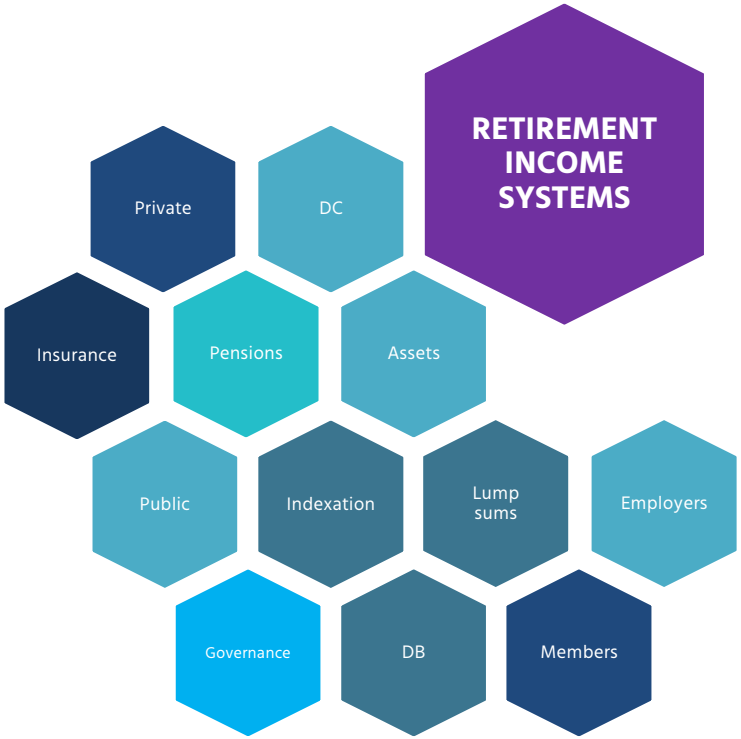
MERCER CFA INSTITUTE GLOBAL PENSION INDEX

