An Assessment of the Australian Model

What does the Melbourne Mercer Global Pension Index show us? How are we going?

Dr David Knox
Senior Partner, Mercer

THE STARTING FRAMEWORK FOR THE MMGPI

PILLAR 0	PILLAR 1	PILLAR 2	PILLAR 3	PILLAR 4
A basic public pension that provides a minimal level of protection	A public, mandatory and contributory system linked to earnings	A private, mandatory and fully funded system	A voluntary and fully funded system	Financial and non-financial support outside formal pension arrangements

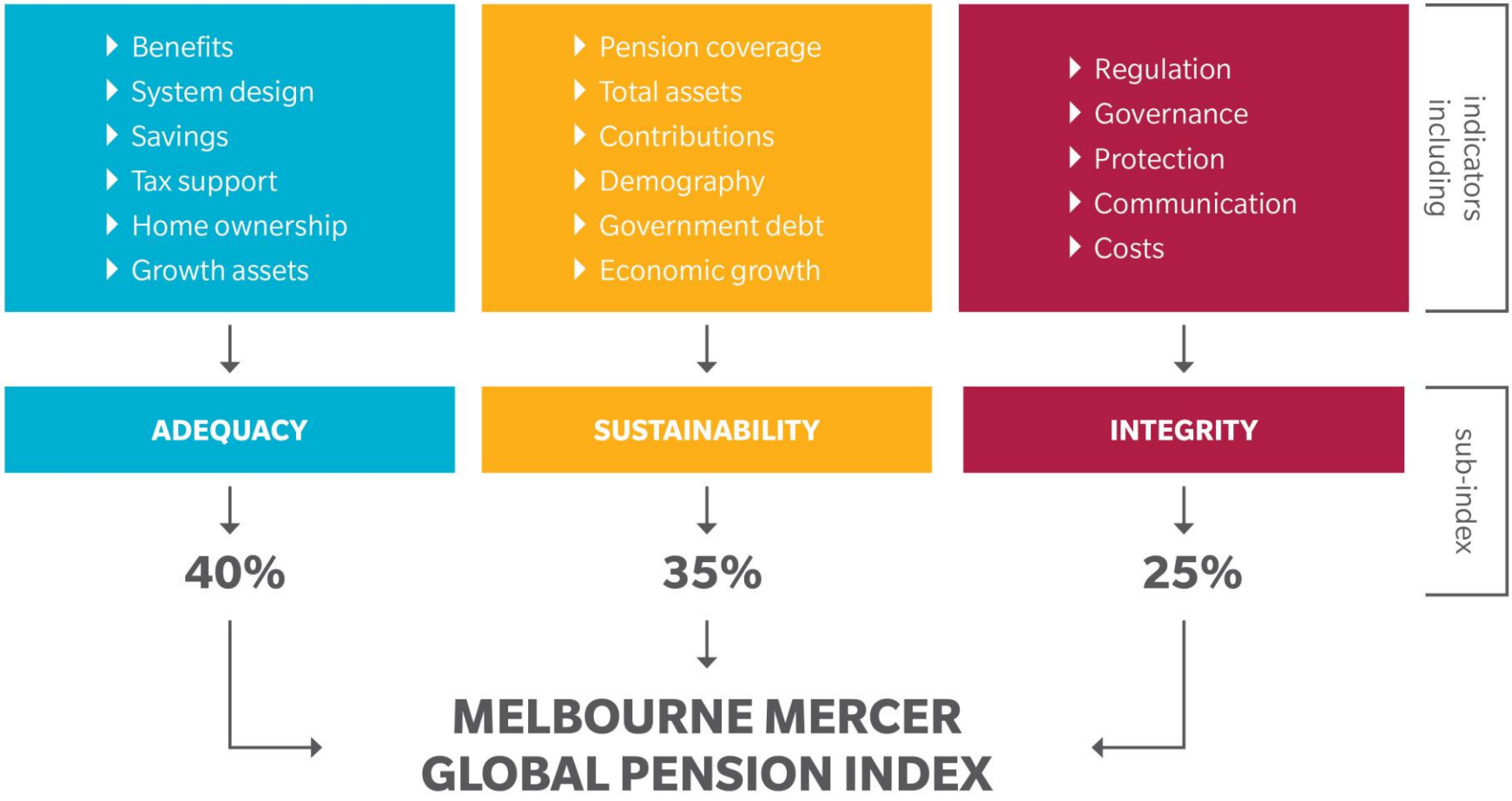
THE FUNDAMENTAL QUESTIONS

"What do you get?"

"Can it keep delivering?"

"Can it be trusted?"

CALCULATING THE MMGPI



Covers 34 systems and more than 60% of the world's population

ADEQUACY

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

1 Germany 79.9

2 France 79.5

3 Ireland 79.0

16th Australia 63.4

… Hong Kong SAR, India, Mexico

SUSTAINABILITY

- Coverage of private pension plans
- Level of pension assets as % of GDP
- Demographic issues
- Mandatory contributions with funding
- Labour force participation rate
- Net government debt
- Real economic growth

