Media Release

Contact:
Nicolas McGay – Mercer
+61 3 9623 5440 / +61 406 524 309 / nicolas.mcgay@mercer.com.au

Eliana Maddock –Australian Centre for Financial Studies
+613 9666 1011/ +61 488 996 877/eliana.maddock@australiancentre.com.au

EMBARGOED TO 6PM AEDST MONDAY 19TH OCTOBER 2015

Reform vital to lifting Australia from 3rd in Global Pension Index

- **Denmark holds onto #1 for fourth year running**
- **Australia misses elusive 'A Grade'**
- **Sustainability of pension systems under the microscope: A seven year review**

A slight drop in the index value of Australia's retirement savings system has seen it slip to third in the 2015 Melbourne Mercer Global Pension Index (MMGPI), acting as a reminder that despite being world-class, we need further reform to continue to improve our retirement income system.

Australia's overall score in the Index remained strong, however we are slower than many countries in improving the sustainability of our system, specifically in terms of increasing workforce participation of older workers and reducing government debt.

Australia was once again ranked as having the most adequate pension system, however our overall score decreased from 79.9 in 2014 to 79.6 in 2015, moving us further away from an elusive 'A' grade, given to pension systems that score above 80. Denmark and Netherlands are the only countries to achieve an A grade in the history of the index.

Now in its seventh year, the MMGPI measured 25 retirement income systems against more than 40 indicators under the sub-indices of adequacy, sustainability and integrity. The MMGPI is the world's most comprehensive comparison of pension systems. It covers close to 60% of the world's population and suggests how governments can provide adequate and sustainable benefits that protect their citizens against longevity risk, the risk of their aging population outliving their savings, potentially one of the biggest economic and social risks facing many retirees today.

Denmark held onto the top position for the fourth consecutive year in 2015 with an overall score of 81.7. Denmark's well-funded pension system with its good coverage, 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.

Author of the report and Senior Partner at Mercer, Dr David Knox, said, "Implementing the right reform to improve pension systems and provide financial security in retirement has never been more critical for both individuals and societies."

"The MMGPI is an important reference for policy makers around the world to learn from the most adequate and sustainable systems. We know there is no perfect system that can be applied universally, but there are many common features that can be shared for better outcomes," said Dr Knox.

"While the Australian retirement income system remains amongst the world's best, we are not the best and improvement will be influenced by the legislative and regulatory environment.

"However, Australia is on the right track and has the potential to address key areas for improvement, particularly via recommendations from the Financial System Inquiry and increasing the super guarantee to 12%" said Dr Knox.

Amy Auster, Executive Director of the Australian Centre for Financial Studies said the Index continued to be used by policy makers and researchers to assess the merits of their pension systems.

"The Index is used internationally both to highlight the relative strengths of pension systems and to identify opportunities and options for improvement. Looking back at the results from the past seven years we can see several countries that have adopted recommendations from our annual reports to strengthen their pension systems.

"It is encouraging to see that the insight provided by the Index encourages and supports policymakers and industry practitioners to take a long-term view, and work toward the betterment of their pension systems."

"This is not always easy in the face of demographic pressures and changing market conditions, but we see clear evidence that policy-makers are continuing to enhance their pension systems in order to adequately serve future generations," said Ms Auster.

Seven years of the MMGPI: How sustainable are the world's pension systems?

The 2015 MMGPI looked beyond the annual rankings to observe changes over the last seven years and assess which pension systems will continue to deliver and which ones are at risk. "Our seven-year snapshot highlights the importance of measures such as adjusting the state pension age, increasing workforce participation amongst our ageing population, or funding additional contributions for future retirement income," said Dr Knox.

We're spending longer in retirement

All of the 11 countries that have been part of the MMGPI since it began in 2009 have experienced an increase in the expected length of retirement from 2009 to 2015, with the average length rising from 16.6 years to 18.4 years.

Five countries – Australia, Germany, Japan, Singapore and the UK – have increased their pension age to offset the increase in life expectancies, but these are not enough to halt the increasing length of retirement.

The Index also looks at the average expected length of retirement in 20 years, and by this measure, three countries have witnessed a reduction. For Canada and the Netherlands this is due to a projected increase in the state pension age from 65 to 67 during the 20 years, while for the USA, life expectancy has reduced slightly. The other eight countries showed an increase.

Increasing workforce participation of older workers: good for the economy & individuals

For the 16 countries that have been part of the MMGPI since the 2011 report, the average labour force participation rate for 55-64 year olds has increased from 57.9% to 62.2% between 2011 and 2015, or just over 1% per year.

However, averages can be misleading. The labour force participation rate at older ages actually went backwards in the USA. In Brazil, India and China, it increased by less than 4%.

"Extending the years that individuals spend in the workforce is one of the most positive ways of developing sustainable retirement systems when life expectancies are increasing," Dr Knox said.

"While there is a natural limit to the participation rate at older ages, with most countries still below 70%, the scope for significant increases across the world remains, which would improve the sustainability of many pension systems," Dr Knox added.

Preventing financial strain on the next generation

The sustainability of a pension fund cannot be assessed without reviewing the level of funds set aside today to pay future retirement benefits so that the expected pension are not a financial strain on the next generation.

There is an enormous variety in the level of pension assets held ranging from 1.8% of GDP in Indonesia and 6.0% of GDP in Austria to 160.6% of GDP in the Netherlands and 168.9% of GDP in Denmark.

"The diversity in pension assets held as a percentage of GDP recognizes that some countries have very limited private pension arrangements whereas others have well-developed and mature pension systems. However, it is an important warning for all countries to prepare, prepare, prepare," said Dr Knox.

How can Australia's retirement savings system improve?

The MMGPI acknowledges that there is room for improvement in all countries' retirement income systems. 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 at older ages
- 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 access to retirement benefits is restricted to no more than five years before the age pension eligibility

"A critical take-away from this year's report is the reminder that pension systems are like cargo ships that require a lot of lead time and preparation to safely adjust their course," Ms Auster said.

"The leadership shown by Australia years ago in reforming its pension system has built a strong position for the future. ACFS and Mercer are grateful to the Victorian Government for their continued support of the research and dialogue that contributes to a culture of continuous improvement within Australia's superannuation and pension sector."

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 is published by the Australian Centre for Financial Studies (ACFS) in conjunction with Mercer and is funded by the Victorian State Government.

-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 information can be found at www.australiancentre.com.au and on the Index www.globalpensionindex.com.

About Mercer
Mercer is a global 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 43 countries and the firm operates in over 130 countries. Mercer is a wholly owned subsidiary of Marsh & McLennan Companies (NYSE: MMC), a global professional services firm offering clients advice and solutions in the areas of risk, strategy and people. With annual revenue exceeding $13 billion and 57,000 colleagues worldwide, 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