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## The global retirement puzzle remains unsolved: Mercer

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By Kerry Pechter      Thu, Oct 10, 2013

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*In its annual report on global pensions, Mercer notes that the world is embracing the DC model but still hasn't figured out how to help participants convert the assets to income.*

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Annuity products should factor more into global retirement plans as more countries and companies shift from defined benefit to defined contribution systems, according to Mercer.

But the trend toward DC has three major flaws, Mercer said. First, all the risks fall on individuals. Second, DC focuses on wealth accumulation rather than on retirement income. Lastly, nobody really knows yet what the best portfolio of income products for retirees is.

The 2013 Melbourne Mercer Global Pension Index (see Data Connection in today's issue of RIJ), which measures the adequacy, sustainability and integrity of Australia's pension system, included a section on the implications of DC plans replacing defined benefit plans.

"As countries grapple with rising life expectancies, increased government debt, uncertain economic conditions and a global shift to DC plans, there are still many lessons to be learnt and new solutions to be found, particularly for the post-retirement years," said Dr. David Knox, a senior partner at Mercer and author of the research. He described the ideal features of retirement products:

- Limited access to a lump sum benefit at retirement
- Access to some capital for unexpected expenses and some spending flexibility
- Income product for initial retirement (annuity or drawdown with adequacy and security)
- Pooled insurance-type product with longevity protection (deferred annuity or pooled product from pension plan)
- Structure that allows phased retirement - people continue working (part-time) while drawing on retirement savings

"Developing effective and sustainable post-retirement solutions has to be one of the most critical challenges for policy makers and retirement industries around the globe," said Knox.

In Australia, the conversion of DC assets into sustainable retirement income remains a largely unresolved problem.

Australia's system should consider increasing labor force participation among older workers, raising the minimum access age to get benefits from private pension plans, and removing legislative barriers to encourage more effective retirement income products, the report said.