



6 SEPTEMBER 2013

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Senior Associate

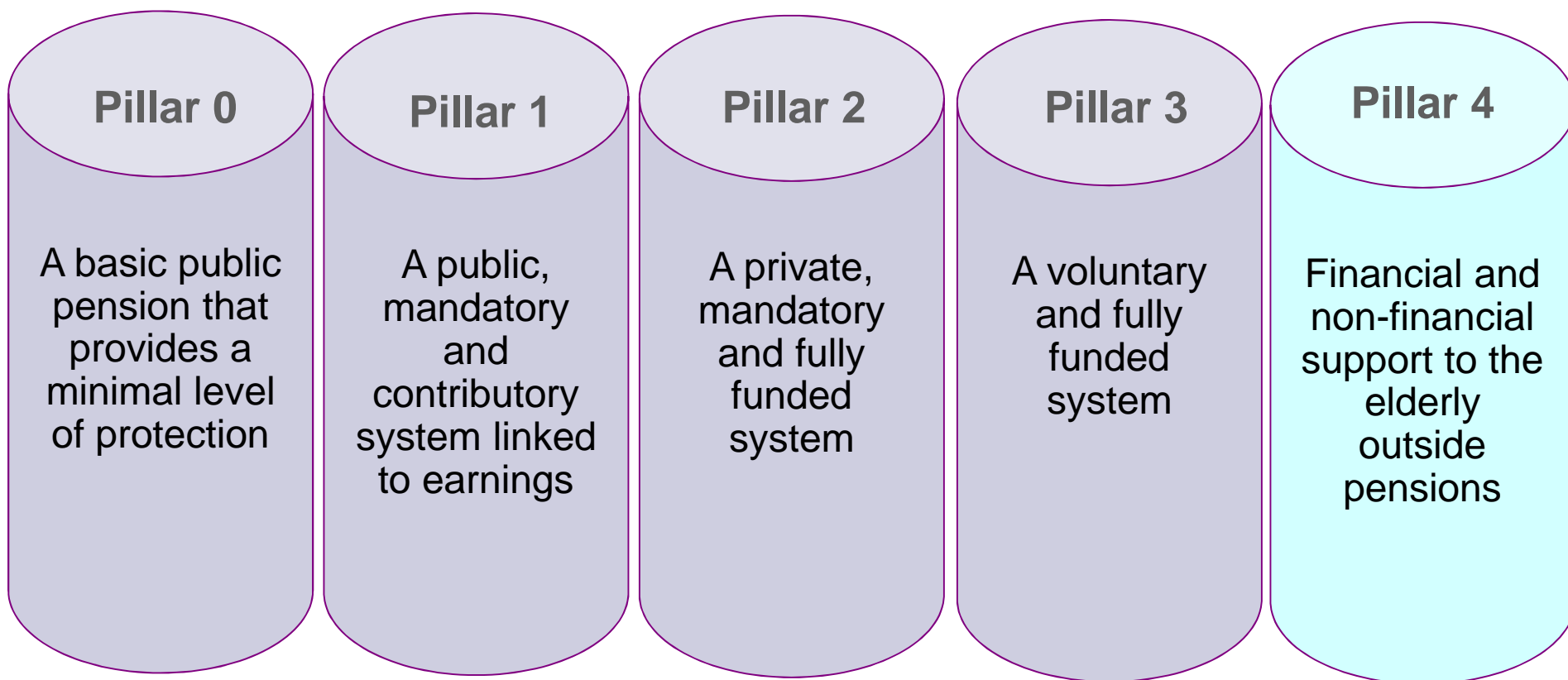
Swiss Association of Actuaries
104th General Assembly, Winterthur

