Media Release

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EMBARGOED UNTIL 7.00PM TUESDAY OCT 11, 2011 (AESDT)

Global Pension Index warns Australia needs more reform

- **Melbourne Mercer Global Pension Index expands to include 16 countries and 50% of the world population**
- **Netherlands continues to top ranking**
- **Australia jumps back up to 2nd from 4th**

Australia's retirement income system has jumped up the ranks in a global comparison of pension systems. However, it still needs significant reform to help Australians secure enough retirement savings and to financially support an ageing population according to the 2011 Melbourne Mercer Global Pension Index.

According to the Melbourne Mercer Global Pension Index many of the world's retirement systems are under significant stress and even the world's most advanced retirement income systems require ongoing reform to ensure they're robust enough to support a rapidly ageing population.

Australia has regained its ranking as second in the world, after dropping to fourth in 2010. Netherlands holds its position as number one with Switzerland making up the top three.

There is no perfect retirement income system according to the index. No country received an A grade, and 10 countries received either a C (major risks or shortcomings) or a D (major weaknesses and omissions). But this index can provide valuable lessons and insights into how countries are grappling with the economic and social challenges of an ageing population.

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Mercer Senior Partner and author of the report, David Knox, said, in these uncertain economic and political times the risk of governments not being able to financially support their ageing population is becoming more of a reality unless some significant pension reform is made now.

“The best pension systems adopt a multi-pillar approach to spread these long term risks between governments, employers and individuals. It also forms the basis of the analysis undertaken in this report. Such an approach is also particularly relevant in periods of economic uncertainty, as we are now facing,” he said.

Australia’s index value increased from 72.9 in 2010 to 75.0 in 2011 due primarily to a real increase in the size of the age pension and higher net household saving rate, but fell short of being the best in the world due to lower levels of adequacy.

“Australia is very much in reach of becoming the first in the world to receive an A-Grade score if we can address the issue of adequacy by raising the level of compulsory savings via superannuation and continue reforms to reduce costs,” said Dr Knox.

“Our superannuation system is in the middle of significant reform, some of which is likely to boost our score in the index in the future but our current B-Grade is an important reminder that our world-class retirement savings system is in danger of failing us unless we take action now,” he said.

The overall index value for the Australian system could be increased by:

- Raising the level of mandatory contributions to improve the level of benefits whilst also increasing the level of household savings;
- Introducing a requirement that part of the retirement benefit must be taken as an income stream;
- Increasing the labour force participation rate amongst older workers;
- Increasing the pension age as life expectancy continues to increase; and
- Reducing the costs of the system by encouraging greater efficiency.

The Index is in its third year and has grown from 11 to 16 countries, now covering over half of the world’s population. It objectively looks at both the publicly funded and private components of a system as well as personal assets and savings outside the pension system. It is produced by Mercer and the Australian Centre for Financial Studies and funded by the Victorian State Government. It is based on more than 40 indicators grouped into three sub-indices: adequacy, sustainability and integrity.

Dr Knox said, “Each country has to consider its own social, economic, political, cultural and historical circumstances, but despite the differences in the history and development of each country’s system there are some common challenges around the world.”

Common global challenges include:

- Increasing the state pension age and/or retirement age to reflect increasing life expectancy, both now and in the future, and thereby reduce the level of costs of the publicly financed pension pillar;

- Promoting higher labour force participation at older ages including the provision of phased retirement;

- Encouraging or requiring higher levels of private saving, both within and beyond the pension system, to reduce the future dependence on the public pension;

- Increasing the coverage of employees and/or the self-employed in the private pension system, recognising that many individuals will not save for the future without an element of compulsion or automatic enrolment; and

- Reducing the leakage of funds from the retirement savings system prior to retirement thereby ensuring the funds saved, often with the associated taxation support, are used for the provision of retirement income.

Professor Deborah Ralston, Director of the Australian Centre for Financial Studies said the Melbourne Mercer Global Pension Index remains critical for governments, industry and academia with an ageing population a top priority for government's the world over.

