

David Spiteri Gingell -Chairperson
THE PENSIONS WORKING GROUP



Pensions Working Group

- i. Set up on 1st June 2004 and constituted as follows:

Chairperson: David Spiteri Gingell
Manager
Cabinet Committees' Support Unit, OPM

Members: Joe Ebejer
Permanent Secretary
Ministry for Family Affairs and Social Solidarity

Edward Gatt
Director General
Ministry for Family Affairs and Social Solidarity

Leonard Callus
Policy Co-ordinator
Prime Minister's Office

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ii. **Terms of Reference:**

- (i) To review all work carried out by successive administrations on pensions reform
- (ii) To review international trends on issues and solutions provided for pensions reform
- (iii) To identify the challenges facing the Nation to secure a pensions system which is both adequate and sustainable
- (iv) To review the current pensions system in terms of retirement pensions though excluding pensions falling within ad hoc occupational pensions systems such as Service Pensions, Armed Forces of Malta, etc
- (v) To submit in terms of (iv) above proposals and recommendations for Government's consideration for a pensions system that will secure adequacy and sustainability for future generations
- (vi) To undertake appropriate modeling and simulations on the recommendations presented in (v)

iii. Presented the Report to the Prime Minister on 5th November 2004

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The Need for Change

- i. Adequacy of pensions of future pensioners will be undermined
- ii. Changing demographics generating pressures on sustainability

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The Underlying Principles of Change

- i. New pensions system and the Nation's fiscal strategies cannot be assessed independently of each other
- ii. Continued prevailing belief or perception that the provision of a pension is the sole responsibility of the State must be challenged
- iii. Pension schemes need to be as self contained and transparent as possible
- iv. Pensions reform is necessary irrespective of adequacy and sustainability to account for new norms and behaviours
- v. Individuals should have the individual choice to invest to attain a pension that is beyond the statutory entitlement

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The Path to the proposed White Paper

- December 1997 MCED Reno Camilleri commissioned report
 - February 1998 Forum for a Better Economy 'Value 2000: Focusing Resources for Superior Competition'
 - August 1998 Watson Wyatt Ltd report
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- June 2001 NCWR Galdes report
 - October 2003 NCWR Schembri report
 - December 2003 Dalli Guidelines
 - March 2004 World Bank report

