Since we published our last report, governments have taken measures to improve the long-term sustainability and adequacy of their pension systems. Examples include the pushed-through increase of the retirement age in France, Cambodia's decision to make pension contributions mandatory for all private sector workers, Mexico's changes in the contribution period necessary for receiving a full pension or early retirement benefits or China's introduction of incentives for supplementary capital-funded private provision[5]. However, the elephant in the room remains the retirement age, which in many countries does not reflect the development of further life expectancy in the last decades. Attempts to increase it often spark fierce protests, as seen most recently in France, where the government decided to increase the retirement age by two years to 64, or Uruguay, where the government plans to raise the pension age from 60 to 65 years. In fact, only eight of the 75 countries that we cover in the Allianz Pension Index have adjusted the retirement age to the developments in life expectancy[6].

[5] The OECD reported in its latest Pension Markets in Focus edition that the number of people covered by an investment plan and the assets in funded pension plans has been increasing further in 2021. See OECD (2023), Pension Markets in Focus 2022, www.oecd.org/finance/pensionmarketsinfocus.htm.
[6] In Portugal, the retirement age was lowered in 2023 to reflect the decline in life expectancy caused by the Covid-19 pandemic.

Box 2: The Allianz Pension Index (API)

To assess the progress in preparing pension systems for demographic change, we use our Allianz Pension Index (API), which consists of three sub-indices based on six categories and 15 sub-categories. The first sub-index assesses the basic conditions of the analyzed countries via the pace of demographic change, the indebtedness of public households and general living standards. The second sub-index assesses the sustainability of pension systems by measuring how well they are prepared to cushion the impact of demographic change. The existence of supplementary capital-funded elements, incentives to postpone retirement, the introduction of demographic factors in the adjustment of retirement benefits and the retirement age play a crucial role in this respect. The third sub-index of the API rates the adequacy of pension systems, questioning whether they provide an adequate standard of living in old age, which we measure not only in benefit levels. We also take into account coverage, access to financial services and the integration of older workers in the labor market, which gains in importance with increasing retirement ages. In total, we take into account 40 parameters. Each parameter value is rated on a scale of 1 to 7, with 1 being the best grade. The bands defining each parameter's grade are chosen in a way that the grading results of all markets are normally distributed. This implies a relative judgement. By adding up all weighted subtotals, the API assigns each market a grade between 1 and 7, with grade 1 indicating that the pension system is in good shape to weather future challenges while 7 indicates urgent reform pressure. This provides a comprehensive view of how each country's pension system is prepared for demographic change.