

Retirement Income Adequacy

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A new Index

- Motivation
- Approach
 - Basic construction of RIA-index
- Country Ranking
- Construction of RIA-Index in detail
 - Examples
- Conclusion

Motivation

- Pension systems in developed countries were put to the test due to demographic changes
- Wave of pension reforms aimed at restoring pension systems to regain financial sustainability
- The retirement income landscape has been changing drastically moving from family structures to more formalized systems, as in Asia; from pay-as-you-go to funded systems; from DB to DC.
- A new weighting of retirement income sources is the result
 - Decrease in benefit levels in public systems
 - Built up of funded pension systems
 - Increase of individual's responsibility for old age provisioning
- These changes raise the question of whether today's workforce will be able to generate enough retirement income to maintain their pre-retirement standard of living or whether they will be faced with income shortfalls
- More income sources have to be included to answer the question; a comprehensive retirement income approach is needed

Question of adequacy arises

Towards comprehensive retirement income...

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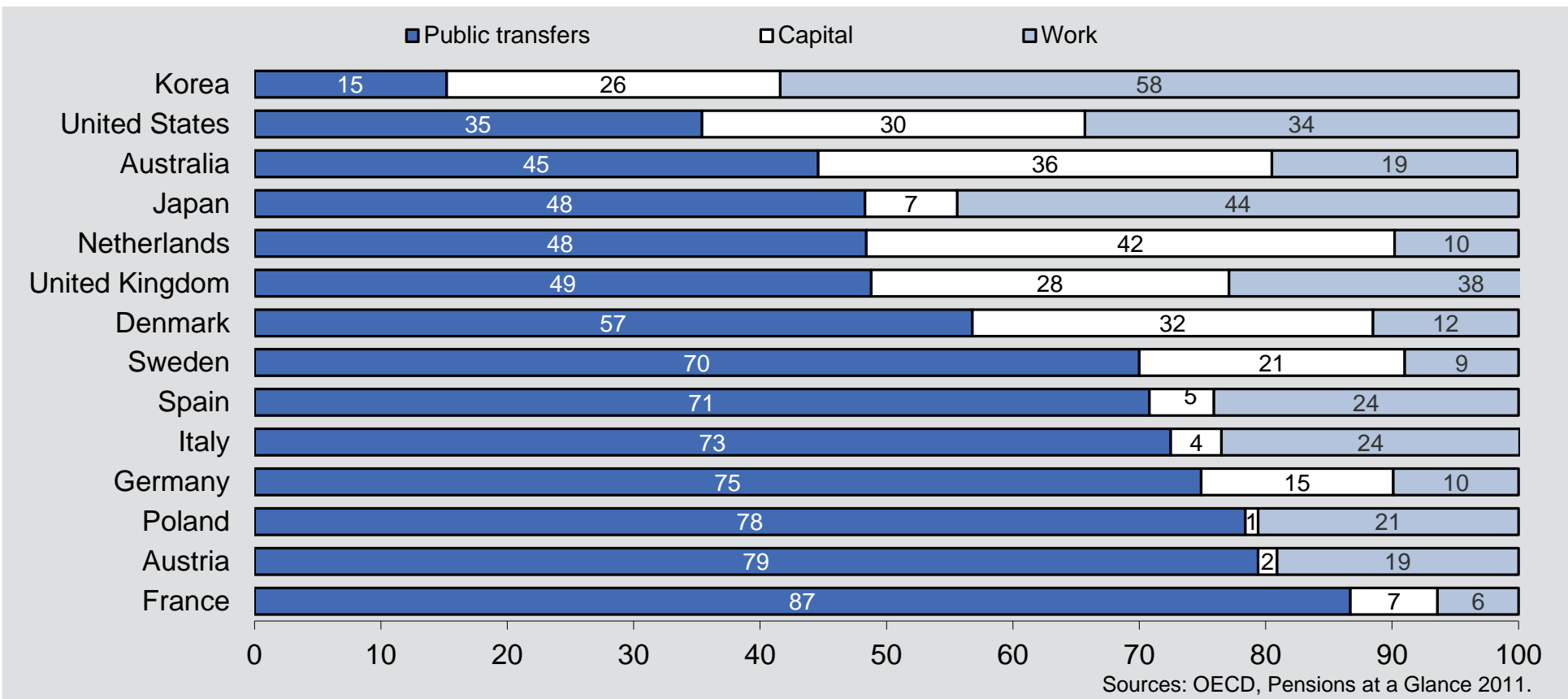


"If we take a late retirement and an early death, we'll just squeak by."