2020

Pension systems are all different but important

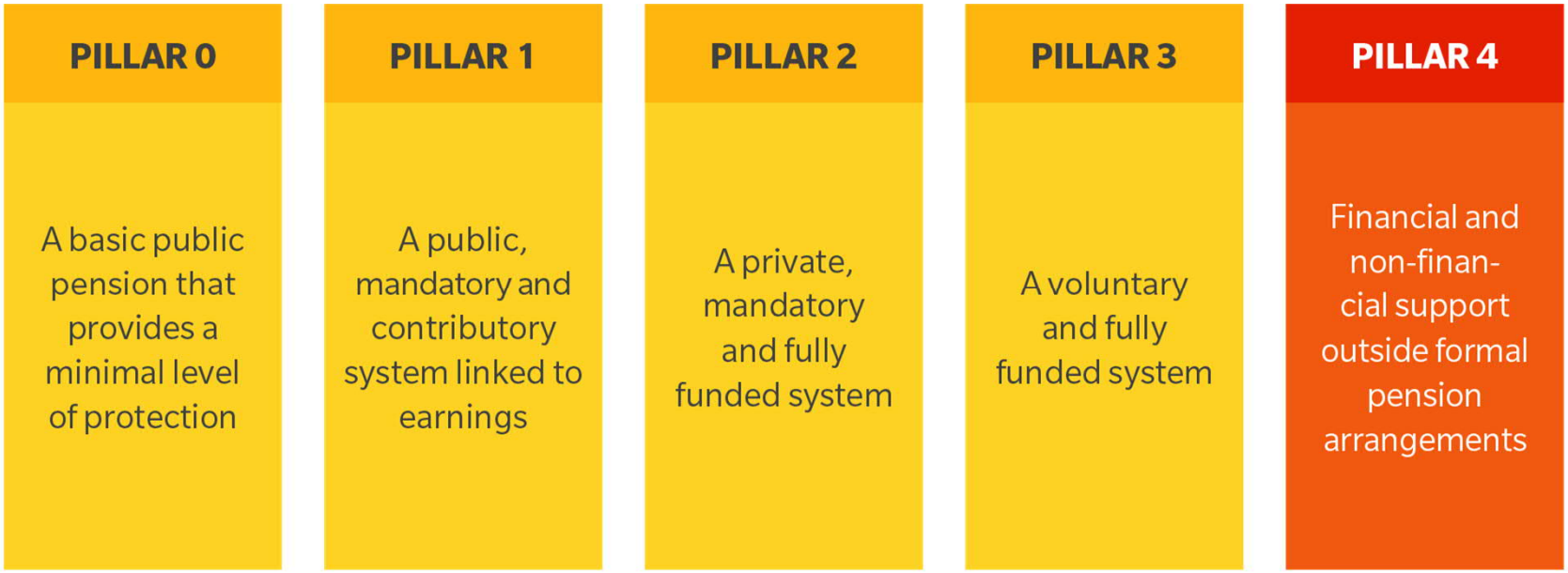


*"**People's trust in pension systems is low.***

Population ageing, low returns, low growth, less stable employment careers and insufficient pension coverage amongst some groups have been eroding the belief that all types of pension systems will deliver on their promises"

- OECD, 2018

The starting framework – World Bank model



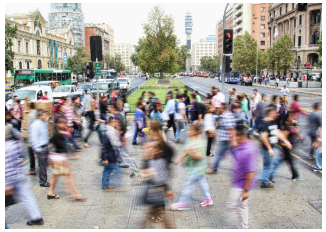
Some comments on the index

- It is comparative or relative; ***not absolute***
- We use ***objective data*** from international agencies and each country
- Subjective elements (eg community confidence) are important but ***very difficult to measure*** around the world
- Some desirable data is ***not available*** for every system
- More than ***50 indicators*** used; inevitably, weightings are ***subjective***
- The index represents ***the overall "system",*** not
  - what an individual may receive
  - the best pension fund available

The fundamental questions

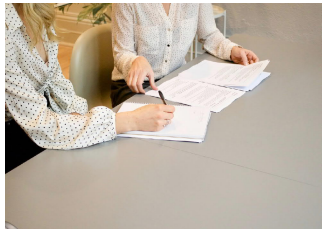
ADEQUACY

What do you get?



SUSTAINABILITY

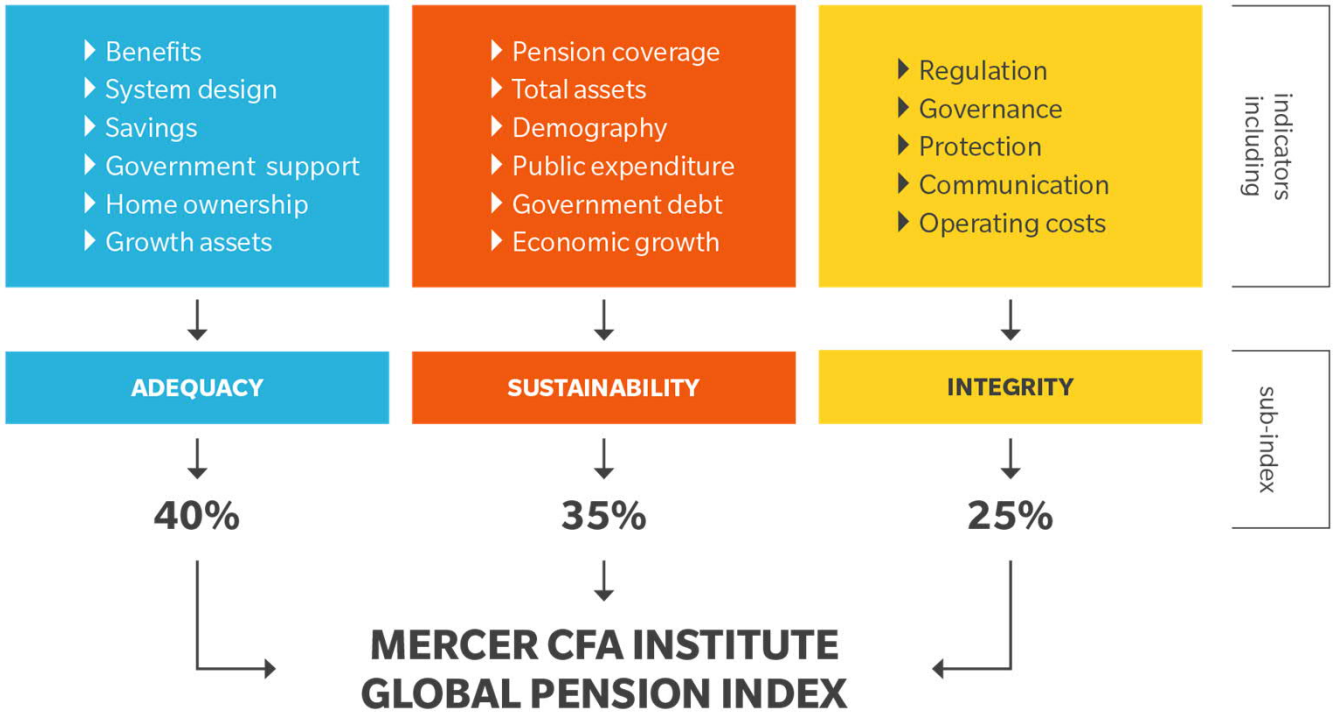
Can it keep delivering?



