

Pension Sustainability Index

New Zealand included

The Pension Sustainability Index published at the end of 2009¹ covers 37 countries. In these, it measures and illustrates the pressure on governments to reform their pension systems by consistently examining the various dimensions of pension systems. Our aim is to broaden the range of countries covered by the Pension Sustainability Index step by step. This paper extends the coverage to New Zealand².

Pension Sustainability Index

The rapid ageing of societies puts increasing pressure on governments to reform their first pillar pensions. Over the last decade many countries have already trimmed their public pension systems in order to strengthen sustainability, particularly in their pay-as-you-go systems. The Pension Sustainability Index is a tool that helps track changes made to pension systems in different countries around the world. By focusing on the sustainability of a country's public pension systems, it is able to give an indication of whether there is a need for pension reform. Since national pension systems tend to differ in their institutional, technical and legal details, this can be difficult to observe. However, some of the key variables impacting the sustainability of public pension systems recur in different countries. The Pension Sustainability Index uses a wide range of sub-indicators such as demographic developments, public finances and pension system designs to systematically measure the need for further pension reform.

Pension system overview: New Zealand³

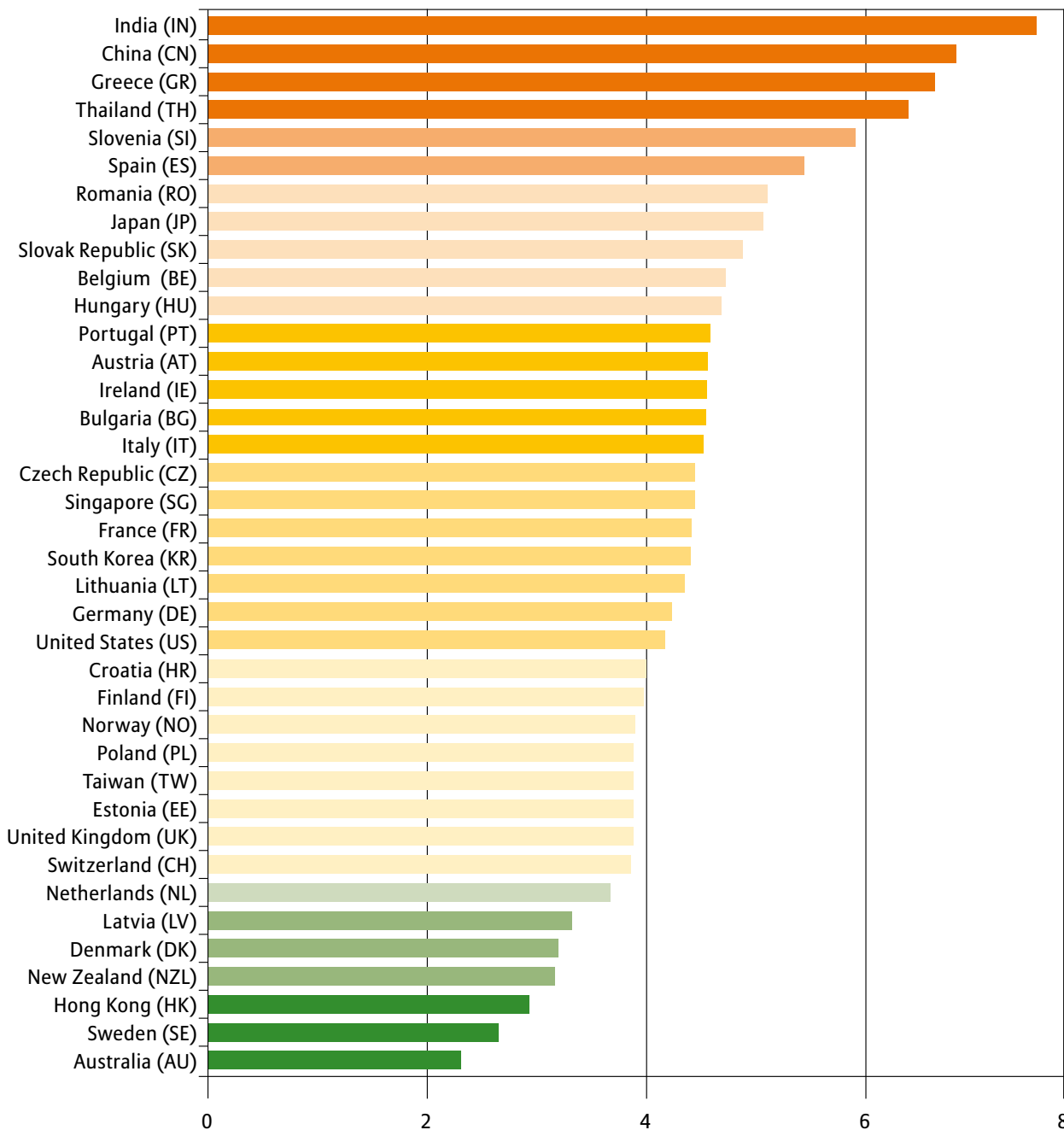
New Zealand's pension system comprises a non-contributory state pension in the first pillar, the New Zealand Superannuation. This is a flat-rate pension paid to all residents fulfilling the residence requirements at age 65. Occupational superannuation schemes together with the KiwiSaver scheme form the second pillar. KiwiSaver is a voluntary, work-based savings initiative with a range of membership benefits. Private pension savings in the third pillar complement the old age provisioning system. The KiwiSaver scheme was introduced on July 1, 2007. It is designed to increase the overall coverage of occupational complementary pensions in New Zealand which stood at only 21% before the introduction of the scheme.