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**

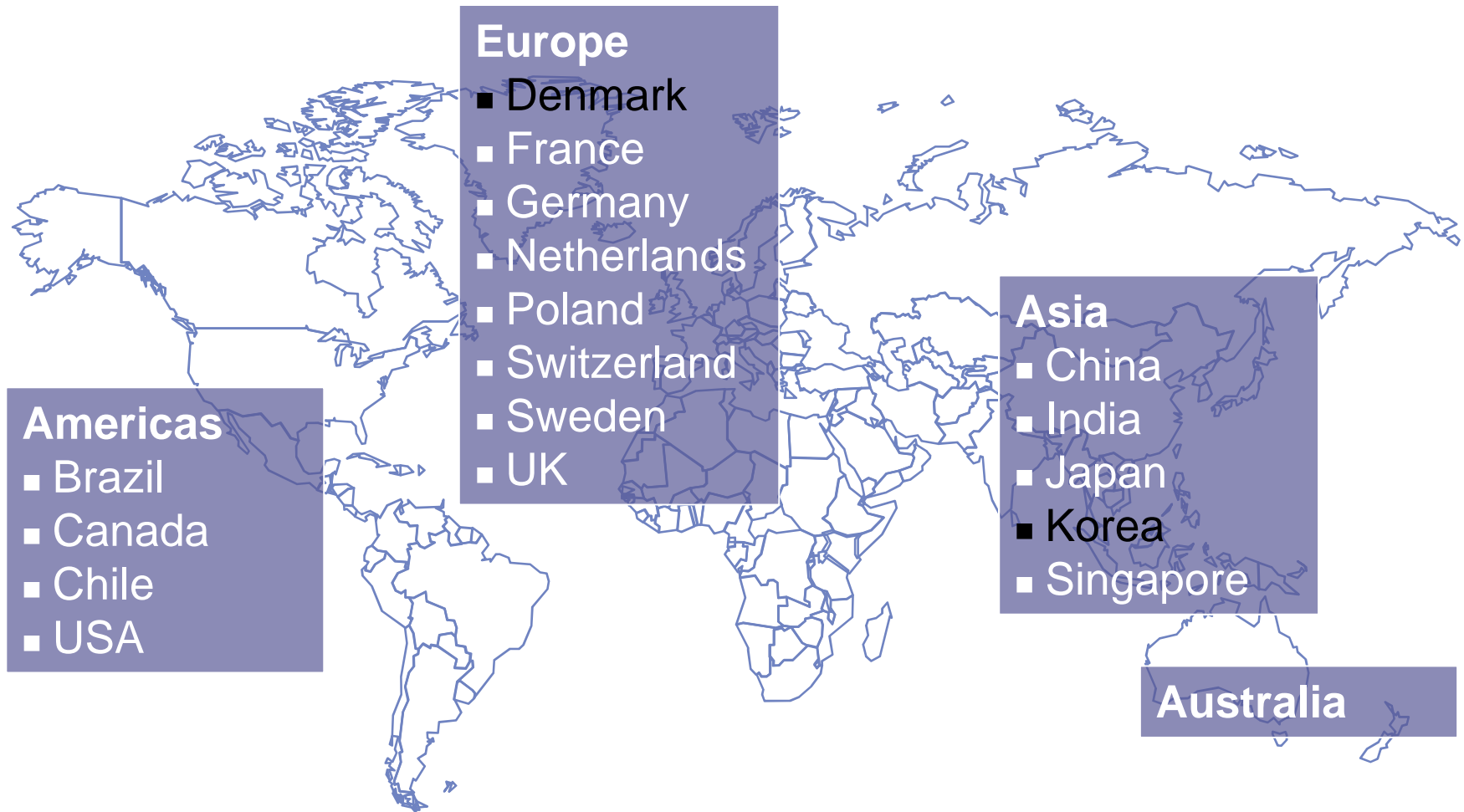
Overall framework

The World Bank multi-pillar approach



