

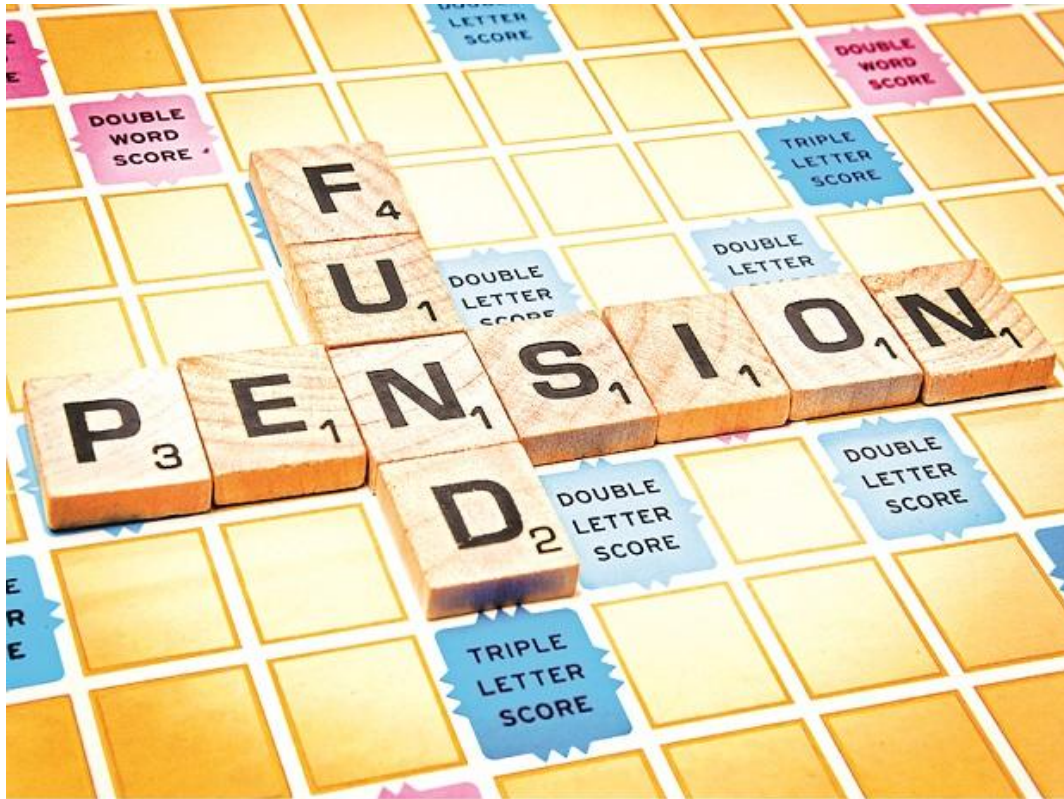
Global Pension Systems Rankings 2021

By IASToppers | 2021-10-21 17:40:00



Global Pension Systems Rankings 2021

As per the global study done by Mercer Consulting, the **Indian pension system** ranks a lowly **40th** in a comparative index of **43** systems in the Global Pension Systems Rankings 2021.



