

Mercer
CFA Institute
Global
Pension
Index

2021
Highlights

Pension reform in challenging times

The provision of financial security in retirement has never been more critical for both individuals and societies, as retirement income systems around the world continue to grapple with the social, economic and financial effects of ageing populations.

During 2020 and 2021, many of these issues were accentuated by the COVID-19 pandemic. But, it is not only ageing populations and the effects of the coronavirus that represent challenges for pension systems. The current economic environment with reduced wage growth, historically low interest rates and reduced investment returns in many asset classes, are placing additional financial pressures on existing retirement income systems.

This edition of the Index compares 43 retirement income systems, highlighting both the considerable diversity and the features (both positive and negative) present in many systems. Notwithstanding these highlights, the study also confirms that no pension system is perfect and that every system has some shortcomings.

Top ranking pension systems in the world, each receiving an A-grade in 2021:



Iceland (84.2)

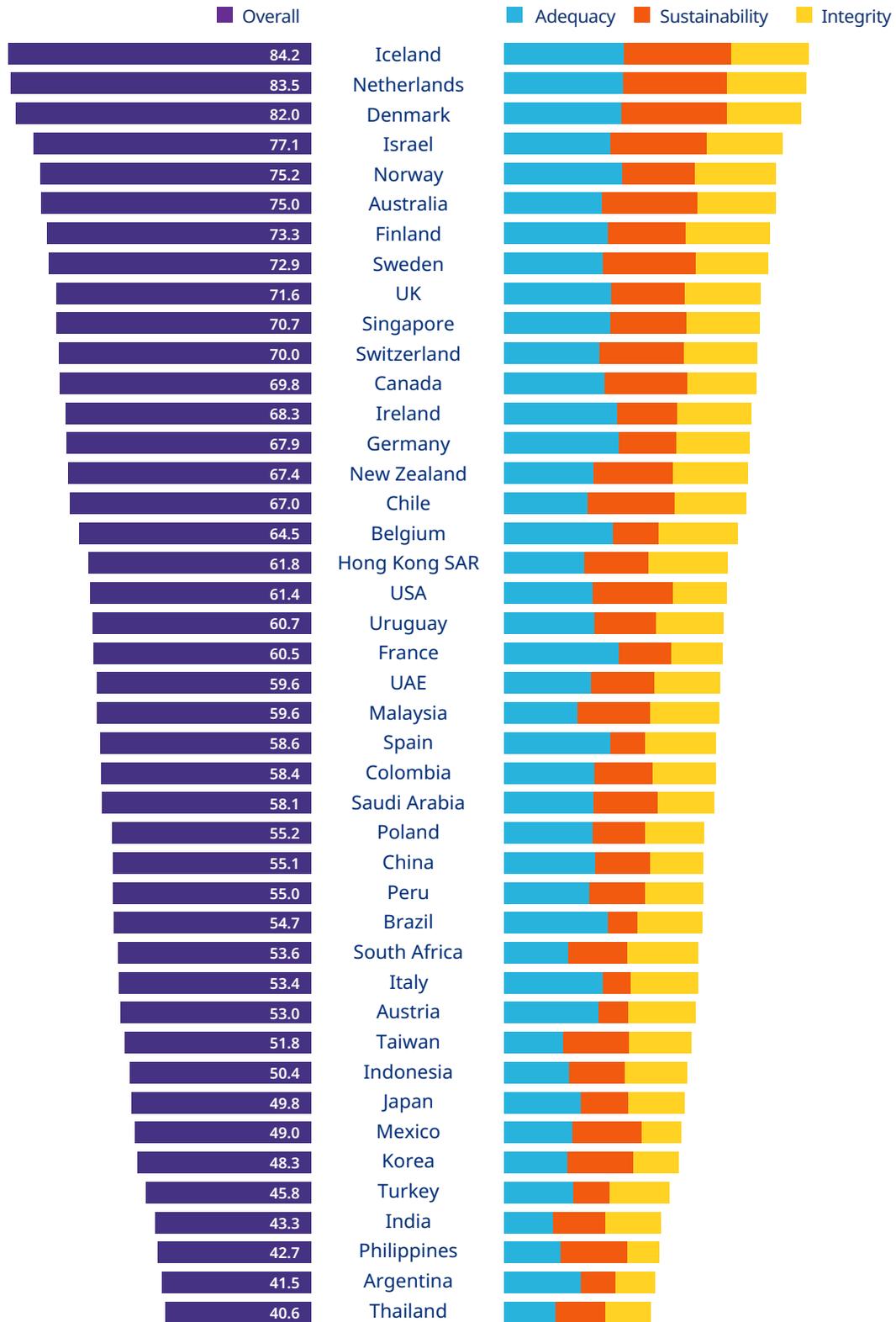


Netherlands (83.5)



