

COVID-19 IMPACTS ON PENSIONS

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KEYNOTE PRESENTATION

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MERCER CFA INSTITUTE GLOBAL PENSION INDEX

2020



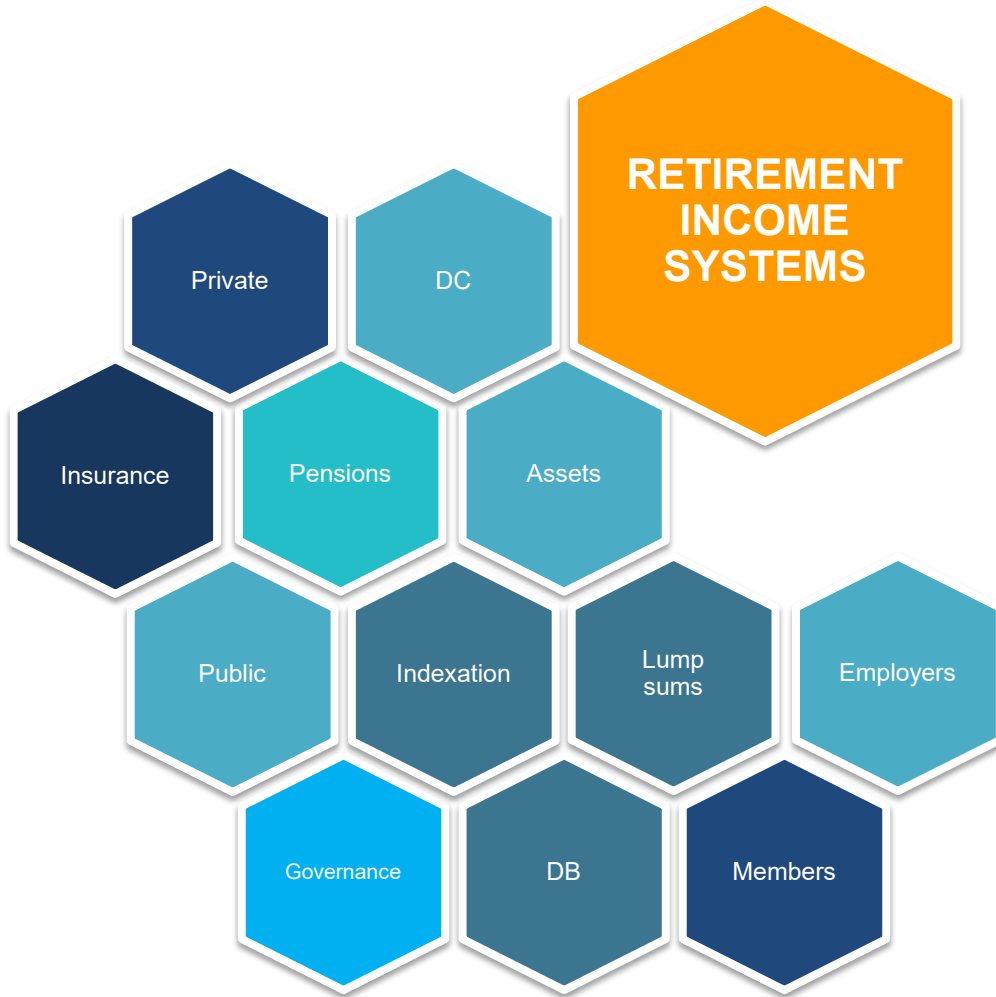
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PENSION SYSTEMS ARE ALL DIFFERENT BUT IMPORTANT



“People’s trust in pension systems is low.