1 Denmark 81.8

2 Netherlands 79.2

3 Australia 73.8

… Spain, Austria, Italy

INTEGRITY

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

1 Finland 92.1

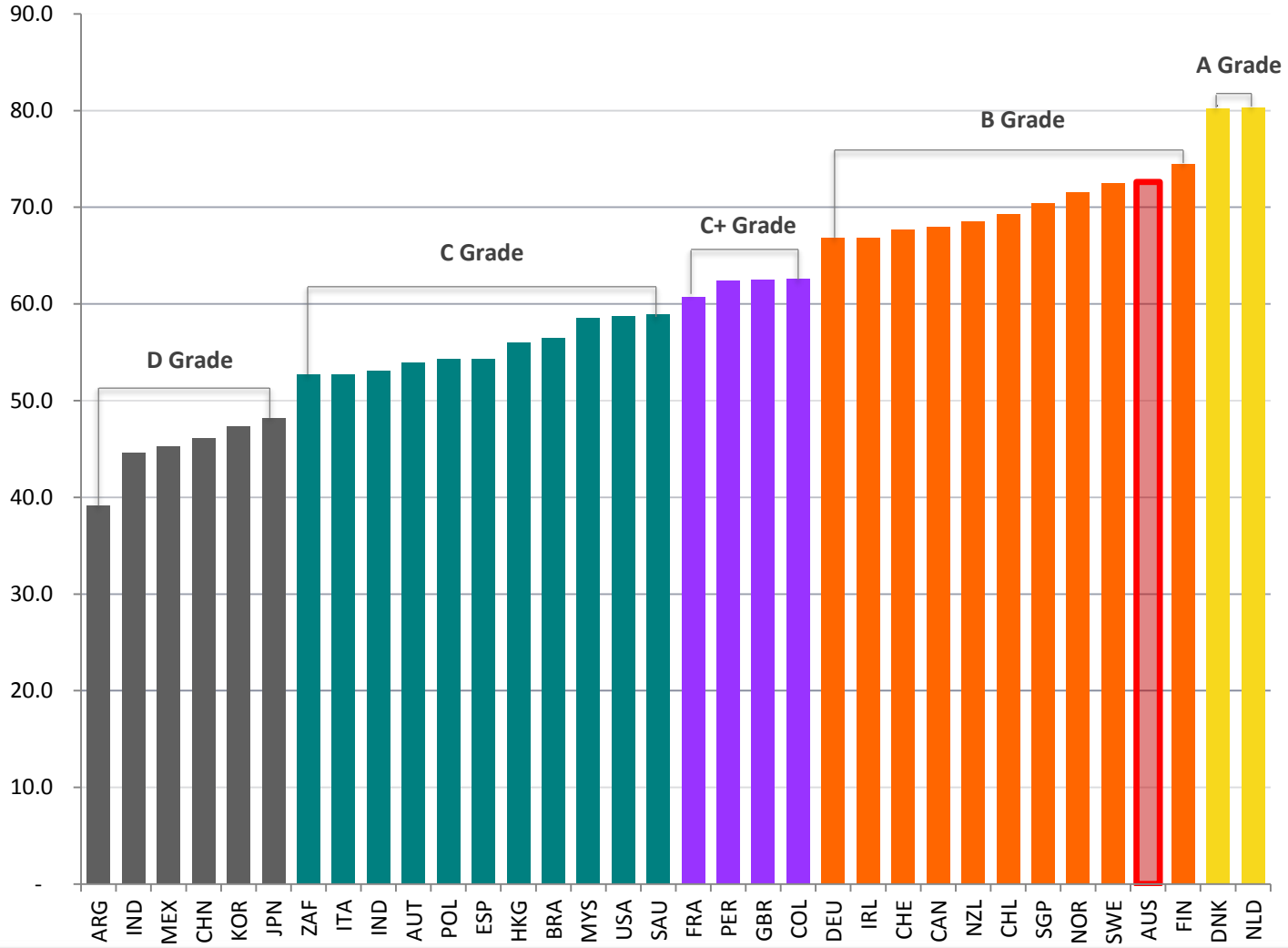
2 Norway 90.2

3 Netherlands 88.8

