

## Media Release

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### **Pension systems at risk of creating intergenerational equity issues**

- Sustainability of some current systems is under threat
- Denmark maintains #1 position for sixth year
- Index expanded to include Colombia, New Zealand and Norway
- Australia with a B+ rating has room for improvement

Unsustainable pension systems in some countries need to learn from leading countries or risk creating intergenerational equity issues and disappointed retirees.

Now measuring 30 countries and covering 60% of the world's population, this year's ninth edition of the Melbourne Mercer Global Pension Index urges countries with unsustainable pension systems to take action now, rather than risk the need to take even more drastic action in the future.

Jacques Goulet, President of Health and Wealth at Mercer, stresses the need for countries to address sustainability when considering pension reform.

"Increasing life expectancies and low investment returns are having significant long-term impacts on the ability of many systems around the world to deliver adequate retirement benefits both now and into the future," Mr Goulet says. "These pressures have alerted policy makers to the growing importance of intergenerational equity issues."

Mr Goulet says Japan, Austria, Italy, and France are examples of developed economies whose pension systems don't represent a sustainable model that will support current and future generations in their old age.

## **2017 Melbourne Mercer Global Pension Index**

“This is due to a combination of factors including a lack of assets set aside for the future, low labour force participation at older ages, and significant demographic changes towards an ageing population,” says Mr Goulet. “If left unchanged, these systems will create societal pressures where pension benefits are not distributed equally between generations.”

Author of the report and Senior Partner at Mercer, Dr David Knox, says it's not all doom and gloom; every country can be taking action now to move towards a better pension system.

“The primary objective of the Index is to benchmark each country's retirement income system so we can learn to understand what best practice may look like, both now and into the future,” says Dr Knox. “From our research, it is clear which countries are leading the way in providing sustainable pension systems with adequate benefits and what others can learn from them to improve. Denmark, Netherlands, and Australia are three such countries which, whilst taking different approaches depending on their starting point, adopt a strong multi-pillar approach as highlighted in the Index.”

Professor Edward Buckingham at the Australian Centre for Financial Studies says that the report tells us that Australia's pension system is good but there is room for improvement.

“Without the immigration of young people from other countries our ageing locally-born population would face significant challenges funding their retirement. The reason is simply that as we live longer, healthcare and public service costs will escalate and our society, like others, will face pressure to fund the needs of the old at the expense of the young. Optimising the use of savings set aside for retirement is a perennial responsibility that demands strategic improvement of pension systems worldwide,” says Professor Buckingham.

“Besides demographic constraints the various frameworks we create to guide investment decisions include moral and ethical dimensions that will shape the nature of wealth creation and transfer. This report contributes a uniquely global survey which provides a basis for articulating the merits and faults of many different approaches to these challenges.”

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.

Mr Ken Ryan AM, Commissioner for Victoria to Europe says, “with a strong financial services sector and deep talent pool, Melbourne continues to lead the way in funds management, a central part of any superannuation and annuities system. The 2017 Global Financial Centres Index, released in September, ranked Melbourne in 13th place reflecting the progress the Victorian Government is making to ensure Victoria is recognised as a leading global financial centre.”

### **What does the future look like?**

Some countries face a steeper path to system sustainability than others, and all start from a different origin with their own unique factors at play. Nevertheless, every country can take action and move towards a better system. In the long-term, there is no perfect pension system, but the principles of best practice are clear and nations should create policy and economic conditions that make the required changes possible.

## **2017 Melbourne Mercer Global Pension Index**

With the desired outcome of creating better lives, this year's Index provides a deeper and richer interpretation of the global pension systems. Having now expanded to include Colombia, New Zealand and Norway; the Index measures 30 systems against more than 40 indicators to gauge their adequacy, sustainability and integrity. This approach highlights an important purpose of the Index - to enable comparisons of different systems around the world with a range of design features operating within different contexts and cultures.

### **Melbourne Mercer Global Pension Index by the Numbers**

This year's Index reveals that Denmark, in its sixth year running, has retained the top position with an overall score of 78.9, ahead of the Netherlands and Australia at 78.8 and 77.1 respectively.

While Australia maintained its number three status within the Index, the overall score slipped from 77.9 in 2016 to 77.1 in 2017, acting as a reminder that despite being world-class, we need further reform to continue to improve our retirement income system.

"Australia's index value fell primarily due to a reduction in the household saving rate and the inclusion of the new economic growth question in the sustainability sub-index," says Dr Knox.

New entrants to the Index, Norway and New Zealand, achieved credible overall index values of 74.7 and 67.4 respectively. Both countries were noted as having a sound structure, with many good features, but have some areas for improvement. Colombia, with an overall index value of 61.7, was noted as a system with some good features, but also a system with some major risks and shortcomings that need to be addressed.

### **A-Grades prove elusive in 2017 Index**

In maintaining the integrity and relevance of the Index, two new questions have been included which has resulted in no country achieving the elusive 'A' grade. The first question addresses real economic growth in the sustainability sub-index, while the second question makes some allowance for voluntary pensions.

