

REVIEW OF THE MALTESE PENSION SYSTEM: UNDERSTANDING THE CHALLENGE

Pensions Strategy Group

June 2015

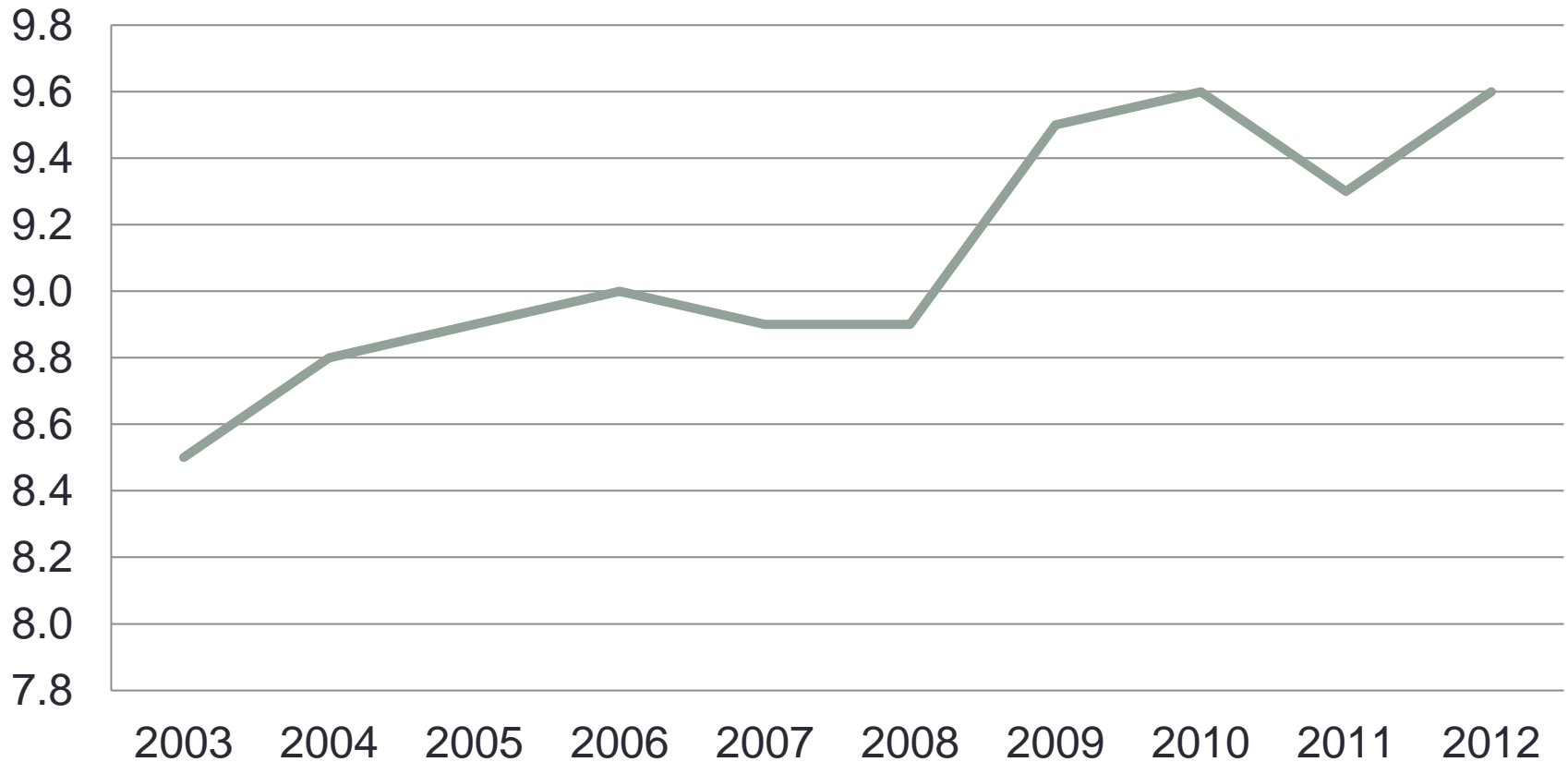
Outline

- The 2007 Pension Reform and Recent Trends
- The Demographic Element: Recent developments and projections
- Understanding the Challenge

