

# CAN AN AUSTRALIAN APPROACH SAVE THE U.S. RETIREMENT SYSTEM?

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## Introduction

In early December, President Trump discussed developing a national retirement savings system like Australia's superannuation program. Australia certainly has an enviable retirement system. In fact, the latest Mercer CFA Institute Global Pension Index awards the Australian system a B+, while the U.S. system gets only a C+. The questions are: Why does Australia get such a high rating and the U.S. such a low rating? And could the characteristics that work so well for Australia rescue the U.S. system?

The discussion proceeds as follows. The first two sections describe the origins and structure of the Australian and U.S. retirement systems, respectively. The third section explores the rationale for the Mercer CFA Institute Index's different assessments of the Australian and U.S. systems. The fourth section explores the extent to which adopting components of the Australian system could strengthen the U.S. system. The section concludes that while the Australians have done a really good job, it is hard to see how incorporating aspects of their design could improve the U.S. system at this point in its history. If the U.S. wants a B+, the answer is straightforward – restore balance to Social Security and expand coverage to supplementary savings to all workers.

## The Australian Retirement System

The Australian retirement system consists of three tiers. The centerpiece is the relatively new "Superannuation Guarantee," which was created in 1992. This funded defined contribution (DC) arrangement is augmented with a means-tested Age Pension to help those for whom the Superannuation system provides inadequate income. The final component is a voluntary provision that enables employees to contribute somewhat more to their Super accounts, on a tax-favored basis. All the dollar amounts mentioned below are in Australian dollars – an Australian dollar is currently equal to 66 percent of a U.S. dollar.

### *The Centerpiece – Government Mandated DC Accounts Managed by Private Sector*

The "Superannuation Guarantee" program requires employers to contribute 12 percent of each worker's ordinary earnings (up to \$62,500 per quarter)<sup>1</sup> to a tax-favored retirement savings account in a Superannuation Fund managed by the private sector, although a few public plans exist for government employees.<sup>2</sup>

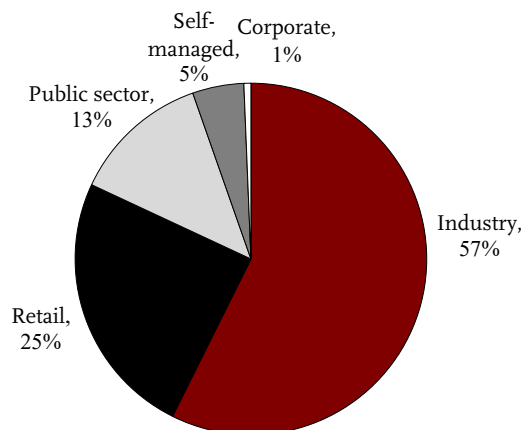
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The balances are available in full at age 65 or as early as age 60 if the worker has stopped working. Very strict rules preclude access to these accounts before retirement.

The employer is the initial fiduciary in the Superannuation program and is responsible for selecting a default Superannuation Fund. These funds can be operated by industries, financial services companies, or various levels of government. Many of these funds were established before the new system to handle voluntary savings of high-income earners. The majority of participants have their accounts in “Industry Funds,” which are not-for-profit arrangements, generally open to all (see Figure 1). The second most popular funds are “Retail Funds,” which are operated by for-profit financial services companies. The third largest group participates in not-for-profit funds opened to Commonwealth, state, or territory government employees.<sup>3</sup>

FIGURE 1. PERCENTAGE OF PARTICIPANTS IN SUPERANNUATION FUNDS, BY FUND TYPE, 2024



Source: Australian Prudential Regulation Authority (2025).

Employer contributions to the Superannuation accounts and investment earnings on those contributions are immediately subject to an income tax rate of 15 percent, which is significantly lower than the rates on ordinary income.<sup>4</sup> In instances where an employee’s earnings and the Super contribution exceed \$250,000, the tax rate on the contribution is 30 percent. No tax is levied when the accumulations are withdrawn, either as a lump-sum or a stream of income. Those with low incomes receive a return of the 15-percent levy when they claim their accounts.<sup>5</sup>

Participants who contribute 12 percent over their entire work life should be able to replace 53 percent of their pre-retirement earnings.<sup>6</sup> People retiring today, however, have contributed much less over their work life as the required contribution rate rose slowly from 3 percent in 1992 to 12 percent in 2025.<sup>7</sup> Those who end up with inadequate resources in retirement can receive support from the means-tested “Age Pension.”

