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Mercer CFA Institute Global Pension Index

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Media release

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Global Pension Index calls for major super reform to close gender pension gap

- **Mercer CFA Institute Global Pension Index sees Australia ranked sixth**
- **Index compares 43 retirement income systems, covering two-thirds of world's population**
- **Mercer recommends reforms to Australian pension system to close superannuation gap for women**

Australia, October 19, 2021 – Australia's retirement income system has been ranked sixth in the 13th annual Mercer CFA Institute Global Pension Index (MCGPI).

The MCGPI is a comprehensive study of global pension systems, accounting for almost two-thirds (65 per cent) of the world's population. It benchmarks 43 retirement income systems around the world highlighting strengths and shortcomings in each system, and suggesting possible areas of reform to provide more adequate and sustainable retirement benefits.

Australia's retirement income system received a B+ grade, based on a sound structure with many positive features while also highlighting areas for improvement. The top three systems – Iceland, the Netherlands, and Denmark – were found to be sustainable and well-governed systems, all receiving an A-grade.

The study also reveals scope for pension systems around the world, including Australia's, to reduce the gender pension gap.

Senior Partner at Mercer and lead author of the study, Dr David Knox, noted the opportunities for Australia's system, and stressed the importance of stakeholders working together to develop solutions that will contribute to better retirement outcomes for a greater proportion of Australians.

"Governments across the world responded to COVID-19 with significant levels of economic stimulus, which has added to government debt, reducing the future opportunity for governments to support their aged population. Despite these challenges, now is not the time to put the brakes on pension reform – in fact, it's time to accelerate the process. However, reform should be a collaborative process involving Government, employers, and the superannuation industry," Dr Knox said.

"Superannuation and retirement income has been at the forefront of regulatory reform in Australia, with the Retirement Income Covenant aiming to shift the focus of the superannuation industry away from the accumulation phase, towards retirement income. This, and the *Your Future, Your Super* reforms are a step in the right direction but there is an opportunity to take this further.

“Individuals are having to take more and more responsibility for their own retirement income, and they need strong regulation and governance to be supported and protected. Ultimately, with the right products, they will be empowered and confident to view their superannuation as an income for consumption, rather than a nest egg.”

CFA Institute Board of Governors and MCGPI Advisory Board member Maria Wilton said the investment industry has an important role to play in improving financial outcomes.

“The quality of our retirement income systems is a critical component – the Index throws a spotlight on the attributes of strong systems and gives us the opportunity to work with policymakers across the globe to identify areas for improvement,” Ms Wilton said.

“Australia's system rates very strongly – particularly the integrity and sustainability of our system - and continuing to build member confidence and engagement will lead to further improvement. We need to help people understand that superannuation is a long-term investment and not get caught up in short-term market volatility and switching.

“As investment professionals, our challenge is to deliver sustainable investment returns as efficiently as possible. Although the return environment is uncertain, investment opportunities as we emerge from the pandemic, including infrastructure and other real assets, stand us in good stead to build better retirement outcomes and contribute to economic recovery,” she said.

Gender differences in pension outcomes

The MCGPI’s analysis highlighted that there was no single cause of the gender pension gap, despite all regions having significant differences in the level of retirement income across genders.

“The causes of the gender pension gap are mixed and varied. Every country and region, including Australia, has employment-related, pension design and socio-cultural issues contributing to women being disadvantaged compared to men when it comes to retirement income,” Dr Knox said.

“The gender pension gap represents another challenge with women globally facing poorer financial outcomes. This is the case also in Australia where despite the Age Pension safety net, older women are at greater risk of homelessness and poverty. Specific measures to level the gender playing field with respect to retirement outcomes will require concerted effort by policymakers and industry stakeholders,” Ms Wilton added.

While employment issues are major contributors and are well known, including more female part-time workers, periods out of the workforce due to primary care responsibilities, and lower average salaries, the study found that pension design flaws were aggravating the issue. These include:

- non-mandatory accrual of superannuation benefits during parental leave;
- the absence in most systems of superannuation credits while caring for young children or elderly parents; and,
- differing annuity rates for men and women.

“We know that closing the gender pension gap is an enormous challenge given the close link of the pension to employment and income patterns. But, with poverty among the aged more common for women, we can’t afford to sit idle. If we want to encourage self-reliance, and for Australians to save their money while they're working for their retirement, our system must be inclusive for all," Dr Knox said.

"There are a number of initiatives that Australia could introduce, including removing eligibility restrictions for individuals to join employment-related pension arrangements. Regardless of how much you earn, how much you work, or for how long you've been working, every person in the paid workforce should have the ability to participate in a superannuation scheme that provides adequate benefits.

"Paying superannuation on parental leave is a first step, but there is an opportunity to go further to introduce superannuation credits for those caring for the young and old. Carers provide a valuable service to the community and shouldn't be penalised in their retirement years for taking time out of the formal workforce," he said.

By the numbers

Australia achieved an index value of 75.0 overall, 67.4 for adequacy, 75.7 for sustainability and 86.3 for integrity.

Iceland had the highest overall index value (84.2), closely followed by the Netherlands (83.5). Thailand had the lowest index value (40.6).