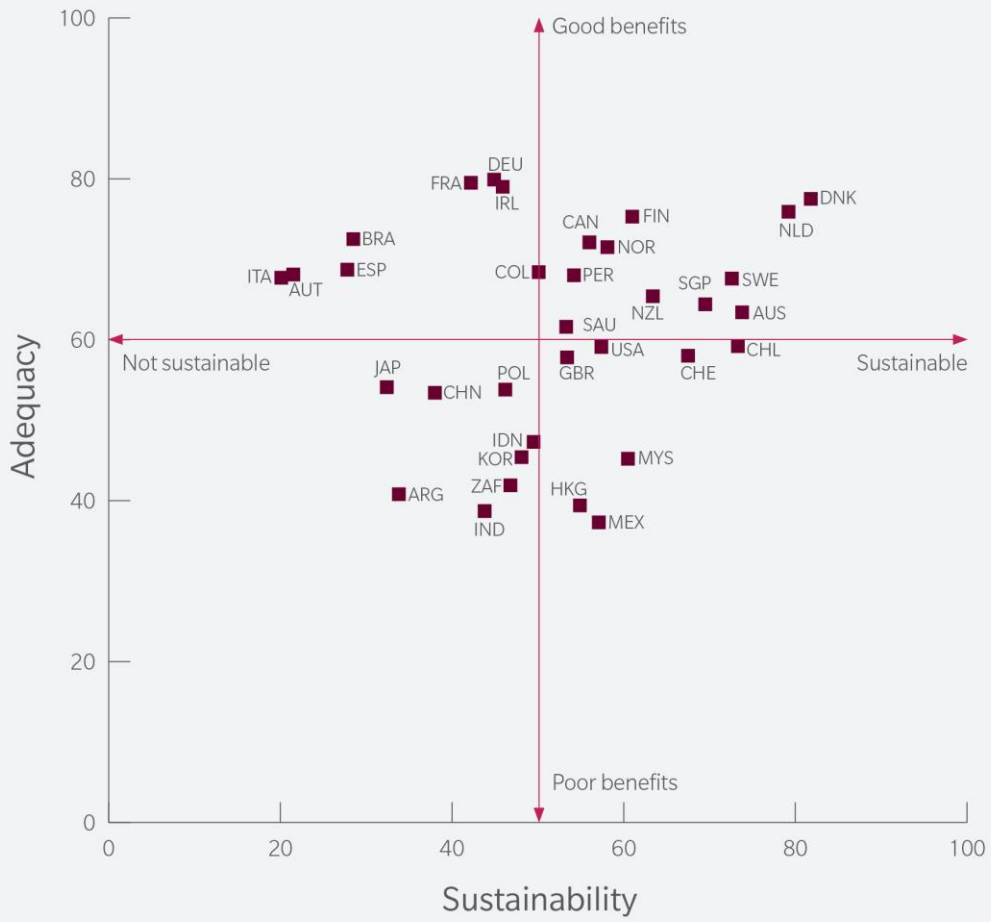
4th Australia 85.7

… China, Argentina, Mexico

OVERALL 2018 RESULTS



ADEQUACY v SUSTAINABILITY



MERCER
MAKE TOMORROW, TODAY

MONASH University
AUSTRALIAN CENTRE FOR FINANCIAL STUDIES

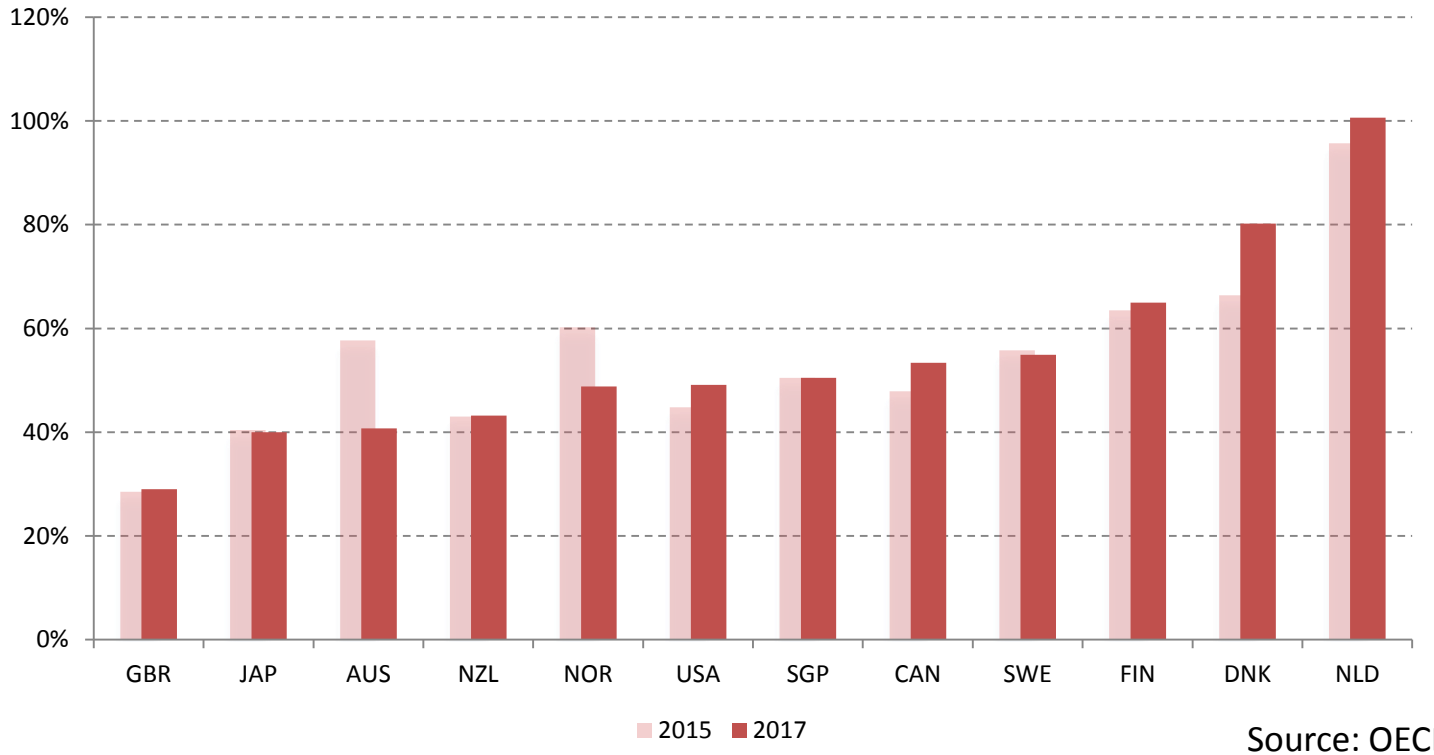
MELBOURNE Victoria Australia

LET'S DO SOME COMPARISONS

	Country	MMGPI ranking
	Netherlands	1st
	Denmark	2nd
	Finland	3rd
	Sweden	5th
	Norway	6th
	Singapore	7th
	New Zealand	9th
	Canada	10th
	United Kingdom	15th
	United States of America	19th

