MERCER CFA INSTITUTE GLOBAL PENSION INDEX
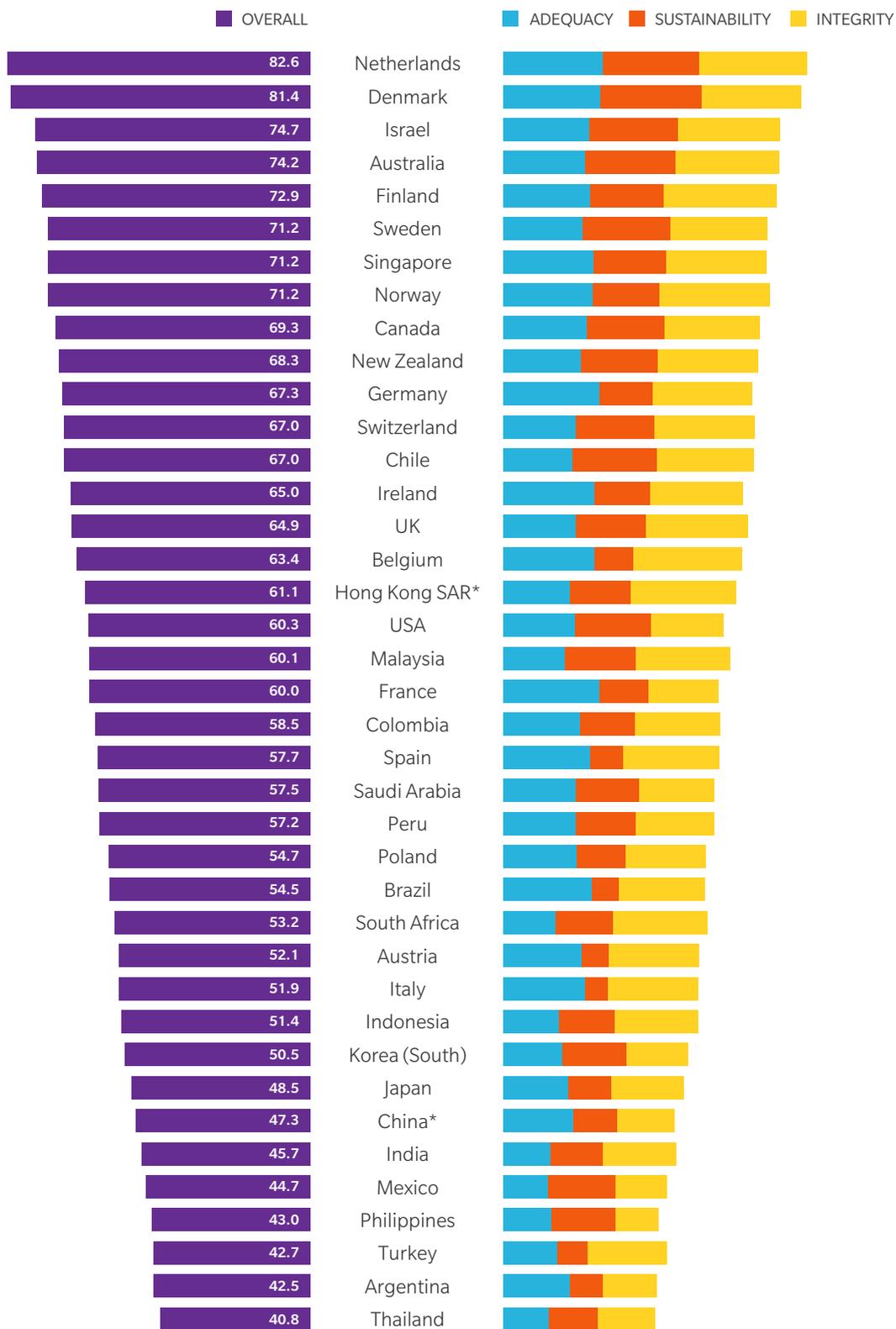
2020 | REPORT HIGHLIGHTS

Financial security in retirement is critical for both individuals and societies as most countries are now grappling with the social, economic and financial effects of ageing populations.
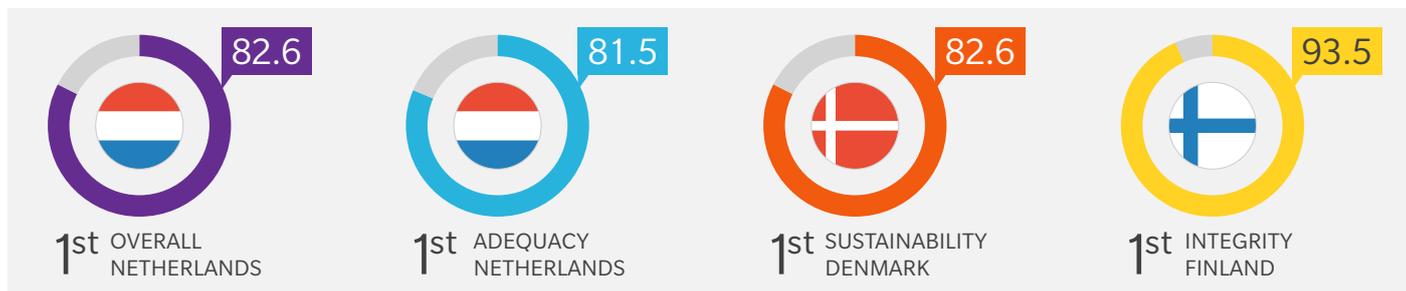
In 2020 these issues have been accentuated by COVID-19, but it is not only the pandemic and ageing populations that represent challenges for pension systems around the world. The current economic environment with historically low interest rates, an economic recession in many countries and reduced investment returns are placing additional financial pressures on existing retirement income systems.

Now, more than ever before, the challenges of the time present us with an opportunity to come together as a global community, in order to learn from each other, with the aim of providing retirees with dignity and confidence.

MERCER   CFA Institute   MONASH University | MONASH BUSINESS SCHOOL

2020 Results

Legend: ■ OVERALL   ■ ADEQUACY ■ SUSTAINABILITY ■ INTEGRITY

Country	Overall
Netherlands	82.6
Denmark	81.4
Israel	74.7
Australia	74.2
Finland	72.9
Sweden	71.2
Singapore	71.2
Norway	71.2
Canada	69.3
New Zealand	68.3
Germany	67.3
Switzerland	67.0
Chile	67.0
Ireland	65.0
UK	64.9
Belgium	63.4
Hong Kong SAR*	61.1
USA	60.3
Malaysia	60.1
France	60.0
Colombia	58.5
Spain	57.7
Saudi Arabia	57.5
Peru	57.2
Poland	54.7
Brazil	54.5
South Africa	53.2
Austria	52.1
Italy	51.9
Indonesia	51.4
Korea (South)	50.5
Japan	48.5
China*	47.3
India	45.7
Mexico	44.7
Philippines	43.0
Turkey	42.7
Argentina	42.5
Thailand	40.8

