MELBOURNE MERCER GLOBAL PENSION INDEX | AUSTRALIAN CENTRE FOR FINANCIAL STUDIES | MERCER

EBRI Policy Forum
May 10, 2012

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MARSH & McLENNAN COMPANIES

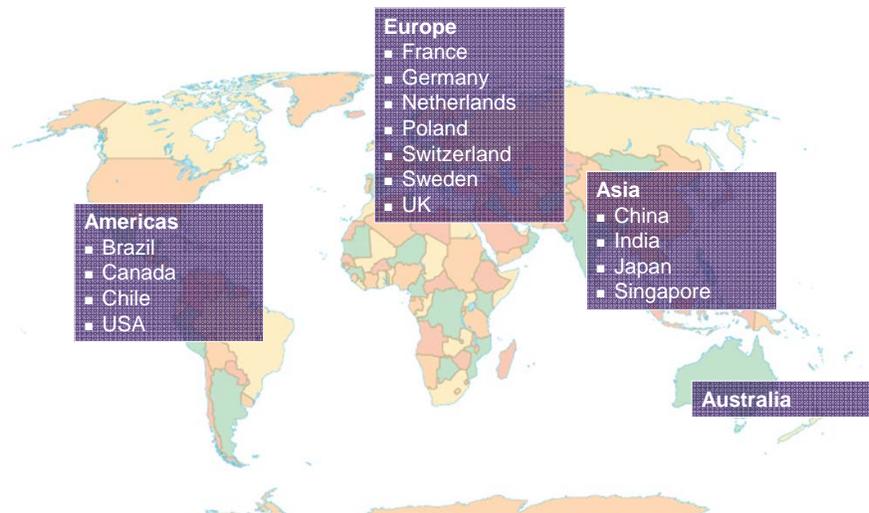## Can different systems be compared?

- Variety of pension systems is considerable

- Mix of public and private provisions

- OECD: "classifying pension systems and different retirement income systems is difficult."

- Comparable data is not always available

➢**These challenges should not prevent meaningful comparison**

- What is the ideal retirement system?

- Our overall approach – multi pillar system – World Bank approach

➢**More than 40 indicators to allow for breadth and variety**

Overall framework
The World Bank multi-pillar approach

Pillar 0	Pillar 1	Pillar 2	Pillar 3	Pillar 4
A basic public pension that provides a minimal level of protection	A public, mandatory and contributory system linked to earnings	A private, mandatory and fully funded system	A voluntary and fully funded system	Financial and non-financial support to the elderly outside pensions
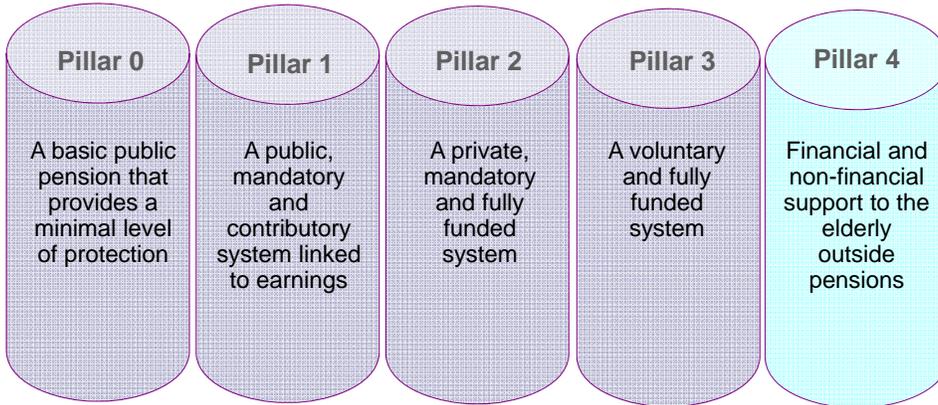
16 countries in the Melbourne Mercer Global Pension Index 2011

