Media Release

Contact:
Lisa Kelaart – Mercer
+61 3 9685 3198 / +61 433 150 351 / lisakelaart@lahracarey.com.au

Prof Rod Maddock – Australian Centre for Financial Studies
+61 417 554 149 / rodney.maddock@australiancentre.com.au

EMBARGOED TO 12PM AEDST MONDAY 24 OCTOBER 2016

The impact of ageing populations on global pensions

- **Denmark maintains #1 position for fifth year with enviable 'A Grade'**
- **Australia holds onto #3 with B+ rating but drops in overall index value**
- **Nations face significant pressure to cope with impact of ageing populations**
- **Refer to overall index value results published below**

Dramatically ageing populations, declining birth rates and a lack of robust retirement systems will see many countries struggle under the burden of providing adequate pensions to their senior citizens without drastic action.

Now in its eighth year, the Melbourne Mercer Global Pension Index (MMGPI) fires a stern warning to governments across the globe to take immediate action.

From a local perspective, Australia is relatively well positioned with our retirement systems ranking third in the world due to our robust superannuation scheme and state-funded pension. However, there is work to be done to achieve the coveted 'A Grade', only ever held by Denmark and Netherlands.

This year Australia's overall index value fell from 79.6 in 2015 to 77.9, largely due to a reduction in the net replacement rate, partly related to the deferral of the rise in the superannuation guarantee contribution rate.

The MMGPI is the world's most comprehensive comparison of global pension systems, and this year it covered close to 60 per cent of the world's population, measuring 27 systems against more than 40 indicators to gauge their adequacy, sustainability and integrity. It included diverse countries across the Americas, Europe and Asia-Pacific regions, this year examining Malaysia and Argentina for the first time.

Supported by the Victorian Government and bringing together the best minds in Australia's financial services and research expertise fields, the Index is testament to Victoria's dominant position in the superannuation and financial services sectors.

The Index is the premier research tool available to guide governments to develop policies that provide adequate and sustainable benefits for all their citizens in retirement.

"With a strong financial services sector and deep talent pool, Victoria continues to lead the way in funds management, a central part of any superannuation and annuities system," said Victorian State Minister for Industry and Employment, Wade Noonan.

"Through our Future Industries Fund, the Victorian Government is working closely with the financial services sector to deliver continued expansion, investment and jobs growth."

The 2016 MMGPI – A closer look at the impact of ageing populations

This year, the MMGPI has looked at the impact of rapidly ageing populations, and the preparedness of countries' retirement systems to deal with the significant financial pressures this presents.

Author of the report and Senior Partner at Mercer, Dr David Knox said the impact of longer life expectancies, combined by global declining birth rates, is much more significant than has been recognised by many governments and communities.

"This year's report includes a projected old age dependency ratio which will raise alarm in many regions. The range of the ratio is stark – predicting that in South Africa there will be one retiree for every 7 people of working age while in Japan the number drops to one retiree for every 1.44 people of working age by 2040."

The MMGPI presents the evidence, and recommends the urgent changes that governments need to make to ensure that current retirement systems are sustainable and able to provide adequate benefits for decades to come.

Dr Knox issued a stern warning: "It is a political imperative that all countries, regardless of their size, and current standing on the MMGPI, implement the necessary policy changes to withstand future challenges presented by the globally ageing population."

The mitigating factors that determine each country's old age dependency ratio

The MMGPI shows the relative position of each country's old age dependency ratio in respect to five key factors:

• The labour force participation of older workers aged 55-64
• The labour force participation of older workers aged 65 and over
• The increase in the labour force participation rate of 55-64 year olds from 2000-2015 which determines whether the country is actually experiencing more people working at older ages

- The projected increase in the retirement period from 2015-2035 allowing for the expected increases in life expectancy and the projected increase in the normal eligibility age for social security or the publicly funded pension
- The level of pension fund assets expressed as a percentage of GDP in each country.

Dr Knox said although these indicators are not foolproof, they are indicative of developments which impact sustainability and community confidence in the provision of future retirement benefits.

