermines the citizens’ own initiative that is a precondition for the success of financial education;

2. When passivity and inertness of people are to be exploited in order to increase the participation of funded pensions an answer has to be given to the question of who is responsible when it turns out after decades that

   - the default product did not serve the individual consumer needs or

   - the default contribution rate has been too low (Choi, J. et al. (2004): For better or for worse. Default effects and 401 (k) savings behaviour, University of Chicago Press)?
Thank you for your attention!
Appendix

User data Klipp + Klar
Usage of the service: consumer contacts

- Contacts total:
  - 2002: 86,253
  - 2003: 54,472
  - 2004: 71,320
  - 2005: 67,314

- Via phone:
  - 2002: 28,884
  - 2003: 42,425
  - 2004: 45,510
  - 2005: 39,160

- Via E-Mail:
  - 2002: 57,369
  - 2003: 16,867
  - 2004: 25,810
  - 2005: 28,153
Usage of the service: booklet distribution

- Total booklet distribution:
  - 2002: 458,196
  - 2003: 462,569
  - 2004: 507,940
  - 2005: 531,307

- Thereof by Klipp & Klar:
  - 2002: 169,431
  - 2003: 151,805
  - 2004: 148,486
  - 2005: 157,191
Usage of the service: distribution of address lists and references

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Address Lists</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>41,503</td>
</tr>
<tr>
<td>2003</td>
<td>71,699</td>
</tr>
<tr>
<td>2004</td>
<td>37,691</td>
</tr>
<tr>
<td>2005</td>
<td>40,255</td>
</tr>
</tbody>
</table>
Usage of the service: Internet visitors

- www.zukunft-klippundklar.de
- www.versicherungen-klippundklar.de
- www.klipp-und-klar.de (Einstiegsseite seit Mai 2004)
- Total

Year 2002: 214,038 visits
Year 2003: 245,215 visits
Year 2004: 178,602 visits
Year 2005: 120,020 visits
Usage of the service: page views in the internet

<table>
<thead>
<tr>
<th>Year</th>
<th><a href="http://www.zukunft-klippundklar.de">www.zukunft-klippundklar.de</a></th>
<th><a href="http://www.versicherungen-klippundklar.de">www.versicherungen-klippundklar.de</a></th>
<th><a href="http://www.kipp-und-klar.de">www.kipp-und-klar.de</a> (access page since May 2004)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>739,619</td>
<td>255,893</td>
<td>0</td>
<td>995,512</td>
</tr>
<tr>
<td>2003</td>
<td>692,812</td>
<td>170,044</td>
<td>63,098</td>
<td>862,856</td>
</tr>
<tr>
<td>2004</td>
<td>493,941</td>
<td>207,007</td>
<td>0</td>
<td>764,046</td>
</tr>
<tr>
<td>2005</td>
<td>388,046</td>
<td>872,812</td>
<td>100,211</td>
<td>690,684</td>
</tr>
</tbody>
</table>
The information center in the media: articles and print run

- Number of articles and print run from 2002 to 2005
- Since 2004 articles in sub-issues are added

- 2002: 363 articles, 426,498,204 print run
- 2003: 251 articles, 148,899,158 print run
- 2004*: 2,033 articles, 215,908,411 print run
- 2005: 2,337 articles, 200,717,248 print run
Awards won by the information center for its teaching material

- 2001: Award of Master
  Bundesverband der Film- und AV-Produzenten e.V.
- 2002: Award of Master
  Fördergemeinschaft AV COM
- 2003: Deutscher Wirtschaftsfilmpreis in Silber
  Bundesministerium für Wirtschaft und Arbeit
- 2003: intermedia-globe SILVER
  WorldMediaFestival Hamburg
- 2004: Prix Victoria in Silber
  Internationale Wirtschaftsfilmstage Österreich
- 2005: Comenius-Siegel
  Gesellschaft für Pädagogik und Information
- 2006 Comenius EduMedia Siegel
  Gesellschaft für Pädagogik und Information