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Adding value to retirement scheme

Singapore scores significantly below average in adequacy in global pension index; Denmark tops the chart

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Who's well-placed for retirement

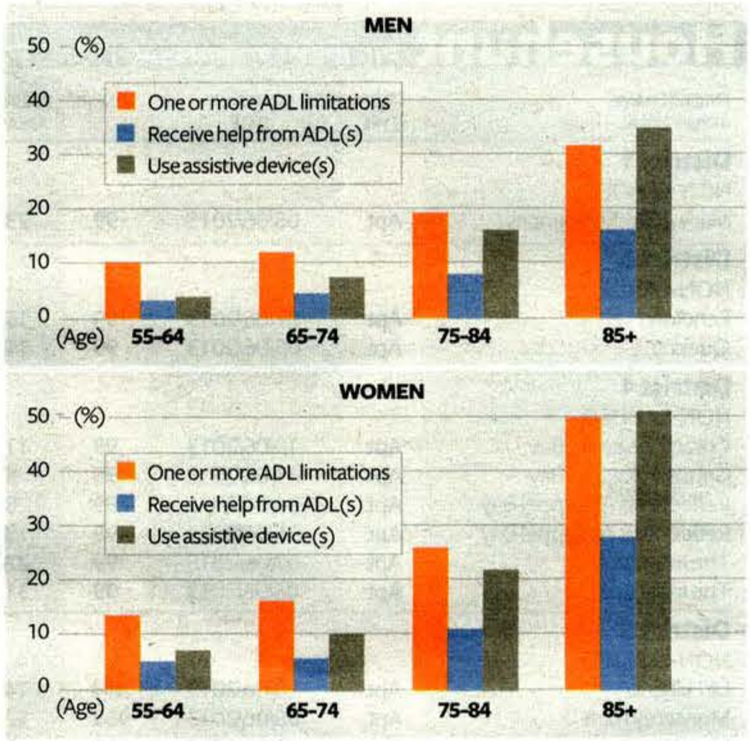
Melbourne Mercer Global Pension Index

COUNTRY	SUB-INDEX VALUES			
	OVERALL INDEX VALUE	ADEQUACY 40%	SUSTAINABILITY 35%	INTEGRITY 25%
Denmark	82.9	78.1	86.0	86.4
Netherlands	78.9	77.0	73.0	90.3
Australia	75.7	73.5	73.0	83.2
Sweden	73.4	68.0	73.3	82.5
Switzerland	73.3	71.3	67.9	84.1
Canada	69.2	74.2	56.3	79.3
UK	64.8	68.1	46.5	85.0
Chile	63.3	50.1	67.7	78.4
USA	59.0	58.3	58.4	61.1
Poland	58.2	63.6	43.4	70.1
Brazil	56.7	71.5	26.9	74.8
Germany	55.3	65.2	35.9	66.7
Singapore	**54.8**	**42.0**	**54.2**	**76.2**
France	54.7	74.3	32.0	55.2
China	45.4	55.7	30.5	49.7
South Korea	44.7	45.1	42.3	47.5
Japan	44.4	46.1	28.9	63.3
India	42.4	37.4	40.7	52.8
Average	**61.0**	**62.2**	**52.1**	**71.5**

Source: MMGPI

What men & women can do

ADL limitations



Source: Survey Research Centre, University of Michigan

THE Singapore pension scheme gets only a C grade, and the Republic is ranked 13th among the 18 countries that were studied in the Melbourne Mercer Global Pension Index (MMGPI) 2012.

A C-grade pension scheme is one that has some good features, according to the description given by the creator of the index. "But it also has major risks/or shortcomings that should be addressed. Without these improvements, its efficacy and/or long-term sustainability can be questioned."

The MMGPI is the 2009 initiative of the Victorian government to highlight the role of Melbourne as a pension centre. Australia has the fourth-largest pool of funds under management in the world – around A$1.6 trillion (S$1.86 trillion). The three partners in the project are the Victorian government, the Australian Centre for Financial Studies (ACFS) and Mercer.

Sharing the findings of the index at the sixth annual conference of Singapore Management University's Centre for Silver Security was Deborah Ralston, executive director of the ACFS.

The index assesses a pension system on three fronts: adequacy (what do you get out of the system); sustainability (can the system keep delivering); and integrity (can you trust the system).

Adequacy has a 40 per cent weight, sustainability 35 per cent and integrity 25 per cent.