INTEGRITY

Can it be trusted?

Calculating the Global Pension Index



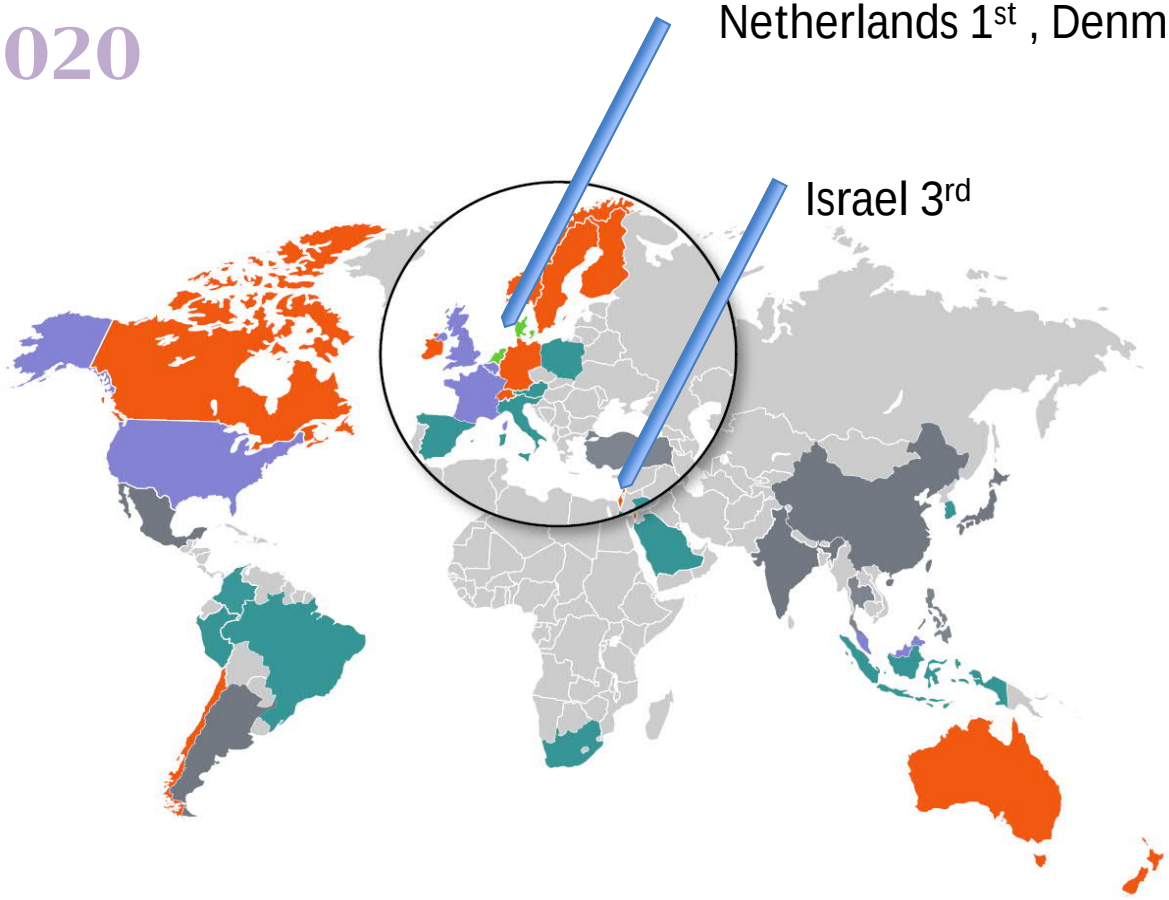
New systems

Belgium and Israel are new additions to the 2020 report

Bringing the total to 39 retirement income systems

Results for 2020

Grade	Index Value
A	>80
B+	75–80
B	65–75
C+	60–65
C	50–60
D	35–50
E	<35



Adequacy

- Minimum (or base) pension
- Net replacement rate (weighted)
- System design features
- Household savings/debt
- Home ownership
- Level of “growth” assets

#1	#2	#3
Netherlands	**Denmark**	**Germany**
81.5	79.8	78.8

