



# INSIGHTFUL LESSONS FROM AROUND THE WORLD

A global expert grades the best and worst retirement plans

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**DAVID KNOX**, PhD, a senior partner at Mercer Australia, is the author of the Melbourne Mercer Global Pension Index, a report that objectively assesses the retirement income systems in sixteen countries spread across the Americas, Europe, and Asia Pacific. He is also the national leader for research and actuary for the Victorian and Tasmanian governments and the Western Australian public sector pension plan, and was the industry expert on a three-person team that conducted a review of the Australian military superannuation program. He is currently chair of Australia's ASFA Retirement Outcomes Committee.

With life expectancy increasing and financial turmoil spreading, providing sustainable retirement benefits is not just a US dilemma. Retirement systems around the world are facing—and meeting—similar challenges. To glean some important lessons from other

countries, we spoke with Dr. David Knox, author of the Melbourne Mercer Global Pension Index.

**DC Dimensions:** In looking at global retirement systems, what are the most common challenges facing the architects?

**David Knox:** The biggest and most common challenge relates to the world's aging population, a population of people who will need resources in their retirement years. Globally, we are very likely to see a few important changes as people live longer

# MELBOURNE MERCER GLOBAL PENSION INDEX 2011

The Melbourne Mercer Global Pension Index assesses the retirement income systems in sixteen countries spread across the Americas, Europe, and Asia Pacific (see chart). No country's system has an index value above 80, which represents an A grade. However, six countries have an index value between 65 and 80, which represents a B grade. With some adjustments or improvements, these countries could be re-classified as A-grade systems.

Country	Ranking		Overall Index Value	Grade
	2011	2010		
Netherlands	1	1	77.9	B+
Australia	2	4	75.0	B+
Sweden	3	3	73.4	B
Switzerland	4	2	72.7	B
Canada	5	5	69.1	B
UK	6	6	66.0	B
Chile	7	7	64.9	C+
Poland	8	-	58.6	C
Brazil	9	8	58.4	C
US	10	10	58.1	C
Singapore	11	9	56.7	C
France	12	11	54.4	C
Germany	13	12	54.2	C
Japan	14	13	43.9	D
India	15	-	43.4	D
China	16	14	42.5	D
<b>Average</b>			<b>60.6</b>	<b>C+</b>

than ever before. First, we are going to have to work longer before retiring, and second, we are going to have to save more. Governments around the world will also increase the age retirees start to draw on their retirement benefits, and reforms to pension systems will increase coverage and contribution rates.

**DC Dimensions:** The Melbourne Mercer Global Pension Index ranks the Netherlands as one of the best retirement systems in the world, a position it seems to be sustaining even as other systems lose ground. What exactly makes the Dutch system so good?

**Knox:** The Dutch system is not perfect. We rank it a B-plus and note that it is still going through a reform process. Key to the success

of the system is that coverage is very good. Virtually everybody who is an employee is covered by the pension system. The system does not rely solely on government funding. It's also a fairly mature system. Finally, when you take into consideration the regulation and governance requirements in the Netherlands, the system performs very well there too.

**DC Dimensions:** Your analysis ranks the US as middle of the road, or a grade C, meaning a system with major risks and shortcomings. What can be done to improve our system?

**Knox:** One of the things is to broaden the coverage of the private pension system. Where the US falls down is that less than half of the private-sector employees have any

membership in a pension system. There is good coverage in the public sector, some coverage in the private sector (but mainly with larger employers), and very little coverage in some sectors of the workforce.

The other factor we need to bear in mind is that this money should be used for retirement. In the US, there's some leakage in the system. Some people tend to draw down on their retirement savings for other purposes, which means when they come to retirement, it's not always as much as it might otherwise have been.

**DC Dimensions:** What can private employers do to improve outcomes for their DC participants?

**Knox:** Private employers can improve the level of

communication to their participants. As an example, most participants will get a statement showing their account balance every year. If I have a \$20,000 balance, what does that mean? Will this number grow to \$100,000 or \$200,000? In addition, can we express this projected benefit as an income stream? We've got to start thinking in terms of income streams and give participants information that will engage them. And I should note that this is not just a US phenomenon. In brief, plan sponsors need to change the discussion and change their vocabulary to encourage greater engagement.

**DC Dimensions:** We hear a lot about next generation DC programs. What are the necessary attributes of the next generation of defined contribution products and services?

**Knox:** Engagement and communication is just one part of next generation programs. The second fundamental component is to ensure portability. Finally, we need appropriate defaults. That means when people don't do anything because they're disengaged, they still have a good outcome. And those outcomes should target an income stream in their retirement years. ■



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