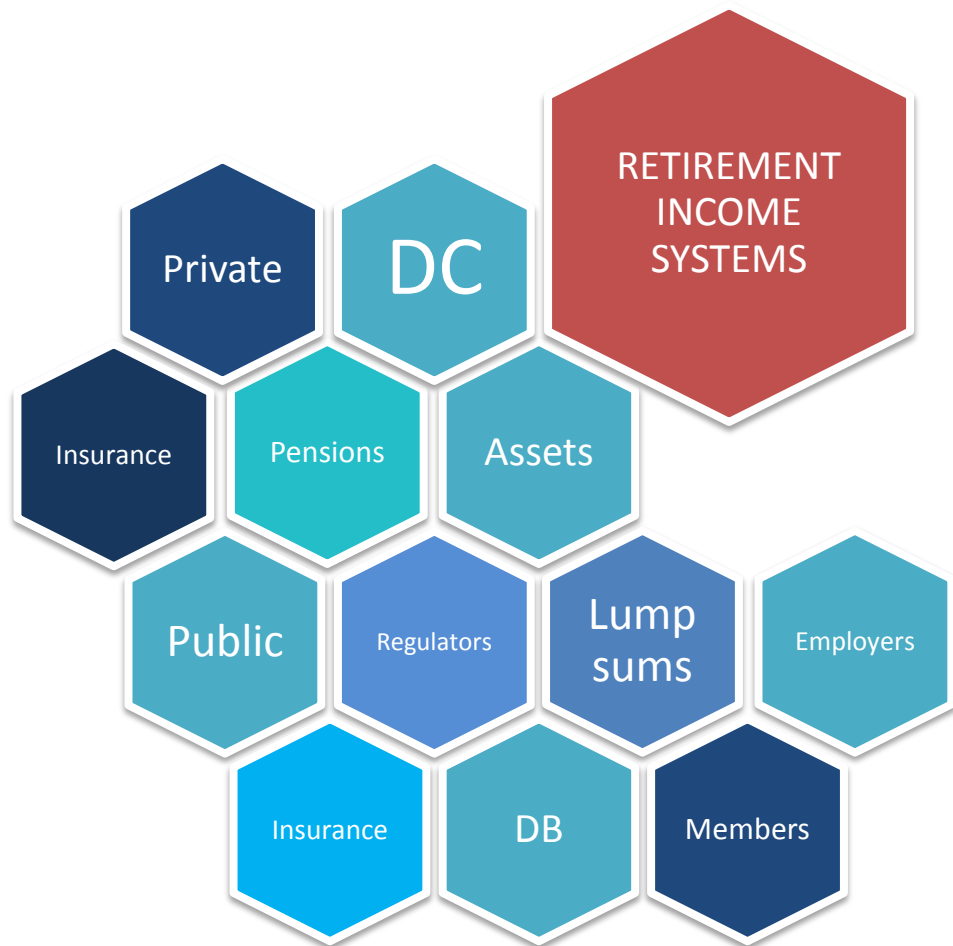




MELBOURNE
MERCER
GLOBAL
PENSION
INDEX

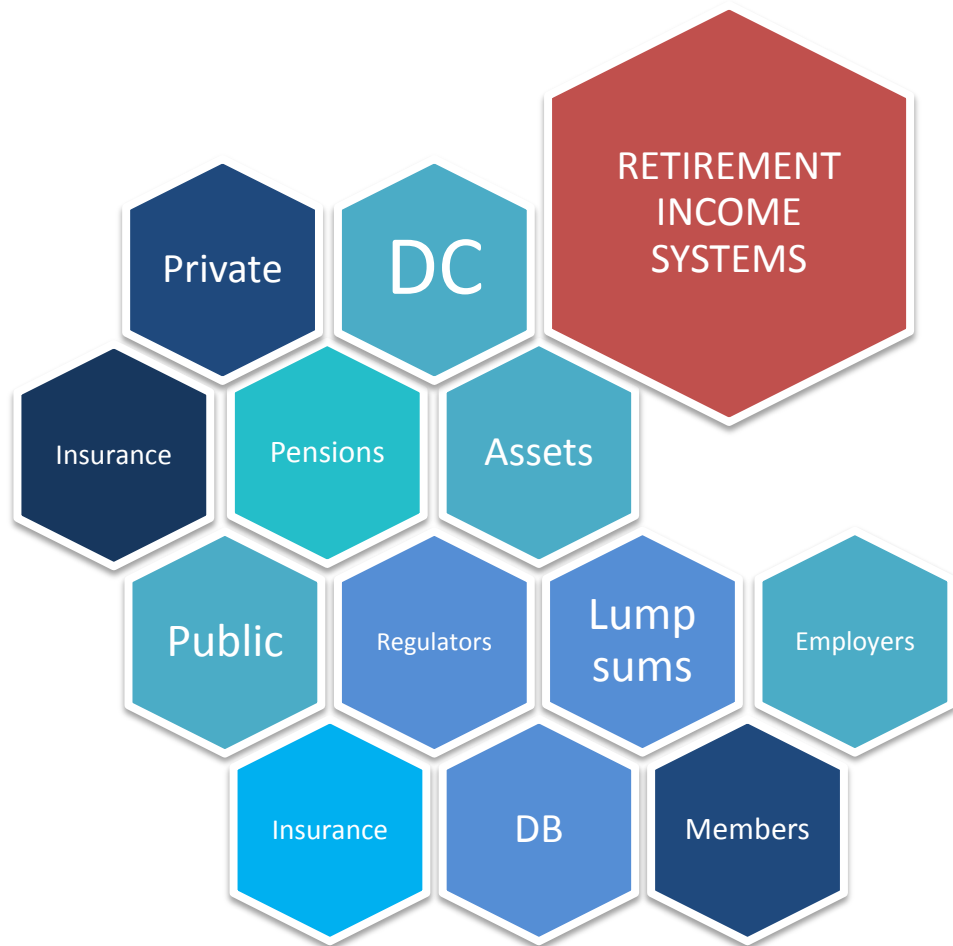
INCLUDING
TRUST AND
TRANSPARENCY
IN PENSIONS | OCTOBER

2014