THE 2007 PENSION REFORM AND RECENT TRENDS

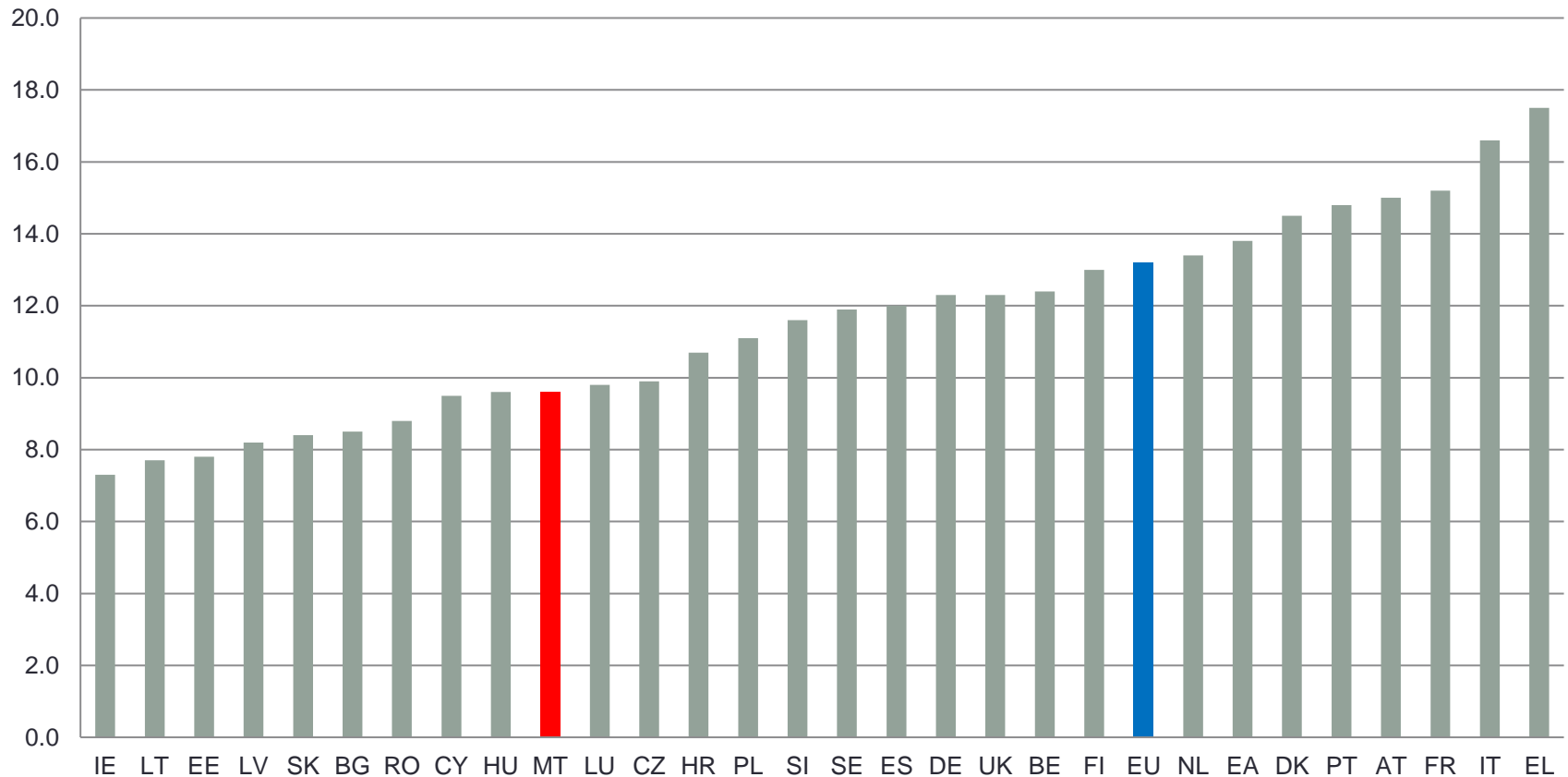
Pension Expenditure on a rising trend over past decade...