### Age Pension – Government Means-Tested Payments

Before the introduction of the Superannuation system, the government’s Age Pension was the main source of retirement income in Australia. This program, established in 1909, was originally designed for poverty alleviation and was tightly means-tested. Over time, however, it increasingly became viewed as a general entitlement. By the mid-1990s, the means-tested payment was about 25 percent of the nation’s average weekly earnings and served as the main source of income for more than 60 percent of retired Australians.<sup>8</sup> As the Superannuation program matures, reliance on the Age Pension will decline.

The program has both income and asset tests to identify those in need. In 2025, the maximum annual payment was roughly \$28,000 for a single person and a little over \$42,000 for a couple.<sup>9</sup> The payment is reduced to the extent that income exceeds the “income free area.” In 2025, this limit was \$5,668 per year for a single individual and \$9,880 for a couple.<sup>10</sup> For each \$1 of income above these amounts, the Age Pension is reduced by 50 cents. The calculation involves a “deeming” process to determine how much accumulated assets could contribute to a person’s income. Like every step in the Age Pension process, deeming is complicated; the amounts vary by marital status, existing financial assets, and pension status.

The asset test varies by homeownership status. For homeowners, the threshold in 2025 was \$321,500 for a single individual and \$481,500 for a couple. For non-homeowners, the thresholds were \$579,500 for a single individual and \$739,500 for a couple.<sup>11</sup> For every \$1,000 above these amounts, the Age Pension was reduced by \$3. The family home is exempt from the asset test. All payments and thresholds are adjusted to reflect changes in the cost of living.<sup>12</sup>

In terms of financing, the Age Pension is noncontributory, with payments covered by the government’s general revenues. This arrangement differs from that in many other countries that offer various forms

of unfunded defined benefit plans. In these defined benefit programs, the participants' benefits are closely related to their contributions, which creates a quasi-contractual commitment that must be addressed in any movement to a funded system. The fact that Australia did not have these types of commitments made the shift to a Superannuation system much easier.

### *Voluntary Saving*

The final pillar in the Australian system is tax-favored additional contributions to a Superannuation Fund, called "salary sacrifice." The current maximum for these additional contributions is \$30,000, which will increase (in \$2,500 increments) as weekly earnings rise over time.<sup>13</sup> Contributions above this maximum are taxed at the person's ordinary marginal rate. Only 20 percent of eligible employees – mostly higher earners – take advantage of salary sacrifice programs. Now that the mandatory superannuation contribution rate has risen to 12 percent of earnings, the take-up of "salary sacrifice" and other types of individual retirement saving is expected to decline going forward.

## The U.S. System

The U.S. system is just the inverse of the Australian system. While Australia's basic plan is the Superannuation defined contribution system set up in 1992 and managed by the private sector, our basic plan is the defined benefit Social Security program established in 1935 and operated by the federal government. Australia then backfills shortfalls in retirement income with means-tested payments from the Age Pension, while we rely on favorable tax provisions to encourage workers to send additional amounts through workplace retirement plans.

### *The Centerpiece – Government Defined Benefit Program*

The U.S. Social Security system, which covers almost every worker, has been the most successful public program in the nation's history.<sup>14</sup> It is financed by a tax on workers' earnings and provides a guaranteed lifetime income to retirees, their spouses, and survivors. Benefits are structured so the lower-paid receive proportionately higher benefits than higher earners; and a portion of the benefits of higher earners are subject to the federal income tax. This progressive

benefit design is somewhat undermined, however, by the fact that high earners live forever while the low-paid die early.