Diverse systems are hard to classify.

How could we even begin to compare them?



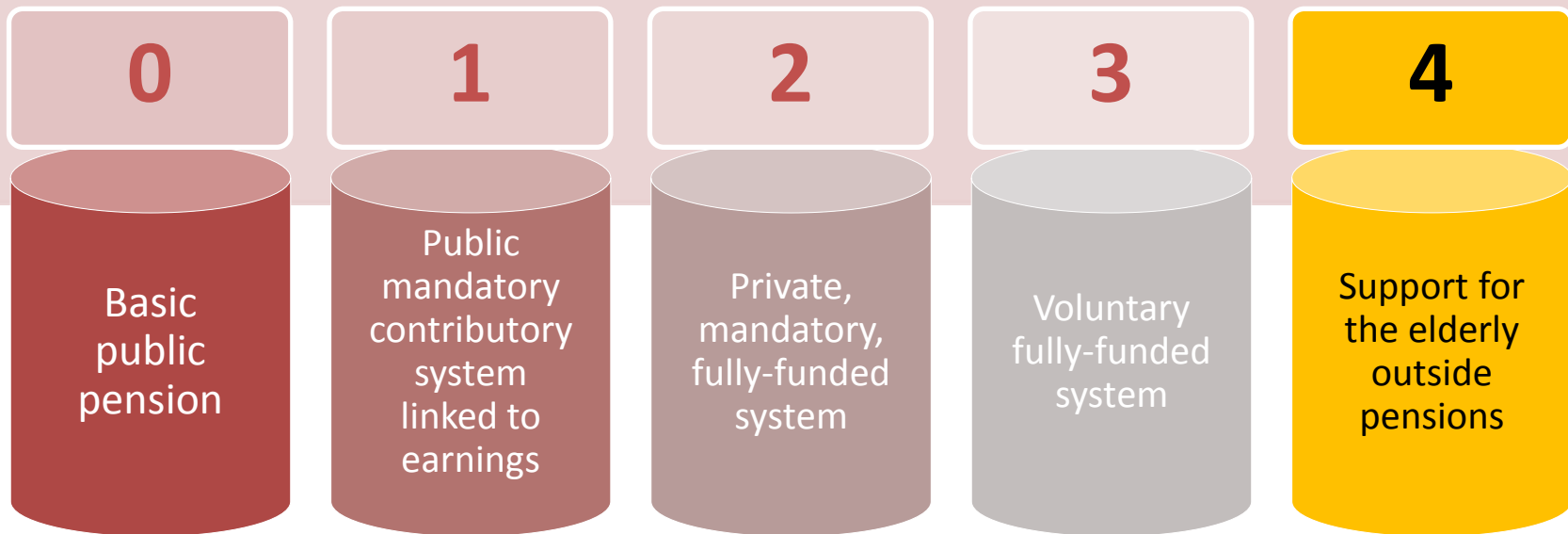
“There is room for improvement in all countries’ retirement-income provision”

