MELBOURNE MERCER GLOBAL PENSION INDEX

WHAT IS THE MMGPI?

WORLD'S **MOST COMPREHENSIVE** COMPARISON OF PENSION SYSTEMS

COVERS CLOSE TO **60%** OF THE WORLD'S POPULATION

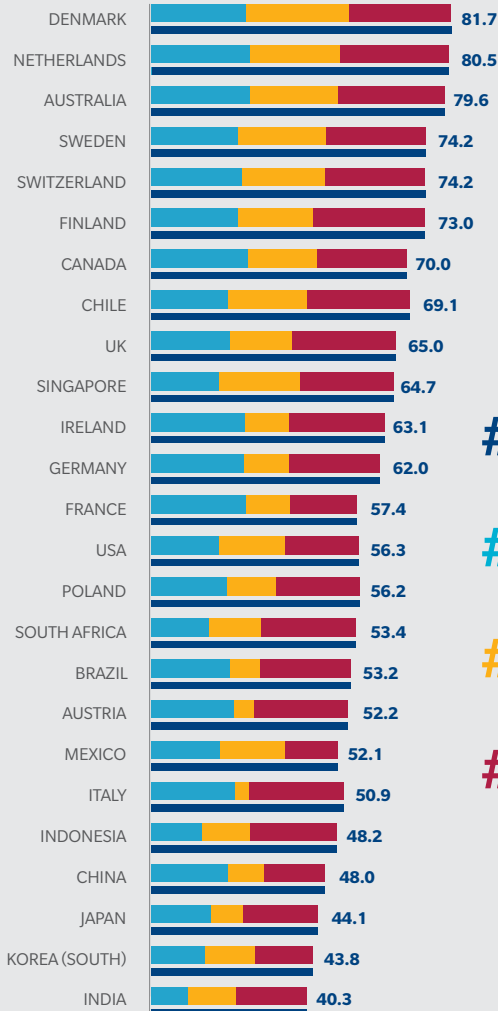MEASURES **25** RETIREMENT INCOME SYSTEMS AGAINST MORE THAN **40** INDICATORS

HAS PUT THE **SPOTLIGHT ON** GLOBAL MACRO TRENDS**:**
- ASSET ALLOCATION FOR PENSION FUNDS
- POST-RETIREMENT SOLUTIONS IN A DC WORLD
- TRANSPARENCY & TRUST IN PENSION SYSTEMS
- SUSTAINABILITY OF PENSION SYSTEMS

BENCHMARKS A COUNTRY'S PENSION SYSTEM BASED ON 3 SUB-INDICES: **ADEQUACY, SUSTAINABILITY** AND **INTEGRITY**

2015 **RESULTS**

Country	Score
DENMARK	81.7
NETHERLANDS	80.5
AUSTRALIA	79.6
SWEDEN	74.2
SWITZERLAND	74.2
FINLAND	73.0
CANADA	70.0
CHILE	69.1
UK	65.0
SINGAPORE	64.7
IRELAND	63.1
GERMANY	62.0
FRANCE	57.4
USA	56.3
POLAND	56.2
SOUTH AFRICA	53.4
BRAZIL	53.2
AUSTRIA	52.2
MEXICO	52.1
ITALY	50.9
INDONESIA	48.2
CHINA	48.0
JAPAN	44.1
KOREA (SOUTH)	43.8
INDIA	40.3

 # 1 OVERALL Denmark

 # 1 ADEQUACY Australia

 # 1 SUSTAINABILITY Denmark

 # 1 INTEGRITY Finland

OVERALL
ADEQUACY
SUSTAINABILITY
INTEGRITY
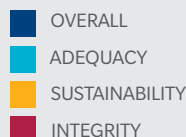
HELPING TO SHAPE THE FUTURE

Longevity risk, the risk of an aging population outliving their savings, is potentially one of the biggest economic and social risks facing many countries today.