Population ageing, low returns, low growth, less stable employment careers and insufficient pension coverage amongst some groups have been eroding the belief that all types of pension systems will deliver on their promises”

- OECD, 2018

Plus ... the impact of COVID-19

Too important to be ignored

THE STARTING FRAMEWORK – WORLD BANK MODEL

PILLAR 0

A basic public pension that provides a minimal level of protection

PILLAR 1

A public, mandatory and contributory system linked to earnings

PILLAR 2

A private, mandatory and fully funded system

PILLAR 3

A voluntary and fully funded system

PILLAR 4

Financial and non-financial support outside formal pension arrangements

THE FUNDAMENTAL QUESTIONS

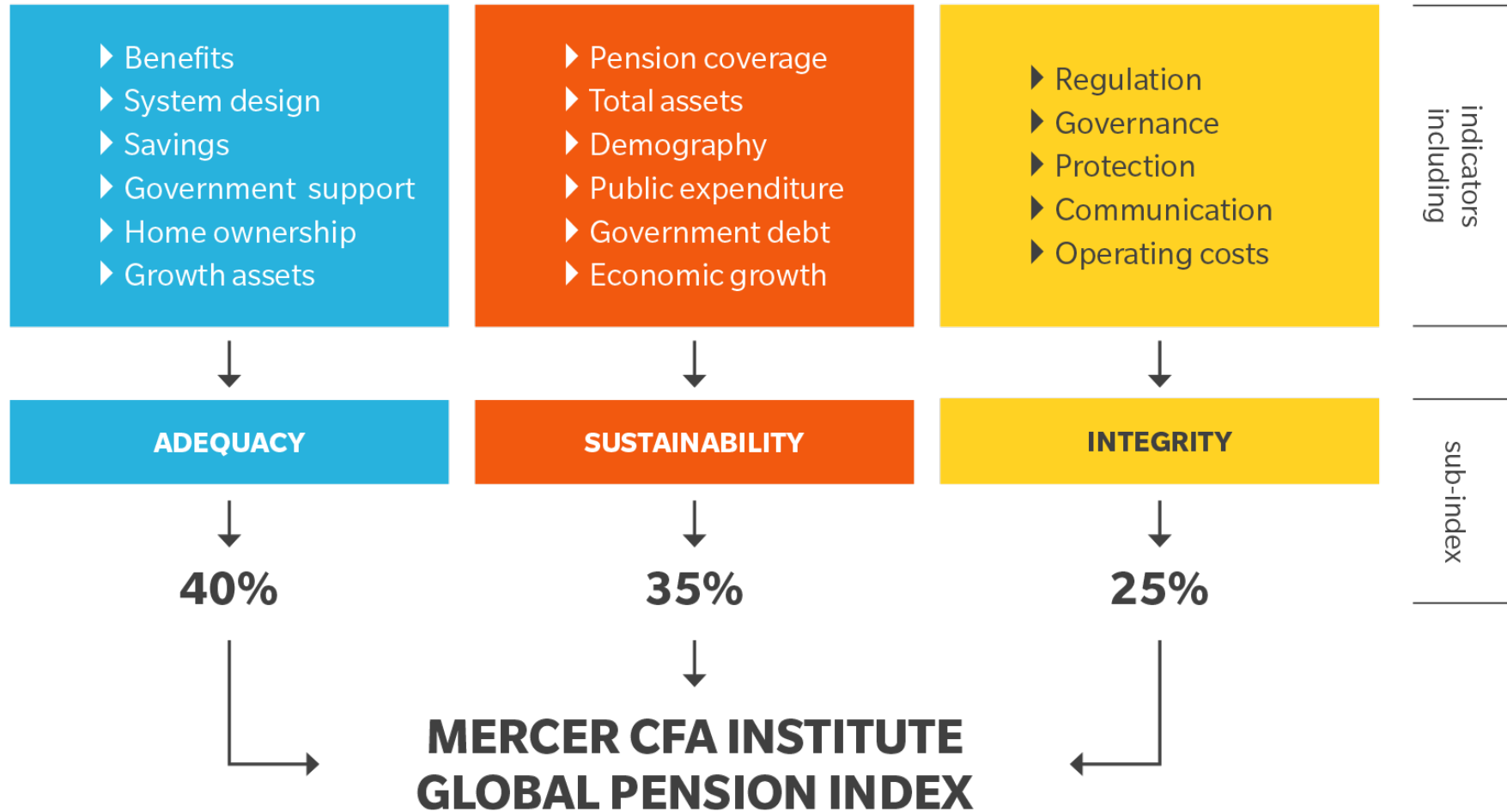


“What do you get?”