2020 - 1st place results

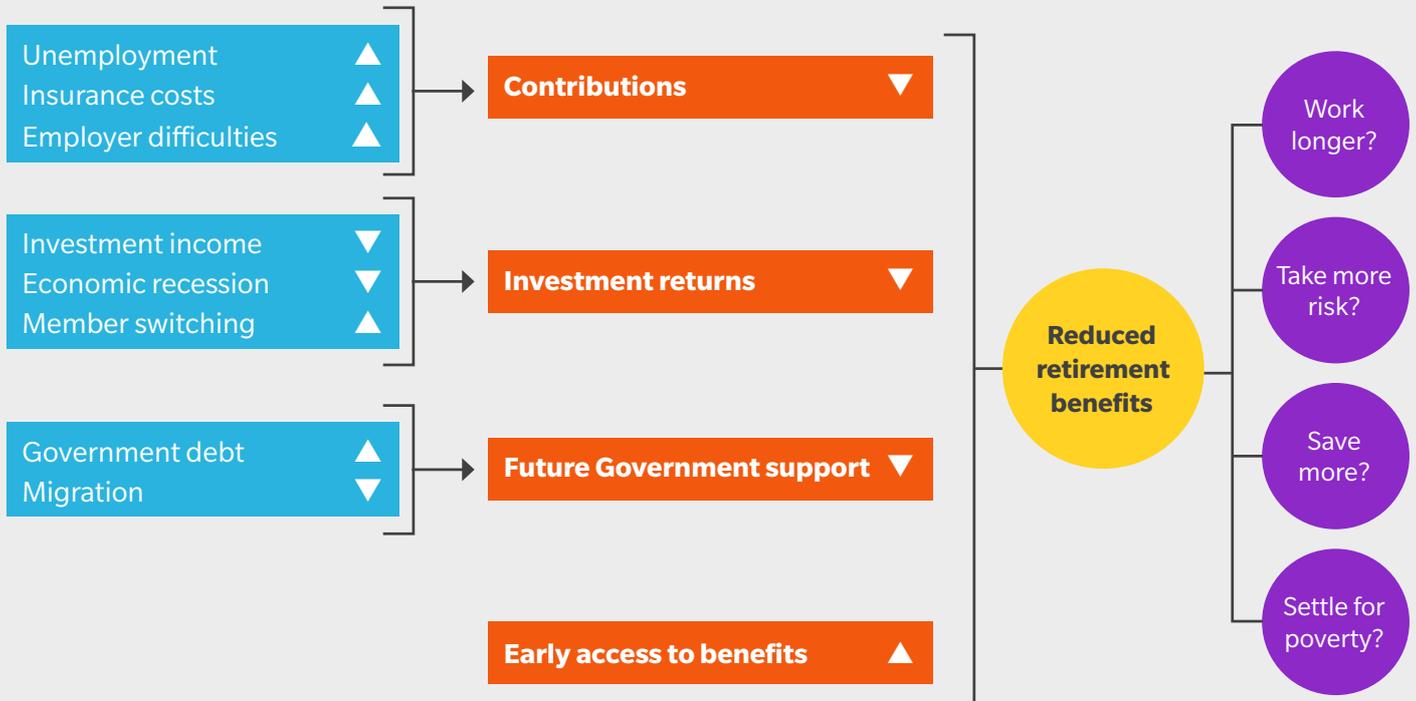|			
82.6	81.5	82.6	93.5
1st OVERALL NETHERLANDS	1st ADEQUACY NETHERLANDS	1st SUSTAINABILITY DENMARK	1st INTEGRITY FINLAND

* In this report China refers to the retirement income system in mainland China whereas Hong Kong SAR refers to the retirement income system in Hong Kong, a Special Administrative Region (SAR) of China.
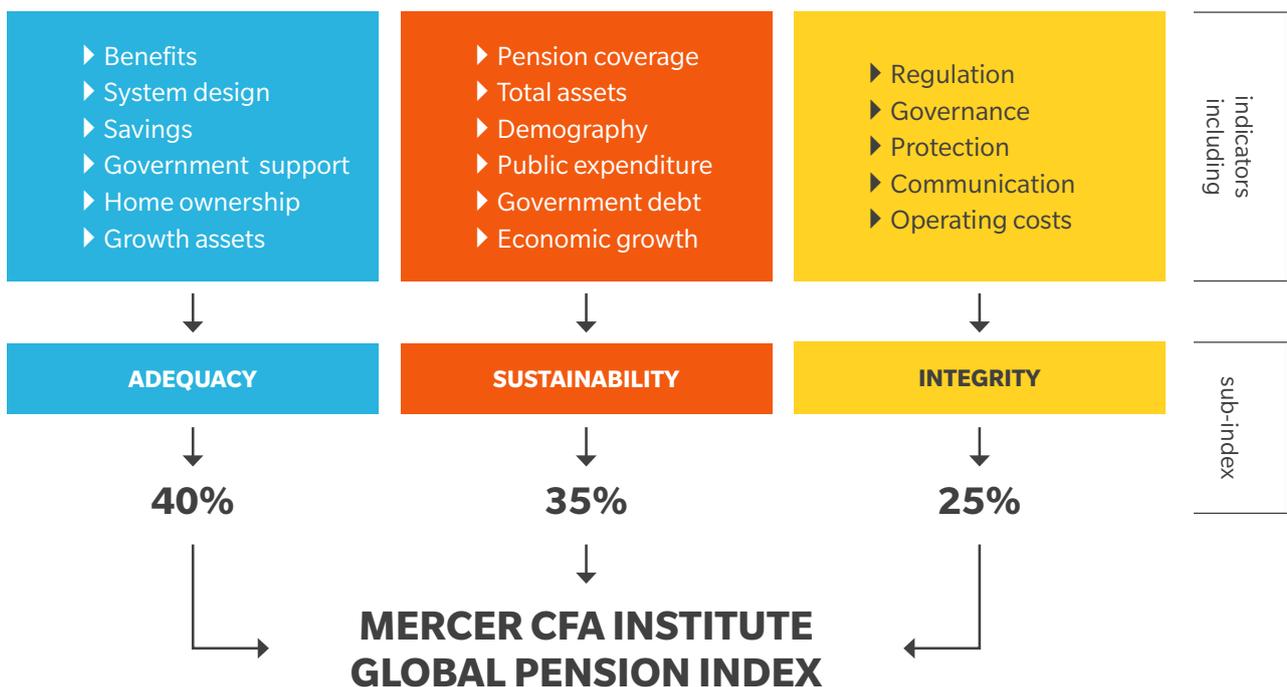
COVID-19 and its impact on pension systems around the world