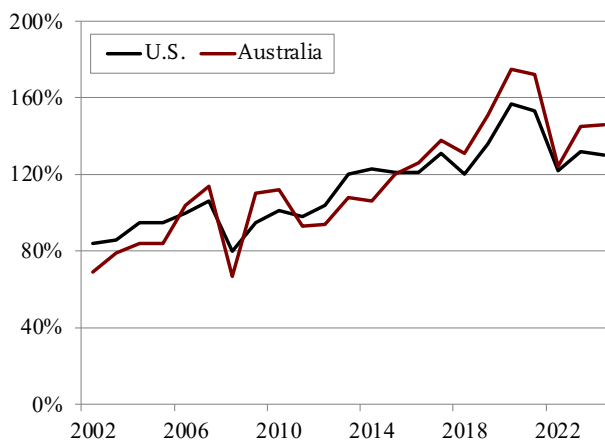
So-called "full" retirement benefits are available at 67, but actuarially reduced benefits are available at 62 and increased benefits at age 70. The initial benefit reflects the growth in average earnings over time – that is, earlier earnings are wage-indexed to today's values for the benefit calculation. Once benefits are paid, they are kept up to date with the Consumer Price Index.

### *Employer-Sponsored Programs for Higher Earners*

On top of Social Security, the U.S. has a layer of employer-sponsored retirement plans. In the private sector, these are primarily 401(k) plans that allow workers to accumulate assets on a tax-favored basis. For state and local government employees, the supplement plans tend to be defined benefit plans. While virtually all government workers are covered by a plan, only 50 percent of private-sector workers participate in an employer-sponsored plan at any moment in time.<sup>15</sup> Many do pick up some coverage under these plans at some time along the way, so about two-thirds of private sector workers have some retirement assets as they approach retirement.<sup>16</sup>

Interestingly, despite the very different role that the funded retirement tier plays in the U.S. and Australia, the ratio of assets relative to GDP is virtually identical in the two countries (see Figure 2).

FIGURE 2. PENSION ASSETS AS A PERCENTAGE OF GDP, 2002-2024



Notes: The U.S. data includes IRAs.

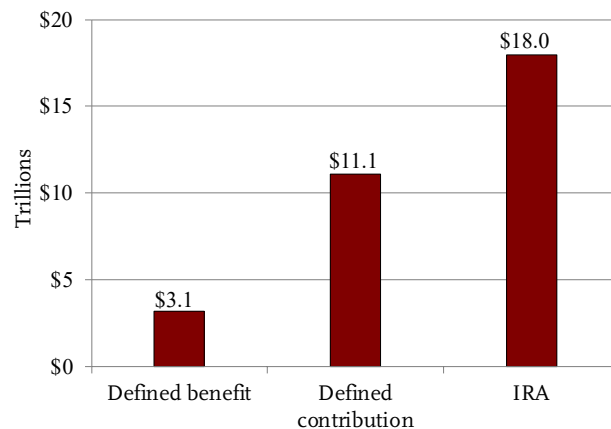
Sources: Willis Towers Watson (2013-2017); and Thinking Ahead Institute (2018-2025).

## Voluntary Saving

The main mechanism for additional retirement saving is the Individual Retirement Account (IRA), which was introduced in 1974 to enable those without an employer-sponsored plan to save in a tax-deferred fashion. When eligibility was expanded in 1981 to encompass all workers, it soon became evident that they were being used primarily by higher-income people. As a result, Congress substantially limited the favorable tax provisions only to people who were not active participants in an employer-sponsored plan or whose income fell below certain thresholds.

Given the constraints on IRA contributions, very few people use these vehicles to increase their retirement savings; most of the assets in IRAs are money rolled over from 401(k) plans. Workers like the idea of consolidating their retirement accounts in a single location but often find it difficult and time-consuming to move money to their new employer's 401(k). The important point, however, is that the large IRA holdings do not represent additional voluntary saving (see Figure 3), but rather the consolidation of 401(k) saving.

FIGURE 3. TOTAL U.S. PRIVATE RETIREMENT ASSETS, BY TYPE OF PLAN, TRILLIONS OF DOLLARS, 2025 Q2



Source: U.S. Board of Governors of the Federal Reserve System, *Financial Accounts of the United States* (2025).