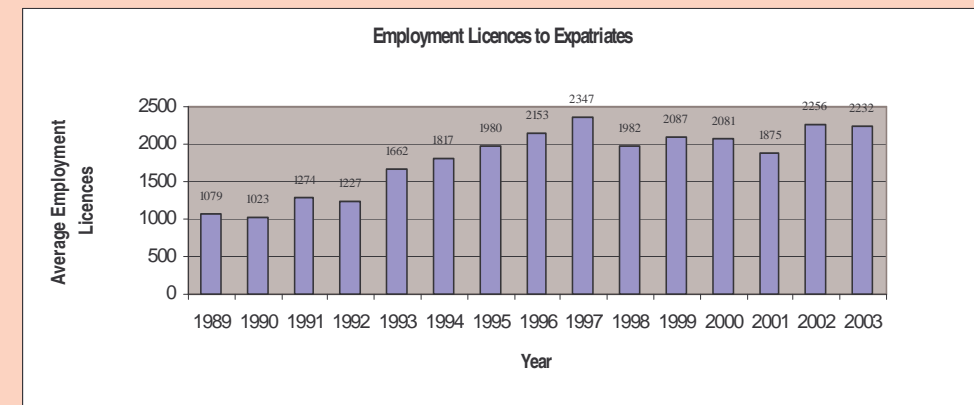
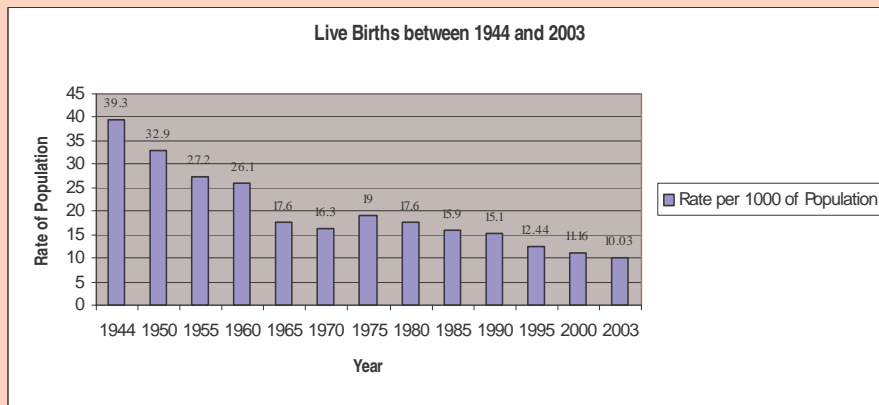
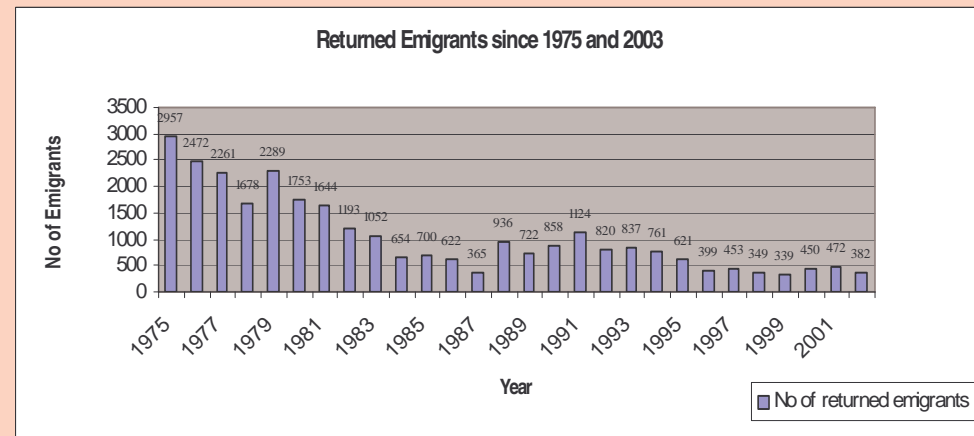
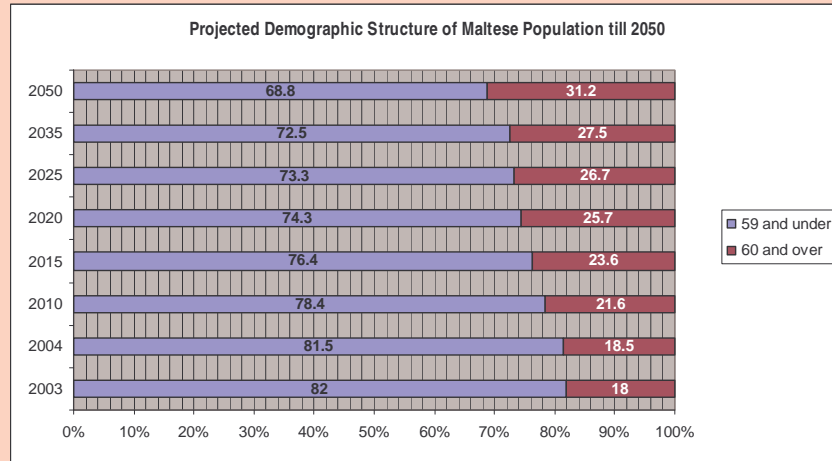
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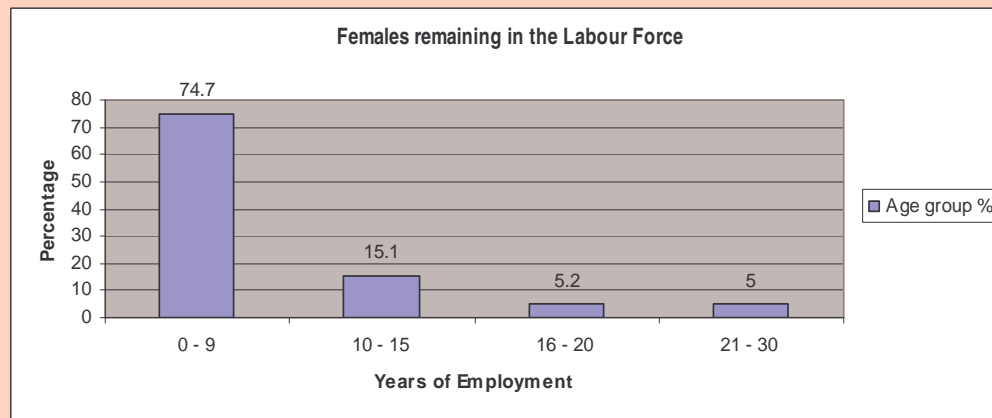
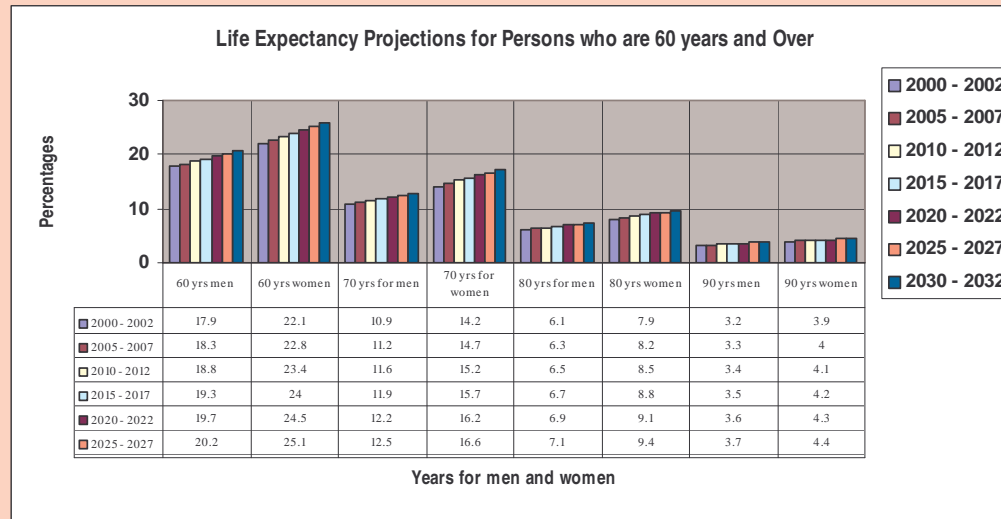
The Challenges

