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Handelsregister Liechtenstein
FL-0002.027.093-3

Market commentary

Paradoxical or reasonable?
Retirement savers defy crises and inflation

By Holger Beitz, CEO PrismaLife AG
Ruggell, November 14th 2022.

In principle, one might think that both the Corona pandemic and the fears caused by Russia's attack on Ukraine would lead people to reduce current expenditure and be cautious. But fortunately, this does not always seem to apply to savings processes and precautionary measures. On the contrary, many savers are taking advantage of favourable contractual opportunities to top up their pension benefits.

Significant increase in additional payments
For example, PrismaLife has recorded high additional payments under its contracts with unit-linked policies in the past two years. In the 2021 corona year, the inflows into existing contracts over and above the regular premiums rose by almost 50 percent. In the first three quarters of 2022, it was again 28 percent compared to the same period of the previous year - and this against the background of high inflation. Note: These are not classic single premiums, but rather extra payments into current contracts.

Is that paradoxical or reasonable?
From our point of view, these savers are doing exactly the right thing: they are compensating for additional or new risks. This behaviour is highly rational and at the same time reflects the fact that pension contracts have to be flexible.

Use the flexibility of the contracts
Savers actively use the option offered in many PrismaLife tariffs to make additional payments free of charge. In this way, they combine a high degree of flexibility with regard to their individual financial possibilities and at the same time achieve a high level of efficiency in topping up their provision.

The reversal of the reflex to reduce expenses in times of crisis in favour of a consistent savings policy was already noticeable during the first year of Covid pandemic. At that time, it was temporarily observed that savers suspended their contribution payments. This was also the use of a flexible scheme. But already after a few months, the majority of customers had resumed current payments. There was no real wave of cancellations despite great fears about the reliability of one's earned income.

Insight into the necessity of provision
With this behaviour, savers are therefore by no means acting paradoxically or irrationally, but rather show insight into the necessity of private provision and at the same time a clear view of reality. The current high inflation must not lead to a reduction in pension benefits.
On the contrary, pension provision must take into account the declining purchasing power of contributions. Even if it is not always easy: a regular review of one's own pension benefits makes sense - especially in times of crisis. The financial advisors must support in this, and they are obviously doing so.

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PrismaLife AG is the leading Liechtenstein life insurance company based in Ruggell. As a specialist for products with net premiums, the company focuses on a clear separation of product and remuneration. The company manages client assets of around 1.3 billion euros. The investments in the cover pool are sustainably oriented. PrismaLife also offers customers numerous fund solutions with a sustainable orientation. Further information is available at: www.prismalife.com

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