The graph below plots the relative position of each country in respect of both the projected old age dependency ratio and the impact of the five mitigating factors.

"Indonesia is an interesting example, with its relatively low old age dependency together with a comparatively high labour force at older ages and a significant increase in the retirement age" said Dr Knox.

Figure 16: Relative positions of countries
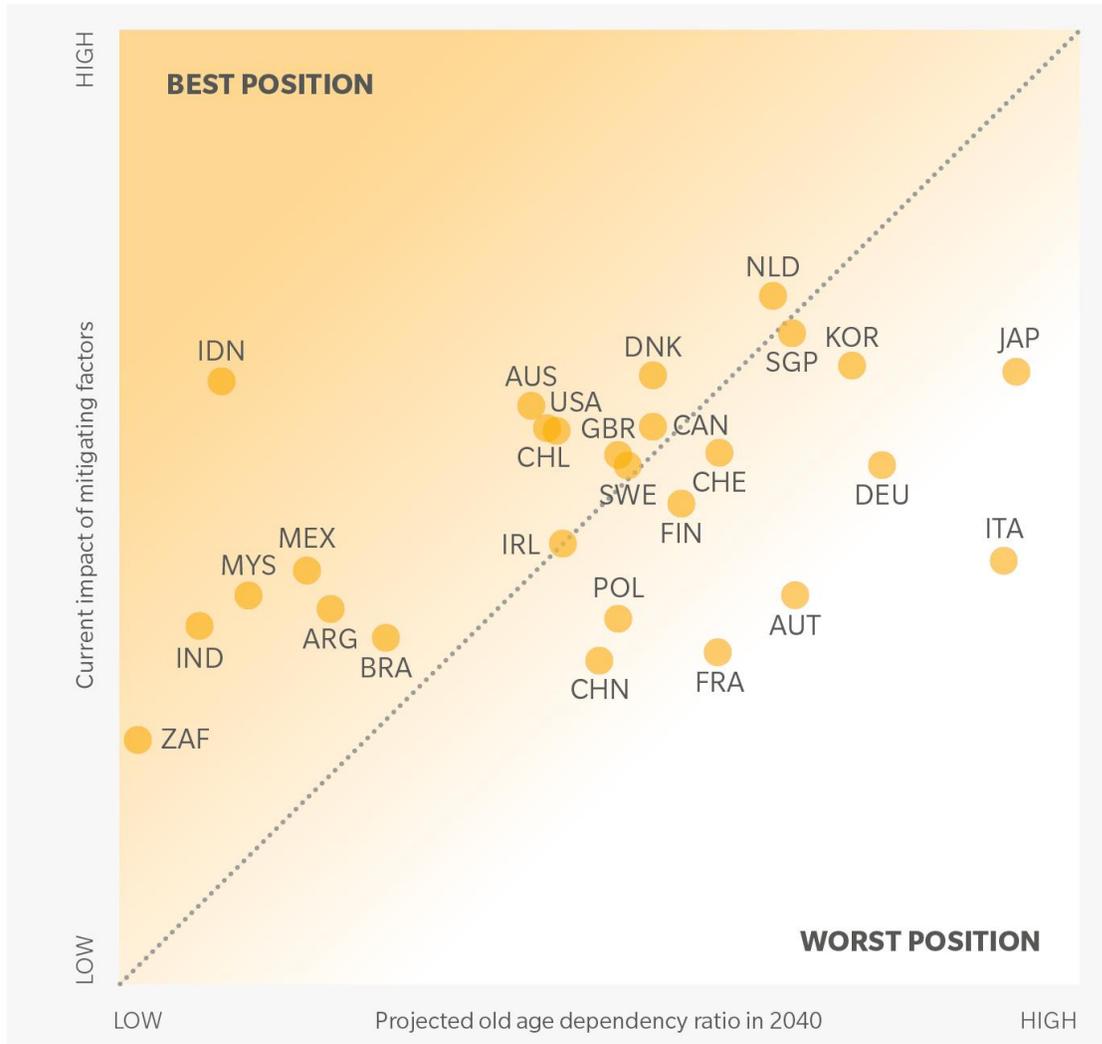
The true impact of globally increasing life expectancies

Life expectancies at birth have increased by seven to 14 years in most countries during the last 40 years, equating to an average of one additional year for every four years – a significant result that cannot be ignored in the ongoing reform of the pension system. Even more significantly, the increased life expectancy of a 65-year-old over the last 40 years ranges from 1.7 years in Indonesia to 8.1 years in Singapore.