## Why a B+ for Australia and C+ for the U.S.?

Mercer and the CFA Institute have been ranking retirement savings across the globe since 2009.<sup>17</sup> A country's overall rating is the weighted average of three separate components – Adequacy, Sustainability,

and Integrity – which in turn rely on over 50 indicators. Adequacy covers benefits relative to pre-retirement earnings, the overall design of the system, the extent of government support, and the level of homeownership. Sustainability focuses on pension coverage, potential risks from demographic developments, and government debt. Integrity includes such issues as regulation, governance, member protections, and operating costs. The weighting of the components has not changed since the Index was originally introduced – balancing long-term sustainability and systemic trust with immediate needs. As noted above, the Index assigns Australia an overall rating of B+ and the U.S. a C+ for 2025 (see Table 1).

TABLE 1. RANKING OF PENSIONS UNDER MERCER CFA INSTITUTE GLOBAL PENSION INDEX

Country	Overall	Sustainability (35%)	Integrity (25%)	Adequacy (40%)
Australia	B+	A	A	B
United States	C+	C	C	C+

Source: Mercer, CFA Institute, and Monash University (2025).

## Strengths of the Australian System

The great strength of the Australian system is that: 1) the main plan is fully funded and protected from demographic shifts; and 2) the Age Pension payments are financed by annual budget appropriations. The stability of the system's finances probably explains Australia's A rating in Sustainability. The straightforwardness of the system's financing arrangements must also explain the A in Integrity.

On the other hand, the B in Adequacy seems to emerge from two concerns. The first is the focus on accumulating large piles of assets rather than ensuring a secure stream of income. The Australians seem interested in ways of transforming piles of assets into streams of lifetime income, but progress is slow. The second problem is that integrating proceeds from the basic system with the Age Pension seems very complicated.

The bottom line, however, is that Australia has done a great job: by making savings mandatory, Australia has solved the pension coverage problem, and by relying increasingly on individual contributions to Super funds, the country has made the system financially stable.

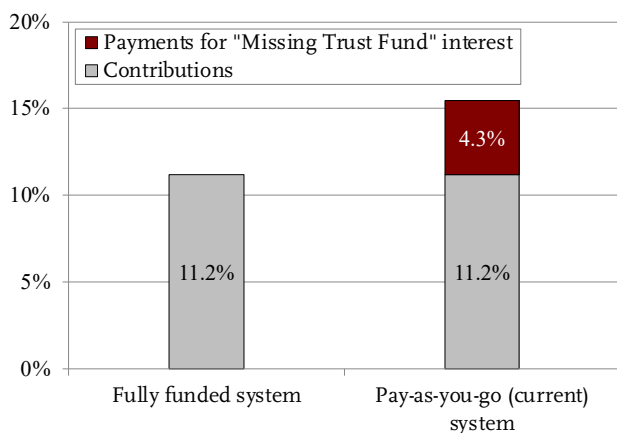
### Challenges Facing the U.S. System

The following discusses the U.S. performance in each Index category described above.

*Sustainability.* The easiest component of the Index rating to understand is the U.S.'s low grade in Sustainability. This situation results from three developments: 1) the decision to move from a funded to a pay-as-you-go system in 1939; 2) a major decline in the fertility rate in the late 1960s; and 3) the failure of Congress to pass any legislation to solve the situation. As a result, in 2033, the reserves in the Social Security retirement trust fund will be exhausted, and the government will be forced to cut benefits by 23 percent.

Pay-as-you-go funding differs sharply from the 1935 legislation, which envisioned the buildup of a trust fund and a close alignment of contributions and benefits for any given cohort. The 1939 amendments, however, broke the link between lifetime contributions and benefits by tying benefits to average earnings, initially over a minimum period of coverage, and adding spousal and survivor benefits that were effectively unfunded. As a result, in the early stages of the program, payroll tax receipts were used to pay benefits to retirees and their families far in excess of their payroll tax contributions, rather than to build up a trust fund. Without a trust fund to generate returns, the payroll taxes required today are about 4 percentage points larger than they would have been under a funded retirement plan (see Figure 4).