- Population Aging
- Birth Rates
- Life Expectancy
- Employment Participation
- Changing Gender Roles
- Economic Performance and Wealth
- Adequacy
- Financial Sustainability
- Education and Life Long Learning
- Savings

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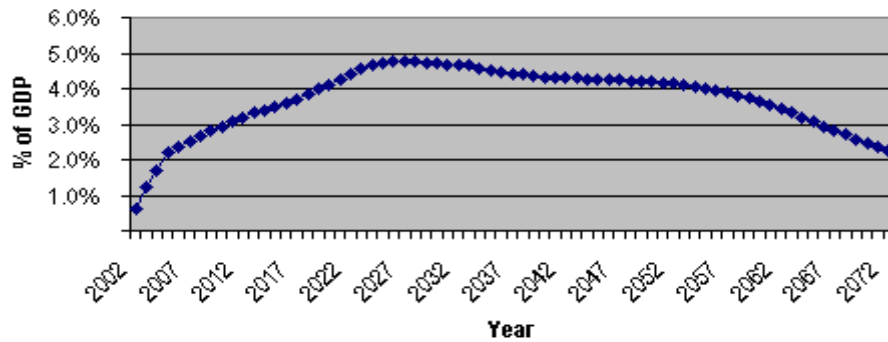
Employer and Self-Employed Persons / Employee Contributions Against Total Benefits Paid

