Media Release

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Super reforms improve Australia's performance in Global Pension Index

- **Denmark's score slides but holds onto no. 1 spot**
- **Australia holds onto 3rd spot on global stage – improving score**
- **Fundamental change in approach to post-retirement solutions needed**
- **Index increases to 20 countries, covering over 55% of world population**

StrongerSuper reforms have improved Australia's performance in the 2013 Melbourne Mercer Global Pension Index, with our overall score increasing to 77.8 from 75.7 in 2012. Our overall ranking remains at third position. Denmark and Netherlands held onto the top two positions, but Australia is closing the gap and has an 'A' Grade in sight.

Australia's improved score was due to the introduction of stronger regulatory requirements which have improved the integrity of Australia's system in areas such as funding requirements and conflicts of interest within the governance of superannuation funds. Australia's net replacement rate has also improved, which is a measure of an individual's pre-retirement income paid in retirement and represents an important adequacy measure.

Denmark became the first country to achieve an 'A' Grade in 2012 and has held onto the position in 2013 despite their overall score falling to 80.2 from 82.9. Denmark's well-funded pension system with its 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.

The Melbourne Mercer Global Pension Index is now in its fifth year and has increased from 11 countries in 2009 to 20 countries in 2013 with Mexico and Indonesia the latest additions. It now covers more than 55% of the world's population.

The Index 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 measures the adequacy, sustainability and integrity of a country's pension system and is published by the Australian Centre for Financial Studies (ACFS) in conjunction with Mercer and is funded by the Victorian State Government.

The research identifies possible areas of reform for each country that would provide more adequate retirement benefits, increased sustainability, and greater trust in the pension system. Suggested measures to improve Australia's system include:

- 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
- introducing a mechanism to increase the pension age as life expectancy continues to increase
- increasing the minimum access age to receive benefits from private pension plans so that retirement benefits are not available more than five years before the age pension eligibility
- removing legislative barriers to encourage more effective retirement income products

Professor Deborah Ralston, Executive Director of the ACFS said the global response to the Index continues to indicate its value to government, industry and academia as they debate how best to provide for an ageing population.

The 2013 Index includes a special chapter on post-retirement solutions in a defined contribution (DC) world.

Dr David Knox, Senior Partner at Mercer and author of the research, said "As countries grapple with rising life expectancies, increased government debt, uncertain economic conditions and a global shift to DC plans, there are still many lessons to be learnt and new solutions to be found, particularly for the post-retirement years."

"A DC system is well established in many countries and it is clearly heading this way in many others. Australia has arguably been a trail blazer in terms of adopting a DC system. However, the conversion of DC benefits into adequate and sustainable retirement incomes remains a largely unresolved problem in many countries, including Australia.

"Developing effective and sustainable post-retirement solutions has to be one of the most critical challenges for policy makers and retirement industries around the globe," said Dr Knox.

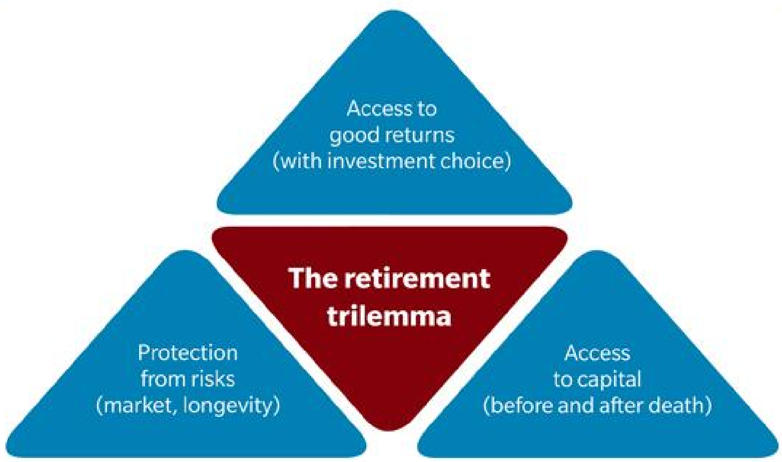
"Many of the challenges relating to ageing populations are similar, irrespective of each country's social, political, historical or economic influences. Many of the desirable policy reforms to alleviate these challenges are also similar and the Index aims to highlight the best solutions and share them globally," said Professor Ralston.

