Paul Grinnell on behalf of Roland Guggenheim
Senior Associate

Swiss Association of Actuaries
104th General Assembly, Winterthur
Can different retirement income systems be compared?

- There is great diversity in these systems
- Mix of public and private provisions, with different designs
- “Classifying pension systems … is consequentially difficult.” OECD
- Comparable data is not always available

- **But … it is too important to be ignored**

- “There is room for improvement in all countries’ retirement-income provision” OECD

- What is the ideal retirement system?
- Our overall approach – multi pillar system – World Bank approach

- **More than 40 indicators to allow for breadth and variety**
Overall framework
The World Bank multi-pillar approach

Pillar 0
A basic public pension that provides a minimal level of protection

Pillar 1
A public, mandatory and contributory system linked to earnings

Pillar 2
A private, mandatory and fully funded system

Pillar 3
A voluntary and fully funded system

Pillar 4
Financial and non-financial support to the elderly outside pensions

Benefits of several pillars include risk diversification and efficiency
18 countries in the Melbourne Mercer Global Pension Index 2012

More than half the world’s population
Then … bringing it together

Calculating — the Melbourne Mercer Global Pension Index

- Benefits
- Savings
- Tax support
- Benefit design
- Growth assets

- Coverage
- Total assets
- Contributions
- Demography
- Government debt

- Regulation
- Governance
- Protection
- Communication
- Costs

ADEQUACY 40%
SUSTAINABILITY 35%
INTEGRITY 25%

MELBOURNE MERCER GLOBAL PENSION INDEX
Adequacy sub-index

We consider

- The minimum (or base) pension
- The net replacement rate for a median income earner
- Benefit design issues in the pension system
  - Tax; vesting; portability; access age; income streams; divorce
- Non-super savings
  - Household saving rate; home ownership
- Level of “growth” assets

Scores – top, Swiss and bottom

- Denmark  78.1
- Switzerland  71.3
- India  37.4
Adequacy sub-index

Adequacy Sub-index

DEN
NTH
FRA
CAN
AUS
BRA
SUI
UK
SWE
GER
POL
USA
CHN
CHL
JPN
KOR
SNG
IND
Sustainability sub-index

We consider

• Coverage of private pension plans
• Level of pension assets as % of GDP
• Demographic issues
  – Life expectancy; pension age; fertility rate
• Level of mandatory contributions with funding
• Labour force participation rate and transition amongst older workers
• Net government debt

Scores – top, Swiss and bottom

– Denmark 86.0
– Switzerland 67.9
– Brazil 26.9
Sustainability sub-index

- DEN
- SWE
- NTH
- AUS
- SUI
- CHL
- USA
- CAN
- SNG
- UK
- POL
- KOR
- IND
- GER
- FRA
- CHN
- JPN
- BRA
Integrity sub-index

We consider

• Regulation of private pension plans
• Governance requirements – national and pension plans
• Protection of members’ benefits
• Communication to members
• Costs of the system

Scores – top, Swiss and bottom

  – Netherlands   90.3
  – Switzerland   84.1
  – Korea         47.5
Integrity sub-index
The 2012 Results

Index value

A Grade
B Grade
C Grade
D Grade
Global Grades
There are some global themes

- Increase the relevant retirement/pension ages
- Promote higher labour force participation rates at older ages
- Reduce leakage from the system before retirement
- Increase coverage of employees and/or the self-employed
- Encourage/require additional savings
How can Switzerland become an A-grade system (80+)?
Our current score is 73.3

<table>
<thead>
<tr>
<th>Change</th>
<th>Overall impact</th>
<th>Ranking (out of 18)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SUSTAINABILITY 3: Increase 1st pillar pension age (high life expectancy, low fertility rate)</td>
<td>+4.6</td>
<td>15</td>
</tr>
<tr>
<td>ADEQUACY 6: Implement minimum proportion of 2nd pillar benefit as pension. 60% to 80%</td>
<td>+4.0</td>
<td>Bottom as 9 others</td>
</tr>
<tr>
<td>ADEQUACY 5: Increase minimum 2nd pillar retirement age from 58 to 60+</td>
<td>+1.9</td>
<td>12</td>
</tr>
<tr>
<td>SUSTAINABILITY 2: Increase funding (pension assets/ GDP)</td>
<td>+1.7</td>
<td>3</td>
</tr>
<tr>
<td>ADEQUACY 3: Increase household saving rate</td>
<td>+1.6</td>
<td>5</td>
</tr>
</tbody>
</table>
How can Switzerland become an A-grade system (80+)?
Our current score is 73.3

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</thead>
<tbody>
<tr>
<td>SUSTAINABILITY 4: Increase mandatory retirement contributions/ fund AVS</td>
<td>+1.5</td>
<td>5</td>
</tr>
<tr>
<td>ADEQUACY 9: Increase level of home ownership from 40% to 90+%</td>
<td>+1.3</td>
<td>18</td>
</tr>
<tr>
<td>INTEGRITY (REGULATION 3): Introduce mandatory risk management policy</td>
<td>+1.3</td>
<td>=12 with 4 others</td>
</tr>
<tr>
<td>SUSTAINABILITY 6: Reduce government debt as proportion of GDP</td>
<td>+1.1</td>
<td>8</td>
</tr>
</tbody>
</table>
Challenges

• Consistency across countries
  – Indicators limited to those for which data exists for all countries. BUT
  – Reliance on international data sources e.g. OECD, World Bank, UN
  – Yes/ no indicators where possible for local consultants

• Weightings for indicators

• Pillar 4/ health care provision

• Allowance for unusual issues e.g. Switzerland:
  – Withdrawal for home ownership – leakage?
  – Restrictions on rental costs
  – Administration/ investment cost indicator: doesn’t capture collective investment
Further information

- These slides will be on Swiss Association of Actuaries website
- Full report on Mercer website:
  - Follow “Retirement”
  - Objective, calculation/ scoring method, commentary and weighting for each indicator
  - Actual score for each indicator for each country
- roland.guggenheim@mercer.com or paul.grinnell@mercer.com
- 2013 results available on Monday 7 October
  - Indonesia and Mexico to be added
Questions