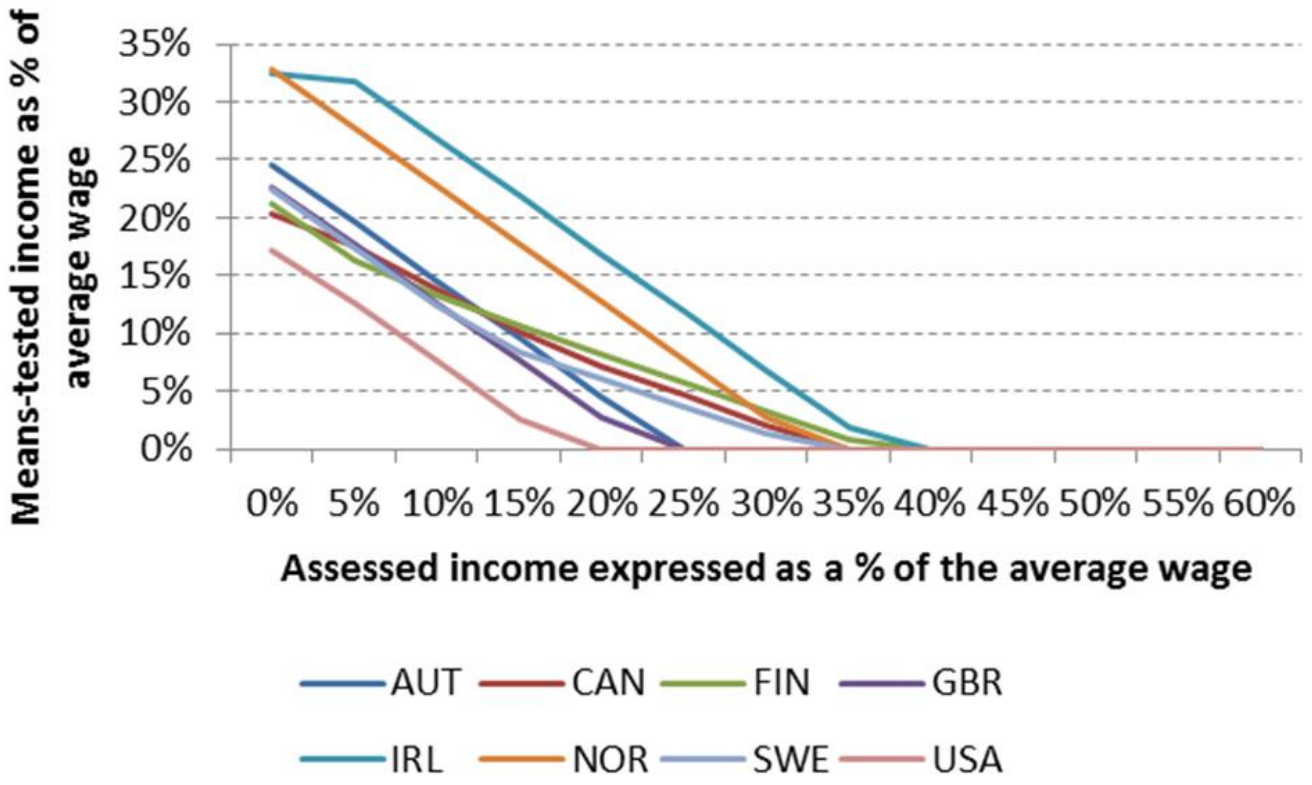
ADEQUACY – NET REPLACEMENT RATE

For the average income earner allowing for the age pension and SG in Australia



Source: OECD

WHAT DO THE MEANS TESTS TAPERS LOOK LIKE?