Pension Expenditure as a % of GDP



Yet, the expenditure ratio remains below the EU average....

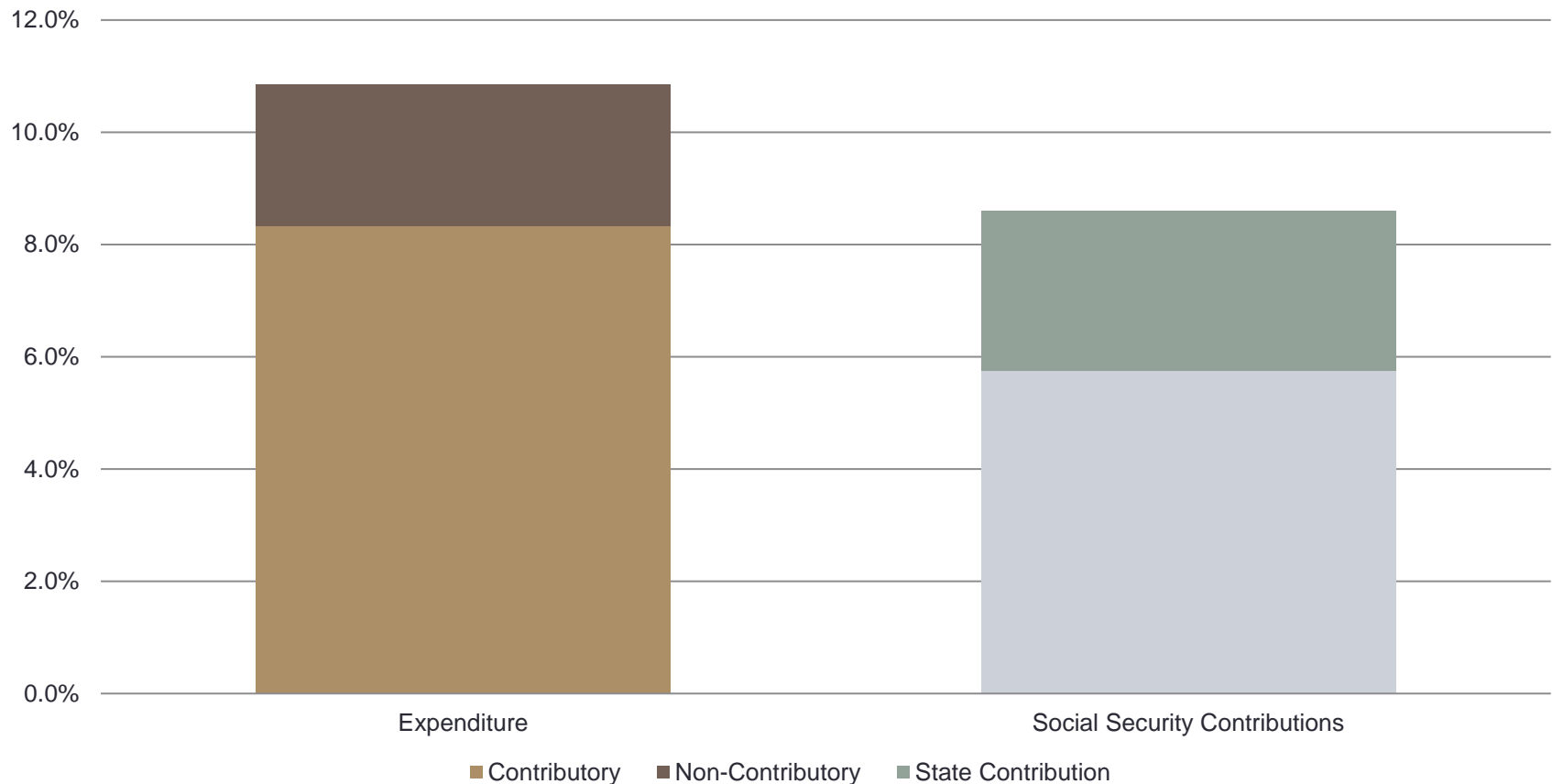
Pension Expenditure as a % of GDP (2012)



Source: ESSPROS, Eurostat

Nevertheless, the welfare gap remains substantial....

