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A STARTING CAPITAL FOR CHILDREN IN GERMANY

Veronika Grimm, Ulrike Malmendier, Monika Schnitzer, Achim Truger, Martin Werding

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Executive Summary

Under the starting capital for children programme the government could make monthly contributions of, for example, 10 euros into an investment fund for each child in Germany. This could strengthen financial literacy in Germany through practical experience with capital market investments. In the long term, this programme can help strengthen capital market participation and reduce differences in asset returns along the wealth distribution.

All children who turn six should automatically receive monthly contributions for 12 years. This investment horizon enables significant returns with low risk on the stock market. The gradual introduction means that public funding needs will be low in the short term and only increase slowly over time.

Investment funds are suitable for this programme if they invest in a broadly diversified manner, charge low fees and have a high share of stocks. The eligibility of funds could be determined via a certification model. Alternatively, funds could be selected via a procurement system. Regardless of the selection mechanism, the programme should only consider authorised UCITS funds, which must meet

regulatory requirements in terms of diversification, liquidity, risk management and eligible assets.

Children should generally not be permitted to withdraw from their starting-capital account before their 18th birthday. They should, however, be able to continue investing money and holding their accumulated savings beyond the age of 18, when the starting-capital programme has ended. An unburdened link to a private pension scheme eligible for subsidies should be made possible from the outset.

Potential courses of action

- The starting capital for children strengthens their financial literacy and anchors participation in the capital market early in life.
- The programme should automatically include all children and allocate, e. g., 10 euros per month for 12 years for investment in a liquid fund with broad diversification and low costs.
- The starting-capital for children can complement the national financial education strategy.

Motivation

In the Annual Report 2023/24, the GCEE discussed introducing a starting capital for children that would provide funds to be invested in the capital market (GCEE Annual Report 2023 item 266). This policy brief specifies the design of the proposed programme and describes implementation options for children in Germany. The introduction of a starting capital for children could also be coordinated at the European level (FGCEE, 2024). The objective of the programme is to anchor capital market participation early in life, to enable broad sections of the population to gain long-term experiences with capital-market investments and their potential returns, and to strengthen capital-market financing in Germany in the long term.

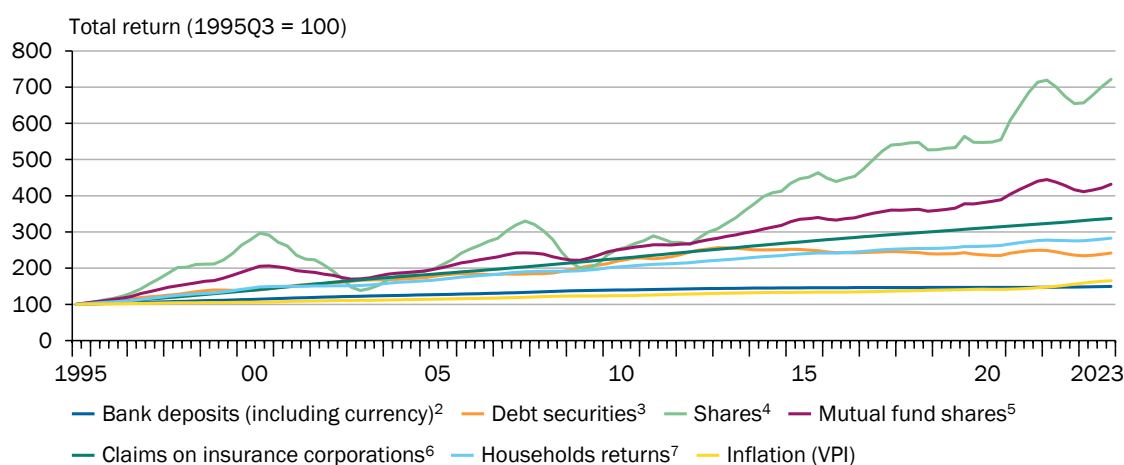
The capital market participation of private households in Germany is low. German households invest only around 27 % of the total financial assets in bonds, stocks or investment funds, while they hold almost 43 % in the form of cash and bank deposits (GCEE Annual Report 2023 items 234 ff.). In the USA and Sweden, these shares are significantly higher at 55 % and 46 % respectively. Correspondingly, stock market participation in Germany has been at a low level for decades. It is currently at around the same level as in the USA at the be-

ginning of the 1980s (GCEE Annual Report 2023 box 18). As a result, German households forego the higher returns earned from stock market investment. [↘ CHART 1](#) This is particularly true for households with low income and low wealth, who are less likely to invest in capital markets. Over the past decades, it has become easy and inexpensive to invest even small amounts in a broadly diversified equity portfolio, e. g., in an index fund that tracks a wide range of listed stocks worldwide. In contrast to an investment in individual stocks, broadly diversified stock investments have a very low risk of loss over a medium to long-term horizon. Given the high, reliably positive returns over a long-term investment horizon, it is surprising that stock market participation has remained so low in Germany (Beshears et al., 2018; GCEE Annual Report 2023 box 18).