Europe
- France
- Germany
- Netherlands
- Poland
- Switzerland
- Sweden
- UK

Asia
- China
- India
- Japan
- Singapore

Americas
- Brazil
- Canada
- Chile
- USA

Australia

Fundamental questions

1. What do you get out of the "system"?
   - ➤ **Adequacy**

2. Can the "system" keep delivering?
   - ➤ **Sustainability**

3. Can you trust the private "system"?
   - ➤ **Integrity**

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1. Adequacy sub-index

We consider
- The minimum (or base) pension
- The net replacement rate for a median income earner
- Benefit design issues in the pension system
  - Tax; vesting; portability; access age; income streams; divorce
- Non-super savings
  - Household saving rate; home ownership
- Level of growth assets

Top ranking countries
– Netherlands	75.9	
– Canada	74.1	
– France	73.6	… India 37.3

2. Sustainability sub-index

We consider

- Coverage of private pension plans
- Level of pension assets as % of GDP
- Demographic issues
  - Life expectancy; pension age; fertility rate
- Level of mandatory contributions with funding
- Labour force participation rate amongst older workers
- Net government debt

Top ranking countries

– Sweden	75.4	
– Australia	71.4	
– Netherlands	70.8	… Brazil 27.3

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3. Integrity sub-index

We consider

- Regulation of private pension plans
- Governance requirements
- Protection of members' benefits
- Communication to members
- Costs of the system

Top ranking countries

– Netherlands	91.4	
– UK	84.5	
– Switzerland	83.5	… China 50.1

Then … bringing it together

Calculating — the Melbourne Mercer Global Pension Index

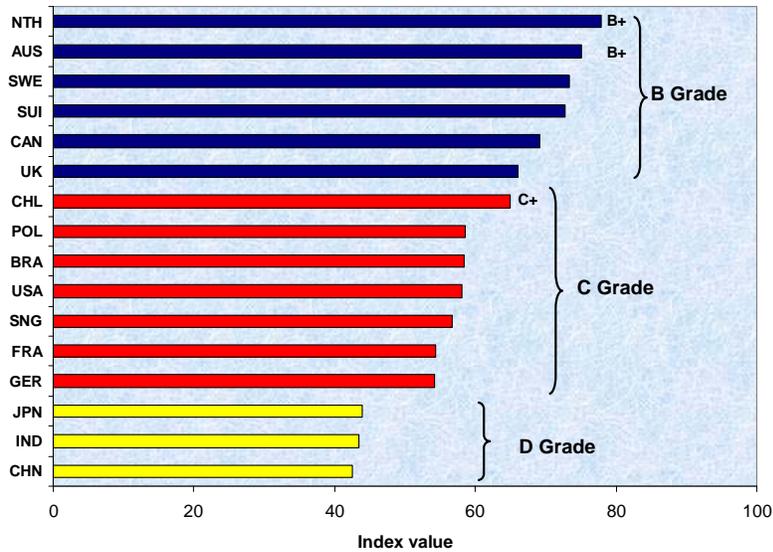| ▸ Benefits ▸ Savings ▸ Tax support ▸ Benefit design ▸ Growth assets	▸ Coverage ▸ Total assets ▸ Contributions ▸ Demography ▸ Government debt	▸ Regulation ▸ Governance ▸ Protection ▸ Communication ▸ Costs	indicators including
ADEQUACY	SUSTAINABILITY	INTEGRITY	sub-index
40%	35%	25%	

MELBOURNE MERCER
GLOBAL PENSION INDEX

The 2011 Results

Bar chart — Index value (x-axis 0 to 100)

