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FROM THE SCHOOL OF KNOX

He holds one of the first doctorates of superannuation in Australia and has developed some of the country's most innovative retirement ideas and products. Darren Snyder discovers what really drives industry veteran and Mercer senior partner David Knox.

In the same year Kevin Rudd began his first term as Prime Minister, David Knox wrote a paper in conjunction with the Committee for Economic Development of Australia that called for the pension age to be lifted to 67.

Among other recommendations, the 2007 paper also called for the pension age to be linked with life expectancy. Knox recalls that initially both ideas were knocked back, before Rudd, in his very next budget, introduced the new pension age.

Knox still advocates the pension age should be linked to expectancy "so we don't get a political debate about what the pension age should be."

"Every five years in the Netherlands they reset the pension age in line with life expectancy. If we're able to do that in our country I think it would make the whole system more sustainable and less political. It would be a great outcome," Knox says.

What is clear about the Mercer senior partner is an industry knowledge that's worth listening to.

Opening the 2016 Conference of Major Superannuation Funds, Australian Institute of Superannuation Trustees chief executive Tom Garcia spoke highly of the man. Garcia recalled a speech Knox gave in 1999 that had all the elements of superannuation's objectives, yet it took 17 years for the industry to implement any definitive action.

Fast forward to 2015 and Knox has been acknowledged for his contribution to retirement outcomes and innovative work through projects such as the Melbourne Mercer Global Pension Index and products such as Mercer Lifetime Plus.

Although Knox is reluctant to point to one project or product that he favours, Lifetime Plus provided much excitement in its initial set up because it reshaped the way people were thinking about retirement.

"When we lodged the prospectus with ASIC they'd never seen anything like it," Knox says.

Lifetime Plus is an investment option that is added to an account-based pension. It is a longevity pool where the risk of outliving savings is shared among retirees. With no third-party shareholder and no insurance premiums, all profits go to the participants.

"I think it's fair to say account-based pensions are popular in Australia, so we fitted it [Lifetime Plus] in to that structure but we don't know what the laws are going to be in the future so we had to have an element of flexibility," Knox says.

"This is a whole new concept of longevity pooling. No-one's done that before so people needed to know what cash flows look like, whether it is administrative given the tax laws and given APRA and ASIC regulation."

At the end of 2014, Knox recalls he sent out an email to the people who had been involved in the Lifetime Plus project – and it was more than 70 people. He said it wasn't only the actuaries and the analysts doing the modeling, "we had lawyers and investment people working on how to administer this."

The excitement Knox shows around product invention and innovation spills on to the widely acclaimed Global Pension Index. He explains the continuing development of the index has included working with Certified Financial Planning analysts and the CFA Institute to develop a paper on ideal retirement systems globally. The index alone has reached about 80 countries.

Another important project where Knox has been an integral part is the Australian Institute of Superannuation Trustees' Mercer Super Tracker. This tracks the Australian super system and enables the respective agencies to look at policy implications. Knox adds each product can build on the next because they all fit inside the larger super framework or continuum.

Knox joined Mercer in 2005 after five years at PwC and previously spending about two decades in academia. He says a career in tertiary education and completing what was "probably the first doctorate in superannuation in the modern era," helped his thinking into a broader, multi-disciplinary space.

The industry leader was born in Melbourne and primarily went to school there before moving to Sydney in his early teens and attending Macquarie University to complete its actuarial program.

From there Knox worked for the institution known as National Mutual – which is no longer – for four years. During this time he qualified as an actuary through what was the London Institute.

"I wanted to do a bit more thinking on actuarial matters and went back to Macquarie University to complete a doctorate whilst on staff there," Knox says.

"In fact it was probably the first doctorate in superannuation in the modern era. I didn't have a lot to read because not many people had published in the area.

"We [actuaries] are not mathematicians. We use maths as a skill set in being actuaries. I think what happened in my area, as I was at Macquarie as an academic and completing my PhD, it really helped to round out my education in to a broader, multi-disciplinary space."

Knox explains that his PhD supervisor was an economist, and combined with working alongside accountants, he began to have an interest in public policy.

"Demography doesn't change suddenly. We knew we had a post-war baby boom issue across the nation. I'm an iconic baby boomer, born in that period just after the war through to about 1961," he says.

"We knew that population was coming through. We knew that they were going to retire and you didn't need to be Einstein to recognise it. That was sort of the beginning and generated my interest in superannuation."

On top of his PhD, Knox conducted further research in the super industry. This included looking at the changes to super during the 1980s, including taxation and award superannuation, and potentially peaking in 1992 with the superannuation guarantee.

"Having the actuarial background I understood the cashflows, I understood the need for investments, I understood pensions from defined benefit schemes," Knox says.

"Although the actuarial program is often thought of as very mathematical, which it is, superannuation touches people in retirement or in their insurance or if they become disabled or die. It has got a lot of social consequences and that was the beginning in the public policy and my research developed from there."

Knox completed his doctorate in 1983, and stayed at Macquarie until 1992. From there he returned to his birthplace as a professor, setting up an actuarial program at Melbourne University which he oversaw until 1999. He then moved from academic life to the commercial side, joining PWC and later Mercer.

"Both through Mercer and being president of the Actuaries Institute in 2000, actuaries were and are always interested in public policy. We had active discussions with the Treasurer or Assistant Treasurer or whoever the appropriate person might be on what we could do to improve the system – whether that was a tax change or a structural change or whether it was definitions or investment issues – I think we're always looking for ways to improve it," Knox says.

He says Mercer is one of the only organisations that cover the full gamut of the super industry – apart from custodial services – and this benefits his work and ability to develop new and innovative products. He adds the recent and continuing focus will be on retirement incomes.

"This is not just a pot of gold where you're going to buy a car or gold watch when you retire, or whatever it might be, this is about money for you to live on for the next 20-30 years and not solely rely on the Age Pension which is a pretty modest income." FS

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We're always looking for ways to improve.