Main results

Taking all the sub-factors into account, Australia ranks top in the Pension Sustainability Index, followed by Sweden. Both countries are considered to be best prepared for an ageing society with the least amount

Pension Sustainability Index*

Ranking from September 2009 for all countries except New Zealand (from March 2010)



* Scale from 1-10: 1 minor need for reforms, 10 high need for reforms

Source: Allianz Global Investors

of pressure to reform. Australia and Sweden have managed to establish comprehensive pension systems based on strong funded pillars. Hong Kong, which follows third in the ranking of the Index, also has a strong funded element coupled with a basic public pillar. New Zealand is listed fourth among the best ranking

countries, just ahead of Denmark. At the other end of the spectrum are China and India which are considered to be in the greatest need for reform as overall pension coverage is still very poor and adequate reform has not yet been implemented. With its extremely low retirement age and sporadic coverage,

Thailand is another Asian country ranking high on the list to reform.

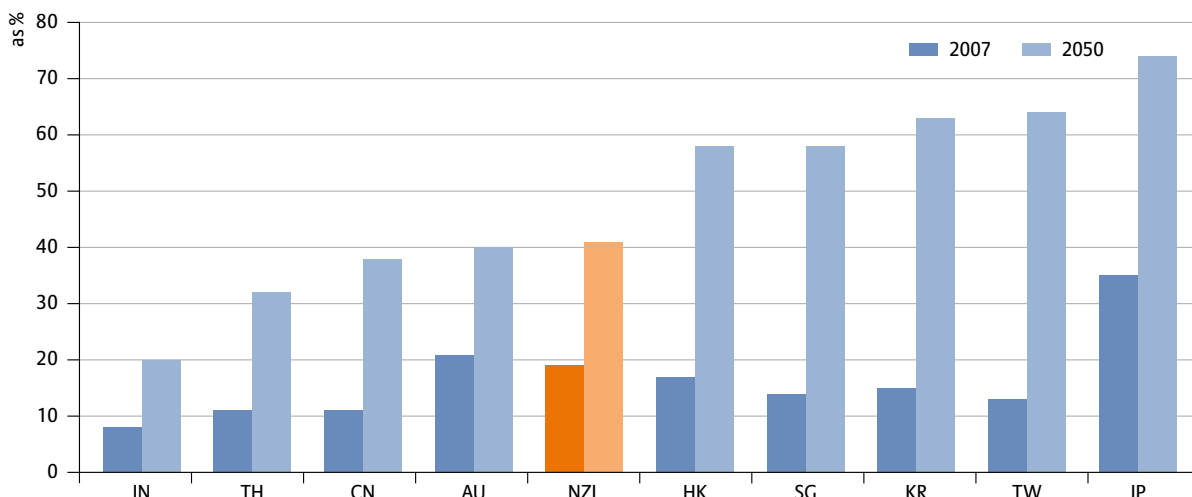
Main sub-indicators

The general set-up of the old age provisioning system in New Zealand is very well in itself. However,

some sub-indicators also provide a hint for the instantaneous good result in the ranking. The state of demographics and public finances in New Zealand puts the country into a favorable position to provide for its senior citizens.

New Zealand with a moderate old-age dependency ratio*...