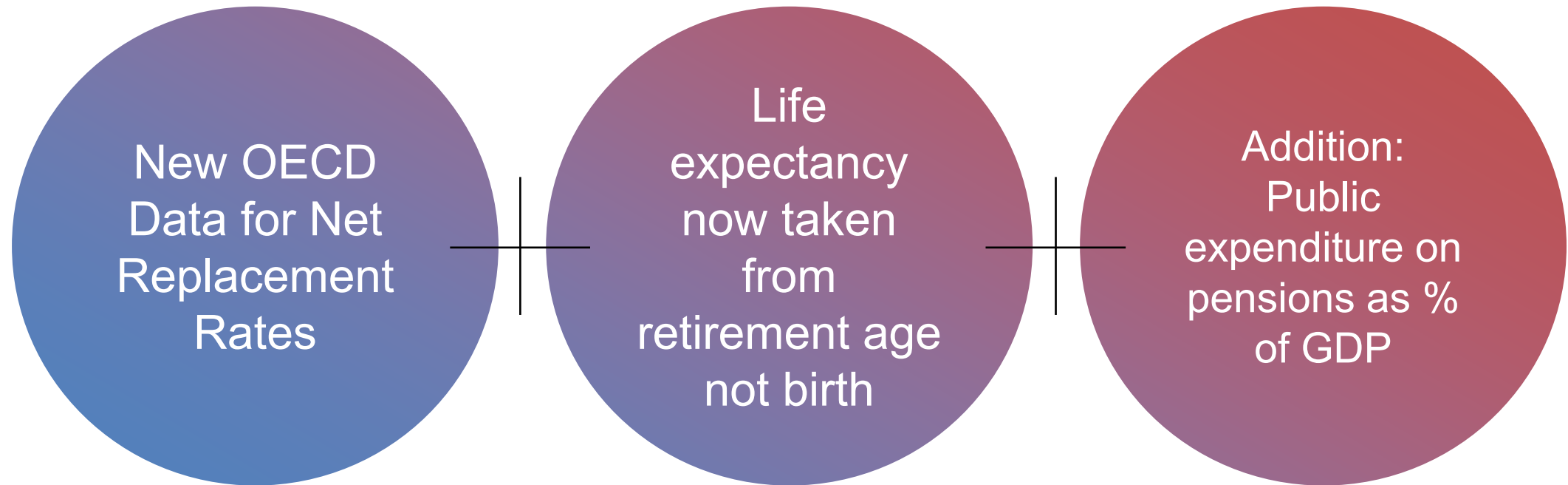
“Can it keep delivering?”

“Can it be trusted?”