Benefits of several pillars include risk diversification and efficiency

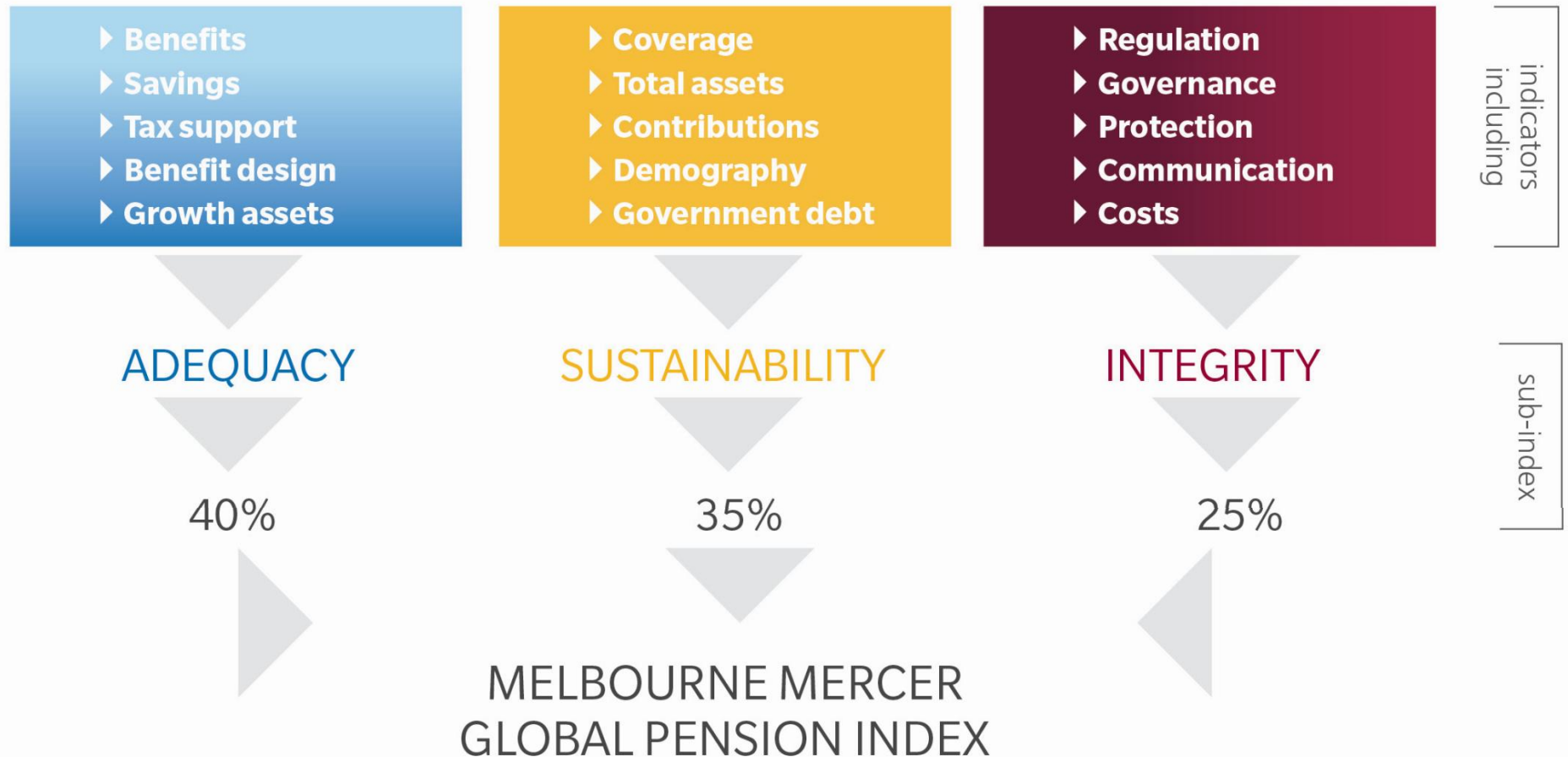
18 countries in the Melbourne Mercer Global Pension Index 2012