Not only sustainability but also adequacy of pensions decides if a pension system has been reformed successfully

Retirement income mix

Importance of retirement income sources in % of retirement income



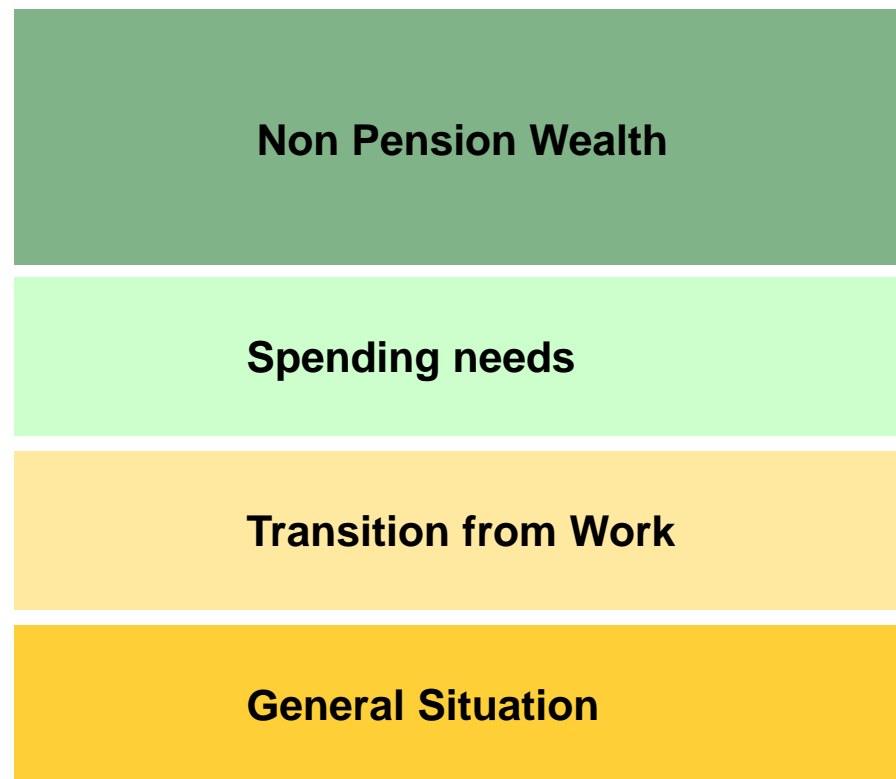
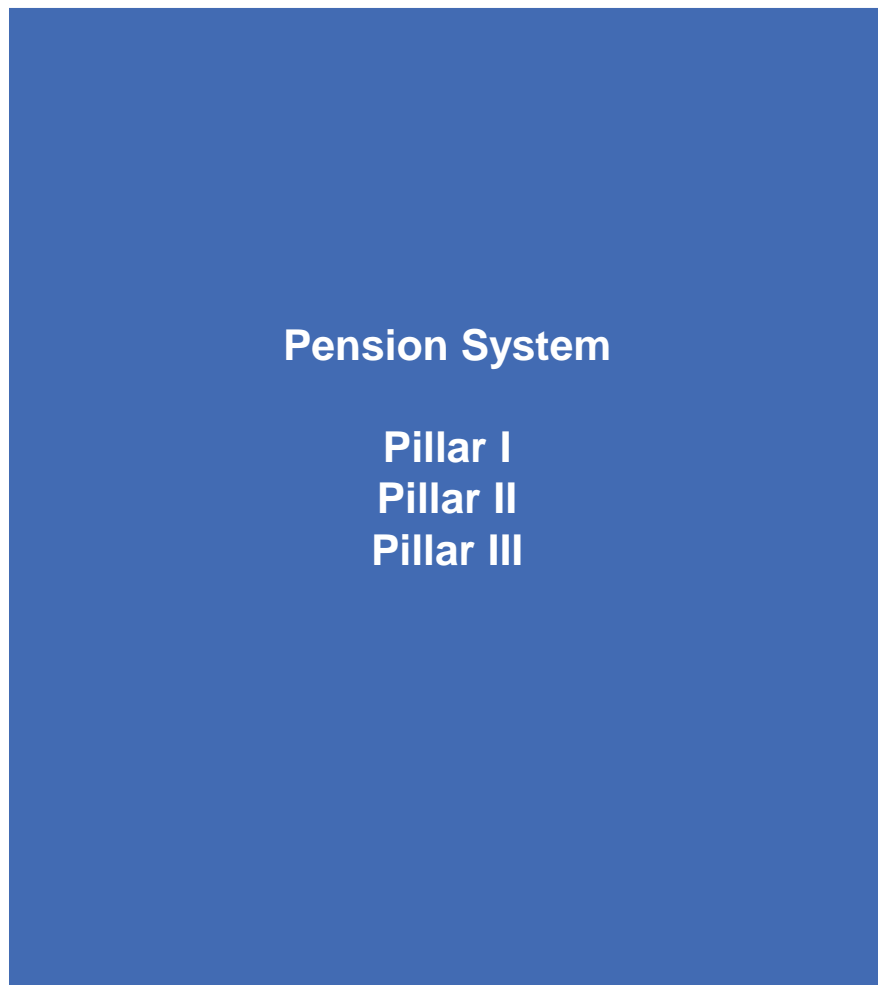
The composition of income sources differs substantially between countries

