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
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

16 countries in the Melbourne Mercer Global Pension Index 2011

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

Asia
- China
- India
- Japan
- 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

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

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

... Brazil 27.3

... 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

ADEQUACY 40%

SUSTAINABILITY 35%

INTEGRITY 25%

MELBOURNE MERCER GLOBAL PENSION INDEX

The 2011 Results

Index value

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

B Grade

C Grade

D Grade
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

Changes from 2010 to 2011 results

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<tr>
<th>Country</th>
<th>Losses since 2010</th>
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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