Naturally, the addition of a new question in the sustainability sub-index has resulted in the questions relating to assets and contribution levels having had their weightings reduced. Countries that have seen a significant improvement in their index value are those which have had high real economic growth during the last three years and where this is projected to continue during the next three years. These include China, India, Indonesia, Ireland and Malaysia. Conversely, countries with significant pension assets and high mandatory contributions but with lower real economic growth have seen a decline in their sustainability sub-index value. These include Canada, Denmark and the Netherlands.

"The Index is an important reference for policy makers around the world to learn from the most adequate and sustainable systems," Dr Knox says. "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."

## 2017 Melbourne Mercer Global Pension Index

### Melbourne Mercer Global Pension Index – Overall index value results

The following table shows the overall index value for each country, together with the index value for each of the three sub-indices: adequacy, sustainability, and integrity. Each index value represents a score between zero and 100.

Country	Overall Index Value	Sub-Index Values		
		Adequacy	Sustainability	Integrity
Argentina	38.8	42.4	33.1	41.2
Australia	77.1	75.3	73.0	85.7
Austria	53.1	67.6	19.9	76.4
Brazil	54.8	67.8	29.2	70.0
Canada	66.8	69.9	55.4	77.7
Chile	67.3	58.0	69.1	79.7
China	46.5	54.2	38.2	46.0
Colombia	61.7	66.4	49.9	70.7
Denmark	78.9	76.5	79.8	81.3
Finland	72.3	70.2	61.3	91.0
France	59.6	80.4	38.6	55.8
Germany	63.5	76.5	40.9	74.0
India	44.9	39.5	43.8	55.1
Indonesia	49.9	40.1	49.3	66.4
Ireland	65.8	77.9	43.9	77.2
Italy	50.8	66.2	16.4	74.3
Japan	43.5	48.0	26.0	60.7
Korea	47.1	46.9	46.8	47.9
Malaysia	57.7	42.3	61.2	77.6
Mexico	45.1	38.5	55.9	40.5
Netherlands	78.8	78.0	73.5	87.5
New Zealand	67.4	66.2	61.5	77.8
Norway	74.7	77.0	61.0	90.3
Poland	55.1	58.1	43.1	67.1
Singapore	69.4	65.2	66.2	80.7
South Africa	48.9	34.0	45.7	77.1
Sweden	72.0	67.7	71.0	80.3
Switzerland	67.6	60.2	64.7	83.3
UK	61.4	58.2	49.4	83.5
USA	57.8	57.0	57.1	60.1
<b>Average</b>	<b>59.9</b>	<b>60.9</b>	<b>50.8</b>	<b>71.2</b>

-Ends-

## **2017 Melbourne Mercer Global Pension Index**

### **Melbourne Mercer Global Pension Index**

The Melbourne Mercer global Pension Index is published by the Australian Centre for Financial Studies (ACFS), in collaboration with Mercer and the State Government of Victoria who provides most of the funding. Financial support has also been provided by The Finnish Centre for Pensions.

### **About Mercer**

[Mercer](#) delivers advice and technology-driven solutions that help organisations meet the health, wealth and career needs of a changing workforce. Mercer's more than 22,000 employees are based in 43 countries and the firm operates in over 130 countries. Mercer is a wholly owned subsidiary of [Marsh & McLennan Companies](#) (NYSE: MMC), the leading global professional services firm in the areas of risk, strategy and people. With more than 60,000 colleagues and annual revenue over \$13 billion, through its market-leading companies including [Marsh](#), [Guy Carpenter](#) and [Oliver Wyman](#), Marsh & McLennan helps clients navigate an increasingly dynamic and complex environment. For more information, visit [www.mercer.com.au](http://www.mercer.com.au).

### **About the Australian Centre for Financial Studies**

The Australian Centre for Financial Studies (ACFS) is a research centre within the Monash Business School. The Centre was established in 2005 with seed funding from the Victorian Government and became part of Monash University in 2016. Its research is mainly funded by a range of corporate partners and collaborators and is accessible, evidence-based and independent, and aims to inform public policy, community debate and industry practice. This report with Mercer is an important example of the research output.

The mission of the ACFS is to support the essential role of financial services in the economy through evidence-based research, insightful dialogue and meaningful collaboration across industry, government and academia. For more information, visit [www.australiancentre.com.au](http://www.australiancentre.com.au).

### **Trade and Investment Victoria**

Trade and Investment Victoria leads the Victorian Government's strategy to increase the state's export opportunities as well as attract international business investment to Victoria to create Victorian jobs and grow the economy.

Through its global network of 22 Victorian Government Trade and Investment offices, Trade and Investment Victoria provides free professional investment advice and services to potential and existing overseas partners, helping facilitate investment and access to export markets.

Businesses looking to invest, explore commercial opportunities or create research linkages in Victoria should contact Trade and Investment Victoria for more information.

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