More than half the world's population

Then ... bringing it together

Calculating — the Melbourne Mercer Global Pension Index



Adequacy sub-index

We consider

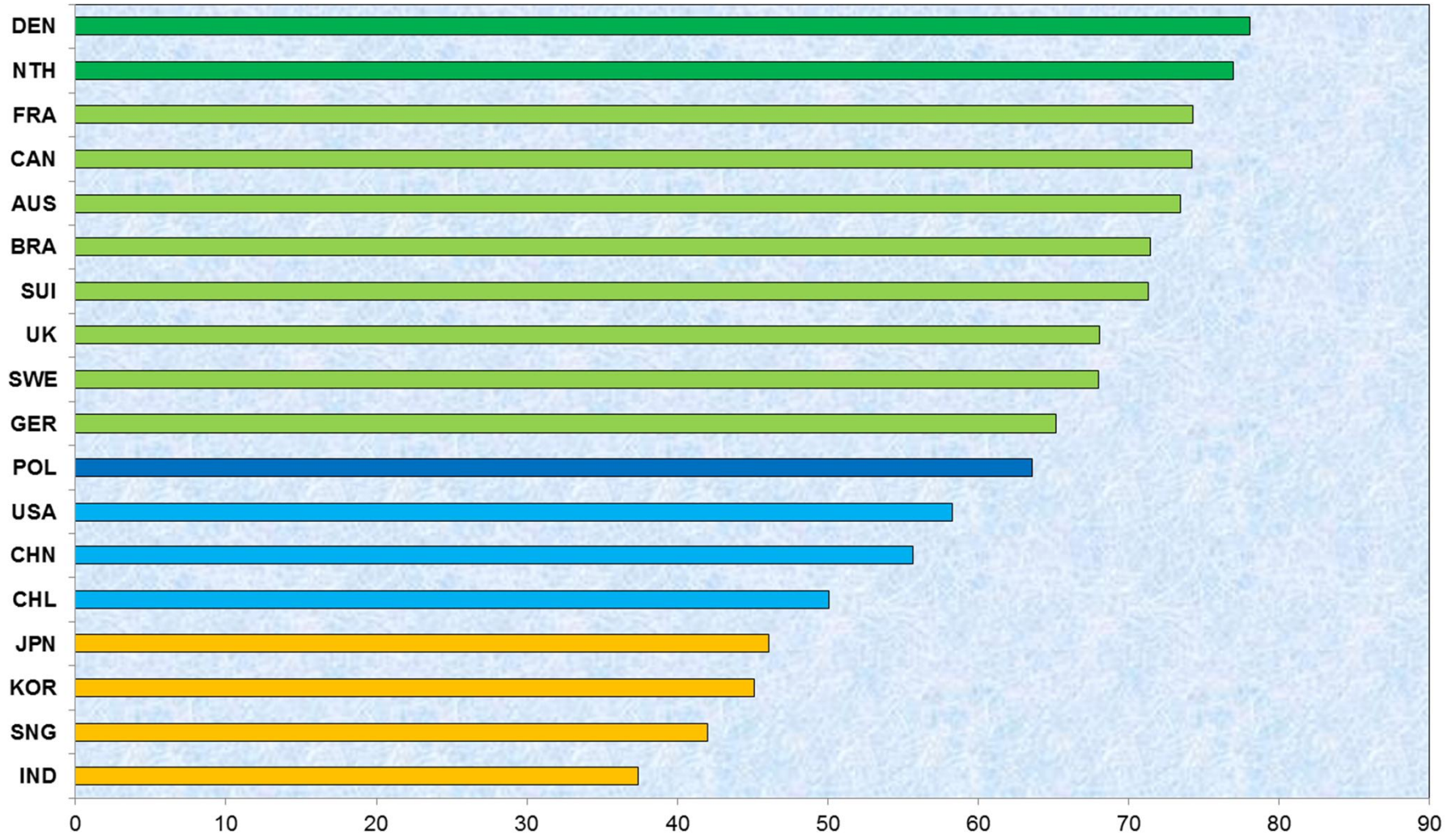
- The minimum (or base) pension
- The net replacement rate for a median income earner
- Benefit design issues in the pension system
 - Tax; vesting; portability; access age; income streams; divorce
- Non-super savings
 - Household saving rate; home ownership
- Level of “growth” assets