The Index uses the weighted average of the sub-indices of adequacy, sustainability and integrity. For each sub-index, the systems with the highest values were Iceland for adequacy (82.7), Iceland for sustainability (84.6) and Finland for integrity (93.1). The systems with the lowest values across the sub-indices were India for adequacy (33.5), Italy for sustainability (21.3) and the Philippines for integrity (35.0).

In comparison to 2020, China and the UK showed the most improvement as a result of significant pension reform, which improved outcomes for individuals and pension regulation.

2021 Mercer CFA Institute Global Pension Index

System	Overall index value	Sub-index values		
		Adequacy	Sustainability	Integrity
Argentina (42)	41.5	52.7	27.7	43.0
Australia (6)	75.0	67.4	75.7	86.3
Austria (33)	53.0	65.3	23.5	74.5
Belgium (17)	64.5	74.9	36.3	87.4
Brazil (30)	54.7	71.2	24.1	71.2
Canada (12)	69.8	69.0	65.7	76.7
Chile (16)	67.0	57.6	68.8	79.3
China (28)	55.1	62.6	43.5	59.4
Colombia (25)	58.4	62.0	46.2	69.8
Denmark (3)	82.0	81.1	83.5	81.4
Finland (7)	73.3	71.4	61.5	93.1
France (21)	60.5	79.1	41.8	56.8
Germany (14)	67.9	79.3	45.4	81.2
Hong Kong SAR (18)	61.8	55.1	51.1	87.7

Iceland (1)	84.2	82.7	84.6	86.0
India (40)	43.3	33.5	41.8	61.0
Indonesia (35)	50.4	44.7	43.6	69.2
Ireland (13)	68.3	78.0	47.4	82.1
Israel (4)	77.1	73.6	76.1	83.9
Italy (32)	53.4	68.2	21.3	74.9
Japan (36)	49.8	52.9	37.5	61.9
Korea (38)	48.3	43.4	52.7	50.0
Malaysia (23)	59.6	50.6	57.5	76.8
Mexico (37)	49.0	47.3	54.7	43.8
Netherlands (2)	83.5	82.3	81.6	87.9
New Zealand (15)	67.4	61.8	62.5	83.2
Norway (5)	75.2	81.2	57.4	90.2
Peru (29)	55.0	58.8	44.2	64.1
Philippines (41)	42.7	38.9	52.5	35.0
Poland (27)	55.2	60.9	41.3	65.6
Saudi Arabia (26)	58.1	61.7	50.9	62.5
Singapore (10)	70.7	73.5	59.8	81.5
South Africa (31)	53.6	44.3	46.5	78.5
Spain (24)	58.6	72.9	28.1	78.3
Sweden (8)	72.9	67.8	73.7	80.0
Switzerland (11)	70.0	65.4	67.2	81.3
Taiwan (34)	51.8	40.8	51.9	69.3
Thailand (43)	40.6	35.2	40.0	50.0
Turkey (39)	45.8	47.7	28.6	66.7
UAE (22)	59.6	59.7	50.2	72.6
UK (9)	71.6	73.9	59.8	84.4
Uruguay (20)	60.7	62.1	49.2	74.4
USA (19)	61.4	60.9	63.6	59.2
Average	61.0	62.2	51.7	72.1

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About the Mercer CFA Institute Global Pension Index

The Global Pension Index benchmarks retirement income systems around the world highlighting strengths and shortcomings in each system and suggests possible areas of reform that would provide more adequate and sustainable retirement benefits.

The Global Pension Index is a collaborative research project sponsored by CFA Institute, the global association of investment professionals, in collaboration with the Monash Centre for Financial Studies (MCFS), part of Monash Business School at Monash University, and Mercer, a global leader in redefining the world of work and reshaping retirement and investment outcomes.

This year, the Global Pension Index compares 43 retirement income systems across the globe and covers two-thirds (65 per cent) of the world's population. The 2021 Global Pension Index includes four new systems – Iceland, Taiwan, UAE and Uruguay.

The Global Pension Index uses the weighted average of the sub-indices of adequacy, sustainability and integrity to measure each retirement system against more than 50 indicators.

For more information about the Mercer CFA Institute Global Pension Index, click here.

About Mercer
Mercer believes in building brighter futures by redefining the world of work, reshaping retirement and investment outcomes, and unlocking real health and well-being. Mercer's approximately 25,000 employees are based in 43 countries and the firm operates in 130 countries. Mercer is a business of Marsh McLennan (NYSE: MMC), the world's leading professional services firm in the areas of risk, strategy and people, with 78,000 colleagues and annual revenue of over $18 billion. Through its market-leading businesses 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. Follow Mercer on Twitter @Mercer.

About CFA Institute
CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Our aim is to create an environment where investors' interests come first, markets function at their best, and economies grow. There are more than 175,000 CFA® charterholders worldwide in more than 160 markets. CFA Institute has nine offices worldwide and there are 160 local societies. For more information, visit www.cfainstitute.org or follow us on Linkedin and Twitter at @CFAInstitute.

About the Monash Centre for Financial Studies (MCFS)
A research centre based within Monash University's Monash Business School, Australia, the MCFS aims to bring academic rigour into researching issues of practical relevance to the financial industry. Additionally, through its engagement programs, it facilitates two-way exchange of knowledge between academics and practitioners. The Centre's developing research agenda is broad but has a current concentration on issues relevant to the asset management industry, including retirement savings, sustainable finance and technological disruption.