Denmark (82.0)

2021 Results

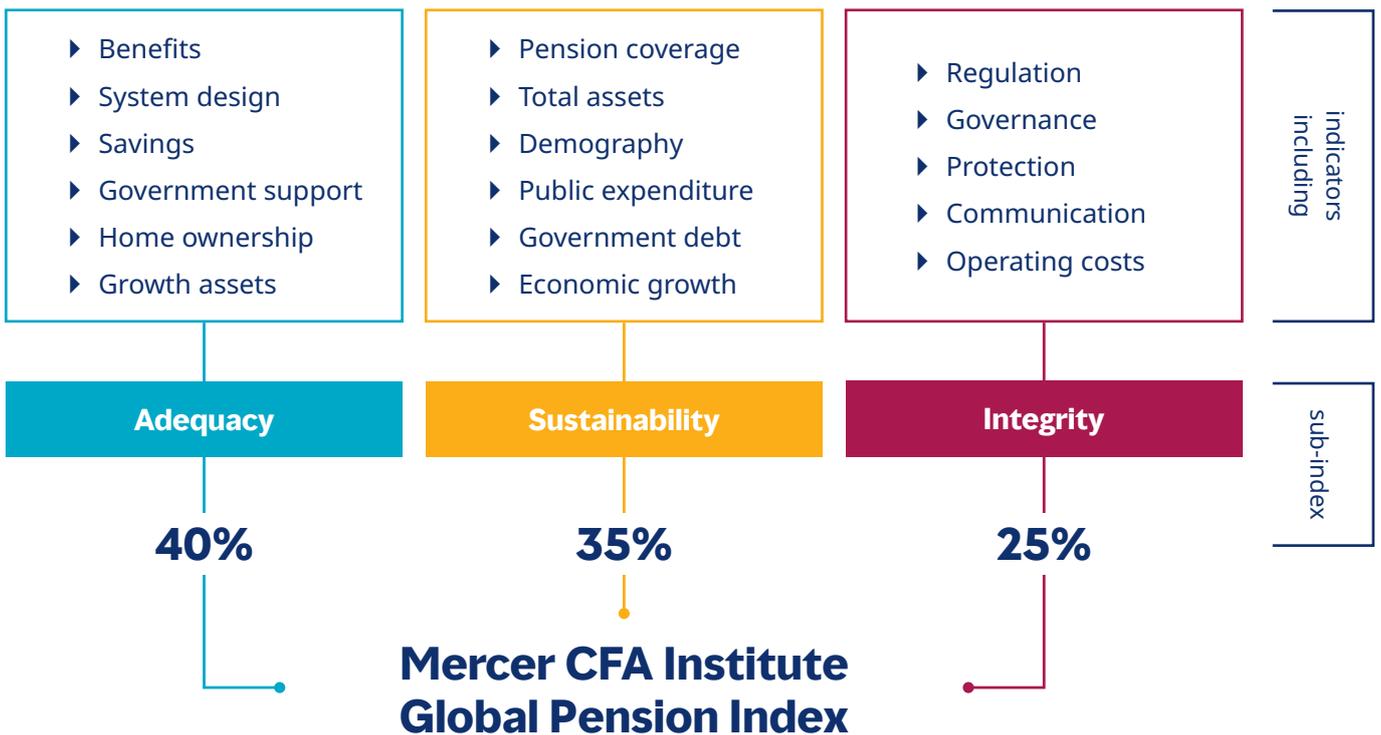


Note: It should be recognised that in the Mercer CFA Institute Global Pension Index report, China refers to the pension system in mainland China. The pension systems in Hong Kong SAR and Taiwan are shown separately as they have different pension systems.

Calculating the Mercer CFA Institute Global Pension Index

The Mercer CFA Institute Global Pension Index uses three sub-indices – adequacy, sustainability and integrity – to measure each retirement income system against more than 50 indicators. The following diagram highlights some of the topics covered in each sub-index.

The overall index value for each system represents the weighted average of the three sub-indices. The weightings used are 40 per cent for the adequacy sub-index, 35 per cent for the sustainability sub-index and 25 per cent for the integrity sub-index, all of which have remained unchanged since the first Index in 2009.



