



Media Release

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Global Pension Index reveals who is the most and least prepared for tomorrow's ageing world

- **The Netherlands takes first place, as Denmark comes in second**
- **Australia drops from third to fourth place**
- **Index expanded to include Hong Kong SAR, Peru, Saudi Arabia and Spain**
- **Private pension systems need to expand to include all the workforce**

Ageing populations continue to pose a challenge to governments worldwide, with policymakers struggling to balance the twin goals of delivering financial security for their retirees that is both adequate for the individual and sustainable for the economy.

Now in its tenth year, the Melbourne Mercer Global Pension Index reveals who is the most and who is the least prepared to meet this challenge.

Measuring 34 pension systems, the Index shows that the Netherlands and Denmark (with scores of 80.3 and 80.2 respectively) both offer A-Grade world class retirement income systems with good benefits - clearly demonstrating their preparedness for tomorrow's ageing world.

However, common across all results was the growing tension between adequacy and sustainability. This was particularly evident when examining Europe's results. Denmark, Netherlands and Sweden score A or B grades for both adequacy and sustainability, whereas

2018 Melbourne Mercer Global Pension Index

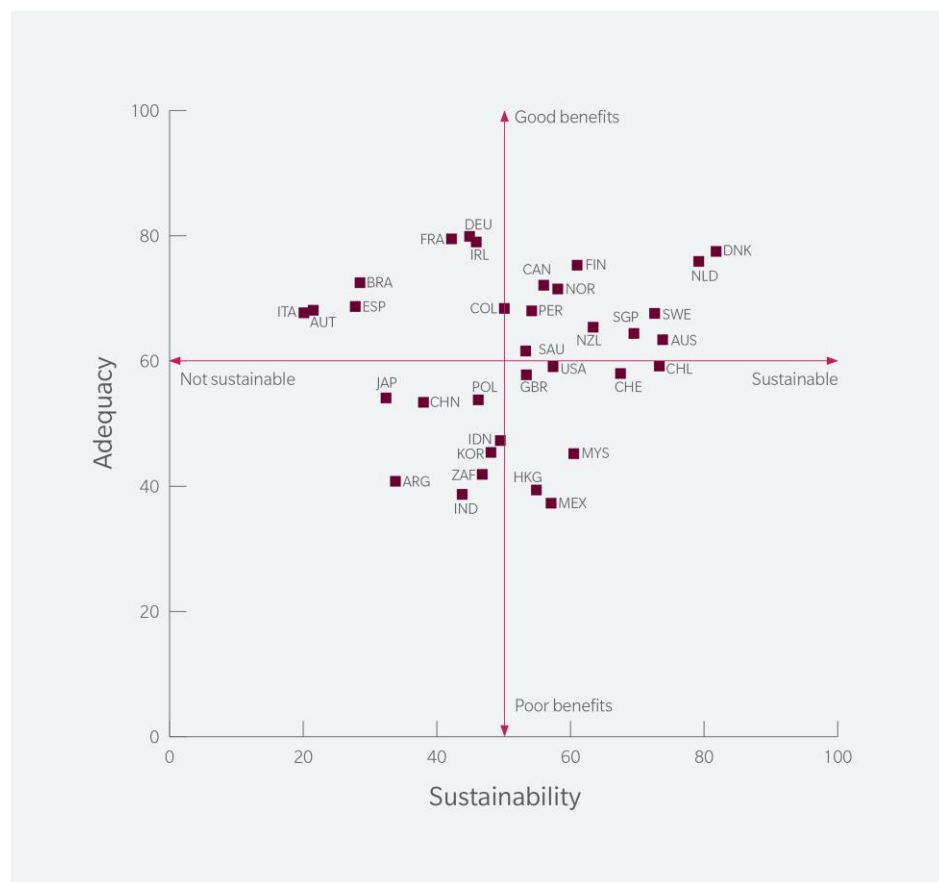
Austria, Italy and Spain score a B grade for adequacy but an E grade for sustainability thereby pointing to important areas needing reform.

Author of the study and Senior Partner at Mercer Australia, Dr David Knox says that the natural starting place to having a world class pension system is ensuring the right balance between adequacy and sustainability.

“It’s a challenge that policymakers are grappling with,” says Dr Knox. “For example, a system providing very generous benefits in the short-term is unlikely to be sustainable, whereas a system that is sustainable over many years could be providing very modest benefits. The question is – what’s an appropriate trade-off?”

