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

0. Basic public pension
1. Public mandatory contributory system linked to earnings
2. Private, mandatory, fully-funded system
3. Voluntary fully-funded system
4. Support for the elderly outside pensions
We begin by asking fundamental questions:

- **ADEQUACY**
  - “What do you get?”

- **SUSTAINABILITY**
  - “Can it keep delivering?”

- **INTEGRITY**
  - “Can it be trusted?”
Calculating the Melbourne Mercer Global Pension Index

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

40%

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

35%

INTEGRITY
- Regulation
- Governance
- Protection
- Communication
- Costs

25%

MELBOURNE MERCER GLOBAL PENSION INDEX
Adequacy

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

1. Australia 81.2
2. Ireland 77.6
3. Denmark 77.5

USA 55.2
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
Regulation of private pension plans

Governance requirements – national and pension plans

Protection of members’ benefits

Communication to members

Costs of the system
Overall 2014 results

The bar chart shows the index values for different countries, categorized into A, B, C, and D grades. The x-axis represents the index value, ranging from 0.0 to 100.0, and the y-axis lists the countries.

- **A Grade** countries include DNK, AUS, NLD, FIN, CHE, SWE, CAN, CHL, GBR, SGP, IRL, DEU, USA, FRA, POL, ZAF, AUT, BRA, ITA, MEX, CHN, IND.
- **B Grade** countries include B+ level.
- **C Grade** countries include C+ level.
- **D Grade** countries include.

Countries such as DK, US, and CA are placed in the highest category, indicating superior performance.
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

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