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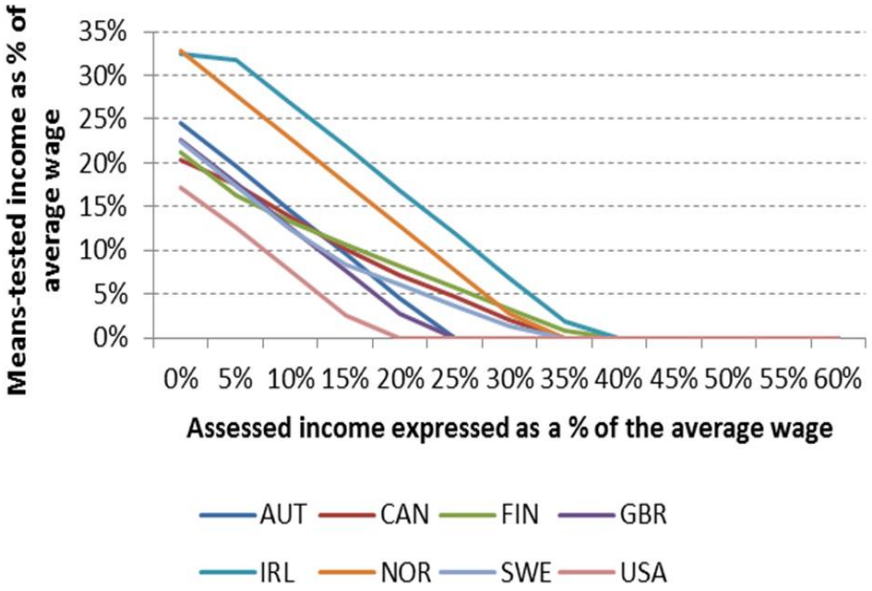