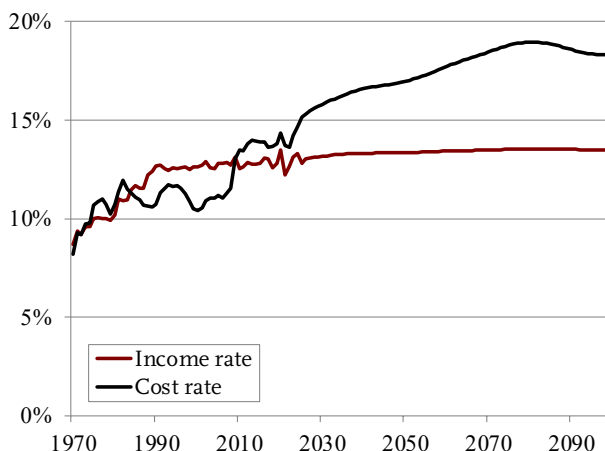
FIGURE 4. PAYROLL TAX RATE REQUIRED TO FINANCE FULLY FUNDED AND PAY-AS-YOU-GO RETIREMENT PLANS



Note: The fully funded system assumes contributions from ages 22 to 65 that accrue interest at a real rate of 2.3 percent with assets used to buy an actuarially fair annuity at age 65. Source: Update from Munnell (2023).

A pay-as-you-go system is extremely sensitive to demographic shifts, which determine the ratio of retirees to workers. Most significant for the U.S. was the sharp drop in the fertility rate from a postwar peak of 3.2 children per woman in 1964 to 1.8 children by 1974.<sup>18</sup> The combined effects of the retirement of Baby Boomers and a slow-growing labor force due to the decline in fertility reduce the ratio of workers to retirees from about 3:1 to 2:1 and raise costs commensurately.<sup>19</sup> As a result, a significant gap has emerged between the rising benefit cost rate and the stable income rate (see Figure 5).

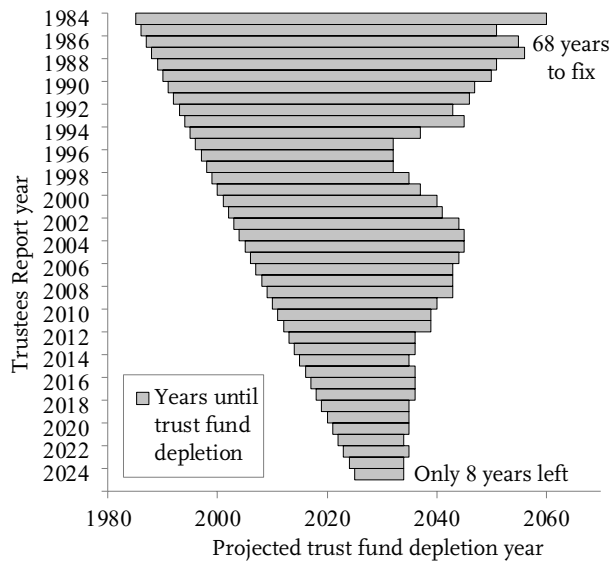
FIGURE 5. PROJECTED SOCIAL SECURITY INCOME AND BENEFIT COST RATES, AS A PERCENTAGE OF TAXABLE PAYROLL, 1970-2099



Source: 2025 Social Security Trustees Report, Table IV.B1.

In the short term, government tapped the interest on trust fund assets to cover benefits. And, in 2021, as taxes and interest fell short of annual benefits, the government started to draw down trust fund assets. These drawdowns will come to an end in 2033 when the assets in the trust fund are depleted, and since Social Security cannot spend more than annual revenues, it will be forced to cut benefits by 23 percent.<sup>20</sup> This impending benefit cut is not news. The exhaustion of the trust fund has been on the books since the early 1990s (see Figure 6 on the next page). But, over the last 35 years, Congress has not taken a single step to head off the exhaustion of the trust fund that is used to cover the gap between the cost of the program and the revenues coming in. That is ridiculous. But the imminent crisis reflects a failure of Congressional will, not a failure with the design of the program.