These investment patterns are important not only for explaining low average rates of returns earned by many German households; they also affect the distribution of earnings from financial investment across the population. A comprehensive international literature confirms the link between portfolio decisions and wealth inequality (Benhabib et al., 2011; Bach et al., 2020; Hubmer et al., 2021). In Germany, the assets of households in the lower half of the wealth distribution consist largely of bank

[↘ CHART 1](#)

Returns by asset class¹ in Germany: stocks have the highest returns in the medium and long term



1 - Estimates by Deutsche Bundesbank on returns of the main asset classes held by German households. See Deutsche Bundesbank (2015) for details. 2 - Based on harmonised MFI interest rate statistics. 3 - Estimated average ex-post returns of debt securities held by private households. 4 - Estimated ex-post total return based on established domestic and foreign indices. 5 - Estimates based on the price changes of all publicly offered funds subject to reporting requirements in Germany. 6 - Estimates using the current return on life insurance policies determined by Assekurata. 7 - Returns are weighted using asset class shares of German households.

Sources: Deutsche Bundesbank, own calculations

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deposits, bonds and insurance claims (Grabka and Halbmaier, 2019; Deutsche Bundesbank, 2022), which have comparatively low returns. [↪ CHART 1](#) For example, the performance of assets held by German households in bank deposits (including currency) over the last 30 years is negative after accounting for inflation, and the performance of claims on insurance companies and debt securities is less than half that of a stock portfolio. By contrast, households in the upper half of the wealth distribution invest a much larger share of their assets in capital market instruments as well as property and business assets, which offer high returns (Deutsche Bundesbank, 2022). Empirical studies show this relationship for various countries, such as the USA (Xavier, 2021), Sweden (Bach et al., 2020) and Norway (Fagereng et al., 2020).

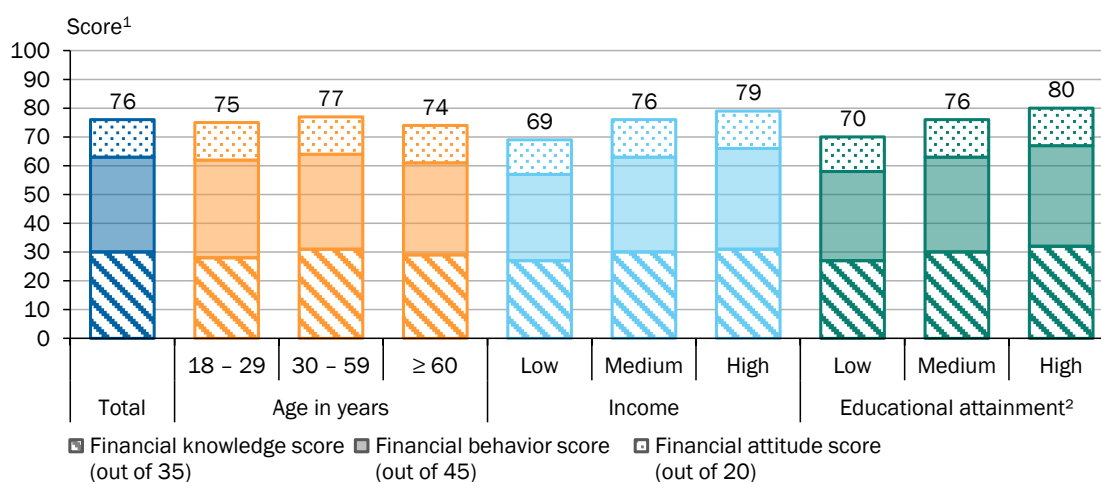
The academic literature has identified low financial knowledge as an important explanatory factor for low capital market participation (van Rooij et al., 2011; Bucher-Koenen et al., 2023; GCEE Annual Report 2023 items 236 ff.). According to an internationally recognised definition by the OECD (2020), financial literacy is the combination of financial knowledge, financial behaviour and attitudes necessary to make sound financial decisions.

Regardless of the survey method, Germany performs quite well in an international comparison in terms of financial literacy (European Commission, 2023; OECD, 2023; Demertzis et al., 2024); so financial literacy is unlikely to be the only explanatory factor for suboptimal investment decisions, even though there are population groups whose financial literacy has gaps (Bachmann et al., 2021). [↪ CHART 2](#) A closer look at the different dimensions of financial literacy shows that Germany performs poorly relative to other countries when it comes to translating financial knowledge into investment decisions („financial behaviour“; OECD, 2024a). There is also significant room for improvement in attitudes towards financial markets. This is consistent with an under-developed equity culture in Germany (GCEE Annual Report 2023 box 18). Nevertheless, prior educational policies aimed at strengthening financial literacy have focused on promoting financial knowledge. The empirical evidence evaluating the success of these measures is not consistently positive (Willis, 2011; Miller et al., 2015; Kaiser et al., 2022). In particular, it shows that the effect is not long-lasting (Fernandes et al., 2014). Empirical results suggest that financial education programmes are more effective when they aim to strengthen