CALCULATING THE MCGPI



REVISIONS AND UPDATES FROM 2019 TO 2020

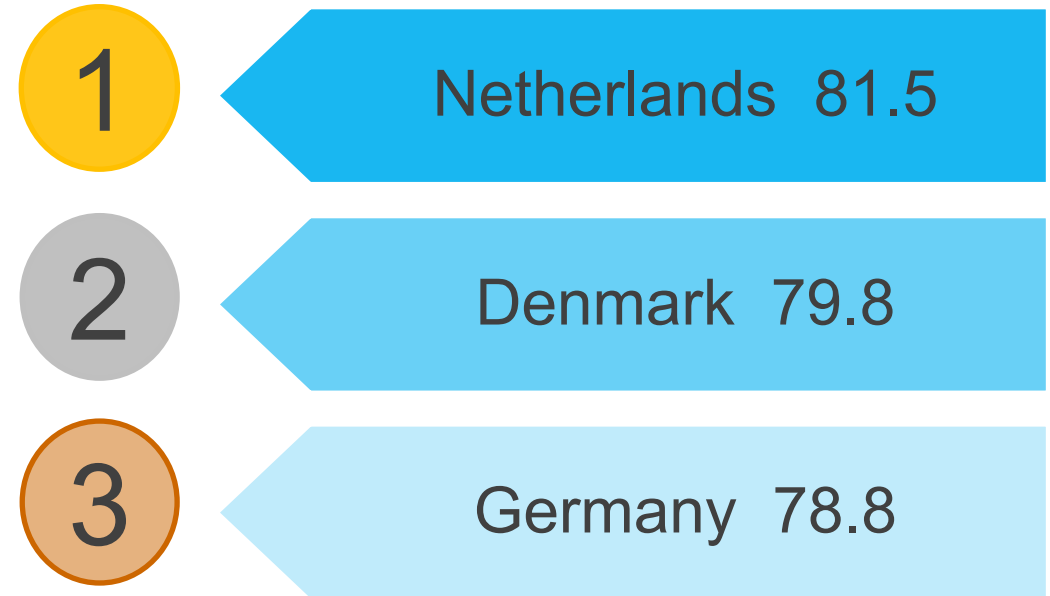


Public expenditure on pensions ranges from 1% in India and Indonesia to 14.4% in France and 16.5% in Italy

ADEQUACY



- Minimum (or base) pension
- Net replacement rate (weighted)
- System design features
- Household savings/debt
- Home ownership
- Level of “growth” assets

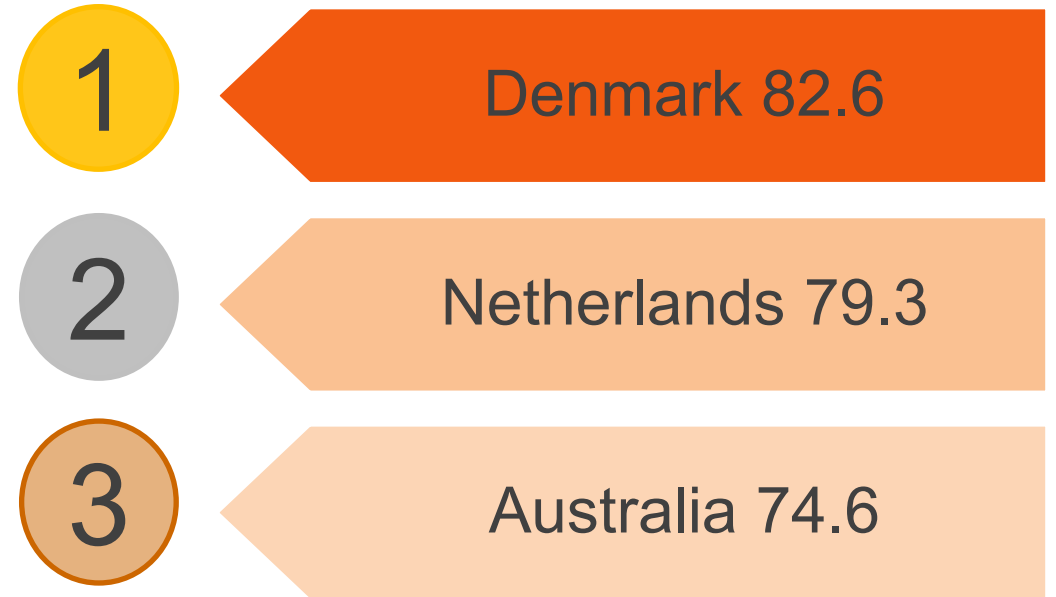


... India, Thailand, Mexico

SUSTAINABILITY



- Coverage of funded pension plans
- Level of pension assets as % of GDP
- Demographic issues
- Mandatory contributions with funding
- Labour force participation rate at older ages
- Public pension costs/Net government debt
- Real economic growth