As life expectancies continue to increase around the world, it has never been more critical for governments to look at how their pension systems can provide greater financial security for retirees.
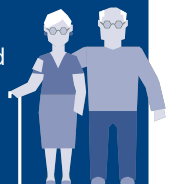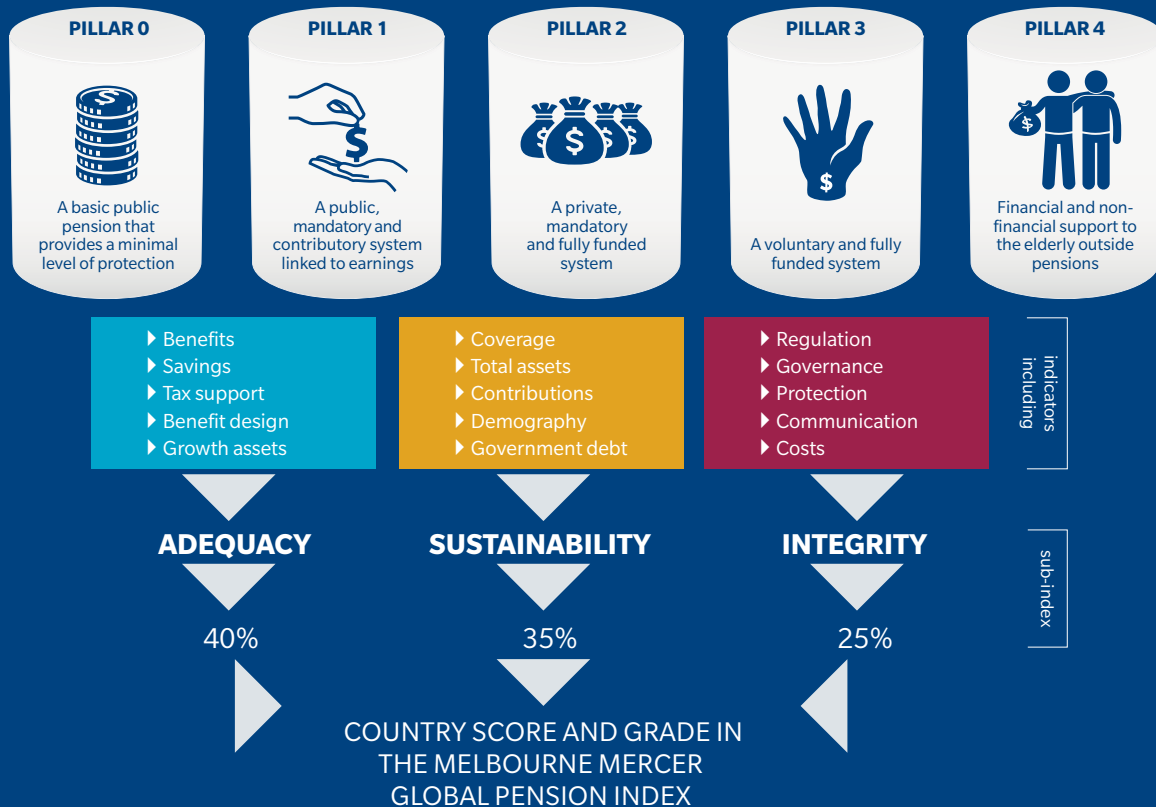
The MMGPI is an important reference for policy makers around the world to learn from the most adequate, sustainable and trusted systems.

CALCULATING THE MELBOURNE MERCER GLOBAL PENSION INDEX

The Index uses a multi-pillar approach to compare retirement income systems.

PILLAR 0
A basic public pension that provides a minimal level of protection

PILLAR 1
A public, mandatory and contributory system linked to earnings

PILLAR 2
A private, mandatory and fully funded system

PILLAR 3
A voluntary and fully funded system

PILLAR 4
Financial and non-financial support to the elderly outside pensions

			indicators including
▸ Benefits ▸ Savings ▸ Tax support ▸ Benefit design ▸ Growth assets	▸ Coverage ▸ Total assets ▸ Contributions ▸ Demography ▸ Government debt	▸ Regulation ▸ Governance ▸ Protection ▸ Communication ▸ Costs	

ADEQUACY   **SUSTAINABILITY**   **INTEGRITY**   sub-index

40%   35%   25%

COUNTRY SCORE AND GRADE IN THE MELBOURNE MERCER GLOBAL PENSION INDEX

RECOMMENDATIONS

There is no perfect pension system that can be applied universally, but there are many common features that can be shared for better outcomes.

ADEQUACY

A minimum pension is provided to the poor that represents a reasonable percentage of average earnings in the community

At least **70%** net (after tax) replacement rate at retirement for a full-time worker on a median income

At least **50%** of accumulated retirement benefits to be taken as an income stream

SUSTAINABILITY

At least **70%** of the working age population should be members of private pension plans

Current pension fund assets should be more than **100%** of GDP to fund future pension liabilities

Labour force participation rate for those aged 55-64 should be at least **65%**

INTEGRITY

A strong prudential regulator supervising private pension plans

Regular member communications including the provision of personal statements, projected retirement income and an annual report

Clear funding requirements for both defined benefit and defined contribution schemes

WHAT MAKES AN **A GRADE** SYSTEM?

DENMARK

1

NETHERLANDS

2

DENMARK HOLDS ONTO #1 FOR FOURTH YEAR RUNNING

Denmark's well-funded pension system with its good coverage, high level of assets and contributions, the provision of adequate benefits and a private pension system with developed regulations are the primary reasons for its top spot.