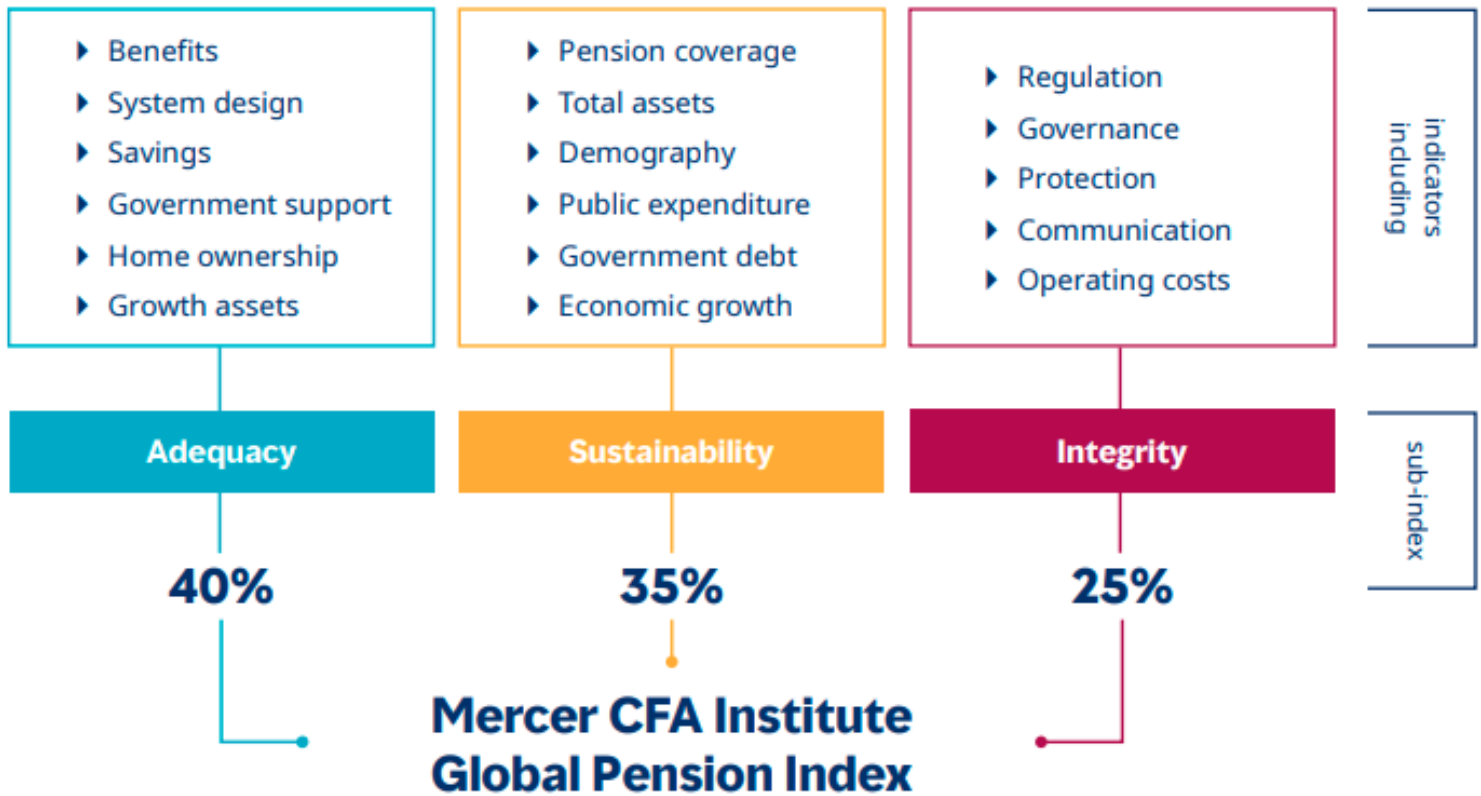
[Ref: Business Standard]

Aim: To benchmark each retirement income system using more than 50 indicators.

About Mercer CFA Institute Global Pension Index(MCGPI):

- MCGPI is an annual survey by Mercer Consulting, which aims to benchmark the retirement income system.
- MCGPI uses three sub-indices, **adequacy, sustainability, and integrity** to measure each retirement income system against more than 50 indicators.
 - The **adequacy sub-index** represents the adequacy of the benefits that are being provided
 - The **sustainability** sub-index represents the likelihood that the current system can provide benefits in the future.
 - The **integrity** sub-index includes many legislative requirements that influence the overall governance and operations of the system which affect the level of confidence that citizens have in their system.
- The Index is published by Mercer, in collaboration with CFA Institute and the Monash Centre for Financial Studies.

Calculating the Mercer CFA Institute Global Pension Index



[Ref: Mercer]

Major Highlights:

- Iceland has the **best pension system** in the world.
- India had an overall **index value of 43.3** among the countries analyzed.
- The index highlights key strengths of retirement pension systems around three sub-indices **adequacies, sustainability, and integrity**, where India scored 33.5, 41.8, and 61.0, respectively.