	1998	1999	2000	2001	2002	2003
Class I Contributions	81,058,000	85,731,000	95,103,639	107,268,046	108,400,970	125,644,558
Class II Contributions	9,400,000	10,471,000	12,956,316	12,124,576	12,388,651	
Contributory Benefits	(129,387,097)	(136,230,636)	(141,693,149)	(149,301,451)	(154,620,554)	(161,697,055)
<hr/>						
Deficit	(38,929,097)	(40,028,636)	(33,633,194)	(29,911,829)	(33,830,933)	(36,052,497)

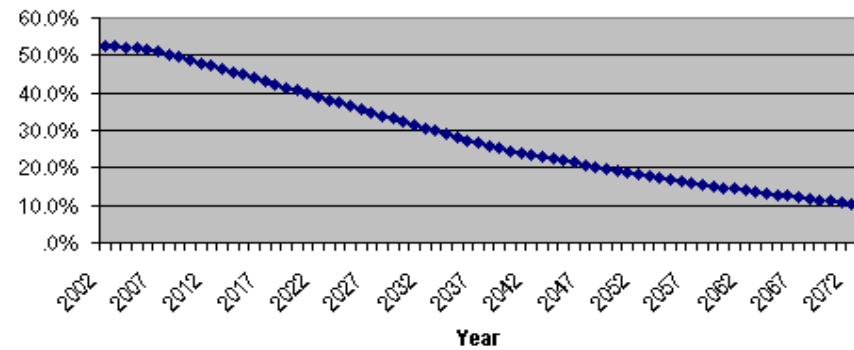
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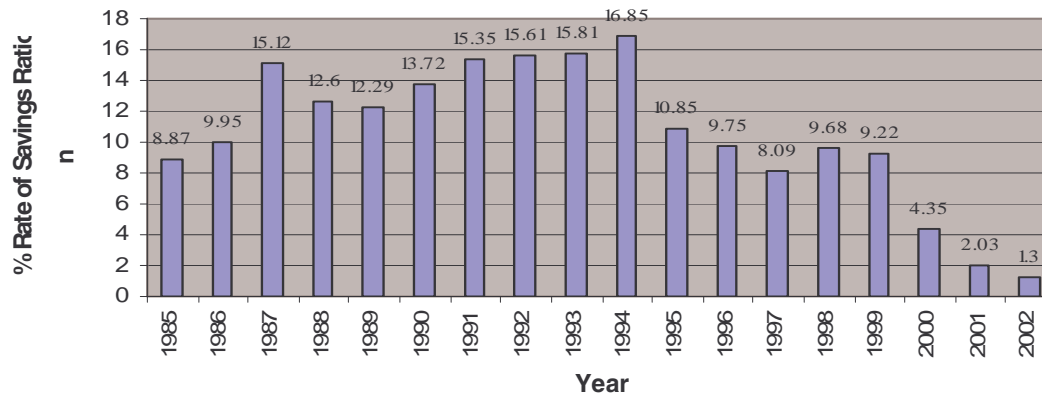
Pension Deficits as % of GDP



Average Pension Relative to Average Wage



Savings Ratio





The Proposed Pensions Framework: The Value System

- Built on EU Gothenburg Council (2001) motivators directed to attain:
 - Adequacy
 - Sustainability
 - Modernisation

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The Proposed Pensions System: Establishing a Conceptual Framework

- Retains PAYG (First Pillar) – Directed to Guarantee a decent standard of living
- Introduces the Principle of Self-Help (Second Pillar) – Directed to enhance one's standard of living
- Introduces the Principle of Choice (Third Pillar) – Directed to complement one's pension income

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Instruments available for the Reform of the Pensions System

- i. No Change
- ii. Increase in taxation or Social Security Contributions
- iii. Increase in savings: voluntary or mandatory
- iv. Changing the formula of the PAYG System
- v. Rising the statutory retirement age
- vi. Hybrid of (i) to (v)

