Media Release

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Australia amongst the best in Global Pension Index

- **Denmark overtakes the Netherlands to rank no. 1 in Global Pension Index and becomes first 'A' grade system**
- **Australia improves performance and comes in third out of 18 countries**
- **Australian funds allocate more to growth assets than any other country**
- **Melbourne Mercer Global Pension Index covers over 50% of world population**

Australia's retirement savings and income system has made small gains since 2011, with the Melbourne Mercer Global Pension Index value increasing from 75.0 in 2011 to 75.7 in 2012, and its overall global ranking coming in at third place. The Australian gains in the overall Index value have primarily resulted from an increase in the level of pension fund assets and a rise in the labour force participation rate amongst those aged 55-64.

Denmark received an overall index value of 82.9 and becomes the first system to be classified as 'A' grade, moving Netherlands from the top position in the rankings. Denmark's unique 'A' grade ranking has been awarded in recognition of the country's well funded pension system, its high level of assets and contributions, the provision of adequate benefits and a private pension system with well developed regulations.

Mercer Senior Partner and author of the report, Dr David Knox, said "Many of the world's retirement systems are under increasing stress with an ageing population, low investment returns and, in some cases, significant government debt. Reform is needed to ensure that adequate benefits are provided over the long term in a sustainable manner.

"This report highlights several reforms relevant to each country that will provide improved results for individuals, households and the community."

Dr Knox also commented on this year's special chapter on the asset allocation of pension funds around the world. He noted that the exposure to growth assets (which includes equities and property) ranges from virtually zero in some countries to more than 70 percent in Australia.

"There is no single answer to the best asset allocation for every country. However, a diverse range of assets across the system is likely to provide a better outcome than heavy concentration in bonds or equities."

The Australian government has made significant reforms since the 2011 Index, notably with the increase in mandatory Superannuation Guarantee contributions from 9% to 12%, to be introduced from July 2013.

"This reform to Australia's superannuation system will make a significant impact on the future results and edge the country closer to top spot", Dr Knox said.

Dr Knox also commented that there are several other measures which Australia should consider adopting to further improve our system and Australia's score. These are:

- Introducing a requirement that part of the retirement benefit be taken as an income stream;
- Continuing to boost the labour force participation rate amongst older workers;
- Introducing a mechanism to increase the pension age as life expectancy continues to increase, and;
- Gradually raising the preservation age at which members can access their superannuation.

The Index is now in its fourth year and has grown from 11 to 18 countries, and covers over half of the world's population. It looks objectively 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.

Professor Deborah Ralston, Director of the Australian Centre for Financial Studies said the Melbourne Mercer Global Pension Index remains a critical comparative tool for governments, industry and academia.

"This fourth edition of the Melbourne Mercer Global Pension Index highlights areas of policy debate in retirement systems around the world. The inclusion of Denmark and Korea this year provides an even broader group of countries for analysis, and extends the range of systems examined in terms of stage of development, cultural and economic backgrounds. Despite these many differences, all countries are challenged by the need to balance the adequacy of the retirement system against its sustainability."

-Ends-

Australia
To access broadcast quality audio grabs with Dr David Knox and Professor Deborah Ralston, go to www.mediagame.com.au

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 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 such as the one with Mercer which has led to this report.

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 consulting leader in talent, health, retirement and investments. Mercer helps clients around the world advance the health, wealth and performance of their most vital asset – their people. Mercer's 20,000 employees are based in more than 40 countries. Mercer is a wholly owned subsidiary of Marsh & McLennan Companies (NYSE: MMC), a global team of professional services companies offering clients advice and solutions in the areas of risk, strategy and human capital. With 52,000 employees worldwide and annual revenue exceeding $10 billion, Marsh & McLennan Companies is also the parent company of Marsh, a global leader in insurance broking and risk management; Guy Carpenter, a global leader in providing risk and reinsurance intermediary services; and Oliver Wyman, a global leader in management consulting. For more information, visit www.mercer.com.au. Follow Mercer on Twitter @MercerInsights.

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Results by Overall Index Value

Country	Overall Index Value	Sub-Index Values			
		Ranking	Adequacy 40%	Sustainability 35%	Integrity 25%
Denmark	82.9	1	78.1	86.0	86.4
Netherlands	78.9	2	77.0	73.0	90.3
Australia	75.7	3	73.5	73.0	83.2
Sweden	73.4	4	68.0	73.3	82.5
Switzerland	73.3	5	71.3	67.9	84.1
Canada	69.2	6	74.2	56.3	79.3
UK	64.8	7	68.1	46.5	85.0
Chile	63.3	8	50.1	67.7	78.4
USA	59.0	9	58.3	58.4	61.1
Poland	58.2	10	63.6	43.4	70.1
Brazil	56.7	11	71.5	26.9	74.8
Germany	55.3	12	65.2	35.9	66.7
Singapore	54.8	13	42.0	54.2	76.2
France	54.7	14	74.3	32.0	55.2
China	45.4	15	55.7	30.5	49.7
Korea (South)	44.7	16	45.1	42.3	47.5
Japan	44.4	17	46.1	28.9	63.3
India	42.4	18	37.4	40.7	52.8
Average	**61.0**		**62.2**	**52.1**	**71.5**

FACT SHEET - METHODOLOGY

- The first Melbourne Mercer Global Pension Index was created in 2009 with 11 countries. There are now 18 countries in the index that represent a diversity of experience and pension systems which 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's system.

- 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 for the median income earner, a system that requires the benefits to be taken as an income stream, and other desirable features.

- 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 fund 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 regulations ensuring good governance and providing good communication to members.

Definitions:

Adequacy

The primary objective of any pension system is to provide adequate retirement income. Thus, this sub-index considers the base level of income provided, the net replacement rate for median-income earners as well as several benefit design issues.

Sustainability
This sub-index recognises that the long-term sustainability of the current retirement income system in many countries is a concern, particularly in the light of the ageing population, the increasing ratio of retirees to productive workers and, in some countries, increasing government debt.

Integrity
It is critical that a nation has confidence in the ability of private sector pension providers to deliver retirement benefits over many years into the future. This sub-index therefore considers the role of regulation and governance, the protection provided to participants and the level of communication provided to members. We consider the requirements set out in relevant legislation. This year we have added an indicator based on the World Bank's Worldwide Governance Indicators.