- OECD

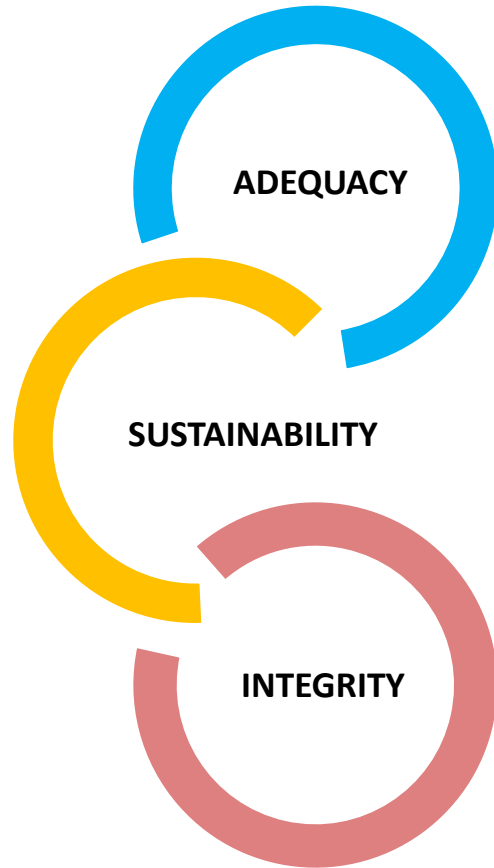
Too important to be ignored.

What is the ideal retirement system?

