



The American Benefits Institute is the education and research affiliate of the American Benefits Council. The Institute conducts research on both domestic and international employee benefits policy matters to enable public policy officials and other stakeholders make informed decisions. The Institute also serves as a conduit for global companies to share information about retirement, health and compensation plan issues.

GLOBAL RETIREMENT INDEXES ILLUSTRATE WIDESPREAD EMPLOYEE BENEFIT SYSTEM CHALLENGES

Several reports over the last few years evaluating nations' retirement systems, including two released in recent months, have given the United States notably mediocre ratings in comparison to other countries at a similar level of development. National retirement systems, whether reliant on private employer-sponsored programs, public social insurance arrangements, or more typically combinations of the two, are under more pressure than ever before. Increasing life spans, rising government debt in many countries and a global shift to defined contribution plans are creating a new landscape and raising concerns about the future of retirement income systems. The various retirement system indexes utilize different metrics but all provide important insights into the challenges for pension systems in the U.S. and throughout the world.

MELBOURNE MERCER GLOBAL PENSION INDEX

The 2014 [Melbourne Mercer Global Pension Index \(MMGPI\)](#) measured 25 retirement income systems against more than 50 indicators under the sub-indexes of adequacy, sustainability and integrity. The United States finished 13th out of the 25 countries examined, earning a grade of "C."

The Mercer Index utilizes what has become known as the multi-pillar pension framework most recently [outlined by the World Bank in 2005](#).

In its analysis, the MMGPI identifies six challenges common to many countries in the form of “needs”:

- The need to increase the state pension/retirement age to reflect increasing life expectancy;
- The need to promote higher labor force participation at older ages;
- The need to encourage or require higher levels of private saving;
- The need to increase the coverage of employees and/or the self-employed in the private pension system;
- The need to reduce leakage from the retirement savings system prior to retirement; and
- The need to improve the governance of private pension plans.

Professor Deborah Ralston, Executive Director of the Australian Centre for Financial Studies, said, “Although each country’s retirement income system reflects a unique history, there are some common themes as many countries face similar problems in the decades ahead and the Index aims to highlight the best solutions and share them globally. It’s pleasing to note average scores are increasing over time, suggesting pension reform around the world is having a positive effect.”

The Council hosted a Benefits Passport webinar on January 15 to discuss the 2014 edition of the MMGPI, featuring *Dr. David Knox*, a Mercer senior partner based in Melbourne and lead author of the Index, and *Arthur Noonan*, a senior partner and intellectual capital leader for Mercer's U.S. retirement business. Presentation slides for the session are [available here](#). To request a digital playback of the session, [click here](#).

NATIXIS GLOBAL RETIREMENT SECURITY INDEX

On February 10, Natixis Global Asset Management issued a similar report, [the 2015 Global Retirement Security Index \(NGRI\)](#). Now in its third year, the Natixis Global Retirement Index is based on an analysis of 20 key trends across the four broad categories of health, material well-being, finances and quality of life. The results from this study explore the following “key issues”:

- What can be learned from the factors separating top-ranking countries from the rest of the world?
- A wide range of risks pose a threat to maintaining retirement security in any country
- There is a growing expectation that no matter what country they come from, individuals will need to take on a greater share of the burden in funding retirement.

The United States finished 19th out of 30 highly developed countries in the top tier of the rankings (150 countries overall were considered) maintaining the same position in the index that it has occupied for the past three years. Switzerland and Norway continue in the top two spots with Australia moving up to 3rd.

According to the authors of the Natixis report, “In our opinion, the greatest contribution to the security of retirees in [the highly-ranked] countries comes from bold public policies such as compulsory healthcare insurance coverage and mandatory or quasi-mandatory retirement savings programs.”

John Hailer, president and chief executive officer for Natixis Global Asset Management in the Americas and Asia, remarked that the highly ranked nations of Northern Europe “offer valuable lessons for countries trying to improve their retirement systems and prepare citizens for financial security in retirement. In the U.S., we need to open access to work-based retirement programs so more Americans can put money away for their future needs.”

ALLIANZ 2014 PENSION SUSTAINABILITY INDEX

In January 2014, Allianz, the European insurance and financial services company, published [the most recent version of its Pension Sustainability Index](#). This instrument combines a number of regional measurements into a global index that evaluates the elements of pension systems of 50 countries while estimating the expected pressure governments will face to enact reforms.