[↪ CHART 2](#)

Financial literacy¹ by socio-demographic characteristics in Germany

Heterogeneous levels of financial literacy between individual population groups



1 – Financial literacy of adults in Germany in 2022 measured using the OECD/INFE Toolkit for Measuring Financial Literacy and Inclusion. The toolkit contains selected questions on financial knowledge, behavior and attitudes. The answers to these financial literacy questions are used to calculate a score on a scale between 0 and 100. A person who achieves the highest possible score (100) has a basic understanding of financial concepts. 2 – Low educational attainment: qualification below secondary level; medium educational attainment: qualification at secondary level; high educational attainment: tertiary level.

Source: OECD

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financial behaviour by learning from experience (Amagir et al., 2020). This finding is in line with a broad literature on the relationship between capital market participation and prior personal experiences, e. g. experiences in the stock market (Malmendier and Nagel, 2011; Foltyn, 2020; Shin, 2021; Galaasen and Raja, 2024).

The Federal Ministry of Finance (BMF) and the Federal Ministry of Education and Research (BMBF) are developing a national strategy for financial education for Germany this year based on a proposal by the OECD (2024b) (BMBF and BMF, 2023; BMF, 2024a). The starting capital for children first outlined by the GCEE in its last Annual Report (GCEE Annual Report 2023 item 266) could complement the national strategy for financial education, as it would strengthen financial literacy in the population through practical experience, and learning based on personal experience has proven to be more effective and longer-lasting. The starting capital for children would likely have an impact not only on the financial literacy of the participating children, but also on their parents, as they would make investment decisions for their underage children during the first years. Scientific evaluations from other countries show that long-term asset accumulation in Child Development Accounts (CDA) [↪ BOX 1](#) can have a favourable influence on parents' attitudes towards long-term saving (Grinstein-Weiss et al., 2019; Huang et al., 2021). The evidence for learning externalities in the area of financial education is consistent with the findings of Haliassos et al. (2020). Shim et al. (2010) also show that the family

has the strongest effect on financial socialisation. The effect could be further strengthened by close educational policy support for the programme for children and their parents.

In the long term, the introduction of a starting capital for children could lead to private households participating in the capital market beyond the programme and strengthen the overall equity culture in Germany. Arrondel et al. (2022) show that regular interaction with the social environment on financial matters can have a positive influence on the perception of returns, expectations and attitudes towards financial instruments. Van Rooij et al. (2011) show that people learn not only from their own financial experiences, but also from the financial experiences of others. Several studies have shown that peer effects can play a major role in portfolio choice (Hong et al., 2004, Brown et al., 2008). Households at the lower end of the wealth distribution, which have so far rarely invested in stocks, would particularly benefit from such effects. In the long term, this could reduce differences in asset returns along the wealth distribution.

Lastly, the programme could have positive effects beyond the household level in the long term. Deep and liquid capital markets are an essential prerequisite for long-term overall economic growth (GCEE Annual Report 2023 items 185 ff.; FGCEE, 2024). Overcoming existing hurdles to capital market financing in Germany is therefore an important economic policy goal (GCEE Annual Report 2023 items 185 ff.).

[↪ BOX 1](#)

International role models

Various countries, including Israel, the United Kingdom, the USA and Canada, offer families Child Development Accounts (CDAs) to promote long-term asset accumulation. [↪ TABLE 1](#) CDAs are usually savings or investment accounts that are subsidised by the government or receive a tax benefit. CDAs differ in terms of eligibility, the intended use of the accumulated savings, tax treatment, the amount contributed, redistributive elements and the type of financial products used. In 2022, there were CDAs for 15 million children worldwide (Zou and Sherraden, 2022).

▸ TABLE 1

Child Development Accounts

Country	Government contributions	Tax advantages	Purpose limitation	Investment product
Israel (Savings Plan for Every Child)	Monthly government contributions; administrative costs are covered; bonus payment for long investment period	No	None, only recommendation	Savings deposit or investment funds Default: Investment funds with a low risk profile
United Kingdom (Child Trust Fund)	Deposit for birth and 7th birthday	Yes	No	Savings deposit or equity fund Default: Equity fund
USA (529 College Savings Account)	Generally none, subsidies for low-income families in some federal states	Yes	Further education	Among others, stocks, bonds and investment funds
Canada (Registered Education Savings Plans)	Annual state contribution for each child; matching of private payments; subsidy program for low-income families	Yes	Further education	Among others, stocks, exchange traded funds (ETFs), options, fixed-income investments and bonds as well as investment funds