WORLD BANK | MULTI-PILLAR APPROACH



We begin by asking fundamental questions

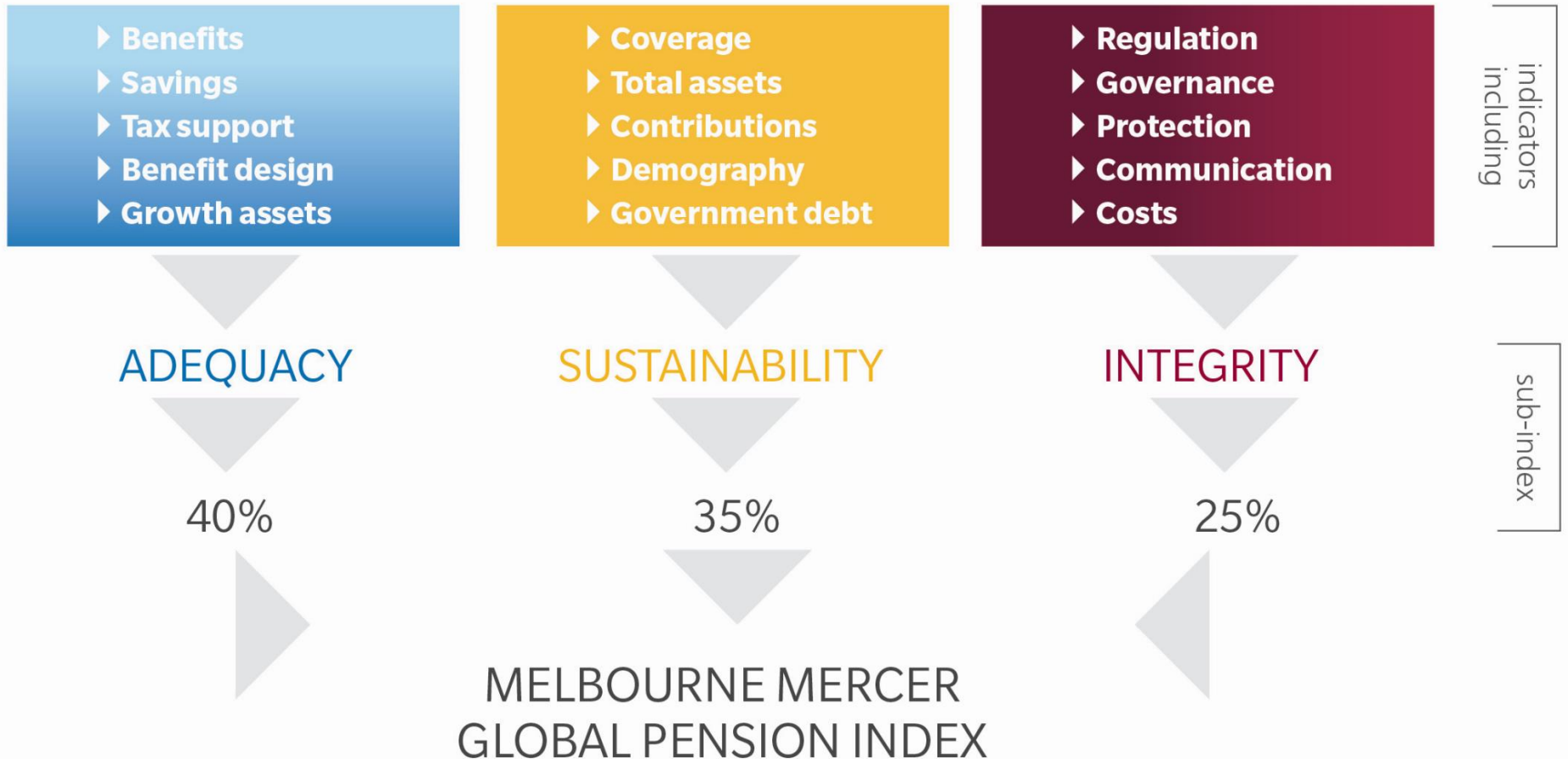


“What do you get?”

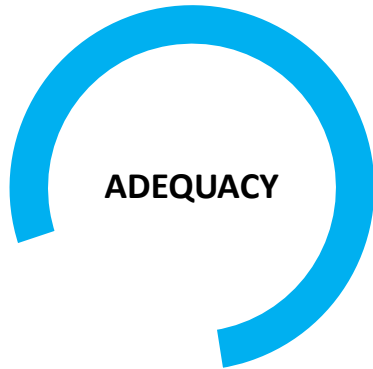
“Can it keep delivering?”

“Can it be trusted?”

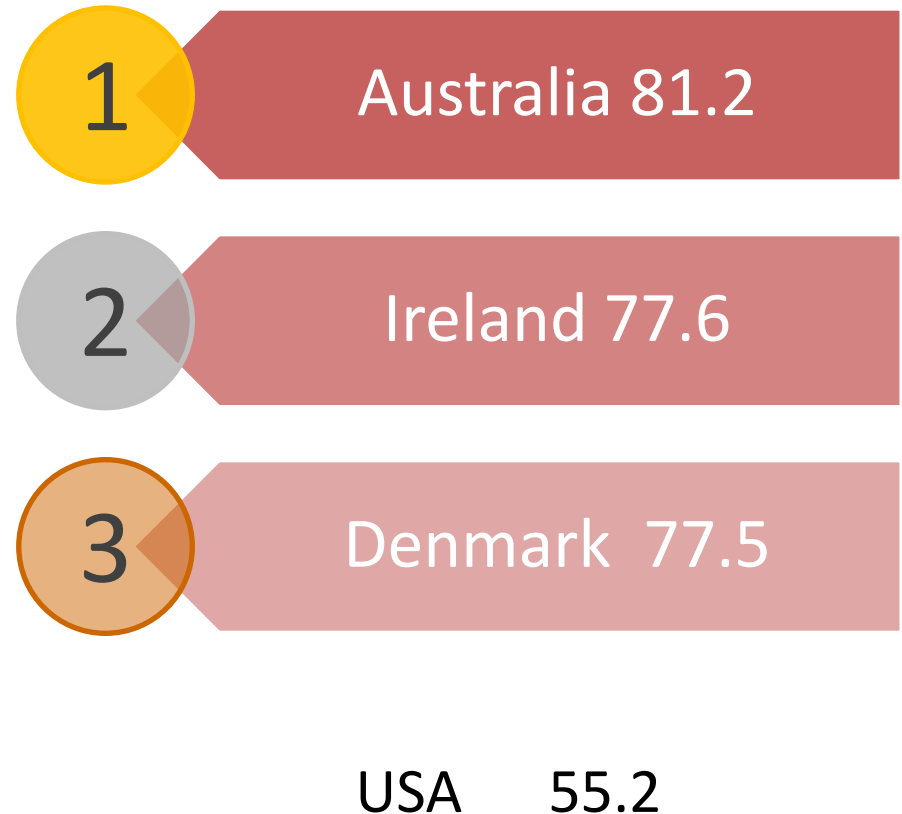
Calculating the Melbourne Mercer Global Pension Index



