Mercer CFA Institute Global Pension Index 2022 — Highlights

Pursuing better outcomes for retirees in challenging times

Providing financial security in retirement is critical for individuals and societies as most countries are now grappling with the social, economic and financial effects of aging populations.

Since 2020, the COVID-19 pandemic has accentuated many of these issues. However, it is not only aging populations and the effects of the coronavirus that represent challenges for pension systems around the world.

The current economic environment — with reduced wage growth, rising inflation and reduced investment returns in many asset classes — is placing additional financial pressures on existing retirement income systems. It's now more important than ever to understand the features of the better pension systems that are positioned to deliver better outcomes for retirees.

In this context of uncertainties and long-term challenges, comparing the different pension systems worldwide can be really valuable for policymakers, governments and the pension industry. However, this comparison is not straightforward.

Comparing pension systems around the world

In constructing the Index, we have endeavored to be as objective as possible in calculating each system's Index value. Where international data are available, we have used that data. In other cases, we have used objective questions about each system to better understand each system's operations and outcomes.

Each system's overall Index value is calculated by taking 40% of the adequacy sub-index, 35% of the sustainability sub-index and 25% of the integrity sub-index. These weightings have remained constant since the first edition of the Index in 2009.

This year's top rated pension systems

Iceland
Index: **84.7**
Rating: **A**
Ranking: **#1**

Netherlands
Index: **84.6**
Rating: **A**
Ranking: **#2**

Denmark
Index: **82.0**
Rating: **A**
Ranking: **#3**

Calculating the Mercer CFA Institute Global Pension Index

Figure 1. Calculating the Mercer CFA Institute Global Pension Index

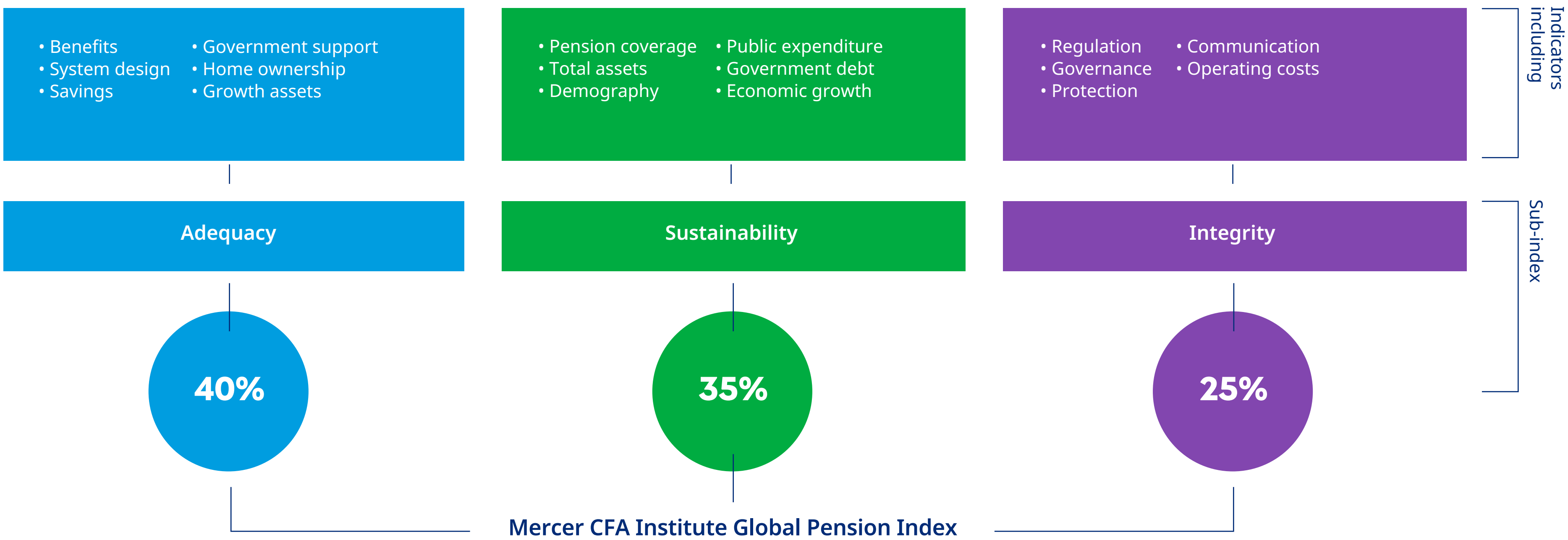
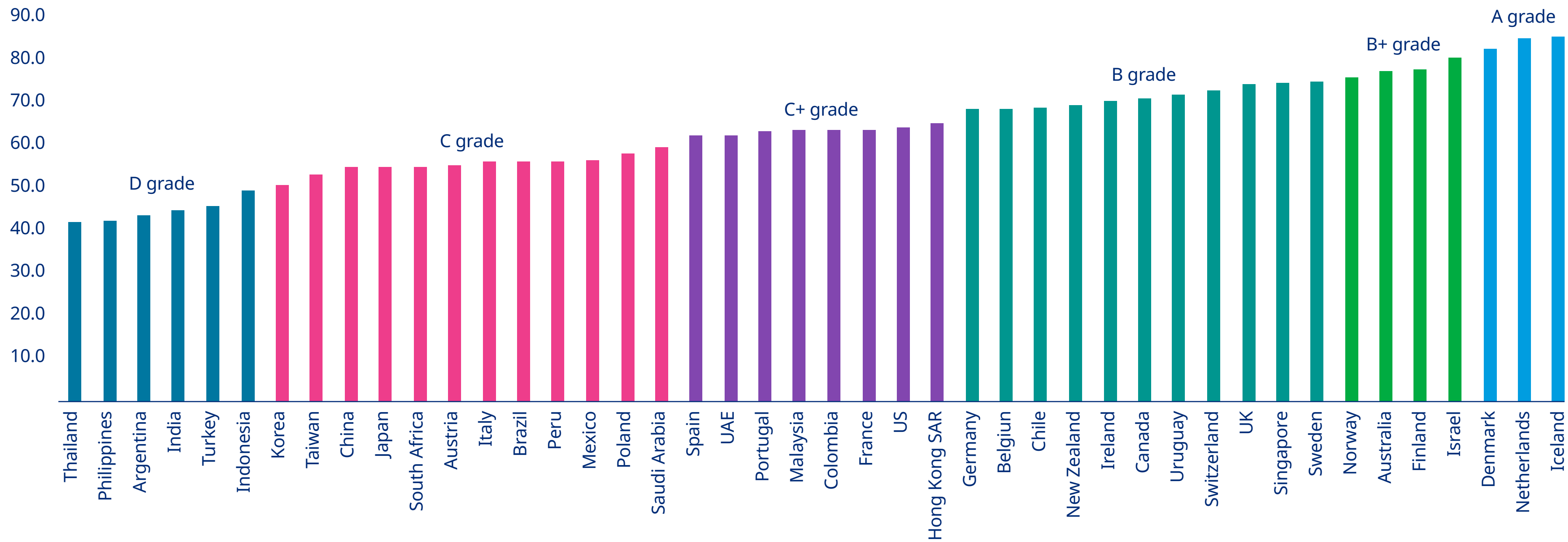


