

CIO View Special

10 themes for the year ahead

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Marketing material



Could Europe's demographics raise interest in stocks?

Europe's pay-as-you-go pension system should be supplemented by a funded system. This could also help foster public financial literacy and support Europe's economy.

The world's population is likely to continue growing for a few more years, but with only around two dozen countries driving that. The rest of the world is shrinking, including Europe and Germany in particular. One problem associated with population decline is the resulting strain on pension systems.

The birth rate is only one of several factors influencing the viability of pension systems. The pay-as-you-go system suffers from the fact that each contributor is having to support more and more pensioners. This could be relieved in various ways – other than by a rather unlikely turnaround in the birth rate. The rate of employment or the retirement age could be increased. Pensions could be reduced. Higher immigration could be permitted. Or economic productivity could be raised. It is likely that all four of these levers will have to be pulled. In addition, however, a pension system funded by investment savings is, in our view, urgently required.

The challenges for a complete switch from a pay-as-you-go to a funded system are well known – and should be taken seriously. A switch of this kind can only be effected gradually. Ultimately, in an extreme case, one generation might have to support two systems at the same time: current pensioners via the pay-as-you-go system and their own pensions via the funded system. But the fact that the status quo is not an option¹ is demonstrated by the evolution of this ratio in Germany: in 1962 six contributors shared the cost of one pensioner's pension, whereas today the figure is just over two. By 2030, the ratio could deteriorate further to 1.5.²

We suggest that government incentives for private retirement savings through stocks should be expanded significantly. In addition to enhancing pension security, we believe this could have other positive side effects: (1) Greater public engagement in issues relating to financial returns and risk. (2) The potential for higher returns in the long term compared to the current savings options, though with greater volatility and risk. (3) A greater understanding of growth-promoting structural reforms, which may involve short-term losses and only boost income in the medium term because these longer-term benefits are appreciated on the stock market and therefore become visible to pension savers. (4) The

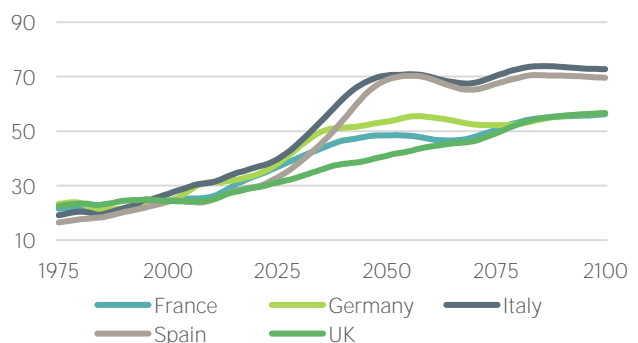
change would also be in line with the European Savings and Investment Union, which is currently becoming more concrete. Ultimately, a switch towards stock-based pension savings could also help young companies outside the banking system to raise capital, which is in line with a recommendation in the Draghi report.³ Experience from countries such as Sweden, Australia, and the Netherlands shows how deep capital markets increase productivity growth in an economy.⁴

Martin Moryson, Head of Economics at DWS, says: "Germans save more than enough, but mostly not in the best way. Almost 40%⁵ of their money languishes in low-interest savings accounts. This is regrettable, both for individuals and for society. A partially funded pension could accelerate the shift toward more yield-oriented saving, which could potentially not only lead to better individual investment results but also increase the growth of the economy in the long term."

In Germany anyone who had invested the same amount in the Dax every year for 40 years since 1983 would have achieved an average return on all contributions of over 8%.⁶ This compares with an annual return of a couple of percentage points on bank saving accounts at best.⁷ Of course, equity market returns come with a much higher volatility.⁸ This is something European (and certainly German) savers may need to become more familiar with.

Well-known problem: more pensioners per worker

Ratio of retirees to workers in %



Sources: United Nations, DWS Investment GmbH as of 10/14/25

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Footnotes

¹ See, for example, European Economic Review, "Public pension reforms: Financial and political sustainability," Volume 175, as of 2025

² Statistisches Bundesamt (German Statistics Office) as of October 2025

³ European Commission, "The Draghi report on EU competitiveness" as of September 2024

⁴ German Council of Economic Experts, "Overcoming sluggish growth – Investing in the future," Chapter 3, as of November 8, 2023

⁵ Deutsche Bundesbank (German Central Bank), data for the first quarter 2025

⁶ Deutsches Aktieninstitut (German Stocks Institute), "DAX Return Triangle," as of December 2024

⁷ European Central Bank, "Euro area bank interest rate statistics: January 2025" as of March 2025

⁸ European Fund and Asset Management Association (EFAMA), "Household participation in capital markets," as of January 2024

Glossary

The **Dax** is a blue-chip stock-market index consisting of the 40 major German companies trading on the Frankfurt Stock Exchange.

A **funded pension system** is a retirement plan where contributions are set aside in a separate trust fund to cover future pension payments.

A **pay-as-you-go pension system** is a social security model where contributions from current workers fund the pensions of current retirees. This "intergenerational contract" relies on a large working population to support the elderly

The **Savings and Investment Union (SIU)** is a broad set of EU initiatives, launched in March 2025, designed to foster the development of capital and banking markets and improve links between savings and investments to enable EU companies to meet their capital needs and to increase returns for EU citizens on their long-term savings.

Volatility is the degree of variation of a trading-price series over time. It can be used as a measure of an asset's risk.

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