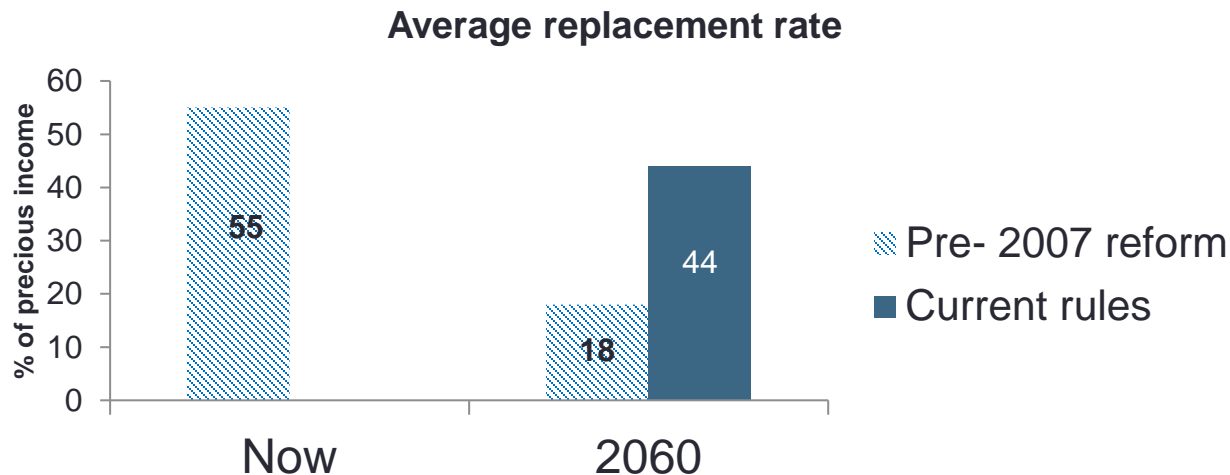
Social Security Revenue and Expenditure in 2013 (as a % of GDP)



Main Elements of the 2007 Reform

Main Measures	Born before 1 January 1952	1952-1961	Born on and after 1 January 1962
Rise in Pension Age	60\61 years Females\Males	Gradual increase from 62-64 years	65 years
Pension Formula	Best 3 years of last 10 years	Best 3 years of last 11-14 years	Best 10 years of last 40 years
Lengthening of the contribution period	30 years	35 years	40 years
Indexation of the Maximum Pensionable Income	COLA	COLA	70% Wage growth & 30% Inflation
Minimum Pension	Linked to Minimum Wage	Linked to Minimum Wage	Linked to Median Income
Pension Indexation	Collective agreements & COLA	Collective agreements & COLA	70% Wage growth & 30% Inflation