India's Pension System:

INDIA

40th index ranking among 43 systems

43.3 India's index value in 2021, a decline from 45.7 in 2020, primarily due to a fall in the net replacement rates

India's overall index value can be increased by:

- Introducing a minimum level of support for the poorest aged individuals
- Reducing the level of household debt as a percentage of GDP
- Increasing the pension age as life expectancy continues to increase
- Reducing government debt as a percentage of GDP

Data: 2021 Mercer CFA Institute Global Pension Index

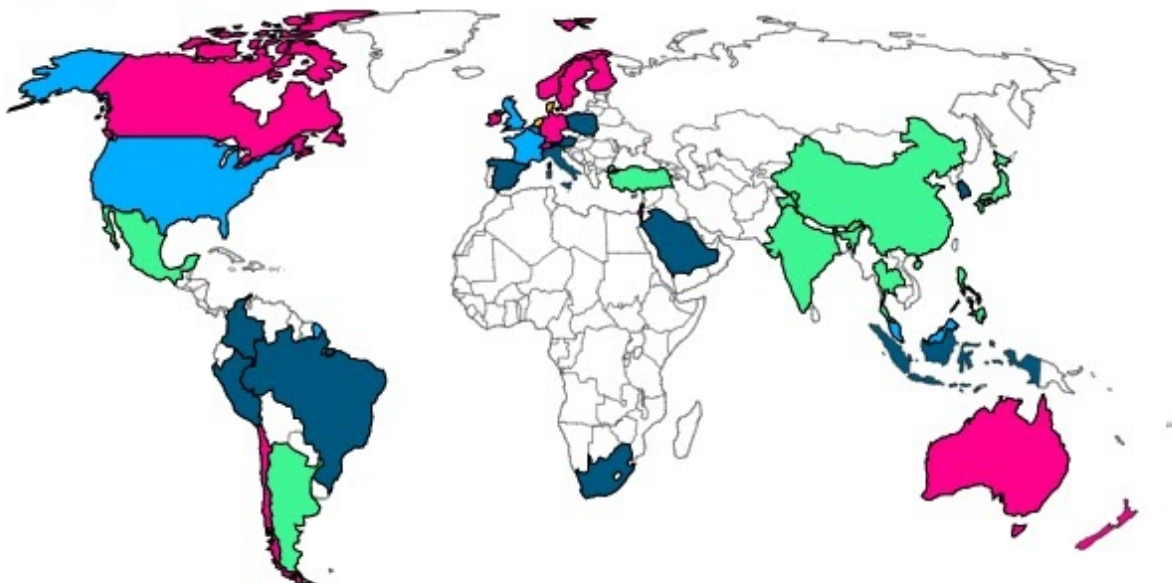
[Ref: Bussiness Standard]

- The workforce in India manages pension savings on its own for the most part as the coverage under private pension arrangement is just about 6% in India.
- 90% of the total workforce being in the unorganized sector, measures should be taken to get a larger workforce under pension savings

World's Best (And Worst) Pension Systems

Netherlands, Denmark lead with A grade retirement systems

■ A ■ B ■ C+ ■ C ■ D □ Not rated



Source: Mercer CFA Institute Global Pension Index

[Ref: Pension Plus]

- India had an overall index value of 43.3 among the countries analyzed, lower than the **index value**

of 45.7 for 2020.

Facts about Pension plan in India:

- **There are 2 phases of pension plans in India:**
 - The **accumulation phase** and **vesting phase** are the two phases of pension plans in India.
 - The investor pays annual premiums until they reach their retirement age in the accumulation phase.
 - The vesting phase begins when the investor reaches their retirement age.
- **Withdrawal of the entire retirement corpus in one go at retirement is not allowed.**
 - On retirement, an individual is not allowed to withdraw the entire accumulated retirement corpus.
 - They can only withdraw one-third of the accumulated corpus while receiving the rest in the form of an annuity.
- **Annuities are taxable**
 - Contributions made towards pension plans are exempted for tax under section 80CCC up to a maximum limit of Rs. 1 Lakh.
- **Pension plans only guarantee positive returns**
 - Pension plans in India do not guarantee a fixed return on their retirement savings.
 - Even the best pension plans only guarantee a positive return on the investment.
- **Freedom to choose from a variety of pension plans**
 - Pension plans sponsored by government-approved mutual funds feature a balanced investment approach.
 - They follow investment in both equity and debt in a 40:60 proportion.