Governments, pension regulators, individual members and plan fiduciaries have responded in a variety of ways to COVID-19. The unusual events of 2020 has had several immediate effects but will also have some long term impacts on pensions.

Each of these impacts is likely to have a negative effect on the provision of future retirement income, as shown below.

Unemployment ▲	
Insurance costs ▲	Contributions ▼
Employer difficulties ▲	

Investment income ▼	
Economic recession ▼	Investment returns ▼
Member switching ▲	

Government debt ▲	Future Government support ▼
Migration ▼	

Early access to benefits ▲

Reduced retirement benefits

- Work longer?
- Take more risk?
- Save more?
- Settle for poverty?

Calculating the Mercer CFA Institute Global Pension Index

▶ Benefits	▶ Pension coverage	▶ Regulation
▶ System design	▶ Total assets	▶ Governance
▶ Savings	▶ Demography	▶ Protection
▶ Government support	▶ Public expenditure	▶ Communication
▶ Home ownership	▶ Government debt	▶ Operating costs
▶ Growth assets	▶ Economic growth	

indicators including

ADEQUACY	SUSTAINABILITY	INTEGRITY

sub-index

40%	35%	25%

MERCER CFA INSTITUTE GLOBAL PENSION INDEX

Moving towards a better pension system

To improve the provision of adequate and sustainable retirement incomes around the world, global pension reforms in the following areas should be considered:

- Increase coverage of employees and the self-employed in private pensions
- Increase the state pension age and/or retirement age over time
- Promote higher labour force participation at older ages
- Encourage higher levels of private saving to reduce dependence on public pensions

- Reduce the leakage from the retirement savings system prior to retirement
- Introduce measures to reduce the gender gap
- Improve the governance of private pension plans and introduce greater transparency to improve the confidence of plan members and the community

What does the ideal system look like?

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

ADEQUACY	SUSTAINABILITY	INTEGRITY

ADEQUACY

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

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

60% At least **60%** of accumulated retirement benefits to be taken as an income stream

SUSTAINABILITY

80% At least **80%** of the working age population should be members of private pension plans

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

80% Labour force participation rate for those aged 55-64 should be at least **80%**

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 is the Global Pension Index?

Delivers the world's **most comprehensive** comparison of pension systems

Covers almost **two-thirds** of the world's population

Includes **Belgium** and **Israel** as the 2020 additions

Highlights the **common challenges** facing many countries

Measures **39** retirement income systems against more than **50** indicators

Reviews global pension systems and assesses the benefits they provide, their ongoing sustainability in the context of ageing populations and the level of trust and transparency within their operations

Benchmarks a country's pension system based on three sub-indices: **Adequacy**, **Sustainability** and **Integrity**

Recommends actions for **improvements** in each system

www.mercer.com.au/globalpensionindex
www.monash.edu/business/monash-centre-for-financial-studies