Sources: Government of Canada, State of Israel National Insurance Institute, UK Government, US Securities and Exchange Commission
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The Israeli „Savings Plan for Every Child (SECP)“ can serve as a model for a starting capital for children in Germany. The Israeli programme was introduced in January 2017 (State of Israel, 2024). Every child receives a personal savings account into which the government currently pays 57 shekels (approx. 14 euros) per month from birth until their 18th birthday. Parents can supplement the payment by the same amount directly from the child allowance. In terms of investment vehicle, parents choose from a variety of options with different risks and returns. Firstly, they decide whether the money is managed by a bank or a fund provider. If they invest through a bank, they can choose between a fixed- and variable-interest savings product. The state guarantees that the child will receive at least the amount paid into the account at the end of the savings period. If the money is managed by a fund provider, parents choose between funds with low, medium, or high risk profile based on their average annual return over the last five years. The Ministry of Finance selects which funds can be invested in and which banks can offer savings products. The administrative costs are covered by the state up to the 21st birthday. If parents do not make an active decision, the contributions are invested in an investment fund with a „low risk“ profile (default option). The provider for the default option is selected on a rolling basis from the possible funds with this risk profile. Funds be withdrawn before the age of 18 only under exceptional circumstances. If the saved amount is not withdrawn until after the age of 21, the government pays an additional bonus. The amount saved is available to the child without any purpose limitations.

Core elements of starting capital for children

The design of a starting capital for children in Germany has to specify which children are included, how much the government contributes, how long the savings phase will last, how the investment options are selected, when and in what form the saved amount is paid out, and whether it can only be used for a specific purpose. Prior findings in the

behavioural economics literature and from scientific evaluations of CDAs ▸ [BOX 1](#) can inform these design choices. To preview the key elements, the programme should automatically enroll all children, the savings period must be long enough for children to experience different financial cycles as well as the benefits of diversification, and the product selection should be as simple, cost-effective and transparent as possible. In addition, a default

option has to be selected if the parents do not make an active decision about the investment option.

Participation

Under the starting capital for children programme the government could make monthly contributions of, for example, 10 euros into an investment fund for each child aged between 6 and 18. The amount paid in could be automatically adjusted annually for inflation in the previous year. The repeated payments would enable children and families to gain financial experience over a longer period of time. This simulates what a future savings plan can look like, even with small contributions. Participation in the programme should be automatic rather than requiring families to sign up. The behavioural economics literature and experience from the Israeli programme suggest that participation rates would otherwise be lower, especially for children from socially disadvantaged families (Zager et al., 2010; Huang et al., 2013; Grinstein-Weiss et al., 2019; Haran Rosen et al., 2021; Haran Rosen and Sade, 2022).

Eligibility for the programme could be contingent on eligibility for child benefit („Kindergeld“). Although families must apply to receive child benefit, only a negligible share of eligible families do not receive this benefit. Linking the starting capital to child benefit would therefore come close to automatically registering all children and considerably reduce the administrative burden of managing the programme at the same time. Child benefit is a so-called priority benefit, so that children of recipients of basic income support (Bürgergeld) are also covered, as they must first apply for child benefit.

Savings phase and accessing funds

If all children who turn six by 1 September of a calendar year are admitted at this date, most children should be included at the start of first grade. They would then receive contributions to their investment accounts for 12 years. A few months before the cut-off date of 1 September, parents could be informed about the starting capital for children and asked to select a fund on behalf of their child. If the parents do not respond by a specified deadline, the payments for their child will be allocated to the default product.

Accessing funds from the state-subsidised investment account should not be permitted during the savings phase so that children can gain long-term experience and benefit from compound interest effects that only become evident in the long term. Once the child reaches the age of majority, the funds should be accessible without being tied to a specific purpose. A contingent use of funds, for example for an apprenticeship or college, as is the case in some other countries, [BOX 1](#) would generate additional bureaucracy.

After children reach the age of majority, they should be allowed to continue making contributions. This would make it possible for the starting capital for children programme to serve as the basis for the beneficiaries' private pension provision. The GCEE has already spoken out in favour of a reform of private funded pension provision in Germany in the past (GCEE Annual Report 2023 items 451 ff.). Politicians are currently discussing the reform of state-subsidised private pensions and of the Riester programme (BMF, 2024b). The design of the investment funds for the starting capital for children should be compatible with a future reformed privately-funded pension and allow for an unbureaucratic transfer of the fund balance to such a system when the child comes of age. Significant synergy effects could arise from, for example, applying the same criteria to the selection authorised funds, which should be taken into account from the outset of the programme design.

Investment strategy

During the savings phase, the funds from the starting capital for children should be invested in the capital market in a broadly diversified manner. When investing in a broad basket of different, independent securities, the overall risk of a portfolio is significantly lower compared to individual securities, even if they have the same average return. This includes diversification across different sectors and regions. The broader the level of diversification, the lower the risk, so that global diversification should be sought wherever possible.