Figure 2. Summary of the 2022 results



Grade	Index value	Systems				Description
A	>80	Iceland	Netherlands	Denmark		A first-class and robust retirement income system that delivers good benefits, is sustainable and has a high level of integrity
B+	75–80	Israel	Finland	Australia	Norway	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
B	65–75	Sweden Singapore UK	Switzerland Uruguay Canada	Ireland New Zealand Chile	Belgium Germany	
C+	60–65	Hong Kong SAR US Colombia	France Malaysia Portugal	Spain UAE		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
C	50–60	Saudi Arabia Poland Mexico	Brazil Peru Italy	Austria South Africa China*	Japan Taiwan Korea (South)	
D	35–50	Indonesia Turkey	India Argentina	Philippines Thailand		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

* In this report, "China" refers to the pension system in mainland China. The pension systems in Hong Kong SAR and Taiwan are shown separately, as they have different pension systems.

How can pension systems be improved?

- Increase the coverage of employees (including non-standard workers) and the self-employed in the private pension system, recognizing that many individuals will not save for the future without an element of compulsion or automatic enrollment
- Increase the state pension age and/or retirement age to reflect increasing life expectancy, both now and into the future, thereby reducing the costs of publicly financed pension benefits
- Promote higher labor force participation at older ages, which will increase the savings available for retirement and limit the continuing increase in the length of retirement
- Encourage higher levels of private saving, both within and beyond the pension system, to reduce the future dependence on the public pension while also adjusting the expectations of many workers
- Introduce measures to reduce the gender pension gap and those that exist for minority groups in many retirement income systems
- Reduce the leakage from the retirement savings system before retirement, ensuring that the funds saved, often with associated taxation support, are used for the provision of retirement income
- Improve the governance of private pension plans and introduce greater transparency to improve the confidence of plan members

What does an ideal system look like?

There is no perfect pension system that can be applied universally, but there are many common goals that can be shared for better outcomes.

Adequacy	Sustainability	Integrity
A minimum pension is provided to the poor that represents a reasonable percentage of average earnings in the community	At least **80%** of the working age population should be members of private pension plans	A strong prudential regulator supervising private pension plans
At least **70%** net (after tax) replacement rate at retirement for a full-time worker on a median income	Current pension fund assets should be more that **100%** of GDP to fund future pension liabilities	Regular member communications including the provision of personal statements, projected retirement income and an annual report
At least **50%** of accumulated retirement benefits to be taken as an income stream	Labor force participitation rate for those aged 55–64 should be at least **80%**	Clear funding requirements for both defined benefit and defined contribution schemes

Feature chapter: Converting defined contribution benefits into better outcomes for retirees

The provision of retirement income to individuals and households has changed dramatically in many countries during the past two or three decades. This significant trend toward defined contribution plans will not reverse and will continue to affect an increasing number of retirees in years to come.

This year's feature chapter discusses the complicated defined contribution (DC) equation. We look at the broad challenges facing individuals, what retirees want, what solutions are out there and the best mix of benefits that could improve the outcomes for retirees.

A challenging DC equation

- **Employers are stepping away from defined benefit (DB) pension plans.**
- **Individuals are now bearing all the risks.**
- **Retirees are receiving lump sums, not pensions.**
- **Many households are not equipped to make financial decisions.**

What do retirees want?

- **Stability**
- **Sustainability**
- **Flexibility**
- **Bequest**
- **Transparency**

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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.

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