FIGURE 6. PROJECTED YEARS UNTIL OASI TRUST FUND IS DEPLETED, 1984-2025



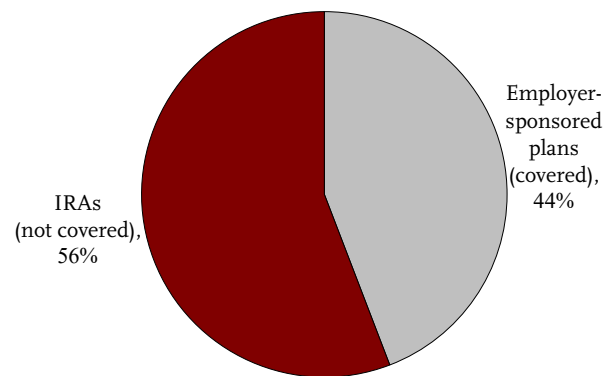
Source: 1984-2025 Social Security Trustees Reports.

*Integrity.* The gap between the U.S. and Australian ratings for Integrity is also dramatic; a C for the U.S. and an A for Australia. The explanation for the low U.S. rating is a need to enhance “the governance requirements for the private pension system.”<sup>21</sup> One could argue that 401(k) plans operate in a rather robust legal framework under the Employee Retirement Income Security Act of 1974 (ERISA). While the law is clear that plans must be administered for the “sole benefit” of participants, it lacks details on how the fiduciaries should select the type and number of investment options or determine a reasonable level of fees. Because of the ambiguity, a lot of these questions have been resolved through litigation by private parties.<sup>22</sup> In addition to settling the specific complaint, the steady pace of lawsuits has led to a system highly reliant on low-cost index funds, which are perceived as less vulnerable to litigation, and one that has seen a steady decline in fees for investment and administration.

The failing on the private-pension side, in this author’s view, is that ERISA applies to only 44 percent of private pension assets (see Figure 7). The other 56 percent of assets are held in IRAs, which are not covered by ERISA. One implication of this exclusion is that IRAs are opaque; it is not clear what type of assets are held in IRAs and what fees participants are

paying because public reporting requirements are minimal compared to ERISA. IRAs and 401(k)s also have different rules about emergency withdrawals and other issues.<sup>23</sup> The U.S. retirement system would probably be better if ERISA could be expanded to cover IRAs as well as employer-sponsored plans, particularly since most of the money in IRAs originated in employer plans.

FIGURE 7. PERCENTAGE OF PRIVATE SECTOR RETIREMENT ASSETS BY ERISA COVERAGE, 2025



Source: U.S. Board of Governors of the Federal Reserve System, *Financial Accounts of the United States* (2025).

*Adequacy.* In terms of Adequacy, the U.S. gets a C compared to Australia’s B. This differential is a little harder to understand. In international comparisons of poverty among older households, the two countries are right next to each other in terms of relative income poverty, which measures the percentage of households with income below 50 percent of the nation’s median (see Table 2).

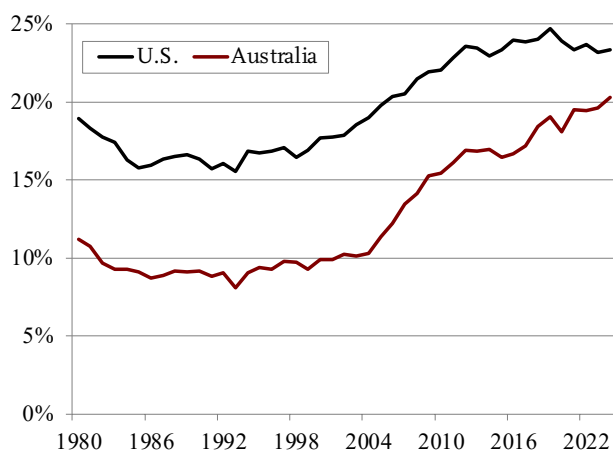
TABLE 2. PERCENTILE OF OLDER HOUSEHOLDS IN RELATIVE POVERTY, 2022

Country	Ages	
	66-75	76+
Australia	19.7%	27.0%
United States	20.4	26.7

Source: OECD (2025a).