The pandemic has exacerbated socio-economic inequality in many parts of the world. And, from a long-term investment perspective, we’re operating in an extremely challenging environment with historically low interest rates and, in some cases, negative yields clearly impacting returns.

Margaret Franklin, CFA, President and CEO at CFA Institute



Despite the challenges, now is not the time to put the brakes on pension reform – in fact, it’s time to accelerate it. Individuals are having to take more and more responsibility for their own retirement income, and they need strong regulation and governance to be supported and protected.

Dr David Knox, Senior Partner at Mercer and lead author of the 2021 Mercer CFA Institute Global Pension Index



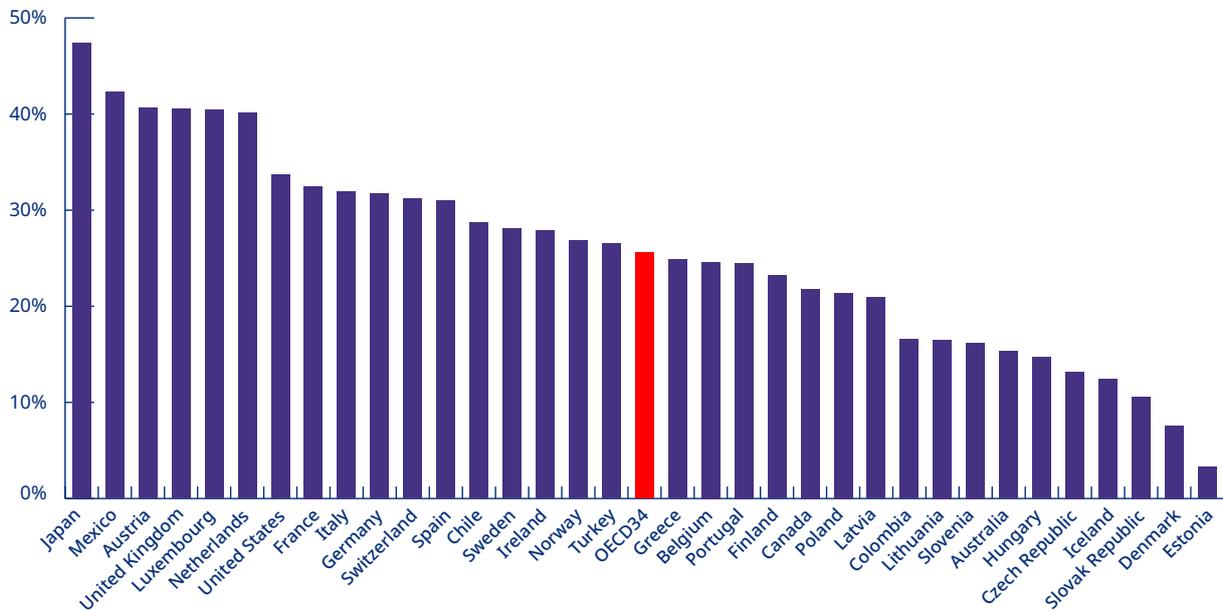
Special chapter: Gender differences in pension outcomes

The financial wellbeing of an individual in retirement will depend on several factors including the health and aged care systems, levels of home ownership as well as the overall pension arrangements. The pension system is a core component and the existence of any gender differences within the system is worthy of investigation and understanding.

A gender pension gap exists in every retirement income system around the world. The gap is defined as the difference between the average male pension and the average female pension, expressed as a percentage of the average male pension. That is, the calculation is based on those who are currently receiving a pension. Hence, if there is no difference in the current pensions, the gap is zero whereas if the average male pension is double that of the average female pension, the gap is 50 per cent.

The below chart shows the gender pension gap for most OECD countries and was published in March 2021 by the OECD to coincide with International Women’s Day. It shows the range is very broad with Japan having a gap of almost 50 per cent, whereas Estonia’s gap is less than 5 per cent.

Gender gap in pensions in selected OECD countries



OECD (2021), *Towards Improved Retirement Outcomes for Women*, OECD Publishing, Figure 1.1

Given this range, an important question is the effect that employment and/or the design of the overall pension system (for example, private or public, pay-as-you-go or funded) may have on these results.

Recommendations to improve pension outcomes for women around the world

Closing the gender pension gap is an enormous challenge given the close link of the pension to employment and income patterns. But, with poverty among the aged more common for women, we cannot afford to sit idle.