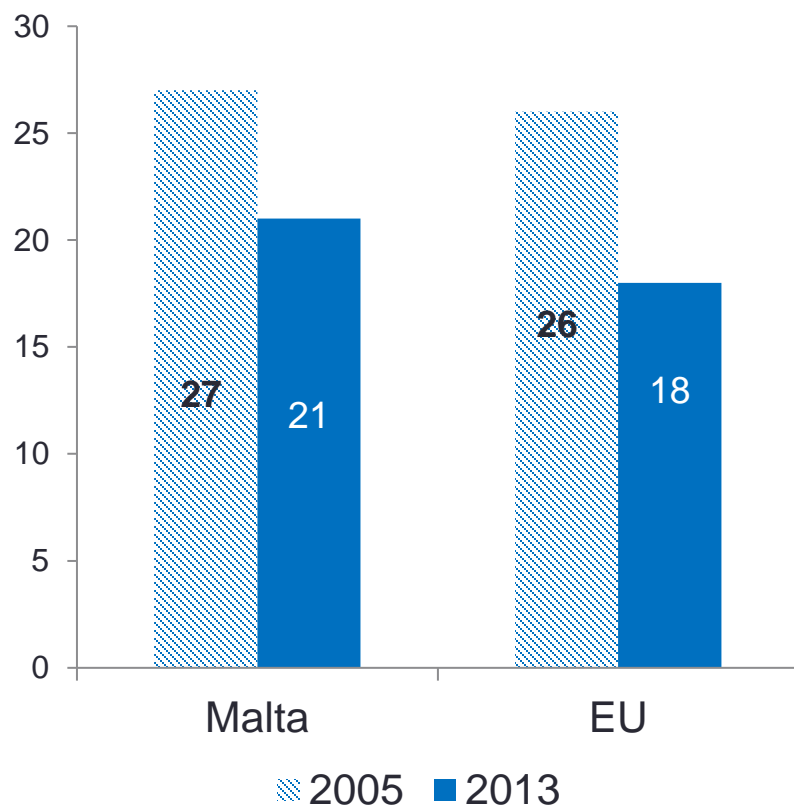
Observations on the 2007 Reform



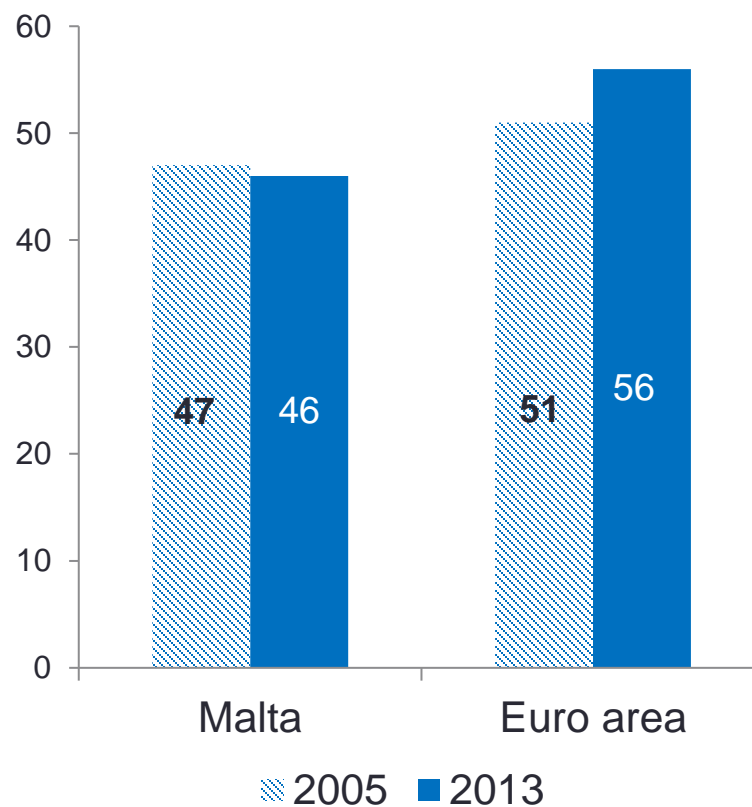
- Besides reversing overall drop in generosity, 2007 reform included measures to help certain groups, such as the introduction of child rearing credit, better survivors' benefits and the Guaranteed Minimum Pension.
- The more generous indexation of the maximum pensionable income was to be financed by an increase in spending, an effective increase in contribution revenue and an increase in the pension age to 65.