Adequacy



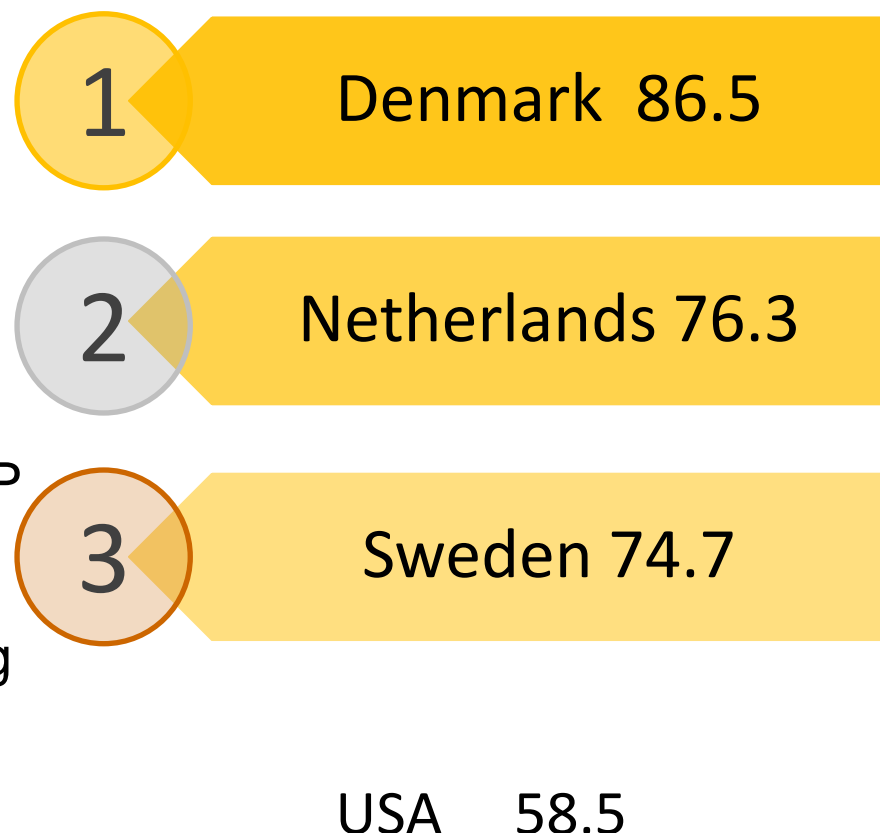
- Minimum (or base) pension
- Net replacement rate
- Benefit design
- Non-super savings
- Level of “growth” assets



