GERMAN COUNCIL of Economic Experts

PRESS RELEASE

Starting Capital for Children: Strengthening financial literacy and increasing capital market participation

- A starting capital for children can promote practical experience with capital markets with only a small monthly investment. Offering such an investment plan would enable broad sections of the population to acquire a higher level of financial literacy and strengthen the capital market participation in Germany.
- Key elements of the starting capital programme for children are the automatic enrolment of all children, a sufficiently long investment horizon, a high equity share and broad diversification.
- The starting capital for children can complement the federal government's national strategy for financial education and help close the gap between financial knowledge and its translation into actual investment decisions.

Wiesbaden, 07.10.2024 – In order to provide broader sections of the population with access to capital markets from an early age and allow them to gain practical experience through multiple financial cycles, all children from the age of six should be provided with a starting capital. Under the programme, a monthly payment of, for example, ten euros would be paid into a selected fund, financed by the federal government. The German Council of Economic Experts (GCEE) views the selection of a broadly diversified fund with a high share of stocks as a core element of such a programme. Reciepients would experience significant returns with low risk given the long investment horizon and diversification on the stock market. The new policy brief from the GCEE specifies the proposal for the starting capital programme for children from the Annual Report 2023/24 and explains key points for its implementation.

"Past financial literacy programmes have been less effective in strengthening financial literacy and its translation into financial choices than hoped, not only in Germany but across the globe. Unlike previous measures, the starting capital for children aims to strengthen financial behaviour by learning from experience – rather than relying solely on theoretical knowledge", explains Ulrike Malmendier, Council member. If younger children are included in the programme, the investment accounts will also have an impact on parents' financial skills, as they will initially be responsible for making investment decisions on behalf of their underage children.

Key design features for the starting capital for children

- The programme should automatically include all children in Germany from the age of 6. Eligibility could be contingent on eligibility for child benefit (Kindergeld).
- A small monthly investment amount would be sufficient, as the programme is intended to let children acquire practical financial knowledge and not to build up significant wealth.

- Children should receive monthly contributions of, for example, ten euros for twelve years to invest in a liquid, broadly diversified fund with a high share of stocks at a low cost.

- Only authorised UCITS funds are eligible for investment, which are designed for retail investors and offer simple and secure investment opportunities in stocks, bonds and other securities.

- The investment period must be long enough for children (and their parents) to experience different financial cycles and benefit from the advantages of a broadly diversified investment. A simulation by the GCEE shows that, after twelve years, the median portfolio value is 13 per cent higher with an equity share of 100 per cent than with an equity share of 50 per cent.

- If parents do not actively make an investment decision, the payments are channelled into a default fund with a 100 per cent share of stocks.

- During the savings phase, withdrawals should generally not be permitted. Children can access the amount saved without restrictions once they reach the age of 18. The investment accounts should be designed such that they can be linked to a future reformed private funded pension (Riester-Rente) and beneficiaries can continue to save using their existing investment accounts.

- Educational support for the programme in schools and age-appropriate financial education courses could further strengthen the impact of programme on financial literacy, especially if offered at key decision times, such as shortly before the end of the savings phase. The success of such courses will depend on them having an appealing design and teachers being trained to explain the investment options of the programme.

- If all children are gradually included in the programme, the programme will only generate moderate costs for federal budget in the initial phase, starting at 91 million euros in the first year and rising to around 1.5 billion euros per year in the long term.

The German Council of Economic Experts (GCEE) provides support to policymakers and the general public on questions and matters of economic policy. It was founded as an independent body in 1963 and currently consists of the council members: Professor Dr. Veronika Grimm, Prof. Dr. mult. Dr. h.c. Ulrike Malmendier, Professor Dr. Dr. h.c. Monika Schnitzer (chair), Professor Dr. Achim Truger, Professor Dr. Martin Werding. By publishing regular reports, the GCEE aims to help the general public and decision-makers in politics, business and society to form a reasoned opinion on economic policy developments in Germany.

Further information on the German Council of Economic Experts and its publications are available at http://www.sachverstaendigenrat-wirtschaft.de/en.

Press contact:
Nadine Winkelhaus
Senior media and public relations officer
Phone: +49 611 75-3110
presse@svr-wirtschaft.de