This particular ranking of long-term sustainability is oriented to the finances of public pension systems, using component indicators of benefit levels, demographics and dependency ratios (the ratio of those typically not in the labor force and those typically in the labor force), projected contribution flows and the current fiscal status of the countries to measure the long term viability of the system.

How the Countries Compare			
Rank	Mercer (out of 25)	Natixis (out of 25)	Allianz (out of 50)
1	Denmark	Switzerland	Australia
2	Australia	Norway	Sweden
3	Netherlands	Australia	New Zealand
4	Finland	Iceland	Norway
5	Switzerland	Netherlands	Netherlands
6	Sweden	Sweden	Denmark
7	Canada	Denmark	Switzerland
8	Chile	Austria	U.S.
9	U.K.	Germany	Latvia
10	Singapore	New Zealand	U.K.
	U.S. (No. 13)	U.S. (No. 19)	U.S. (No. 8)

The Allianz Index places Australia in the top spot, followed by Sweden and New Zealand, largely on the basis of their relatively modest commitments to publicly financed benefits and the presence of statutory constraints to control future expenditures. The United States places higher (8th), relative to other studies, in this narrower type of ranking for similar reasons related to the relatively modest (by international standards) size of the Social Security system.

Upon the release of the study, the author Renate Finke, noted: “A good ranking in the index does not equal to generous pension payments in a country, but it shows that a country’s pension system will be able to cope with its underlying demographics. In contrast to that you have to take into account that the countries at the low end of the ranking are there for different reasons.”

CSIS GLOBAL AGING PREPAREDNESS INDEX

By comparison, the Center for Strategic and International Studies (CSIS) published a [Global Aging Preparedness \(GAP\) Index](#) in 2010. This report contains two distinct indexes that separate rankings of the “fiscal sustainability” of 20 countries’ pension systems from an assessment of the projected adequacy of the benefits that they will provide.

Each of these indexes combines a variety of measures. The Fiscal Sustainability measure looks at the share of Gross Domestic Product pension benefits are anticipated to be and the rate of growth of these payments, and compares these to the expected capacity to pay for them by evaluating the available fiscal space in relation to public debt and other demands. By this measure, the United States is ranked No. 11.

The Income Adequacy Index looks at the projection of total income for the elderly from both public and private sources and seeks to incorporate a very wide range of sources including health benefits, transfer payments, private savings and family support. This measure places the United

CSIS GAP Index Country Rankings		
Rank	Fiscal Sustainability Index	Income Adequacy Index
1	India	Netherlands
2	Mexico	Brazil
3	Chile	U.S.
4	China	Germany
5	Russia	U.K.
6	Poland	Australia
7	Australia	Sweden
8	Japan	Chile
9	Canada	Spain
10	Sweden	India
11	U.S.	Canada
12	Korea	Japan
13	Switzerland	Poland
14	Germany	Switzerland
15	U.K.	Russia

States as No. 3 behind the Netherlands and Brazil, which both provide extensive public benefits, but ahead of Sweden and Australia, which rank well above the United States in some of the other rankings.

INDEXES ILLUSTRATE DESIGN TRADEOFFS AND POLICY CHOICES

Variations in country ranking provide a valuable illustration of the tradeoffs and consequences of the many design choices that are inherent in national pension policy. Faced with aging populations, the fiscal constraints that have been exacerbated by the 2008-2009 global financial crisis and the legacy costs of earlier decisions, countries in the developed world are increasingly faced with the challenge of balancing high income replacement rates with long-term fiscal sustainability. Choices increasingly revolve around decisions concerning the role of, and dependence on, employment-based systems and other private savings. The extent to which benefits are funded through accumulated assets invested in capital markets and the extent that participation in the private system is mandated are also essential issues requiring policy decision-making. Other critical parameters include reliance on price versus wage indexation of benefits, benefit guarantees and the introduction of automatic stabilization mechanisms that can adjust to market volatility, as well as recognition of changes in mortality without requiring unpredictable political interventions.

Faced with these pressures, high-income countries with cultural and political traditions conducive to benefit mandates – and a willingness and capacity to accept higher fiscal exposure – rate at the upper end of national pension system indexes. The United States, with its robust but voluntary employment-based system and relatively modest universal Social Security system, is ranked in a relatively high position overall, but generally somewhat below countries that have sought to enhance coverage through more extensive benefit mandates.