

PREMIER SPONSOR ARTICLE SERIES



Comparing Pension Systems Worldwide – Global Pension Index 2022

Pursuing better outcomes for retirees in challenging times

Providing financial security in retirement is critical for individuals and societies as most countries are now grappling with the social, economic and financial effects of aging populations.

Since 2020, the COVID-19 pandemic has accentuated many of these issues. However, it is not only aging populations and the effects of the coronavirus that represent challenges for pension systems around the world.

The current economic environment — with reduced wage growth, rising inflation and reduced investment returns in many asset classes — is placing additional financial pressures on existing retirement income systems. It is now more important than ever to understand the features of the better pension systems that are positioned to deliver better outcomes for retirees.

In this context of uncertainties and long-term challenges, comparing the different pension systems worldwide can be really valuable for policymakers, governments and the pension industry. However, this comparison is not straightforward.

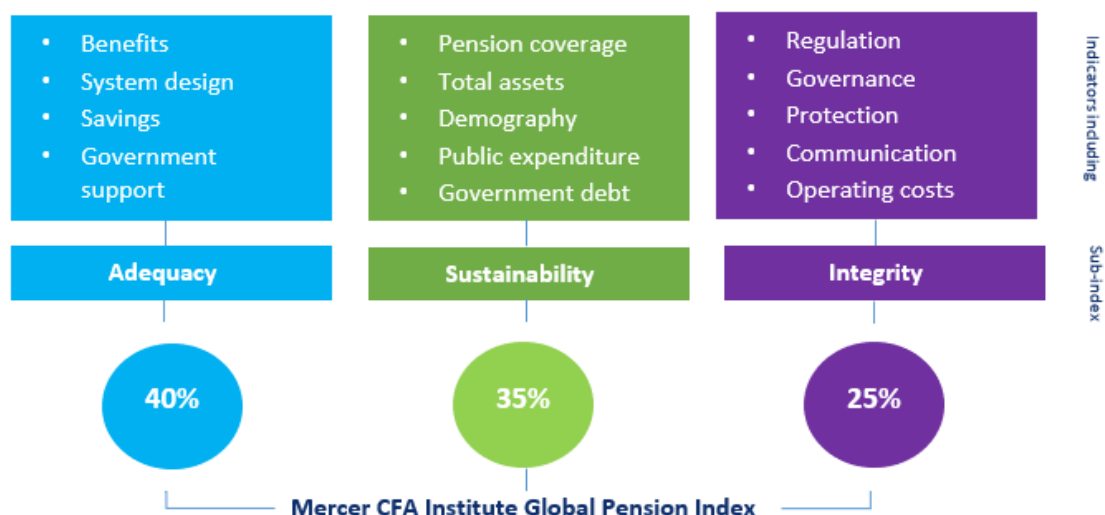
Comparing pension systems around the world

In constructing the Mercer CFA Institute Global Pension Index, it has been designed to be as objective as possible in calculating each system’s Index value. Where international data are available, we have used that data. In other cases, we have used objective questions about each system to better understand each system’s operations and outcomes.

Each system’s overall Index value is calculated by taking 40% of the adequacy sub-index, 35% of the sustainability sub-index and 25% of the integrity sub-index. Figure 1 highlights some of the topics covered in each sub-index.

The different weightings reflect the primary importance of the adequacy sub-index, which represents the benefits provided, together with some important system design features. The sustainability sub-index has a focus on the future and uses various Indicators that will influence the likelihood that the current system will be able to provide benefits in the future. The integrity sub-index includes many legislative requirements that influence the overall governance and operations of the system, which affect the level of confidence the citizens of each country have in their system.

Figure 1. Methodology in Calculating the Mercer CFA Institute Global Pension Index



Summary of the 2022 results

The 2022 study includes 44 retirement income systems, representing 65% of the world’s population. The rankings, grades and comments given to the retirement systems under the study are summarised in below figures 2 and 3. The study shows that Iceland, the Netherlands and Denmark have the best systems, with each of them receiving an A-grade in 2022. A score between 35 and 50, representing a D-grade system, indicates a system that has some sound features but also major omissions or weaknesses. A D-grade classification may also be conferred in the relatively early stages of the development of a particular retirement income system.