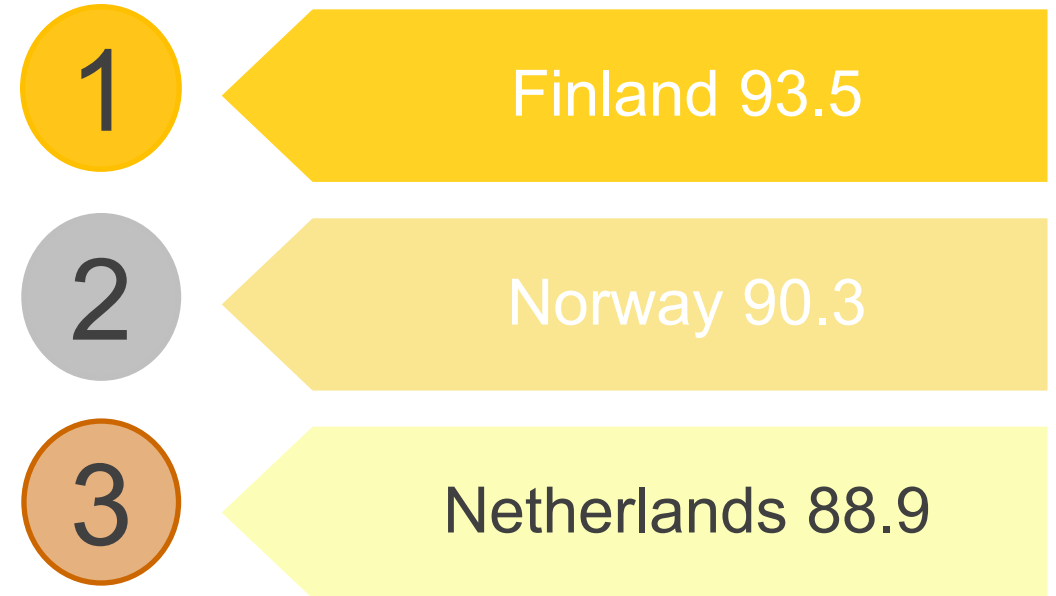


... Brazil, Austria, Italy

INTEGRITY



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



... Argentina, Mexico, Philippines

OVERALL RESULTS FOR 2020

System	Score	Ranking
Netherlands	82.6	1 st
Denmark	81.4	2 nd
Singapore	71.2	7 th
Hong Kong SAR	61.1	17 th
Malaysia	60.1	19 th
Indonesia	51.4	30 th
Korea (South)	50.5	31 st
Japan	48.5	32 nd
China	47.3	33 rd
India	45.7	34 th

GDP PER CAPITA AND INDEX SCORES

A strong correlation in the data: 63.3%

System	Index ranking	GDP ranking
Netherlands	1 st	8 th
Denmark	2 nd	7 th
Singapore	7 th	1 st
Hong Kong SAR	17 th	6 th
Malaysia	19 th	27 th
Indonesia	30 th	35 th
Korea (South)	31 st	18 th
India	34 th	39 th

GLOBAL PENSION REFORMS ARE NEEDED

- ***Increase coverage*** of employees and the self-employed in private pensions
- ***Increase the state pension age*** and/or retirement age over time
- Promote ***higher labour force*** participation at older ages
- Encourage ***higher levels of private saving*** to reduce dependence on public pensions
- ***Reduce the leakage*** from the retirement savings system prior to retirement
- Introduce measures to ***reduce the gender gap***
- ***Improve the governance*** of private pension plans and introduce greater transparency to improve the confidence of plan members and the community

THE IMPACT OF COVID-19: NOW

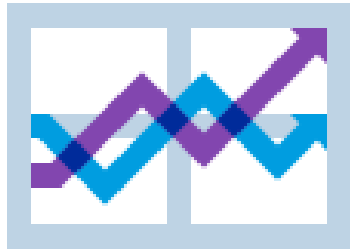
Lower real economic growth

Immediate impact on index scores

- Lower sustainability sub-index score
 - Reduction of 1.2, on average, for this indicator

THE IMPACT OF COVID-19: THE FUTURE

Possible **future impact** on index scores



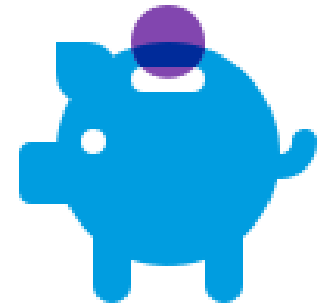
Reduced assets
for retirement
benefits due to
several factors



Increased
Government debt
may lead to
reduced pensions



Reduced migration
affecting old age
dependency ratio



Household
saving rates may
increase



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PANEL DISCUSSION



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THANK YOU