The main difference between the two countries is perhaps the share of income that comes from earnings as opposed to retirement programs. Labor force participation for men is higher in the U.S. than in Australia, although the gap between the two countries appears to be narrowing (see Figure 8). The pattern for women is quite similar. On the other hand, the Index specifically mentions raising the minimum benefit for the lowest-income pensioners, a shortfall that would not show up in these more general statistics.

FIGURE 8. LABOR FORCE PARTICIPATION AMONG MEN AGES 65 OR OLDER, U.S. AND AUSTRALIA



Source: OECD (2025b).

## Can the Australian Model Save the U.S. System?

The Australians clearly have an admirable retirement system, and the U.S. system needs lots of fixing. But it does not necessarily follow that a fundamental restructuring is necessary or even desirable.<sup>24</sup> In its favor, the U.S. Social Security program ensures that every worker receives a flow of income for life, increased annually for changes in the cost of living. That arrangement obviates the ever-present conversation in Australia about how to produce annuitized income from piles of assets and protects retirees from the financial risks associated with holding stocks and bonds. In other words, the U.S. Social Security program offers a sensible basis on which individuals can build for a secure retirement.

That said, the status of Social Security is the Achilles heel of the U.S. system. It operates on a pay-as-you-go basis because of a decision to pay benefits far in excess of contributions to early participants. Few criticize that decision as those retiring in the 1940s had just come through the Great Depression and desperately needed help. The challenge, therefore, is to make a pay-as you-go system function effectively. The most immediate action is eliminating the program's 75-year deficit, which amounts to about 4 percent of taxable payrolls. Only two options are possible: raise revenues or cut benefits. Any acceptable solution will inevitably include both components. The Social Security Actuaries prepare a booklet with nearly 150 options.<sup>25</sup> One package might raise the payroll tax rate by 1 percentage point; raise the taxable wage base from \$184,500 to about \$300,000 so that it covers 90 percent of earnings; provide lower benefits for the highest earners; and reduce the cost-of-living adjustment (COLA) a little. But many other packages are available; it only takes some political will.

When the horse-trading begins on a package to restore financial balance to Social Security, one item that should be on the table is some form of automatic adjustment mechanism since U.S. policymakers are terrible at addressing problems before we are about to fall off a cliff. In some ways, the U.S. does have such a mechanism. When the trust fund is depleted, Social Security must cut benefits to the level of incoming revenues – hence, the projected 23-percent benefit cut in 2033. But this mechanism is draconian and does not seem very effective, except at creating great anxiety among older workers and retirees. The Canadians have a much more civilized approach – a backstop arrangement that is activated only in the absence of a political agreement. In that case, the COLA is frozen, and contribution rates are increased by 50 percent of the difference between the legislated and the actuarially required rate for three years until the Chief Actuary's following report.<sup>26</sup> Some similar type of automatic adjustment would improve confidence in the long-term stability of our Social Security program.

The other major criticism of the U.S. retirement system is that the second tier of employer-provided plans is voluntary. As a result, roughly half of households end up at retirement with little other than Social Security. Moreover, the Treasury foregoes billions in revenues each year to encourage employers to establish such plans.<sup>27</sup> The U.S. has started to address the lack of universal coverage with state-based auto-IRA programs, whereby every employer without a plan

must automatically deposit a percentage of the worker's wages in an IRA. At this point, 16 states have such a program, and these accounts hold \$3 billion.<sup>28</sup> A national solution – perhaps building on the state initiatives – would be a great step forward, particularly given that the government is slated to offer an enhanced Saver's Credit for low earners beginning in 2027.

A national mandate for universal coverage also raises the question whether the U.S. government could cut back on its annual \$300 billion tax expenditure to encourage the establishment of plans and to increase the amount of saving.<sup>29</sup> In that regard, it is a little discouraging that Australia, which mandates not only universal participation but also the level of contribution, still finds it necessary to subsidize retirement saving through favorable income tax provisions.