- NTH — B+
- AUS — B+
- SWE
- SUI — B Grade
- CAN
- UK
- CHL — C+
- POL
- BRA
- USA
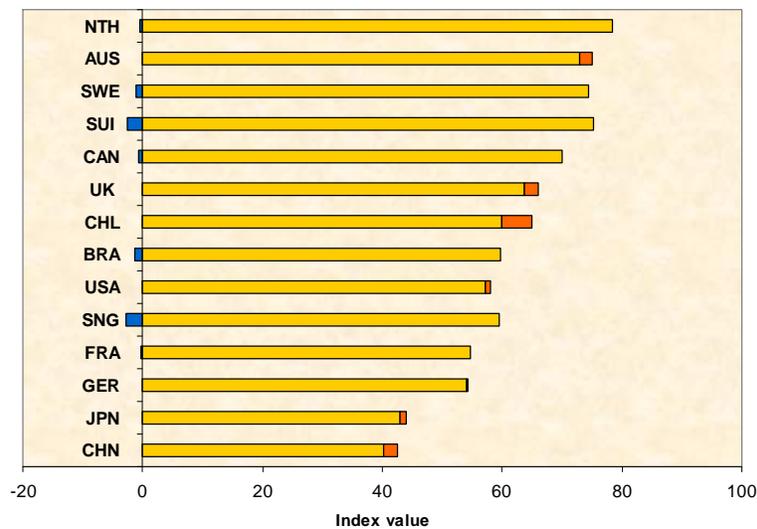- SNG — C Grade
- FRA
- GER
- JPN
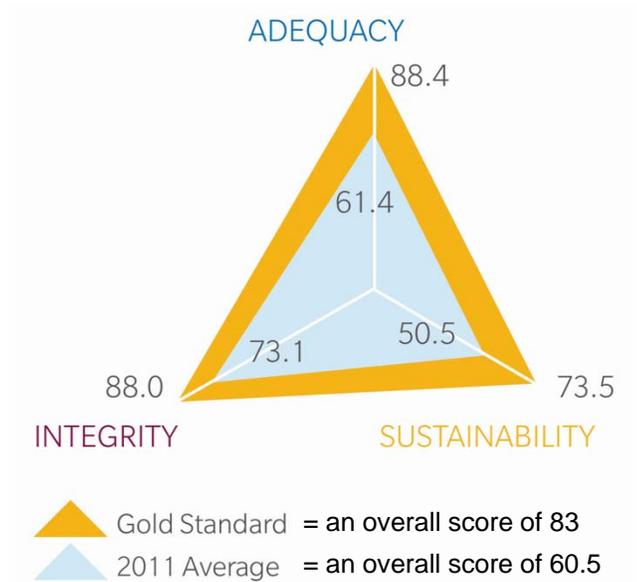- IND — D Grade
- CHN

Index value

5
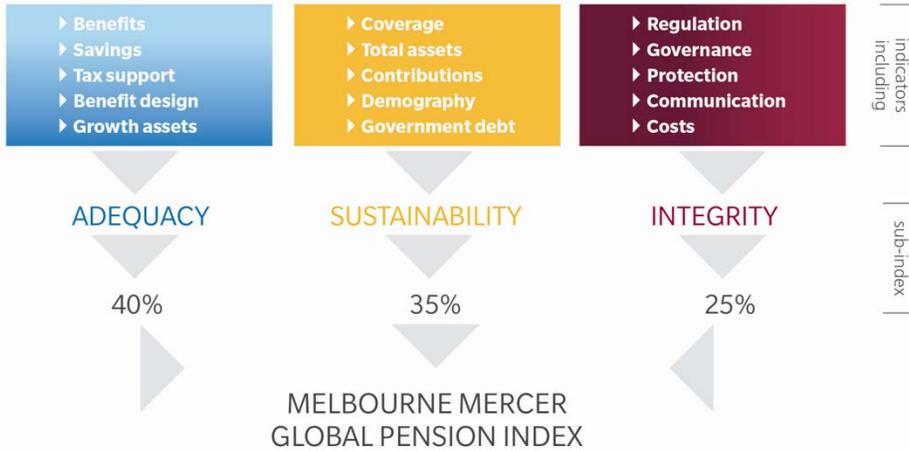
Changes in the 2011 index

- OECD updated its population data and mortality rates
  - Lower annuity rates for DC countries, reducing net replacement rates
- Ongoing effect of the global financial crisis
  - Particular effect for countries with higher equity exposure
- Change in OECD's measure of pension coverage
  - From employed workforce to population of working age
- Addition of Total Fertility Rate in the demographic indicator

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Changes from 2010 to 2011 results

The Gold Standard

ADEQUACY

88.4

61.4

73.1   50.5

88.0   73.5

INTEGRITY   SUSTAINABILITY

Gold Standard = an overall score of 83

2011 Average = an overall score of 60.5

Common challenges

Common challenges around the world include the need to:

• Increase the state pension age and/or retirement age

• Promote higher labour force participation at older ages

• Encourage or require higher levels of private saving

• Increase the coverage of employees and/or the self-employed

• Reduce the leakage from the retirement savings system before retirement

> Full report available at:
> www.mercer.com/globalpensionindex