There are a number of actions that pension industries can take. As a start, they must remove eligibility restrictions for individuals to join employment-related pension arrangements. Regardless of how much you earn, how much you work or how long you’ve been working for, every individual should have the ability to participate in a pension scheme that provides adequate benefits.

The full Report contains several recommendations for employers, the pension industry and governments to reduce the gender pension gap.

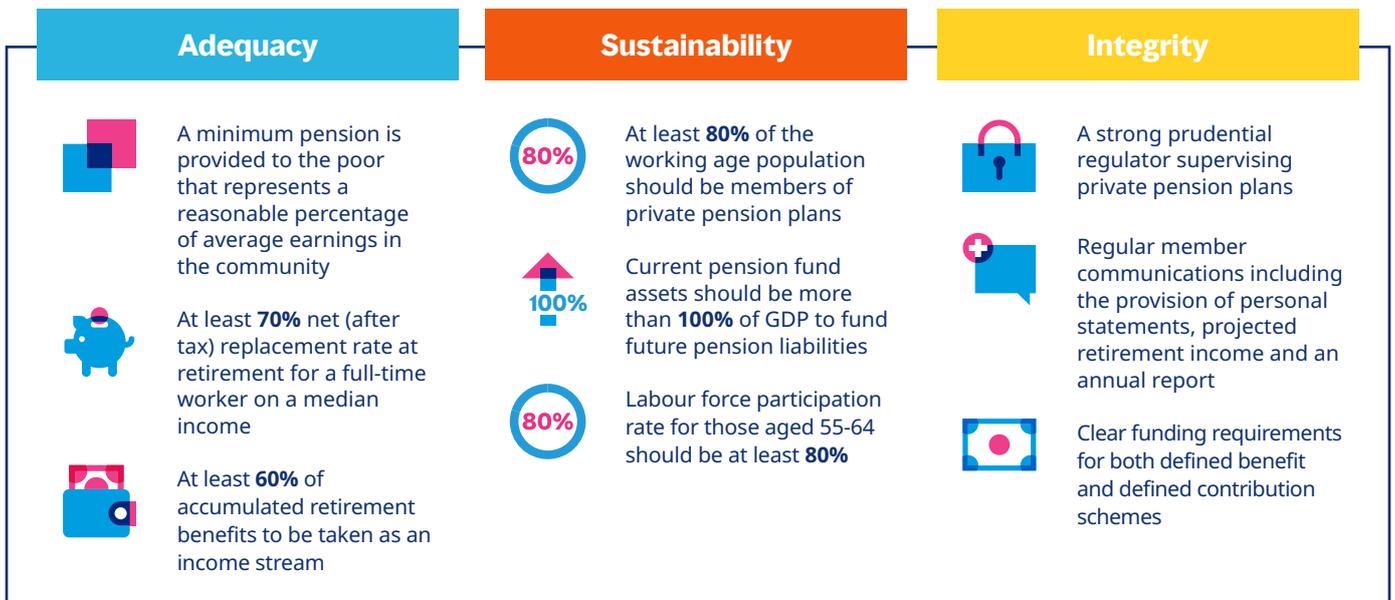
Moving towards a better pension system

To improve the provision of adequate and sustainable retirement incomes around the world, global pension reforms in the following areas should be considered:

- Increase coverage of employees (including non-standard workers) and the self-employed in private pensions
- Increase the state pension age and/or retirement age over time to reflect increasing life expectancy
- Promote higher labour force participation at older ages
- Encourage higher levels of private saving to reduce future dependence on public pensions
- Reduce the leakage from the retirement savings system prior to retirement
- Introduce a range of measures to reduce the gender pension gap
- Improve the governance of private pension plans and introduce greater transparency to improve the confidence of plan members and the broader community

What does the 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.



What is the Global Pension Index?



Delivers the world's **most comprehensive** comparison of pension systems



Measures **43** retirement income systems against more than **50** indicators



Benchmarks a country's or region's pension system based on three sub-indices: **Adequacy, Sustainability and Integrity**



Covers almost two-thirds of the world's population



Reviews global pension systems and assesses the benefits they provide, their ongoing sustainability in the context of ageing populations and the level of trust and transparency within their operations



Recommends actions for **improvements** in each system



Includes **Iceland, Taiwan, UAE and Uruguay** as new additions in 2021



Highlights the **common challenges** facing many countries and regions