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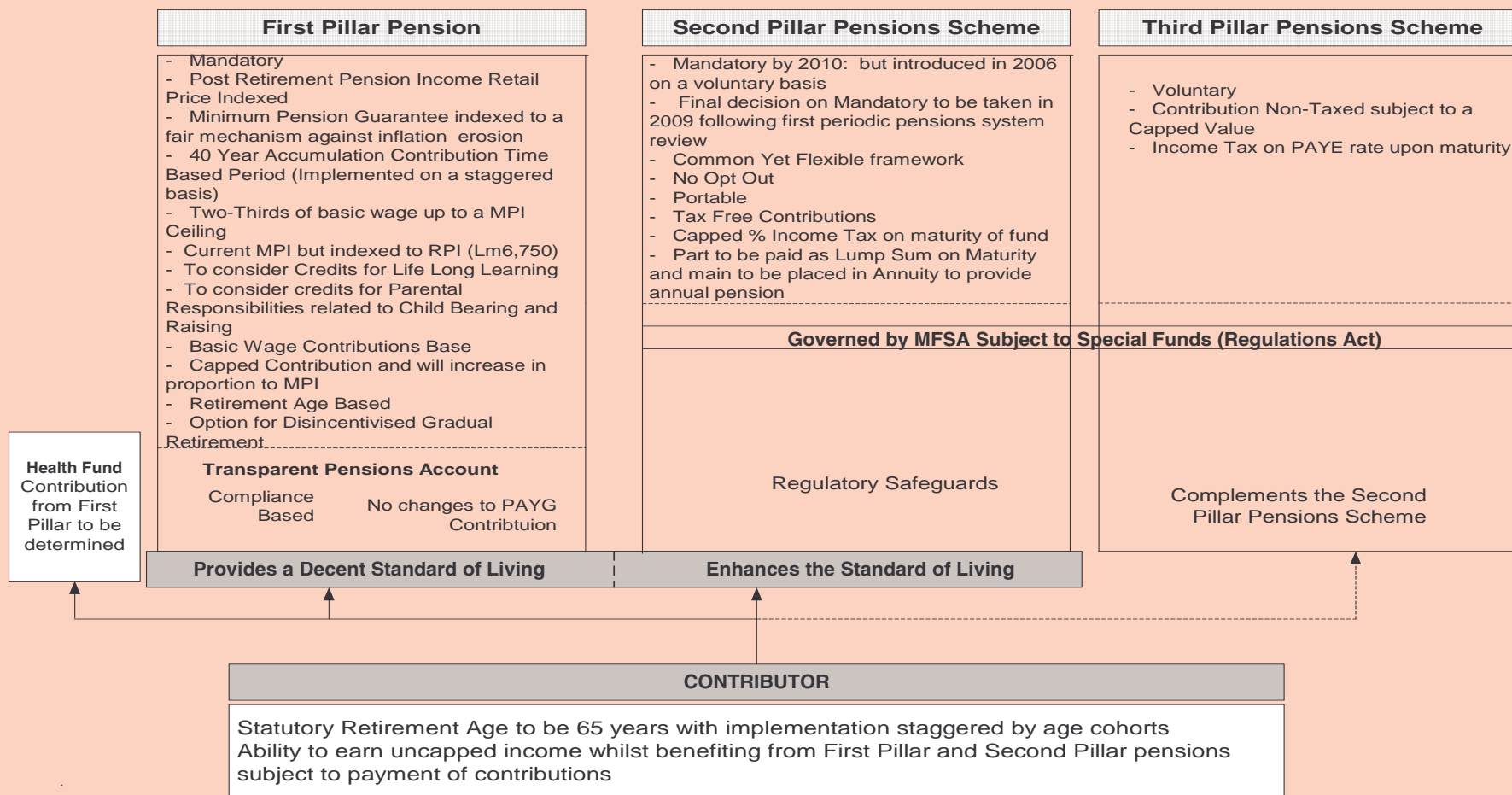
Implementation of the Proposed Changes to the Pensions System