Scores – top, Swiss and bottom

- Denmark 78.1
- Switzerland 71.3
- India 37.4

Adequacy sub-index

Adequacy Sub-index



Sustainability sub-index

We consider

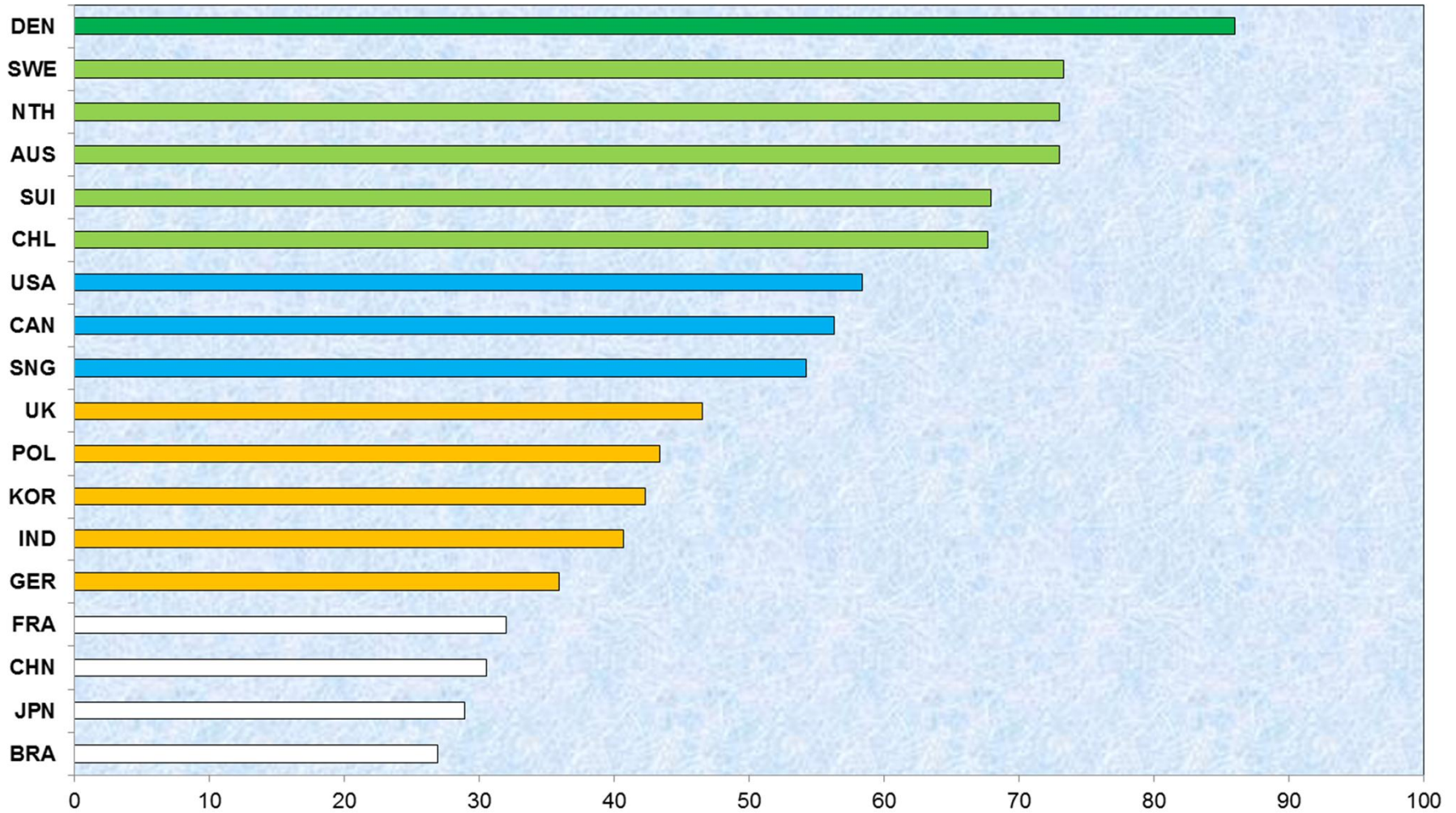
- Coverage of private pension plans
- Level of pension assets as % of GDP
- Demographic issues
 - Life expectancy; pension age; fertility rate
- Level of mandatory contributions with funding
- Labour force participation rate and transition amongst older workers
- Net government debt