The Current Situation: Adequacy

% of 65+ in relative poverty and/or social exclusion

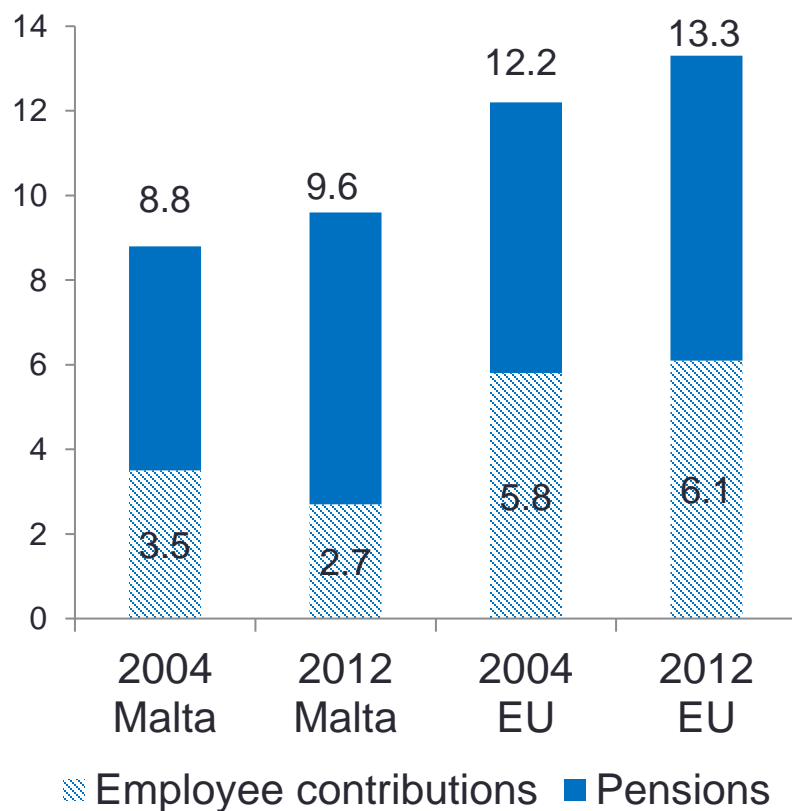


Median pension as % of Median wage

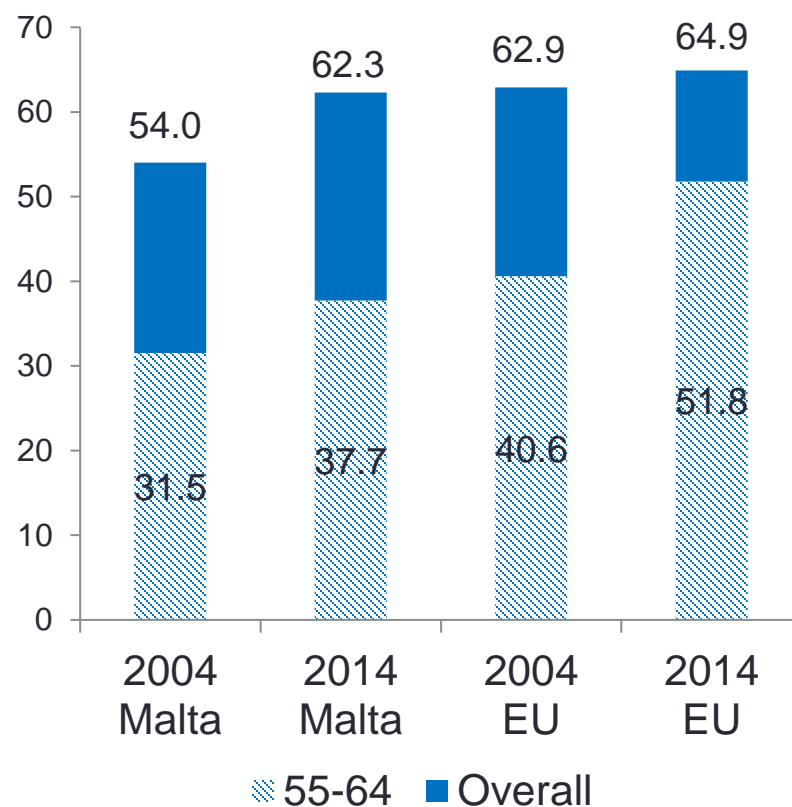


The Current Situation: Sustainability

