

**Australian Centre for Financial Studies publishes the second Melbourne Mercer Global Pension Index**

The Second Melbourne Mercer Global Pension Index (Index) published by the Australian Centre for Financial Studies (ACFS) today, highlights both the strengths and weaknesses of the Australian retirement system in an international context. In the 2010 Index, Australia ranks fourth out of 14 countries.

The Index, which is compiled in conjunction with Mercer, examines the adequacy of benefits, the sustainability and the integrity of retirement systems. The other 13 countries considered are the Netherlands, Sweden, Canada, UK, Chile, Singapore, USA, Germany, Japan and China, and for the first time Switzerland, Brazil and France.

While Australia's strengths in terms of widespread mandatory superannuation coverage, a strong regulatory system and large pool of invested funds contribute to its strong result, there is room for improvement. Weaknesses include the paucity of retirement income products to deal with longevity risk, and the small average scale of superannuation funds which leads to a cost disadvantage, especially with respect to large European funds. The inclusion of an operating cost factor in the 2010 Index has highlighted the latter.

The leading retirement system in the Index once again is the Netherlands, which has the advantage of a very well established retirement system with higher benefit levels, very large industry wide defined benefit schemes, and a consequent low cost structure. Even the Netherlands, however, does not rate as an "A grade" (score greater than 80%) system under the Index. Weaknesses in the Netherlands system include absence of a mandatory preservation age, poor household savings and low employment participation amongst older workers.

According to ACFS Director, Professor Deborah Ralston, "international comparative studies like this are an invaluable tool for policy makers and researchers as the Index provides a detailed analytical framework in which the relative merits of each system can be assessed."

This second edition, the 2010 Index will offer greater insight into this complex topic, with the inclusion of new countries and broader terms of reference. The Index is based on more than 40 indicators which reflect features that are desirable in all retirement income systems. These indicators are grouped into three sub-indices: adequacy, sustainability and integrity.

"Each retirement system is quite different as this study highlights, with different age pension safety nets, mandatory or voluntary employment related pensions and varying levels of incentive for private saving. Western societies with lower birth rates and increased longevity and are increasingly challenged to provide an adequate benefit to retirees and generally meet the needs of an aging population. Retirement systems tend to be best developed in the Scandinavian countries, and least well developed in Asia. In Asian countries retirement systems tend to be in their infancy as governments strive to develop public policies which accommodate changing family structures and urbanisation which impact on how the aged are cared for."

Professor Kevin Davis, ACFS Research Director said that "these cultural and social differences were a challenge in developing the Index and for this purpose the ACFS assembled a team of pension experts to oversee the process and guide its development. We believe that the final result presents a rigorous and balanced approach to that assessment."

"For each country the Index examines the well accepted three pillars of a retirement system, which in Australia are the Age Pension, compulsory superannuation and voluntary super savings, as well as the World Bank's fourth pillar of private savings through home ownership and personal non-super savings."

Consequently, the final results, reflect not only the relative merits of each system but also to some extent the maturity of the retirement system.

### Melbourne Mercer Global Pension Index 2010

Country	Ranking		Overall index value	Sub-index values		
	2010	2009		Adequacy	Sustainability	Integrity
				40%	35%	25%
Netherlands	1	1	78.3	76.1	71.6	91.4
Switzerland	2	-	75.3	73.1	71.8	83.5
Sweden	3	3	74.5	72.8	72.9	79.5
Australia	4	2	72.9	68.1	71.7	82.4
Canada	5	4	69.9	75.0	56.8	80.1
UK	6	5	63.7	64.9	47.1	85.3
Chile	7	7	59.9	52.1	54.7	79.8
Brazil	8	-	59.8	72.9	29.1	81.7
Singapore	9	8	59.6	43.7	63.6	79.5
USA	10	6	57.3	54.3	59.0	60.0
France	11	-	54.6	74.9	29.7	56.8
Germany	12	9	54.0	64.1	42.3	54.4
Japan	13	11	42.9	42.2	27.9	65.2
China	14	10	40.3	48.3	29.0	43.4
Average			61.7	63.1	51.9	73.1

Dr Knox Mercer Global Partner added that the changes in this year's index were characterised by global trends and events such as the impact of the global financial crisis (GFC) and increasing life expectancy.

"Not surprisingly, the GFC has threatened the sustainability of public and private pension systems in several countries through the decline in asset values and an increase in government debt. This was reflected most acutely in the scores for Canada, the United Kingdom and the United States."

Other major differences in scores can be attributed to the refinement of the model to allow for some new questions examining home ownership, the allocation of superannuation assets on divorce and the relative cost efficiency of each system.

Australia has slipped from second to fourth position due to the inclusion of higher ranking Switzerland this year and also due to new questions on cost efficiency which slightly reduced the overall result.

The Melbourne Mercer Global Pension Index is one of a number of studies on retirement and superannuation with which the ACFS has been involved. The 2010 Melbourne Mercer Global Pension Index will be launched in Melbourne on 20<sup>th</sup> October.

#### About the Australian Centre for Financial Studies

The Australian Centre for Financial Studies (ACFS), formerly the Melbourne Centre for Financial Studies, 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 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

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