As highlighted in Chart 1, all systems should consider adjusting their strategy so they are moving towards the top right quadrant. Through the study, policymakers can understand the characteristics of leading systems and find ways to improve their own.

Chart 1: Adequacy versus Sustainability ratings for global pension systems



Source: Melbourne Mercer Global Pension Index 2018

Dr Knox adds that it’s not enough for a system to be sustainable or adequate; an emerging dimension to the debate about what constitutes a world class system is “coverage” and the proportion of the adult population participating in the system.

2018 Melbourne Mercer Global Pension Index

“In some countries, broad coverage has been successfully accomplished through compulsory workplace pension systems or, in some cases, auto-enrolment arrangements,” he says.

“However, with changes in the way people are working around the world, we need to ensure these schemes include everyone so that the whole workforce is saving for the future. This includes contractors, self-employed, and anyone on any income support, be that parental leave, disability income or unemployed benefits.”

David Anderson, President, International at Mercer added that it was a positive step to see governments tackle pension reform as life expectancies continue to rise.

“Developed economies have been aware of the demographic challenges facing their pension systems for some time. Where economies are less developed, it’s pleasing to see many governments recognising the same trends emerging in their own populations and taking steps now to address this. Such actions make future pension systems more sustainable over the longer term,” he said.

“Ageing populations, high sovereign debt levels in some countries and the global competition to lower taxes constrain the ability of some jurisdictions to improve retirement income security. With a decade of unique data, the MMGPI and associated research can provide valuable global comparative insights to planners and policymakers on the way forward”, said Professor Deep Kapur, Director of Australian Centre for Financial Studies.

What does the future look like?

Some pension systems face a steeper path to long term 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 consider creating policy and economic conditions that make the required changes possible.

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 Hong Kong SAR, Peru, Saudi Arabia and Spain; the Index measures 34 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 many North-Western European countries lead the world in developing world class pension systems. The Netherlands, with an overall score of 80.3, beat Denmark to first place, a spot held by Denmark for six years, by 0.1. Finland bumped Australia (72.6) out of third place with an overall score of 74.5 and Sweden (72.5) coming in fifth place.

“The Index is an important reference for policymakers 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.”

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Melbourne Mercer Global Pension Index – Overall index value results

The Index uses three sub-indices – adequacy, sustainability and integrity – to measure each retirement income system against more than 40 indicators. 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 integrity¹. Each index value represents a score between zero and 100.

2018 Results

System	Total	Adequacy	Sustainability	Integrity
Argentina	39.2	40.8	33.8	44.1
Australia	72.6	63.4	73.8	85.7
Austria	54.0	68.1	21.5	76.7
Brazil	56.5	72.5	28.5	70.1
Canada	68.0	72.1	56.0	78.2
Chile	69.3	59.2	73.3	79.7
China	46.2	53.4	38.0	46.0
Colombia	62.6	68.4	50.1	70.9
Denmark	80.2	77.5	81.8	82.2
Finland	74.5	75.3	61.0	92.1
France	60.7	79.5	42.2	56.5
Germany	66.8	79.9	44.9	76.6
Hong Kong	56.0	39.4	54.9	84.2
India	44.6	38.7	43.8	55.2
Indonesia	53.1	47.3	49.5	67.4
Ireland	66.8	79.0	45.9	76.6
Italy	52.8	67.7	20.1	74.5
Japan	48.2	54.1	32.4	60.7
Korea	47.3	45.4	48.1	49.3
Malaysia	58.5	45.2	60.5	77.1
Mexico	45.3	37.3	57.1	41.6
Netherlands	80.3	75.9	79.2	88.8
New Zealand	68.5	65.4	63.4	80.6
Norway	71.5	71.5	58.1	90.2
Peru	62.4	68.0	54.2	65.1
Poland	54.3	53.8	46.2	66.4
Saudi Arabia	58.9	61.6	53.3	62.6
Singapore	70.4	64.4	69.5	81.2
South Africa	52.7	41.9	46.8	78.2
Spain	54.4	68.7	27.8	68.6
Sweden	72.5	67.6	72.6	80.2
Switzerland	67.6	58.0	67.5	83.2
UK	62.5	57.8	53.4	82.9
US	58.8	59.1	57.4	60.2
Average	60.5	61.1	52.0	71.6

¹ Melbourne Mercer Global Pension Index 2018, pages 13,14

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