Approach

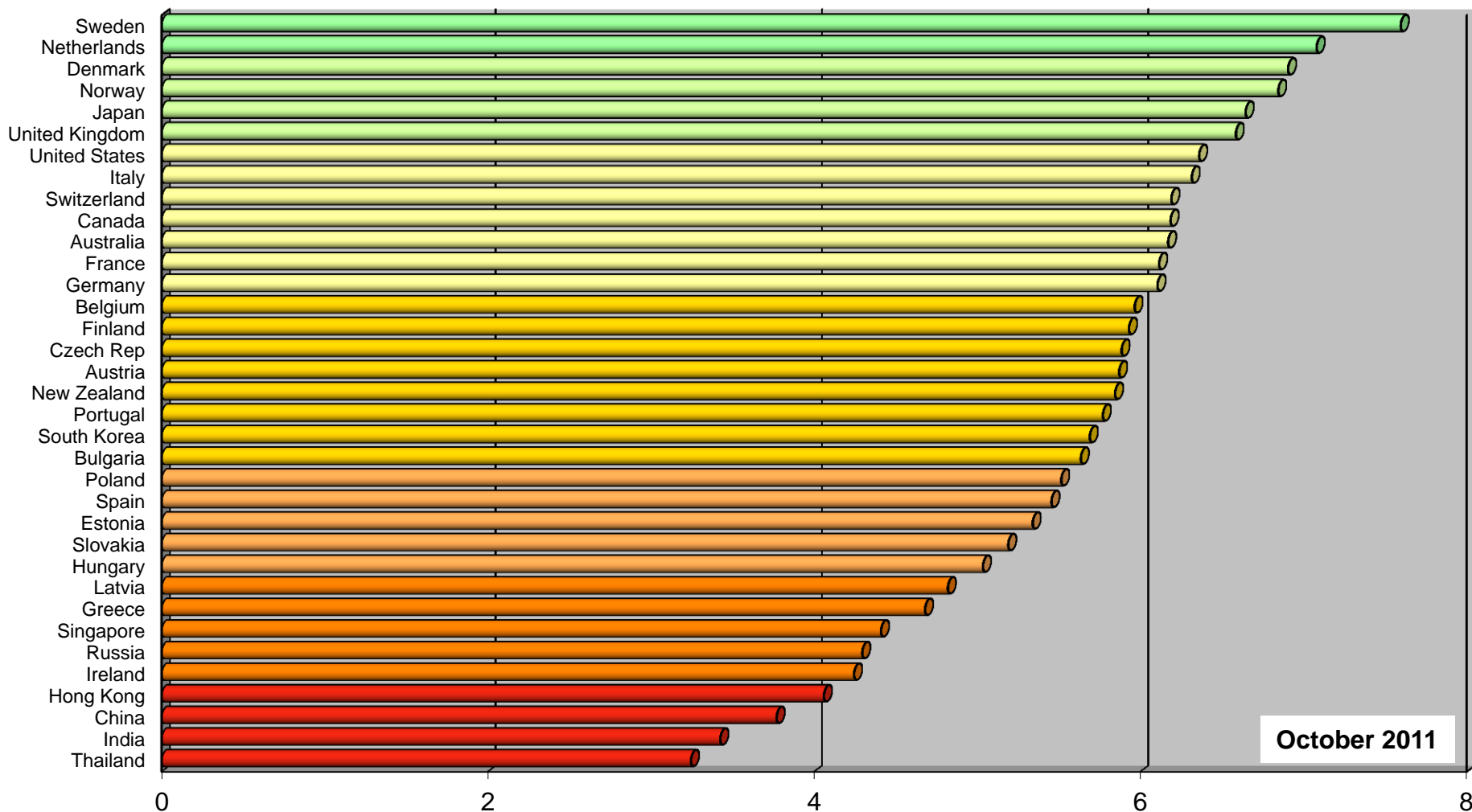
- Our goal is to get a comparison of a wide range of countries with respect to retirement .income adequacy of the population
- The indicator is built on a macro-level
- The approach used already analysed aggregate data information on pension pillar related summary statistics; it included information on the designs of pension systems as well as other general statistics
- The indicator incorporates pensions and non-pension factors.
- The indicator uses mainly data from international organisations (ADB; EC; ILO; OECD; UN; WHO; World Bank)* as well as national statistics where data were missing; AllianzGI's pension studies