Overall score

Singapore scores significantly below average in the adequacy sub-index, resulting in its relatively low overall score of 54.8 points out of a possible 100. Denmark tops the chart with a score of 82.9 points.

Among other things, the adequacy sub-index considers the savings rate for retirement, if there is any tax savings from voluntary contribution to retirement funds, where the retirement funds are parked, and if they are generating enough returns.

According to MMGPI, Singapore's pension fund allocation to "growth assets" is among the lowest of the 18 countries studied. Ten per cent or less of the funds are in "growth assets". The city-state is in the same group as India and Korea in terms of low allocation to growth assets, which include equities and investment properties.

Australia has the highest allocation to "growth assets" at 71 to 80 per cent, followed by Canada, Switzerland, the UK and the United States at 51 and 60 per cent.

"Singapore has a lot of its pension funds in 'safe assets' which are not generating quite enough return," said Prof Ralston.

In terms of the minimum pension available as a percentage of the average earnings, Singapore scores very low as well. But to the extent that the average Singaporean can convert his or her home into income streams at old age, the situation will be mitigated.

While a greater allocation to "growth assets" is encouraged, Prof Ralston noted that individuals should avoid volatility towards the end of their earnings period, as they are transitioning into retirement. She also added that right asset allocation is not only important for individuals, it is also important for the nation as a whole. It has implications on national growth and the economy.

According to MMGPI, the overall index value for the Singaporean system could be increased by:

- raising the level of social assistance available to the poorest aged members of society;
- increasing the percentage of contributions required to be saved for retirement;
- reducing the barriers to establishing tax-approved group corporate and other retirement plans, to encourage non-residents (who comprise more than one-third of the labour force) to save for their retirement; and
- increasing the labour force participation rate among older workers.

Another interesting presentation was titled "Pathways to Disabilities: Predicting Health Trajectories" by Michael Hurd, principal senior researcher and director, RAND Centre for the Study of Aging.

The picture for women, especially those who live to 85 years of age and beyond, is not pretty.

Prof Hurd presented results of "Health and Retirement Study" done by Survey Research Centre at the University of Michigan. In that study, about 20,000 persons – age 51 or older and their spouses – were interviewed. The same persons were interviewed every two years so as to track their progress over the years. The study started in 1992, and as at 2012, there had been 11 waves of interviews since. There are "refresher" samples of people in the 51-56 age group every six years.

In the study, subjects were asked if they could perform six of the activities of daily living (ADL), namely eating, dressing, bathing, toileting, getting in and out of bed, and walking.

The findings surprised me. My impression is that women tend to take better care of themselves than men. But the results showed that women in all the different age groups report higher incidents of one or more ADL limitations. (See chart)

Age groups

For example, in 75-84 age group, just under 20 per cent of the men reported to have one or more ADL limitations. The percentage for women was over 25 per cent. In the 85+ age group, just over 30 per cent of men reported one or more ADL limitations. For the women, it was some 50 per cent!

In terms of prevalence of ADL limitations, at age 65, about 88 per cent of the population has zero limitations and just 5.8 per cent have two or more. The number of people with two or more ADL limitations starts to escalate after age 80.

Another observation of the study is that those with higher socio-economic status have fewer ADL limitations. The percentage of college graduates with no ADL limitations is about 15 percentage points higher for all age groups compared with those with lower than high school qualifications. For example, 92 or 93 per cent of college graduates at age 65 do not have any ADL limitations. The corresponding figure for people who didn't graduate from high school is just below 80 per cent.

Noticeable improvement

The prevalence of ADL limitations in each age groups younger than 80 is pretty constant over time. About 82 per cent of those in the 70-74 age group reported no ADL limitations in 1996. Almost the same percentage of the 70 to 74-year-olds in 2010 reported no ADL limitations.

But there is a noticeable improvement for those in the 80-84 age group. The percentage of people without ADL limitations improved from about 67 per cent in 1996 to 73 per cent in 2010 – an improvement of some 0.5 percentage point a year over the last 14 years. Improvement is also seen in those above 85. If this trend is confirmed, it would have important implications for future health, costs, long-term care etc, noted Prof Hurd.

The average person would typically lament that: "It's sad to die leaving behind a lot of money." The comeback from a financial planner would be: "It's even sadder to have your money run out before you die!"

To be obsessively worried about the very distant future is not too healthy either. I think the most important thing is to lead a balanced life, spend moderately in the present, plan for the future, and work towards staying fit and healthy physically and mentally.

The writer is a CFA charterholder