Scores – top, Swiss and bottom

- Denmark 86.0
- Switzerland 67.9
- Brazil 26.9

Sustainability sub-index

Sustainability Sub-index



Integrity sub-index

We consider

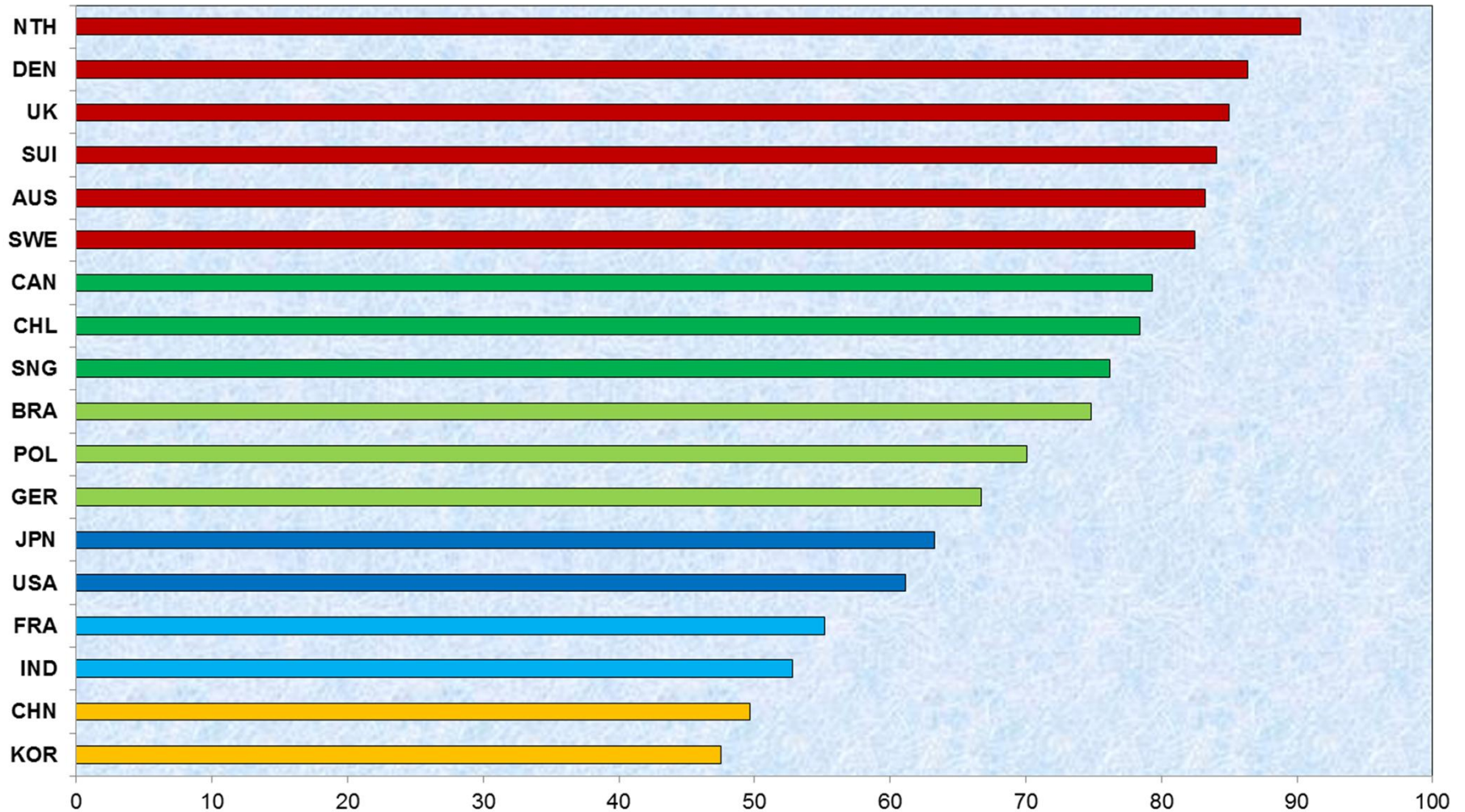
- Regulation of private pension plans
- Governance requirements – national and pension plans
- Protection of members' benefits
- Communication to members
- Costs of the system