* ADB – Asian Development Bank, EU – European Commission; ILO – International Labor Organisation; UN – United Nations; WHO – World Health Organisation

Basic construction of RIA-Index



RIA country ranking*




* Scale from 1 - 10: 1 least adequate, 10 most adequate

RIA construction in detail – Criteria I

Pension system	sub-indicator (criteria)	valuation	weights
Pillar I	<ul style="list-style-type: none"> • Replacement rate • Coverage • Adjustment mechanism 	Percent Percent Discretionary	55 %
Pillar II / III	<ul style="list-style-type: none"> • Set up: mandatory / voluntary / autoenrolment • Coverage • Maturity • Pension assets % GDP • Design: DB/DC; guarantees • Employer contributions • Tax incentives • Annuitisation / Lump sum 	Discretionary Percent Year of implementation Percent Discretionary Percent Discretionary Discretionary	

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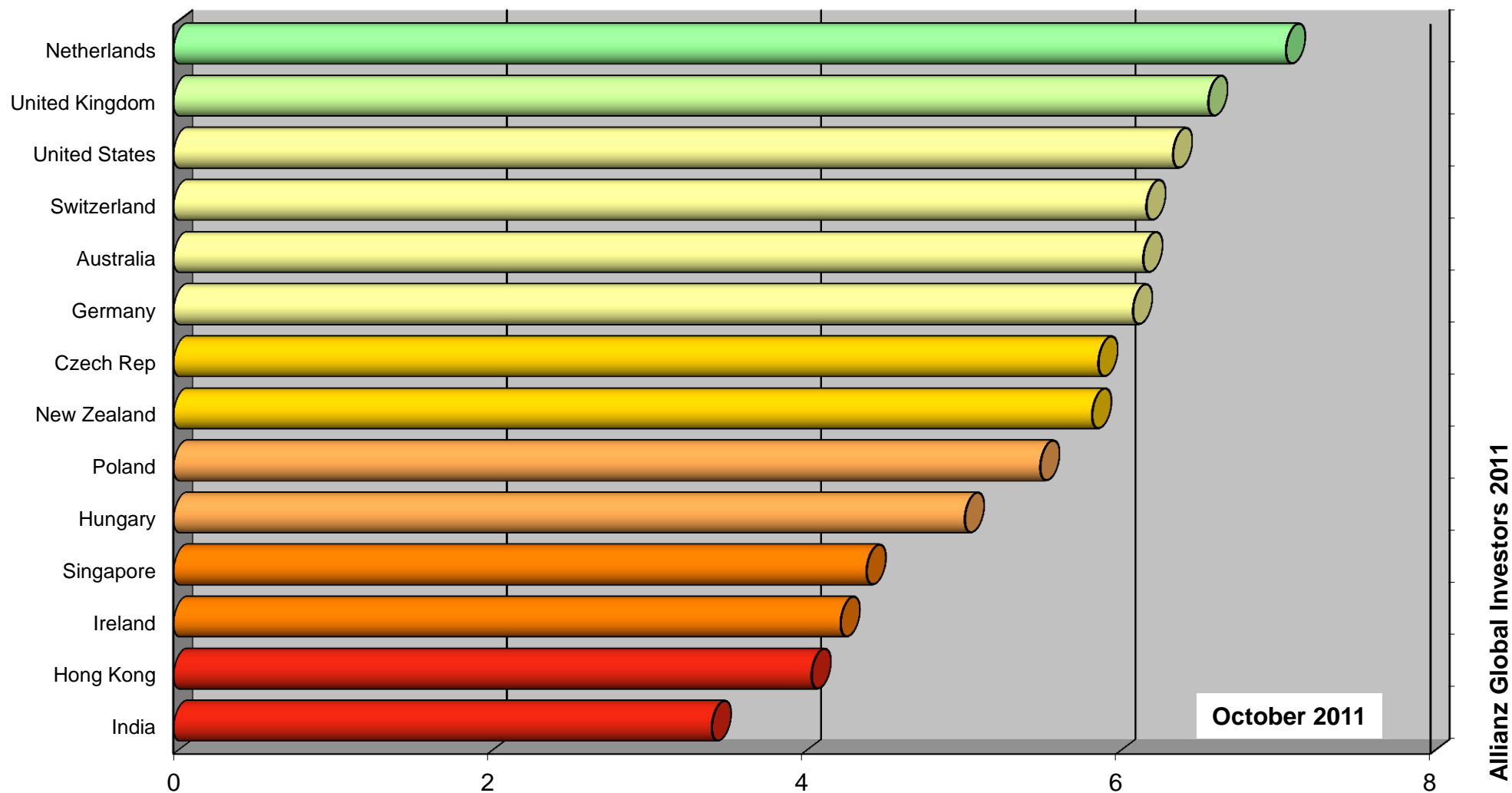
Note: GDP – Gross domestic product; DB – Defined benefit; DC – Defined contribution

RIA construction in detail – Criteria II

Non pension system factors	sub-indicator (criteria)	valuation	weights
Non Pension Wealth	<ul style="list-style-type: none"> • Financial assets (ex pensions/liquidity) • Home ownership • Insurance penetration • Gini coefficient 	% GDP Percent Percent Percent	15 %
Spending needs	<ul style="list-style-type: none"> • Health system: out-of pocket expenses • Indebtedness 	Percent Percent	10 %
Transition from Work	<ul style="list-style-type: none"> • Effective retirement age • Early retirement incentives 	Years Discretionary	10 %
General Situation	<ul style="list-style-type: none"> • Family support / welfare system • Poverty level 	Discretionary Percent	10 %

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RIA country ranking*: What's behind it? - some examples



* Scale from 1 - 10: 1 least adequate, 10 most adequate

Conclusion

- The RIA Indicator analyses a country's situation with respect to old age provisioning measures and their potential of generating retirement income
- It includes an important spending need in old age: health expenses
-and some general aspects of the economic situation of the people
- The RIA country ranking reflects the different set ups and maturities of pension systems in a wide range of countries.
- Countries with balanced and more mature systems rank best; they seem to have more potential to deliver adequate retirement income

- Shortcomings: Status quo picture only, no differentiation between special groups

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