Sustainability



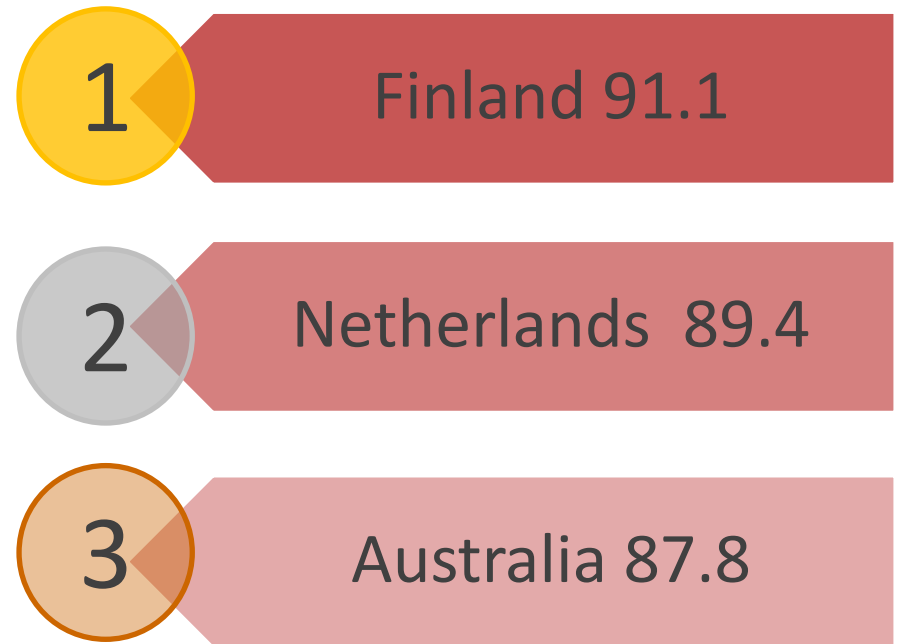
- Coverage of private pension plans
- Level of pension assets as % of GDP
- Demographic issues
- Mandatory contributions with funding
- Labour force participation rate and transition amongst older workers
- Net government debt