"Once again, this third edition of the Melbourne Mercer Global Pension Index highlights the areas of policy debate in pensions around the world. The on-going difficulty of developing systems that provide an adequate level of retirement income and yet maintain sustainability, especially in countries with an ageing population, warrants further research and discussion world wide. We hope the Index will make a contribution to that end."

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Results by Overall Index Value

Country	Ranking			Overall index value	Sub-index values		
	2011	2010	2009		Adequacy	Sustainability	Integrity
Netherlands	1	1	1	**77.9**	75.9	70.8	91.4
Australia	2	4	2	**75.0**	73.6	71.4	82.4
Switzerland	3	2	-	**72.7**	70.4	67.7	83.5
Sweden	4	3	3	**72.0**	65.6	73.6	79.9
Canada	5	5	4	**69.1**	74.1	55.8	79.7
UK	6	6	5	**65.7**	67.8	49.8	84.5
Chile	7	7	7	**64.9**	53.1	67.8	79.8
Poland	8	-	-	**58.6**	64.3	40.7	74.5
Brazil	9	8	-	**58.4**	71.0	27.3	81.7
USA	10	10	6	**58.1**	58.7	54.4	62.5
Singapore	11	9	8	**56.7**	41.9	60.9	74.5
France	12	11	-	**54.4**	73.6	30.7	56.8
Germany	13	12	9	**54.2**	63.5	36.4	64.4
Japan	14	13	11	**43.9**	44.1	28.4	65.2
India	15	-	-	**43.4**	37.3	39.4	58.8
China	16	14	10	**42.5**	48.1	30.6	50.1
Average				**60.5**	61.4	50.4	73.1

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About the Australian Centre for Financial Studies
The Australian Centre for Financial Studies (ACFS) is a not-for-profit consortium of Monash University, RMIT University, the University of Melbourne and Finsia (Financial Services Institute of Australasia) which was established in 2005 with seed funding from the Victorian Government. Funding for ACFS is also derived from corporate sponsorship and through research partnerships.
The mission of the ACFS is to build links between academics, practitioners and government in the finance community to enhance research, practice, education and the reputation of Australia's financial institutions and universities, and of Australia as a financial centre.

About Mercer:
Mercer is a global leader in human resource consulting, outsourcing and investment services. Mercer works with clients to solve their most complex benefit and human capital issues, designing and helping manage health, retirement and other benefits. It is a leader in benefit outsourcing. Mercer's investment services include investment consulting and multi-manager investment management. Mercer's 20,000 employees are based in more than 40 countries. The company is a wholly owned subsidiary of Marsh & McLennan Companies, Inc., which lists its stock (ticker symbol: MMC) on the New York and Chicago stock exchanges.
For more information, visit www.mercer.com.au

FACT SHEET - METHODOLOGY

- The first Melbourne Mercer Global Pension Index was created in 2009 with 11 countries ranked. There are now 16 countries in the index that represent a diversity of experience and pension systems and are reflective of the considerable range of approaches selected around the world.

- Each country is given a score between 0 and 100. The overall index value represents the weighted average of the three sub-indices – adequacy, sustainability and integrity.

- More than 40 indicators of desirable factors in all retirement income systems were used to score each country

- Weightings used for index value are:
  - 40% for the adequacy sub-index
  - 35% for the sustainability sub-index
  - 25% for the integrity sub-index.

- The countries that do well in adequacy have an above average base pension to relieve poverty; a good net replacement rate which allows for all the "compulsory" pillars and a system that requires the benefits to be taken as an income stream

- The countries that do well in sustainability have good pension coverage (normally through some form of compulsion or auto-enrolment); a high level of pension assets compared to GDP; a level of mandatory contributions, and a relatively low level of government debt.

- Several countries do well with integrity due to the presence of comprehensive regulation protecting members and a robust regulator.

- In 2011 a new chapter has been introduced called – The Gold Standard – which outlines how countries can achieve an A grade ranking.