"Whatever actual figure emerges in the next 40 years, there is little doubt that people are living longer in their older years," said Dr Knox.

"Without changes to retirement ages and ages for eligibility to access social security and private pensions, there will be increasing pressure on global retirement systems to the detriment of the financial security provided to older members of our society."

What can be done to strengthen Australia's retirement savings system?

According to Professor Rodney Maddock, of the Australian Centre for Financial Studies, increasing the superannuation contribution rate and the retirement age is going to be important to ensure the ongoing sustainability of Australia's superannuation scheme.

"The key to maintaining Australia's robust system is careful planning and brave leadership from our governments.

"Australians are living longer, living larger portions of their life in retirement and spending more in retirement, so we need to be well-placed to ensure fulfilling, adequately-funded retirements."

The MMGPI acknowledges that there are areas for improvement in all countries' retirement income systems. Possible measures to further enhance 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 as life expectancies rise
- 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 of pension eligibility.

Melbourne Mercer Global Pension Index – overall index value results

The overall index value for each country's system represents the weighted average of all three sub-indices.

Grade	Index Value	Countries	Description
A	>80	Denmark Netherlands	A first class and robust retirement income system that delivers good benefits, is sustainable and has a high level of integrity.
B+	75–80	Australia	
B	65–75	Finland Sweden Switzerland Singapore Canada Chile	A system that has a sound structure, with many good features, but has some areas for improvement that differentiates it from an A-grade system.
C+	60–65	Ireland UK	
C	50–60	Germany USA France Malaysia Brazil Poland Austria	A system that has some good features, but also has major risks and/or shortcomings that should be addressed. Without these improvements, its efficacy and/or long-term sustainability can be questioned.
D	35–50	Italy South Africa Indonesia Korea (South) China Mexico India Japan Argentina	A system that has some desirable features, but also has major weaknesses and/or omissions that need to be addressed. Without these improvements, its efficacy and sustainability are in doubt.
E	<35	Nil	A poor system that may be in the early stages of development or non-existent.

-Ends-

About the Australian Centre for Financial Studies
The Australian Centre for Financial Studies (ACFS) is a not-for-profit research centre of Monash Business School. ACFS specialises in leading-edge finance and investment research. It aims to boost the global credentials of Australia's financial industry, bridge the gap between academia and industry, and support Australia as an international centre for finance practice, research and education.

ACFS facilitates linkages between academics, industry practitioners and government, and draw on the expertise and experience of each of these groups to promote the transmission of knowledge throughout the greater finance community. ACFS has developed a strong reputation as an independent voice on industry-relevant matters. ACFS contributes to public debate on financial sector issues; conduct detailed, expert analysis; deliver unbiased contracted research to industry partners; host a wide range of knowledge-sharing activities including conferences, lecture series, lunchtime briefings, twilight seminars and roundtable discussions; and facilitate three Research Program Committees that link senior industry and academic leaders in the fields of banking, funds management and insurance. ACFS also engages with major government reviews such as the Financial System Inquiry, Tax White Paper and Productivity Commission inquiries.

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 careers of their most vital asset – their people. Mercer's more than 20,000 employees are based in 43 countries and the firm operates in over 140 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 of $13 billion and 60,000 colleagues worldwide, Marsh & McLennan Companies is also the parent company of Marsh, a leader in insurance broking and risk management; Guy Carpenter, a leader in providing risk and reinsurance intermediary services; and Oliver Wyman, a leader in management consulting. For more information, visit www.mercer.com. Follow Mercer on Twitter @Mercer.