In order to account for different risk preferences, eligible funds should offer different risk/return profiles. Three risk-return categories can be defined based on the share of stocks, e. g., a low (50 %),

medium (75 %) or high (100 %) share, and therefore low, medium and high expected return and risk. From the age of 15, children should be able to make their own investment decisions. It is particularly important to clarify the actual extent of risk reduction through a lower proportion of stocks as well as the resulting reduction in expected returns. Past private pension products, especially the Riester pension, have offered investors safe assets at very high costs in the form of foregone returns (Stotz, 2017).

Findings from evaluations of auto-enrolment in savings programmes show low rates of active participation for both CDAs and pension funds (Jachimowicz et al., 2019; Beshears et al., 2023). While active choices are common right after the introduction of these programmes, they often decrease over time (Cronqvist et al., 2018; National Insurance, 2024). The default product therefore plays an important role and should be kept as simple as possible (Beshears et al., 2013). The risk-return category with a stock share of 100 % should be selected as

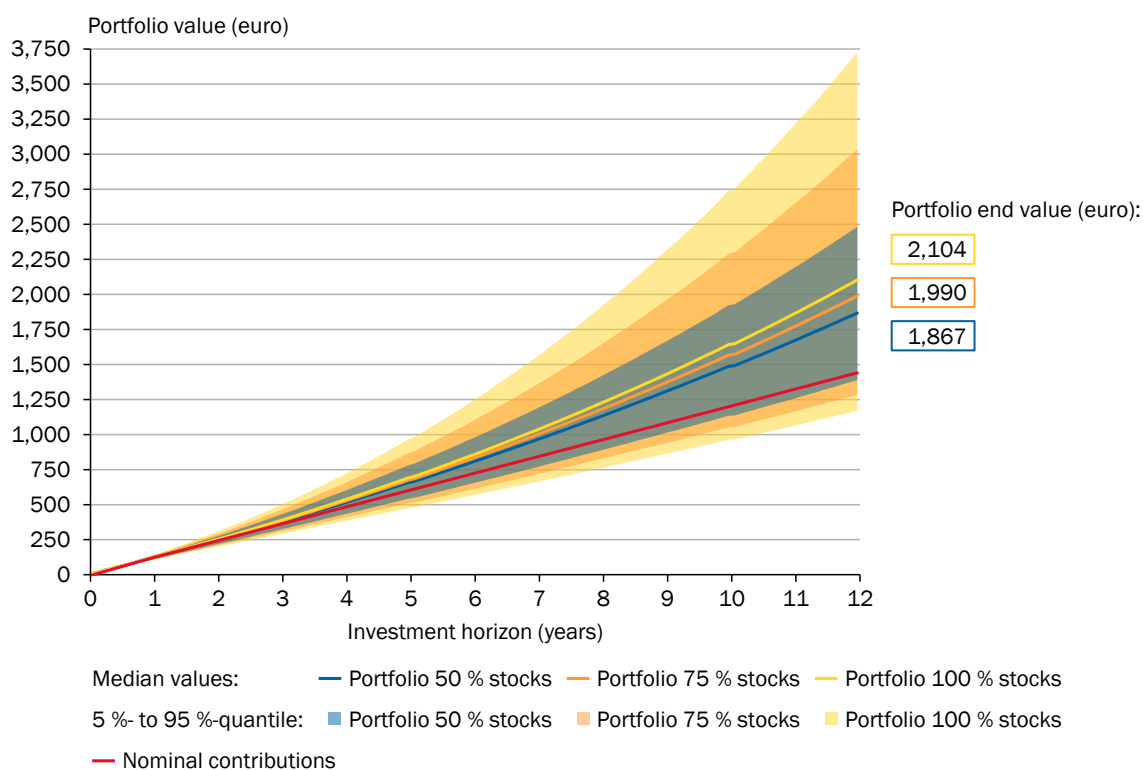
the default fund. Results from Israel show that otherwise wealthier, well-educated households tend to select a fund with a higher risk and higher return. This can contribute to a growing inequality of asset returns (Grinstein-Weiss et al., 2019).

Simulations by the GCEE of portfolio returns based on historical data show the distribution of plausible portfolio values after a given investment horizon (Malmendier et al., 2024). Three investment strategies are simulated for this purpose, with stock shares of 50 %, 75 %, and 100 %, respectively. The remaining share is invested in bonds. The stock returns are based on the MSCI World, bond returns on the REXP bond index by Deutsche Börse. The simulations use real returns after accounting for inflation, starting in 1971. [↘ CHART 3.](#) [↘ TABLE 2](#)

The median value of a portfolio with 100 % stock share after 12 years is 13 % higher than a portfolio with a 50 % stock share. After 45 years, the difference in median values rises to 66 %. The distri-

[↘ CHART 3](#)

Simulated portfolio returns for different horizons and stock shares¹



1 – Based on 100,000 iterations of a Markov bootstraps. Straight lines correspond to the median values of the simulated portfolio, the shaded areas correspond to 90 % of the mass of all simulated portfolios. The portfolio share which is not invested in stocks, is invested in bonds. For stock market returns we use the MSCI World, for bonds the REXP. For additional details see Malmendier et al. (2024).