Integrity

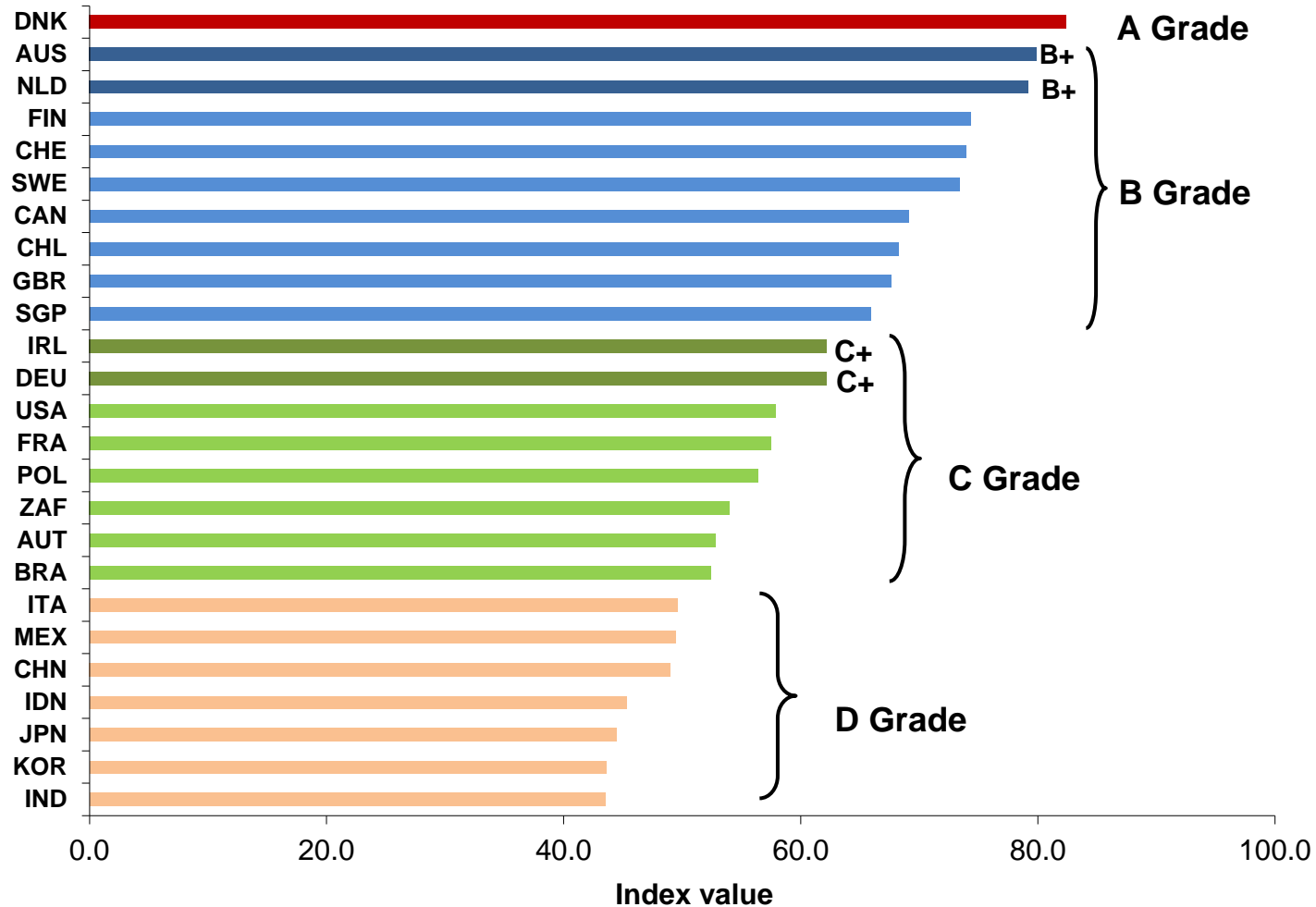


- Regulation of private pension plans
- Governance requirements – national and pension plans
- Protection of members' benefits
- Communication to members
- Costs of the system