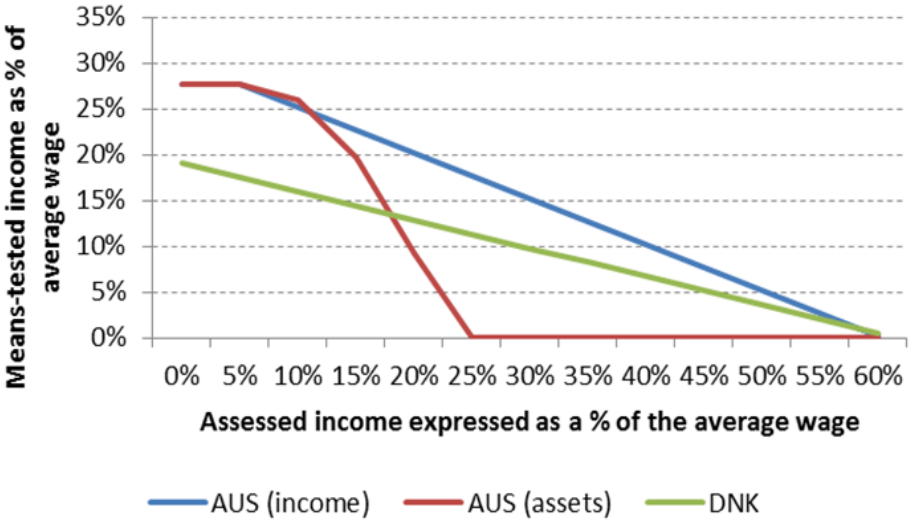
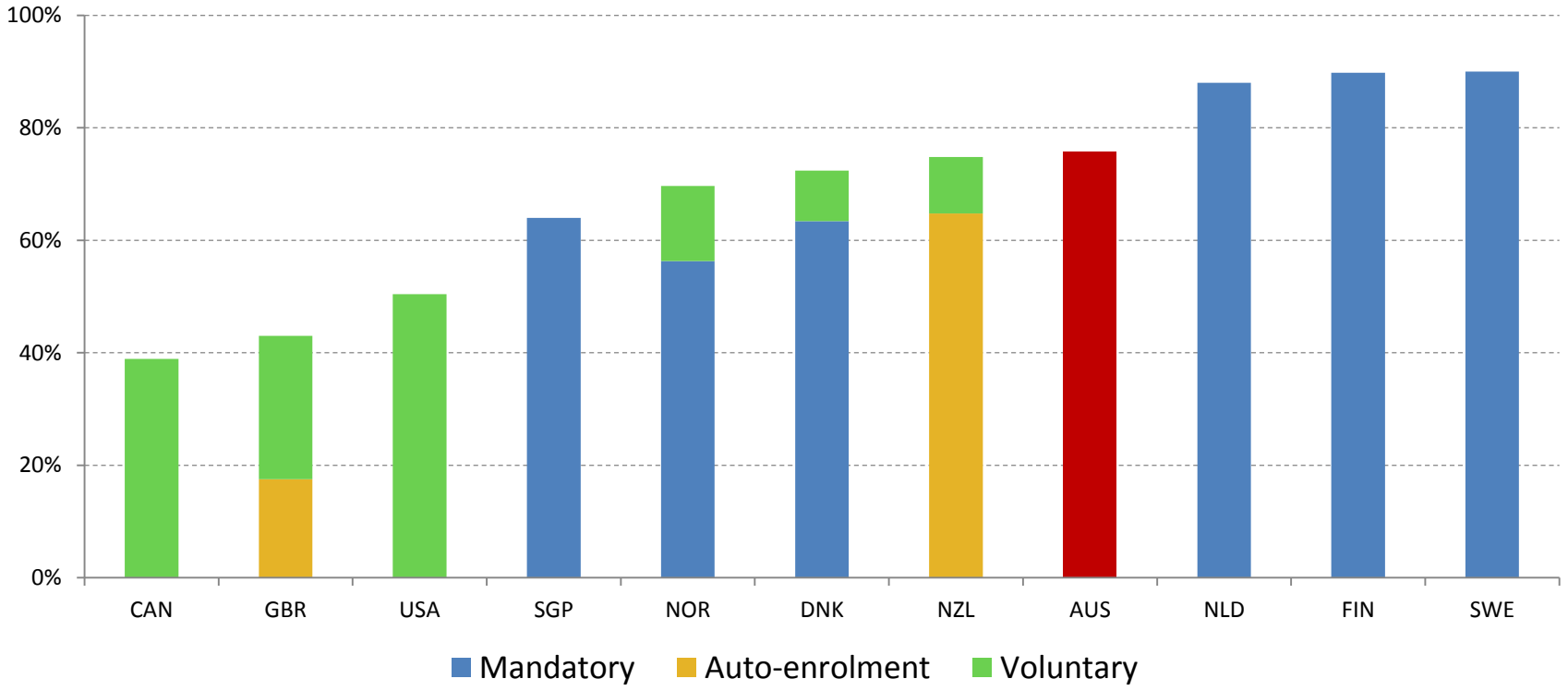