bution of the possible portfolio values widens with the investment period and shows the opportunities and risks. In the worst 5 % of the simulated cases, the 100 %-stock portfolio has a value at least 16 % below the 50 %-stock portfolio. In the best 5 % of simulated cases, the value of the 100 %-stock portfolio value is at least 50 % higher. [↪ CHART 3](#) This contrast makes it clear that a (high) stock share should be an indispensable core element of the starting capital for children. [↪ BOX 1](#)

The longer an investment in stocks is held, the lower is the probability that the portfolio value will be lower than the sum of the contributions paid. With an 100 % share of stocks, there is a 24 % probability that the amount saved will be lower than the contributions paid after 1 year, but only a 7 % probability after 12 years. [↪ TABLE 2](#) After the intended minimum investment horizon of 12 years, the funds invested are therefore likely to earn a substantial rate of return on the stock market with comparably low risk. If the beneficiaries continue to make contributions over longer horizons, after reaching the age of majority, the chance of a high return increases and the risk of loss decreases.

Fund selection

Only authorised UCITS funds („Undertakings for Collective Investments in Transferable Securities“ = UCITS) should be eligible for investment of the starting capital for children programme. UCITS funds are designed for retail investors and must meet regulatory requirements with regard to diversification, liquidity and risk management. They may also only

invest in liquid assets such as transferable securities admitted or dealt on a regulated market. The focus is typically on equities, bonds or money market funds. In the EU, UCITS funds are strictly regulated, with a clear emphasis on investor protection. A restriction to UCITS funds would also ensure comparability between fund providers as sales prospectuses and reports for retail investors are highly standardised.

There are well over 30,000 UCITS funds in total. In order to keep the number of eligible funds manageable, two selection models are conceivable: Firstly, one could define certification criteria. Secondly, funds could be selected via a procurement model, as implemented by the Swedish Fund Selection Agency for the Swedish premium pension. The default fund should be procured on a regular basis.

Under a certification model, one possible criterion for certification by risk/return category could be a minimum quota in stocks (e. g. 50 %, 75 % and 100 %). As another criterion, certified funds should have a minimum requirement regarding total assets under management so that they are not dependent on contributions from the starting capital for children and also have sufficient resources to fulfil the EU regulations on compliance and reporting. Certification could also impose stricter rules than the UCITS regulation, for example with regard to diversification for funds in the highest risk-return category.

The certification should also include a cap on management fees. While higher fees may be justified for funds that invest in illiquid assets and private equity

[↪ TABLE 1](#)

The probability¹ that the final portfolio value² with a high share of stocks is lower than the sum of the contribution paid sharply decreases over time

Investment horizon (years)	Share of stocks		
	100 %	75 %	50 %
1	24 %	20 %	15 %
5	14 %	10 %	6 %
12	7 %	4 %	1 %
25	2 %	< 1 %	< 1 %
45	< 1 %	< 1 %	< 1 %

1 – Simulations are merely approximations of reality. Investments are subject to risks and not all risks can be fully modelled in simulations. There is also a risk of losing all of the capital invested in the starting capital for children. 2 – Based on 100,000 iterations of a Markov bootstrap. Contributions are discounted annually with 2 % inflation.

Sources: Deutsche Börse, Deutsche Bundesbank, Federal Statistical Office, LSEG Datastream, own calculations
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in particular, the objective of the starting capital for children is to introduce simple, transparent and cost-effective products, which do not require high fees. Moreover, the programme should not include payments for management fees, as is the case in Israel. [↘ BOX 1](#) Otherwise, there is a risk that parents will not sufficiently take management fees into account when making their investment choice and that fund managers extract high fees from the public funds. In practice, taking management fees into account when selecting funds has proven to be a major source of error in financial decisions, even after investors have been explicitly informed about them (Choi et al., 2010; Anufriev et al., 2019). Fees should be capped at a maximum of 1 % of assets under management, as in the PEPP (Pan-European Pension Plan). Lower limits of 0.75 %, for example, as in the UK for occupational pension schemes, are also conceivable. A lower fee of around 0.2 % should be set for the default fund.

Alternatively, a procurement system could be modelled on the Swedish Fund Selection Agency (SFSA). When the premium pension was first introduced in Sweden, all UCITS funds that wanted to market their funds via the premium pension platform were initially authorised to do so. As a result, there were several hundred funds to choose from (Cronqvist et al., 2018). The government established a fund procurement authority in 2022. The new procurement model will significantly reduce the number of funds and monitor them more closely. The SFSA is financed by a fee of 0.005 % to 0.015 % of the fund assets under management, depending on the complexity of the fund. In addition, the funds pay fees for participating in the procurement process.