Asian-Pacific countries in comparison

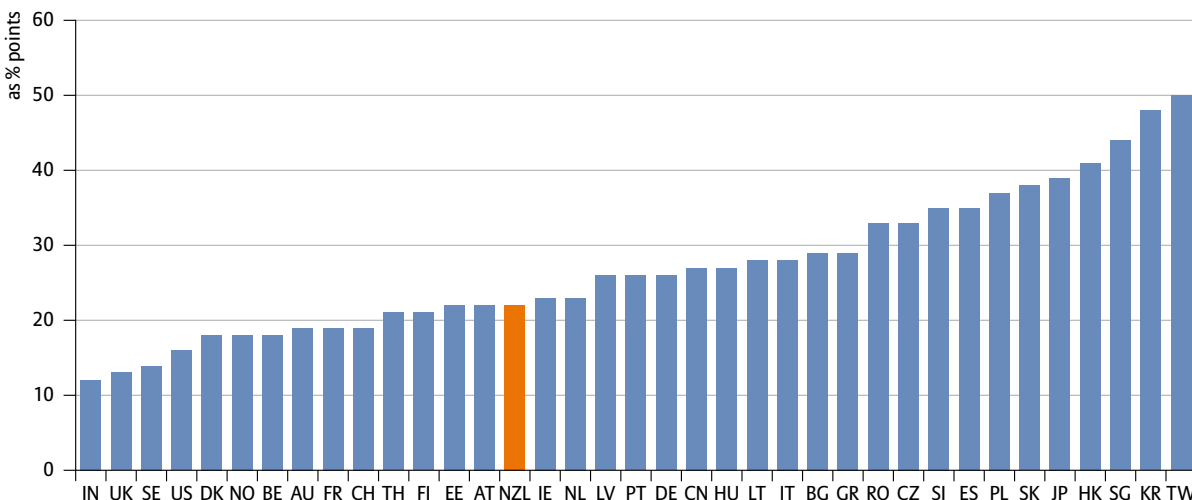


*Population aged 65 and older to population aged 15 to 64

Sources: UN Population Division 2008, Allianz Global Investors 2009

... is not ageing rapidly compared to other Asian-Pacific countries

Change in the old-age dependency ratio until 2050*

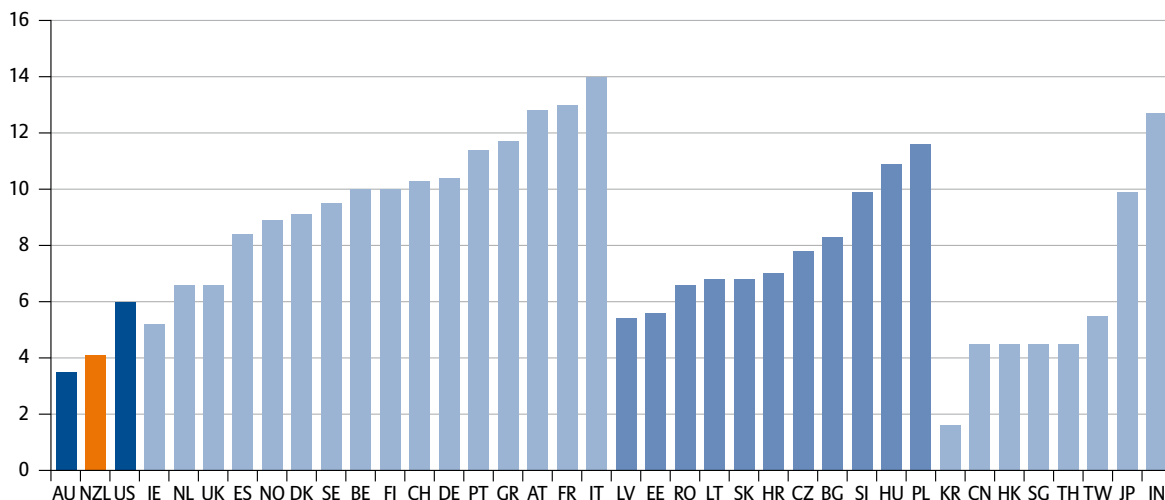


*Population aged 65 and older to population aged 15 to 64

Sources: UN Population Division 2008, EU Commission, Allianz Global Investors 2009

Public finances

Pension expenditure as a % of the GDP* 2007



* Gross domestic product

Sources: IMF, EU Commission, National Statistics, The Treasury of New Zealand, Allianz Global Investors 2009

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- 1 Allianz Global Investors, Pension Sustainability Index 2009, International Pension Papers No. 5/2009.
- 2 Data and information on recent pension reform provided by the Ministry of Economic Development, New Zealand
- 3 For more details see our country database on <http://publications.allianzgi.com/en/PensionResearch/CountryDatabase/Pages/AsiaPacific.aspx>

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