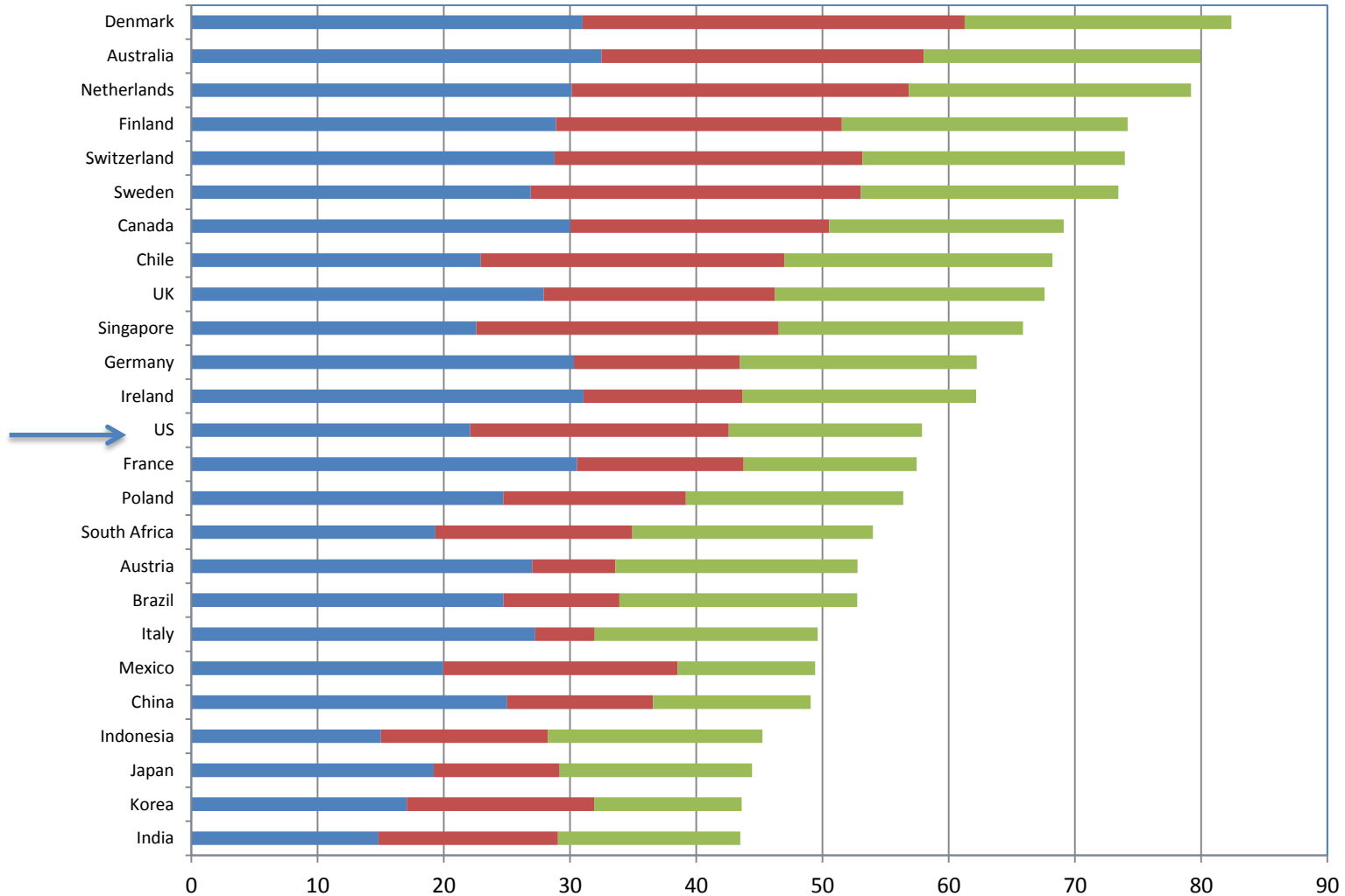


USA 61.2

Overall 2014 results



Overall 2014 results with sub-indexes



Global themes for improvement

- Encourage/require additional savings
- Increase coverage of employees and/or the self-employed
- Reduce leakage from the system before retirement
- Improve the governance of private pensions
- Increase relevant retirement/pension ages
 - It's gradually happening, but not uniformly
- Promote higher labour force participation rates at older ages
 - +4% during the last 3 years for the 16 countries in the 2011 report

Transparency and Trust in Pensions

- Improved understanding of the pension system is critical
- Members need relevant and timely information
- The disclosure arrangements are not as strong as may be expected
- Transparency of costs and performance is important to develop greater confidence

Some desirable features

Feature	Number of countries (max 25)
Information on joining	24
Annual personal statement	23
... including a projection/estimate	9
Annual report of plan required	12
... showing asset allocation	12
... showing major investments	4
Access to independent review	16

Some conclusions

- The pension industry must develop efficient methods to be transparent in meaningful and relevant ways to all stakeholders
- We recommend that the pension industry must
 - Provide accurate, relevant and timely information to all members in a cost-efficient manner
 - Ensure there is an independent review process available to members
 - Provide some protection to members in the case of a failure due to fraud
- Such features will encourage greater trust and confidence

US Context

United States

Grade C – A system that has some good features, but also has major risks and/or shortcomings that should be addressed. Without these improvements, its efficiency and/or long-term sustainability can be questioned.

Score could be improved by:

- Raising the minimum pension for low-income pensioners
- Adjusting the level of mandatory contributions
- Reducing pre-retirement leakage
- Introducing an income stream requirement

What is happening around the World

Two types of changes

- Modifying public pension systems with the objective of postponing retirement
- Introducing/expanding private pension arrangements

With a “flip side”

- May not address aging issues which are a barrier to staying workforce
- May increase inequality among retirees

Examples – Public pension changes

- Extending the statutory retirement age
 - To a specific age – 67 most common
 - Auto indexation tied to changes in life expectancy
 - Fixed indexation
- Less generous/no early retirement provisions
 - Require more service for full benefit
 - Increased reduction factors for early commencement
- New, less generous, indexation features
- Benefit increases for staying in workforce
 - Continued accrual allowed
 - Removal of upper age limits of private compulsory contributions

Examples – Private pension changes

- Implementing mandatory DC plans
- Raising the contribution amount
- Using financial incentives
 - Matching some contributions
 - Tax policy
- Minimum investment return guarantee
 - Reducing the contribution amount

Discussions/actions in United States

- Qualified longevity annuities
- Ability to reduce some accrued benefits (including “in pay”) in a Multiemployer Plan
- Official sanction of:
 - Auto enrollment
 - Target date funds
 - Phased retirement
- Obama administration’s MyRA initiative
- Proposed federal legislation
 - RSA 2014
 - USA Retirement Funds
- State legislation
 - California Secure Choice Retirement Savings Trust Act
 - Illinois Secure Choice Savings Program
 - Maryland Secure Choice Savings Program and Trust
 - (more in the queue)