GLOBAL SCORECARD
FOR RETIREMENT SAVINGS

World map with country grades:

- **CANADA** — B
- **UNITED STATES** — C
- **MEXICO** — C
- **CHILE** — B
- **BRAZIL** — C
- **DENMARK** — A
- **NETHERLANDS** — A
- **IRELAND** — C+
- **UNITED KINGDOM** — B
- **FRANCE**
- **GERMANY** — C+
- **FINLAND** — B
- **SWEDEN** — B
- **POLAND** — C
- **AUSTRIA** — C
- **ITALY** — C
- **SWITZERLAND** — B
- **SOUTH AFRICA** — C
- **CHINA** — D
- **KOREA** — D
- **JAPAN** — D
- **INDIA** — D
- **INDONESIA** — D
- **SINGAPORE** — C+
- **AUSTRALIA** — B+

| GRADE	INDEX VALUE	COUNTRIES	DESCRIPTION
A	>80	◼	A first class and robust retirement income system that delivers good benefits, is sustainable and has a high level of integrity.
B+	75–80	◼	A system that has a sound structure, with many good features, but has some areas for improvement that differentiates it from an A-grade system.
B	65–75	◼	
C+	60–65	◼	A system that has some good features, but also has major risks and/or shortcomings that should be addressed. Without these improvements, its efficacy and/or long-term sustainability can be questioned.
C	50–60	◼	
D	35–50	◼	A system that has some desirable features, but also has major weaknesses and/or omissions that need to be addressed. Without these improvements, its efficacy and sustainability are in doubt.
E	<35	Nil	A poor system that may be in the early stages of development or a non-existent system.

CAN PENSION SYSTEMS KEEP DELIVERING?

The 2015 MMGPI looked beyond the annual rankings to observe changes over the last 7 years and assess which pension systems will continue to deliver and which are at risk.

It highlighted the positive implications of measures such as:

- adjusting the state pension age
- increasing workforce participation amongst our ageing population
- funding additional assets to provide retirement income

## WE'RE SPENDING LONGER IN RETIREMENT

AVERAGE EXPECTED YEARS IN RETIREMENT

Year	Years
2011	16.6
2015	18.4
2035	19.2

AUSTRALIA GERMANY SINGAPORE JAPAN UK
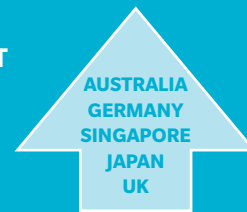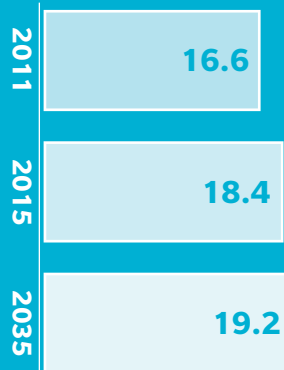
INCREASED
pension age to offset the increase in life expectancies, but not enough to halt the increasing length of retirement

CANADA NETHERLANDS USA

REDUCED
projected length of retirement (in 20 years) due to the projected increase in the State pension age from 65 to 67 in Canada and the Netherlands, and a slightly reduced life expectancy in the USA

INCREASING LABOUR FORCE PARTICIPATION AMONGST OLDER WORKERS: GOOD FOR ECONOMY AND INDIVIDUALS

57.9% 2011

62.2% 2015
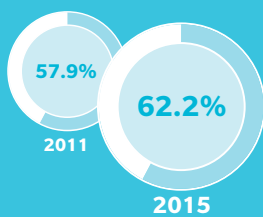
AVERAGE LABOUR FORCE PARTICIPATION RATE FOR 55-64 YEAR OLDS
Increase = just over **1% p.a.**

77%
SWEDEN
is a stand-out for labour force participation of older workers.
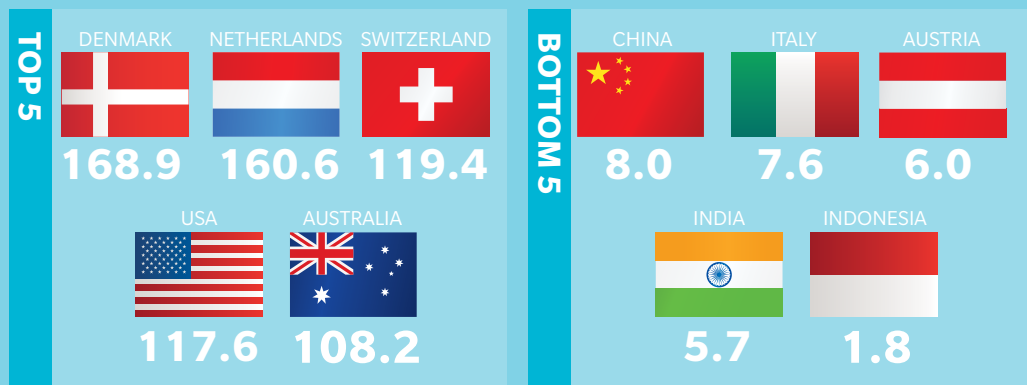
>6%
FRANCE & POLAND
Increased their labour force participation of 55-64 year olds

INCREASING THE LEVEL OF PENSION FUND ASSETS AS A % OF GDP CAN PREVENT FINANCIAL STRAIN ON THE NEXT GENERATION

The level of funds set aside today to pay future retirement benefits is a critical measurement of **sustainability**.

VARIETY IN THE LEVEL OF PENSION ASSETS HELD AS % OF GDP

TOP 5

DENMARK	NETHERLANDS	SWITZERLAND
168.9	160.6	119.4

USA	AUSTRALIA
117.6	108.2

BOTTOM 5

CHINA	ITALY	AUSTRIA
8.0	7.6	6.0

INDIA	INDONESIA
5.7	1.8