The SFSA selects funds for different fund categories, such as European equities, global equities or global fixed-interest securities. In addition to price, the selection process takes into account the quality of the funds. Quality criteria include the fund managers financial resources, organisational setup, internal processes, investment philosophy and the compliance of the fund. A benchmark is also defined for each fund category in order to evaluate the realised returns. The procurement is repeated for each fund category after 12 years at the latest. If a fund no longer fulfils the conditions set out in the

fund agreement, it can be removed from the platform.

Certification would authorise the largest possible selection of funds that are in competition with each other. Due to the strict UCITS rules for simplified sales prospectuses and reports, fund providers are much more comparable than the large number of non-transparent Riester products (Gasche et al., 2013; Börsch-Supan et al., 2017). However, too large a set of eligible funds can overwhelm investors (Sethi-Iyengar et al., 2004). A comprehensive qualitative assessment and close ongoing monitoring of the certified funds is not realistic due to the associated administrative costs and the low volume of the starting capital for children programme. Selecting funds via procurement can improve the quality of the funds and reduce costs. For example, after the first round of tendering by the SFSA, the average fees for actively managed equity funds were reduced from 0.48 % to 0.21 % (Swedish Fund Selection Agency, 2024). The overall low fees reflect that the SFSA acts as a single investor and manages the investors' money on their behalf.

Ultimately, the fund selection model for the starting capital for children should follow the envisaged process for selecting eligible private pension products (BMF, 2024b). The creation of a new authority based on the Swedish model makes sense if, in addition to funds for the starting capital for children, funds for state-subsidised private pensions are also procured. The selection of funds for the starting capital for children can only represent a subset of the authorised funds for eligible private pensions.

Implementation

Institutional anchoring

The family benefits offices (Familienkasse) hold the personal data of all families in Germany who receive child benefit, including the children's birthdays and addresses. In order to make the programme as easy to administer as possible and to avoid the creation of a new authority, the family benefits offices should therefore administer the starting capital for children.

A coordinating body between families, fund providers, the family benefits offices and politicians could manage the investment accounts and continuously

collect data for evaluation. Alternatively, the management of investment accounts could be procured. Attention should be paid to ensure low fees for investment accounts, order costs and other costs. In contrast to the fund management fees, these costs should be borne by the state for the duration of the savings phase. The family offices could make the monthly payments during the savings phase into a corresponding account. Parental consent to set up an investment account should be obtained automatically when they first apply for child benefit, for example with the welcome letter from the family benefits office for newborns, which is sent out automatically.

Financing and social criteria

In 2022, there were around 10 million children between the ages of 6 and 18 living in Germany (Census 2022, Statistical Offices of the Federation and the Länder). If all of these children were to receive the starting capital for children starting at a specified cut-off date, public funds totalling 1.2 billion euros per year would be required to fund the programme (GCEE Annual Report 2023 item 266). However, in order to ensure a sufficiently long investment horizon and increase the potential returns while minimising the risks, the programme should include children from the age of 6 in the programme only gradually. This approach has the additional

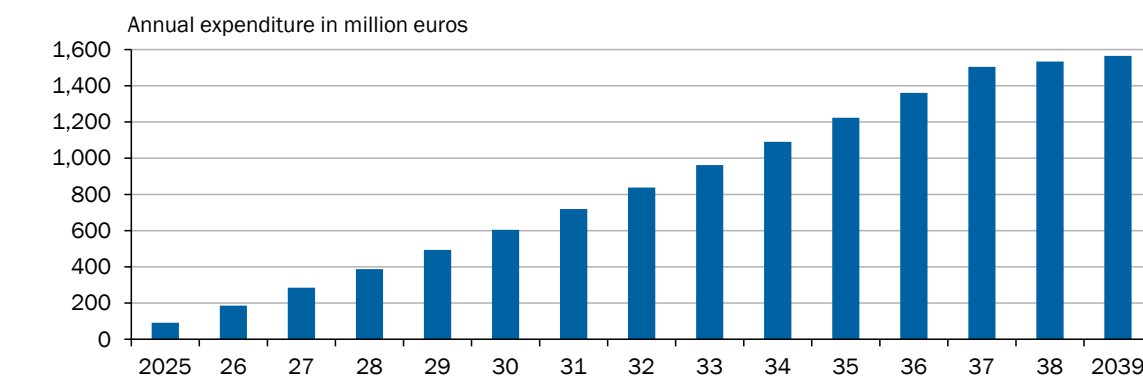
advantage that the public funding requirement initially remains low and only increases in the medium term.