Israel: 12th, 70.7

... India, Thailand, Mexico

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Sustainability

- Coverage of funded pension plans
- Level of pension assets as % of GDP
- Demographic issues
- Mandatory contributions with funding
- Labour force participation rate at older ages
- Public pension costs/Net government debt
- Real economic growth

#1	#2	#3
Denmark	**Netherlands**	**Australia**
82.6	79.3	74.6

Israel: 4th, 72.4

... Brazil, Austria, Italy

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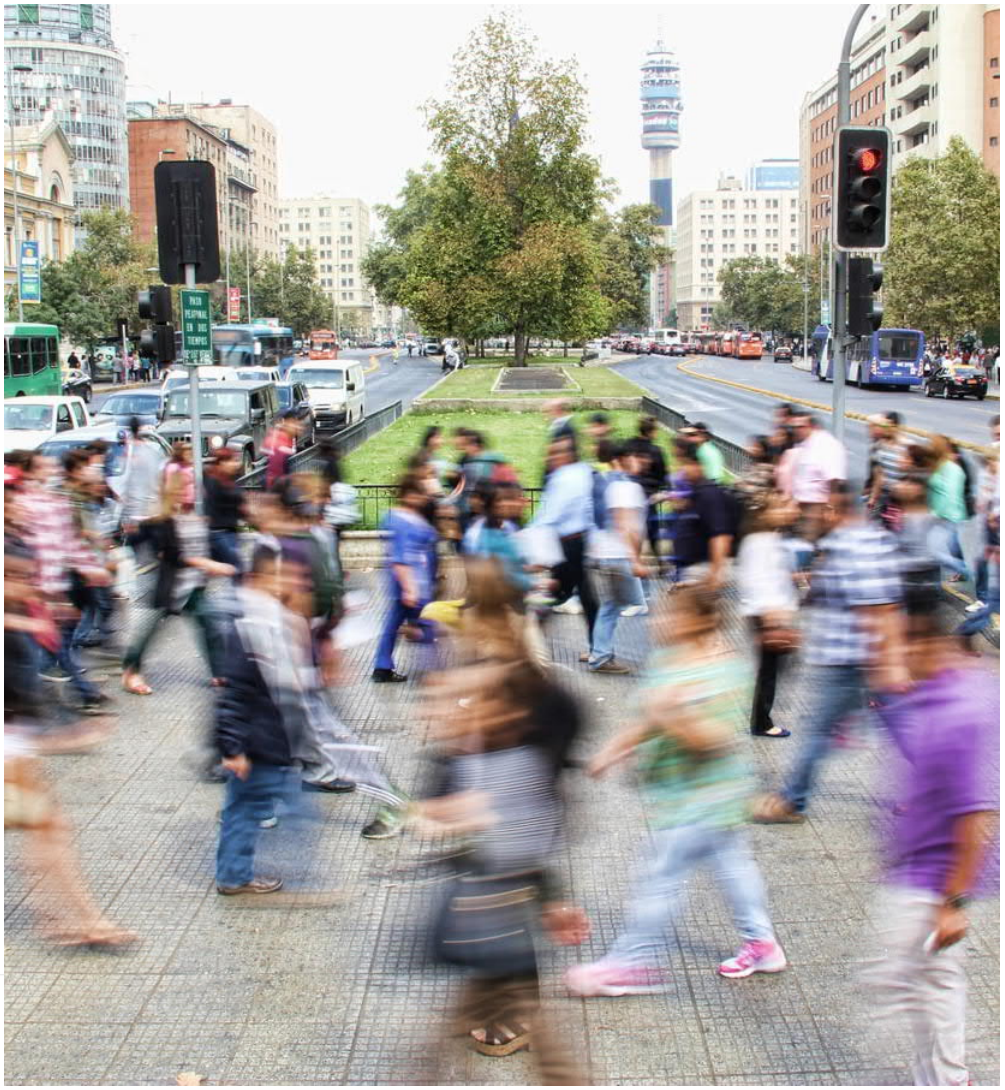