Fixing Social Security and achieving universal coverage in terms of employer-provided plans should surely raise the U.S.'s Index rating from a C+ to a B+. However, if we want to aim higher, we could update the nation's program for very poor older Americans and also perhaps improve the regulation of IRAs.

The bottom line, however, is the way forward to a B+ is clear – clear, but not easy. And Australia, for all its success, really can't help us.

## Endnotes

1 This maximum superannuation contributions base is indexed in line with average weekly "ordinary time" earnings each year; these earnings exclude overtime pay.

2 Australian Taxation Office (2025a). The mandatory contribution rate was 9 percent from 2002-2013, rising to 9.5 percent in 2014 where it stayed until 2021, and then increased by 0.5 percentage points per year until it reached 12 percent in 2025.

3 Agnew (2013).

4 The Australian income tax rate is zero for taxable income up to \$18,200; 16 percent for \$18,201-\$45,000; 30 percent for \$45,001-\$135,000; 37 percent for \$135,001-\$190,000; and 45 percent for over \$190,000. In terms of taxes on Superannuation investment earnings, the maximum rate is 15 percent; any capital gains for assets held more than one year are taxed at a 10-percent rate.

5 Moneysmart (2025a).

6 OECD (2025a).

7 Sienkowski (2022).

8 The participation rate increased substantially over time, from 30 percent when the system was first introduced to around 85 percent in the mid-1980s, then fell slightly in the wake of various measures to tighten eligibility (Edey and Simon 1998).

9 Moneysmart (2025b).

10 Services Australia (2025).

11 Services Australia (2025).

12 Despite the challenges of administering any asset test, Warshawsky (2026) – citing Australia – advocates a net-worth test for the U.S. to limit benefits if Congress fails to pass legislation before the exhaustion of Social Security's trust fund.

13 Australian Taxation Office (2025b).

- 14 The only exception is that roughly 25 percent of state and local government employees (roughly 10 percent of the U.S. labor force) do not participate in Social Security, although most eventually participate in covered employment at some point in their work life (Aubry et al. 2022).
- 15 U.S. Bureau of Labor Statistics (2025).
- 16 Munnell, Sanzenbacher, and Gok (2025).
- 17 Mercer, CFA Institute, and Monash University (2025).
- 18 U.S. Social Security Administration (2025).
- 19 U.S. Social Security Administration (2025).
- 20 Munnell (2025).
- 21 Mercer, CFA Institute, and Monash University (2025).
- 22 Mellman and Sanzenbacher (2018).
- 23 Munnell (2026).
- 24 In contrast, Biggs (2025) argues that the Australian approach is preferable to that of the U.S. in important ways. For example, Biggs suggests that Australia's Age Pension addresses elderly poverty more effectively, as the U.S. relies on a Supplemental Security Income program that provides a much lower floor of income. And he favorably cites the Australian system for allocating less government spending to retirement; he argues that the U.S. Social Security system provides overly generous benefits to higher earners.
- 25 U.S. Social Security Administration (2026).
- 26 OECD (2021).
- 27 Biggs, Munnell, and Wicklein (2024).
- 28 Georgetown Center for Retirement Initiatives (2025).
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The mission of the Center for Retirement Research at Boston College is to produce first-class research and educational tools and forge a strong link between the academic community and decision-makers in the public and private sectors around an issue of critical importance to the nation's future. To achieve this mission, the Center conducts a wide variety of research projects, transmits new findings to a broad audience, trains new scholars, and broadens access to valuable data sources. Since its inception in 1998, the Center has established a reputation as an authoritative source of information on all major aspects of the retirement income debate.

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*The Center for Retirement Research thanks Allianz Life Insurance Company of North America, Bank of America, Capitalize®, Cheiron, First Eagle Investments, Great Gray Trust Company, Guideline, Manulife® | John Hancock®, The Pew Charitable Trusts, and TIAA Institute for support of this project.*

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The research reported herein was supported by the Center's Partnership Program. The findings and conclusions expressed are solely those of the author and do not represent the views or policy of the partners, Boston College, or the Center for Retirement Research.