- Radical Solutions to be avoided
- Staggered and phased as appropriate
- Periodic structured reviews: First one to be concluded in 2009

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The New Pensions System





Staggered Implementation (i):

Statutory Retirement Age

Gender equality for retirement at 61 years to be reached by 1st January 2007

Years of Age as at 1st January 2007

Retirement Age

55 years of age and over

No change

52 years of age to 54 years of age

62 years

49 years of age to 51 years of age

63 years

48 years of age and below

65 years

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Staggered Implementation (ii):

Contribution Period for the Accumulation of the First Pillar Pension

Years of Age as at Date of Introduction of this Parametrical Measure

Accumulation Period

46 years of age and over

No change from current accumulation period

40 years of age to 45 years of age

35 years

39 years of age and below

40 years



Staggered Implementation (iii): Time Based Period for the Calculation of the First Pillar Pension

Years of Age as at Date of this Parametrical Measure

55 years of age and over

50 years of age to 54 years of age

45 years of age to 49 years of age

44 years of age and below

Base-line for Calculation of First Pillar Pension

No change from current retirement age

Average of best 5 years

Average of best 10 years

40 years

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Phased Implementation:

Second Pillar Pensions Scheme

Voluntary Introduction:

2006

Mandatory Introduction targeted for:

2010

[Subject to Pension Review:

2009]

Work with Private Sector firms to allow for conversion of life endowment and owned profits related policies into Second Pillar Pensions Schemes

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Impact of Proposed Changes

Will not affect current pensioners or individuals who would have retired when the changes are introduced

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Impact on Beneficiaries

	Grade 20	Clerk	Assistant Principal	Senior Principal Officer	Director
Current:					
55 years retires at 61	Lm57.07	Lm75.98	Lm97.15	Lm102.89	Lm102.89
At 75 years	Lm80.65	Lm107.37	Lm137.28	Lm145.38	Lm145.38
New:					
52 years retires at 62	Lm63.00	Lm83.87	Lm107.24	Lm110.84	Lm113.61
At 75 years	Lm80.65	Lm107.37	Lm137.28	Lm141.89	Lm141.89
45 years retires at 65 years	Lm80.65	Lm107.36	Lm137.27	Lm133.65	Lm133.65
	PLUS SECOND PILLAR PENSION				
44 years retires at 65 years	Lm76.93	Lm94.38	Lm101.37	Lm101.37	Lm101.37
	PLUS SECOND PILLAR PENSION				
25 years following introduction of reform at 65 years	Lm98.18	Lm172.93	Lm185.43	Lm186.43	Lm186.43
	PLUS SECOND PILLAR PENSION				

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Minimum Pension Guarantee

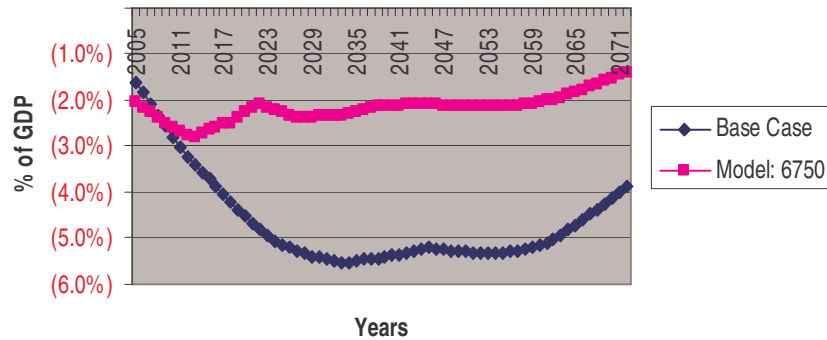
	Current	Proposed
2004	Lm46.15	Lm46.15
2010	Lm56.65	Lm53.5
2015	Lm65.40	Lm60.6
2020	Lm74.15	Lm68.5
2023	Lm79.40	Lm73.8