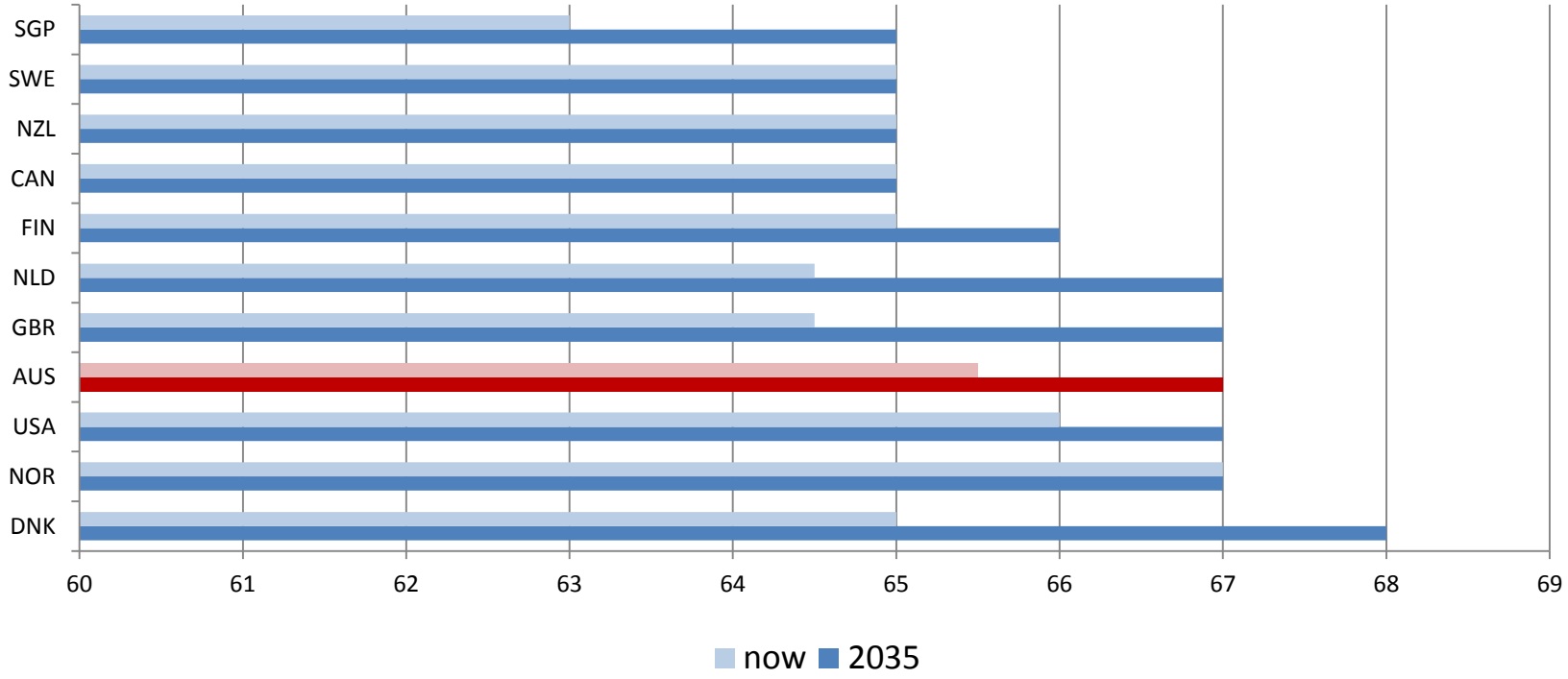


COVERAGE OF PRIVATE PENSION SYSTEMS – 15-64yo



Source: OECD

RETIREMENT OR PENSION ELIGIBILITY AGES



RECOMMENDATIONS FOR AUSTRALIA

- Moderate the assets test for the age pension
  - What about a single means test?
  - Is a part universal pension feasible?
- Broaden superannuation coverage
  - $450 pm threshold; self employed
- Increase pension eligibility and preservation ages gradually with links to life expectancy
- Introduce requirements for an income stream
- Continue to raise labour force participation rates at older ages