The programme costs 120 euros per child per year over a period of 12 years. If the starting capital for children was introduced on 1 September 2025, around 760,000 six-year-old children would be in the programme in the first year, which would result in expenditures of 91 million euros. Despite the tight public budget situation in Germany, this amount should be affordable for the federal government. In subsequent years, the annual expenditure would increase as further children reach the age of six. Also accounting for inflation-adjustments of 2 %, this could result in expenditure totalling 604 million euros in 2030. Only in 2037 would all children between the ages of 6 and 18 be included in the programme. Taking into account inflation adjustments, annual expenditure of about 1.5 billion euros would be incurred from then onwards if the number of births remained unchanged. [↘ CHART 4](#)

In order to ensure that the starting capital programme reaches children from low-income and low-wealth families and is attractive to them, various programme elements are particularly important. Experience from Israel shows that low-income households benefit especially from simple and barrier-free access to such a programme and from a high-

[↘ CHART 4](#)

Annual public expenditure requirement for the starting capital for children¹



1 – Calculation based on the assumption that the programme will start on 1 September 2025 with all children who are six years old at that time. The children who have reached the age of six by 1 September of the respective year will then be gradually included each year. The contributions increase at an inflation rate of 2 % p. a. The number of children used in the calculation is based on data from the 2022 census. The calculation is based on the simplified assumption that the total number of children aged between 6 and 18 on the reference date remains constant over time. In 2037, all children aged between 6 and 18 will be included in the programme. After that, the expenditure requirement will only increase in line with inflation, not with the number of new children joining the programme.

Sources: Statistical Offices of the Federation and the Länder, own calculations

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yield default category (Huang et al., 2013; Haran Rosen et al., 2021). It should be ensured that the starting capital for children does offset other social benefits such as the basic income support or federal training assistance (BAföG) benefits. The government should not top up the starting capital for children for low-income families, as is the case for example in Canada. [↘ BOX 1](#) In addition to increased bureaucracy, this could lead to the stigmatisation of children from low-income families and weaken the acceptance of the programme. Instead, it should offer all children equal starting conditions and comparable capital-market returns as part of the programme's educational policy.

Scientific and educational policy support

The goal of the starting capital for children is to improve the financial education of parents and children in Germany as well as promote the translation of financial knowledge into investment behaviour, thus strengthening the equity culture in the long term. On the one hand, this happens automatically through the experiences of children and parents with capital market investments through the programme (Foltyn, 2020; Shin, 2021). On the other hand, it can be reinforced by targeted educational policy support for the programme.

Empirical evidence on financial education programmes suggests that they are particularly effective if they are implemented at the right time - specifically, when individuals or private households are about to make certain financial decisions (Fernandes et al., 2014; Kaiser and Menkhoff, 2017). Accordingly, offering accessible financial education to parents when their children first receive their contributions under the programme could be particularly effective. To ensure effective financial education for children, on the other hand, educational support in schools requires adequate teaching staff and well-designed teaching materials. The results of Kaiser et al. (2022) indicate that innovative forms of teaching are superior to traditional frontal teaching when it comes to strengthening financial literacy, especially when the material is personalised. The realised returns of investments should be regularly discussed and compared in class as part of age-appropriate learning units. In math classes, for example, the calculation of returns from the children's starting capital could help to make the

opportunities and risks arising from the investment more visible and complement the school lessons in a practical way. Participation in an accessible financial education course could, for example, be a prerequisite for children before they are able to make their own investment decisions at the age of 15 and before they access their funds at the end of the programme. To ensure high quality and comparability, it is advisable to standardise such courses and school-based learning units throughout Germany. Teachers trained in mathematics or economics should be prepared, through special further training and courses, to discuss the introduction of the starting capital for children and the associated investment options in school lessons. Another option would be a cooperation with universities and the use of customised teaching materials to introduce financial markets in the classroom.

In order to ensure long-term learning effects as well as the continued acceptance of the programme, it is important to regularly provide information about the total amount of contributions and the realised returns, ideally via a corresponding app. The information should be presented in a clear and easily accessible manner and include quantitative information. Such information should also be sent by mail in order to reach every family. The information could also remind families in the default category that they have the alternative of making an active investment decision.

The initiative should be accompanied scientifically by systematic, anonymised evaluations of its effectiveness and long-term effects. These studies should continuously record and analyse the financial literacy of children and their parents, their savings and investment behaviour and the development of the socio-economic situation of families. Co-operation with research institutes should be sought for this purpose. Regular publication of the evaluations and a regular exchange between science and politics will enable evidence-based recommendations to be incorporated into the further development of the programme. In addition, participation in the PISA comparisons should be used to systematically review the financial literacy of pupils in Germany.

Implementation at European level

The starting capital for children could also be implemented at the European level (FGCEE, 2024). As the European institutions do not have the necessary information on families and children, the EU would merely assume a coordinating role between the national institutions and help ensure a standardised implementation. The certification or tendering of funds could be done by ESMA (European Securities and Markets Authority). The goal should be to establish a common system that is financed and administered nationally and that other countries can join over time.

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German Council of Economic Experts (GCEE)
c/o Federal Statistical Office
65180 Wiesbaden
Tel.: 0049 611 / 75 2390
E-Mail: info@svr-wirtschaft.de
Internet: www.sachverstaendigenrat-wirtschaft.de

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