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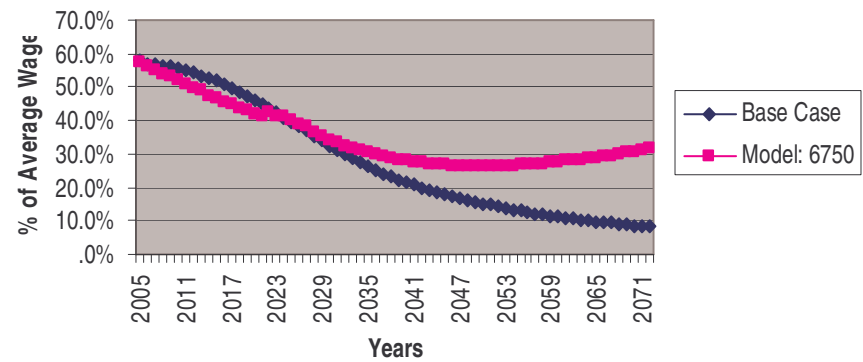


Macro Impact of Proposed Changes to Pensions System

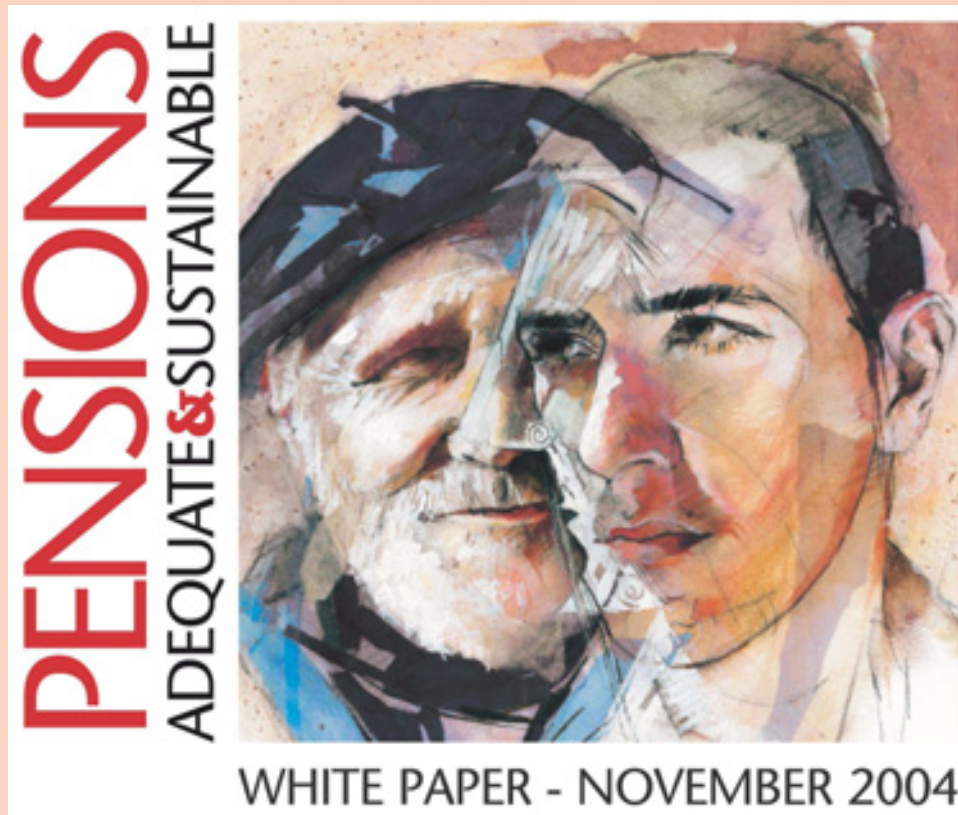
Graph 11: World Bank Simulation: Sustainability



Graph 12: World Bank PROST Simulation: Adequacy



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