Integrity

- Regulation of private pension plans
- Governance requirements for pension plans
- Protection of members' benefits
- Communication to members
- Costs of the system

#1	#2	#3
Finland	**Norway**	**Netherlands**
93.5	90.3	88.9

Israel: 7th, 84.2

... Argentina, Mexico, Philippines

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Some comments on improving Israel's score

- Increase the level of pension fund assets, which will happen gradually
- Reduce the level of Government debt over time
- Introduce greater protection for pension fund members in the event of fraud or mismanagement
- Reduce the gender pensions gap
- Consider supporting parents who are out of the workforce and caring for young children

The impact of COVID-19: Now

Lower real economic growth

Immediate impact on index scores

- Lower sustainability sub-index score
  - Reduction of 1.2, on average, for this indicator

The impact of COVID-19: The future

Possible **future impact** on index scores

Reduced assets for retirement benefits due to several factors

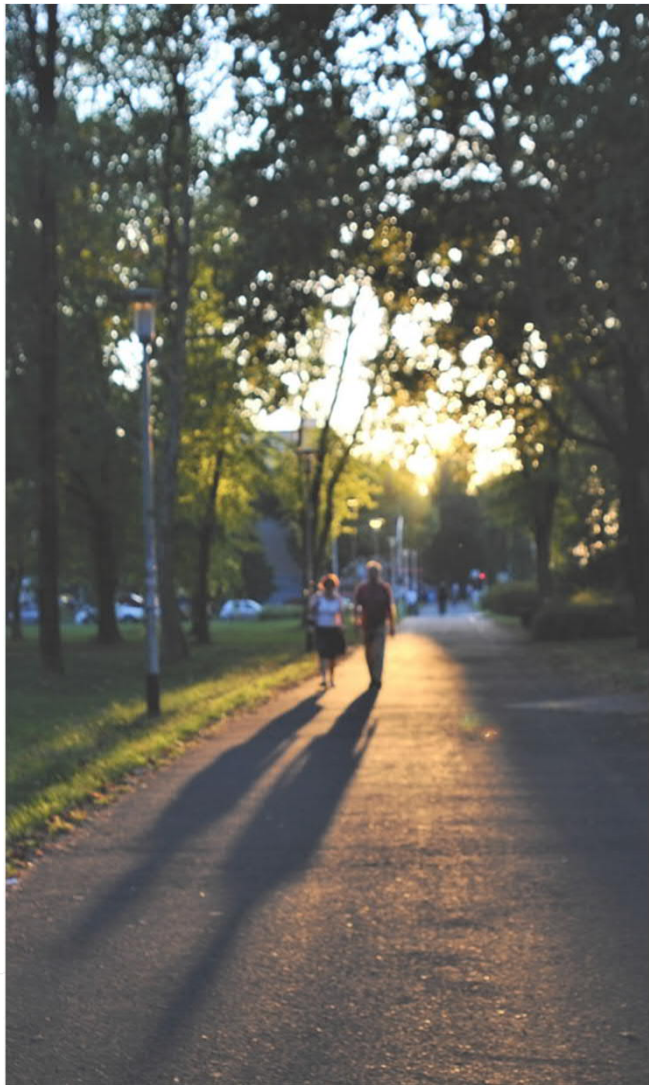
Increased government debt may lead to reduced pensions

Reduced migration affecting old age dependency ratio

Household saving rates may increase

Global pension reforms are needed

- Increase **coverage**
- Increase the **state pension age**
- Promote higher **labour force participation** at older ages
- Reduce the **leakage**
- Encourage higher levels of **private saving**
- Improve **governance** and **transparency**
- Reduce the pension **gender gap**



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