Scores – top, Swiss and bottom

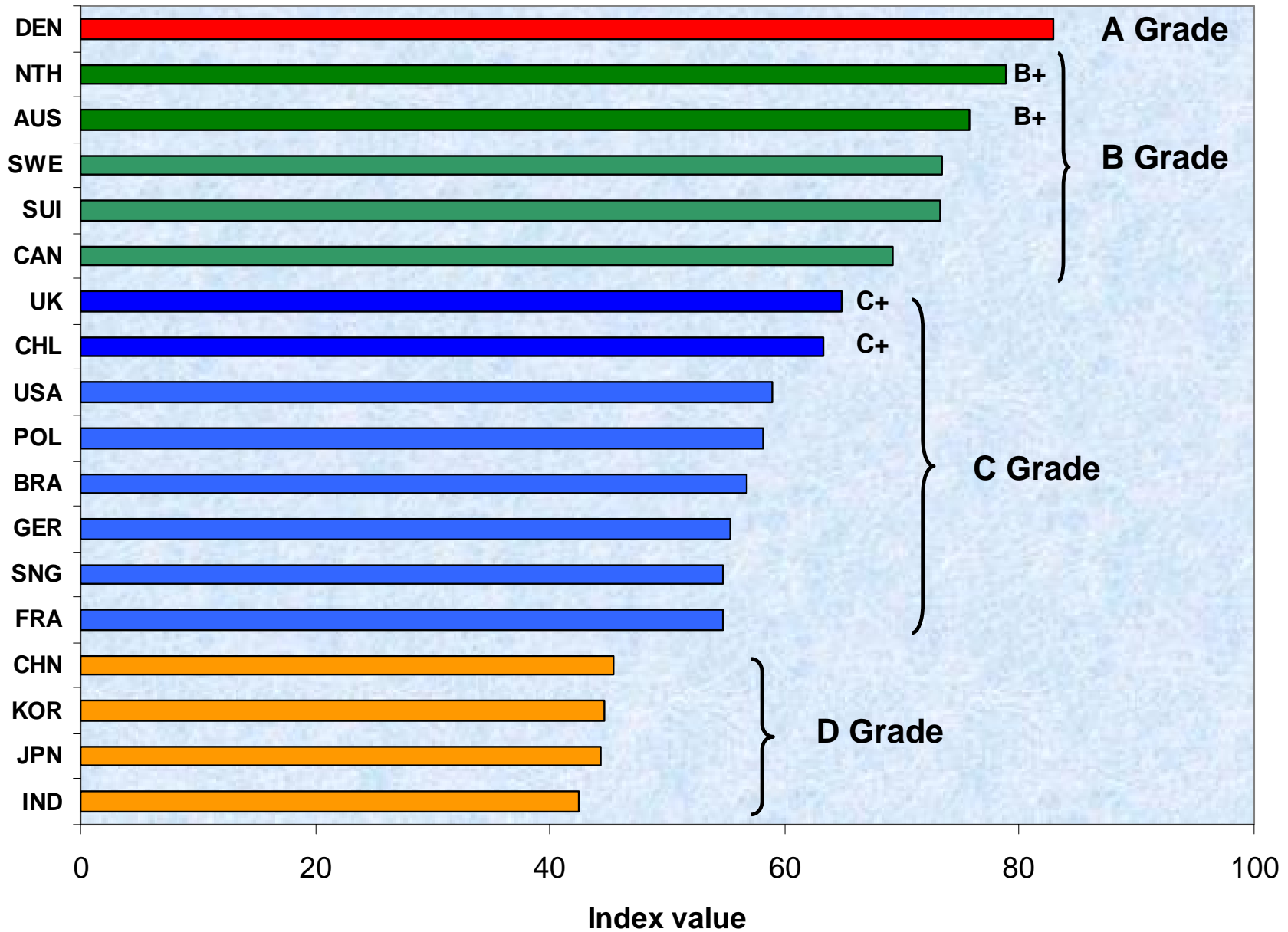
– Netherlands	90.3
– Switzerland	84.1
– Korea	47.5

Integrity sub-index

Integrity Sub-index



The 2012 Results



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

Change	Overall impact	Ranking (out of 18)
SUSTAINABILITY 3: Increase 1 st pillar pension age (high life expectancy, low fertility rate)	+4.6	15
ADEQUACY 6: Implement minimum proportion of 2 nd pillar benefit as pension. 60% to 80%	+4.0	Bottom as 9 others
ADEQUACY 5: Increase minimum 2 nd pillar retirement age from 58 to 60+	+1.9	12
SUSTAINABILITY 2: Increase funding (pension assets/ GDP)	+1.7	3
ADEQUACY 3: Increase household saving rate	+1.6	5

How can Switzerland become an A-grade system (80+)? Our current score is 73.3

Change	Overall impact	Ranking (out of 18)
SUSTAINABILITY 4: Increase mandatory retirement contributions/ fund AVS	+1.5	5
ADEQUACY 9: Increase level of home ownership from 40% to 90+%	+1.3	18
INTEGRITY (REGULATION 3): Introduce mandatory risk management policy	+1.3	=12 with 4 others
SUSTAINABILITY 6: Reduce government debt as proportion of GDP	+1.1	8

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:
 - <http://www.mercer.com.au/home>
 - 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