Figure 2. Ranking of the 2022 results

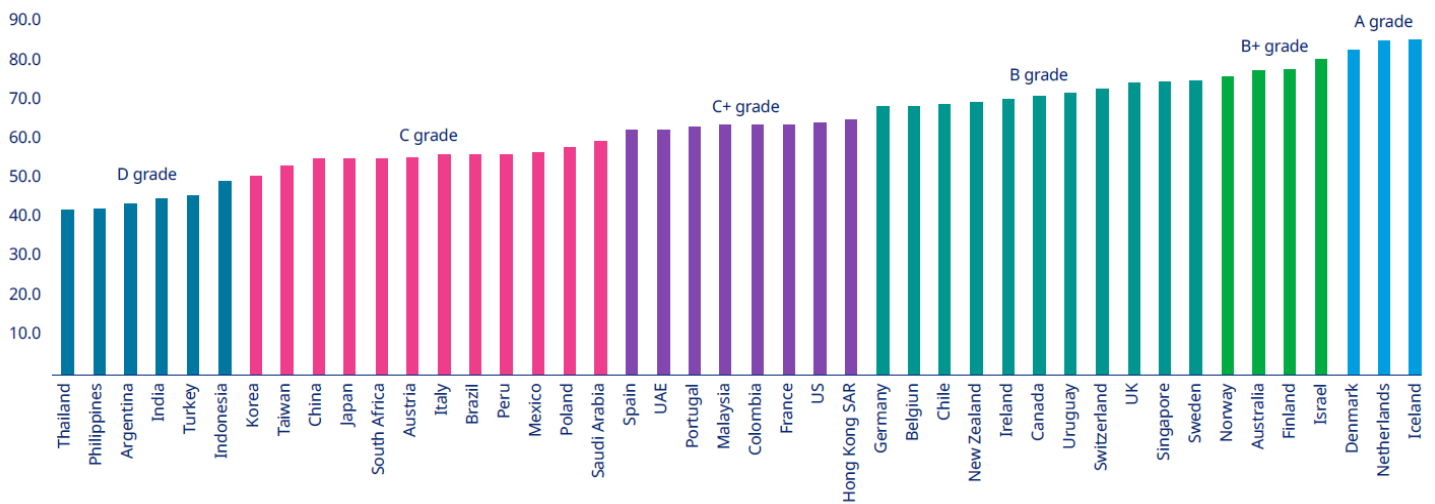


Figure 3. Description of the 2022 results

Grade	Index value	Systems	Description
A	>80	Iceland Netherlands Denmark	A first-class and robust retirement income system that delivers good benefits, is sustainable and has a high level of integrity
B+	75–80	Israel Finland Australia Norway	A system that has a sound structure, with many good features, but has some areas for improvement that differentiates it from an A-grade system
B	65–75	Sweden Singapore UK Switzerland Uruguay Canada Ireland New Zealand Chile Belgium Germany	
C+	60–65	Hong Kong SAR US Colombia France Malaysia Portugal Spain UAE	A system that has some good features, but also has major risks and/or shortcomings that should be addressed; without these improvements, its efficacy and/or long-term sustainability can be questioned
C	50–60	Saudi Arabia Poland Mexico Brazil Peru Italy Austria South Africa China* Japan Taiwan Korea (South)	
D	35–50	Indonesia Turkey India Argentina Philippines Thailand	A system that has some desirable features, but also has major weaknesses and/or omissions that need to be addressed; without these improvements, its efficacy and sustainability are in doubt
E	<35	Nil	A poor system that may be in the early stages of development or non-existent

*In this report, "China" refers to the pension system in mainland China. The pension systems in Hong Kong SAR and Taiwan are shown separately, as they have different pension systems.

What does an ideal system look like?

There is no perfect pension system that can be applied universally, but there are many common goals that can be shared for better outcomes.

Adequacy	Sustainability	Integrity
<p>A minimum pension is provided to the poor that represents a reasonable percentage of average earnings in the community</p>	<p>At least 80% of the working age population should be members of private pension plans</p>	<p>A strong prudential regulator supervising private pension plans</p>
<p>At least 70% net (after tax) replacement rate at retirement for a full-time worker on a median income</p>	<p>Current pension fund assets should be more than 100% of GDP to fund future pension liabilities</p>	<p>Regular member communications including the provision of personal statements, projected retirement income and an annual report</p>
<p>At least 50% of accumulated retirement benefits to be taken as an income stream</p>	<p>Labor force participation rate for those aged 55–64 should be at least 80%</p>	<p>Clear funding requirements for both defined benefit and defined contribution schemes</p>

Overall recommendations - how can pension systems be improved?

Financial security in retirement is important for both individuals and societies. The 2017 World Economic Forum has highlighted three key areas that will have the biggest impact on the overall level of financial security in retirement. These are to:

- Provide a “safety net” pension for all
- Improve ease of access to well-managed, cost-effective retirement plans
- Support initiatives to increase contribution rates

Each of these factors is critical, and each has been highlighted within the adequacy or sustainability sub-indices of the study. Although each system reflects a unique history, we see some common themes for improvement, as many systems face similar problems in the decades ahead. A range of reforms continues to be implemented to improve long-term outcomes from our retirement income systems, including:

- Increase the coverage of employees (including non-standard workers) and the self-employed in the private pension system, recognizing that many individuals will not save for the future without an element of compulsion or automatic enrollment
- Increase the state pension age and/or retirement age to reflect increasing life expectancy, both now and into the future, thereby reducing the costs of publicly financed pension benefits
- Promote higher labor force participation at older ages, which will increase the savings available for retirement and limit the continuing increase in the length of retirement
- Encourage higher levels of private saving, both within and beyond the pension system, to reduce the future dependence on the public pension while also adjusting the expectations of many workers
- Introduce measures to reduce the gender pension gap and those that exist for minority groups in many retirement income systems
- Reduce the leakage from the retirement savings system before retirement, ensuring that the funds saved, often with associated taxation support, are used for the provision of retirement income
- Improve the governance of private pension plans and introduce greater transparency to improve the confidence of plan members

Significant pension reform is never easy, but an important starting point is to express the objectives of the overall system. The global pension industry and policymakers need to recognize these issues and develop a range of flexible products and policies to deliver the best possible outcomes for individuals and households who will enter their retirement years in a wide range of financial situations while also facing significant uncertainties.

About HKRSA

The Hong Kong Retirement Schemes Association (HKRSA) was established in 1996 to promote the interests and best practices of retirement schemes in Hong Kong including provident and pooled retirement funds. The HKRSA is a not-for-profit, non-political association, which represents retirement schemes and their members, providing a forum for discussion of issues of current and topical interest.

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