SOLUTIONS FOR POST-RETIREMENT OUTCOMES IN A DC WORLD

MELBOURNE MERCER GLOBAL PENSION INDEX

The move from defined benefit (DB) to defined contribution (DC), or transferring pension risk from the employer to the individual, represents a fundamental shift in the design, development, and operation of pension systems around the world. The conversion of DC benefits into adequate and sustainable retirement incomes remains a largely unresolved problem in many countries. The 2013 Melbourne Mercer Global Pension Index identifies critical considerations and possibilities for the development of improved post-retirement outcomes for DC members.

WHAT RETIREES WANT



IDEAL PRODUCT FEATURES

- **Limited access to a lump-sum benefit at retirement.**
- **Access to some capital for unexpected expenses and some spending flexibility.**
- **Income product for initial retirement (annuity or drawdown with adequacy and security).**
- **Pooled insurance-type product with longevity protection (deferred annuity or pooled product from pension plan or insurer).**
- **Structure that allows phased retirement — people continue working (part-time) while drawing on retirement savings.**

LEVERS FOR A ROBUST FRAMEWORK

- **Softer "guarantees" around pension benefits (e.g. less than full indexation of income streams).**
- **Some mortality profit sharing among survivors.**
- **Smoothing investment returns to reduce volatility.**
- **Varying regulatory capital requirements as economic conditions change.**
- **Adjustments to minimum and maximum amounts for drawdown products.**
- **Gradual increase of future pension and/or social security entitlement age, aligned with life expectancy increases.**

-Ends-

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.
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. ACFS conducts leading edge finance research, commentary and thought leadership. More informatiion can be found at www.australiancentre.com.au and on the Index www.globalpensionindex.com.

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 @MercerAu

Results by Overall Index Value

Country	Overall Index Value	Sub-Index Values			
		Ranking	Adequacy 40%	Sustainability 35%	Integrity 25%
Denmark	80.2	1	75.2	86.1	80.0
Netherlands	78.3	2	76.6	74.1	87.0
Australia	77.8	3	75.6	73.0	88.1
Switzerland	73.9	4	72.6	69.0	82.9
Sweden	72.6	5	65.2	74.5	81.5
Canada	67.9	6	72.4	57.9	74.5
Singapore	66.5	7	59.0	67.5	77.2
Chile	66.4	8	58.6	65.6	79.9
UK	65.4	9	68.2	48.0	85.4
Germany	58.5	10	69.7	36.8	71.1
USA	58.2	11	56.6	57.8	61.2
Poland	57.9	12	64.4	42.6	68.9
France	53.5	13	71.7	31.7	55.1
Brazil	52.8	14	63.3	26.0	73.6
Mexico	50.1	15	51.9	41.0	47.9
China	47.1	16	61.1	28.9	50.0
Japan	44.4	17	47.9	28.9	60.5
Korea (South)	43.8	18	43.7	41.0	47.9
India	43.3	19	41.2	40.8	50.3
Indonesia	42.0	20	29.8	37.7	67.3
Average	**60.0**		**61.2**	**51.9**	**69.4**

MELBOURNE MERCER GLOBAL PENSION INDEX

AUSTRALIAN CENTRE FOR FINANCIAL STUDIES

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FACT SHEET

- 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 50 questions relating to 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.

- **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, whether benefits are taken as an income stream as well as several important benefit design issues.

- **Sustainability**
  The long-term sustainability of the current retirement income system in many countries is important in context of the ageing population, the increasing ratio of retirees to productive workers and, in some countries, increasing government debt. 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.

- **Integrity**
  It is critical that a nation has confidence in the ability of private sector pension providers to deliver retirement benefits into the future. This sub-index 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. Several countries do well with integrity due to the presence of comprehensive regulations ensuring good governance and providing good communication to members.