% of GDP spent on pensions and paid in contributions by employees



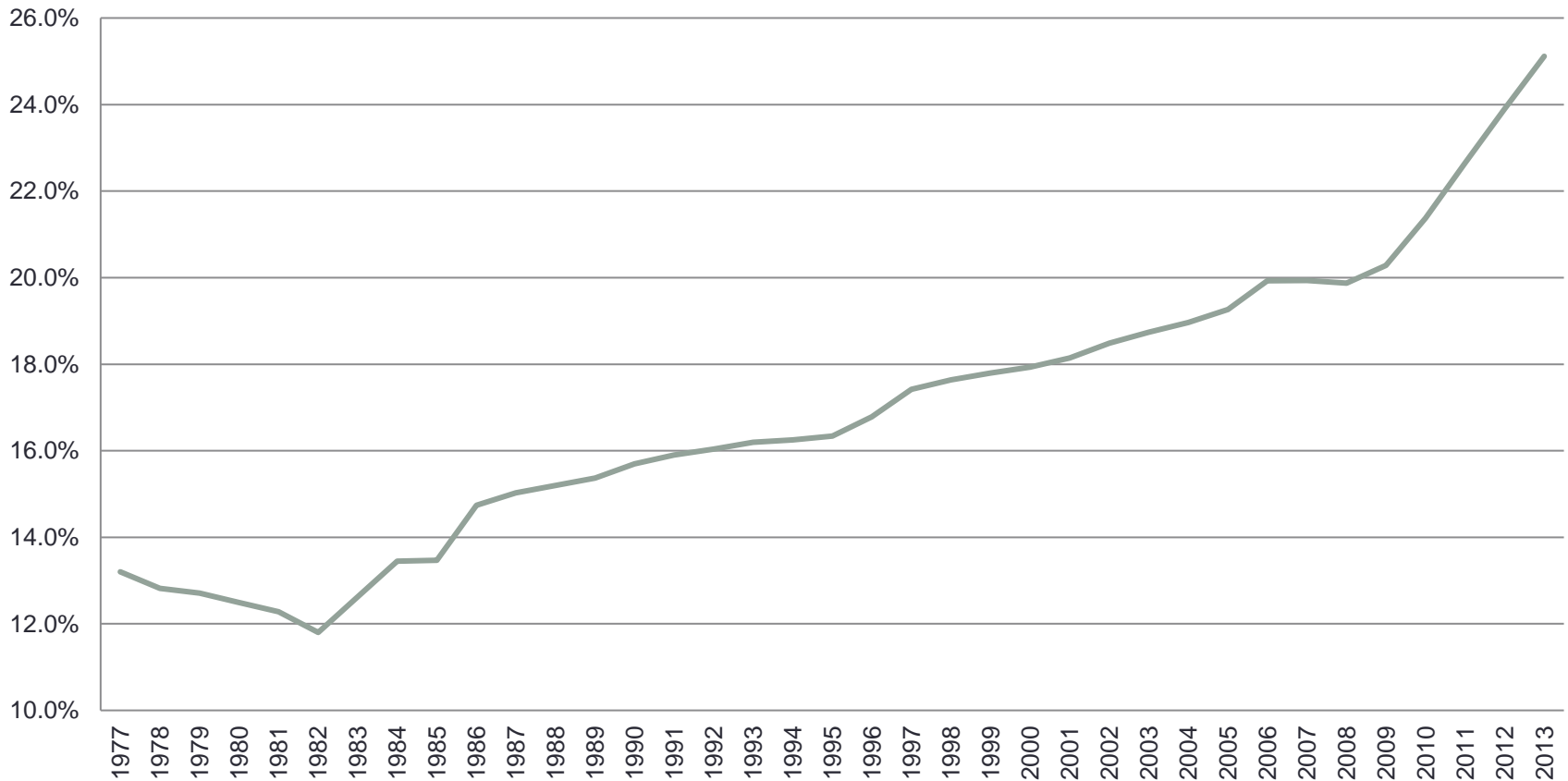
Employment rate % overall and of older workers



THE DEMOGRAPHIC ELEMENT: RECENT DEVELOPMENTS AND PROJECTIONS

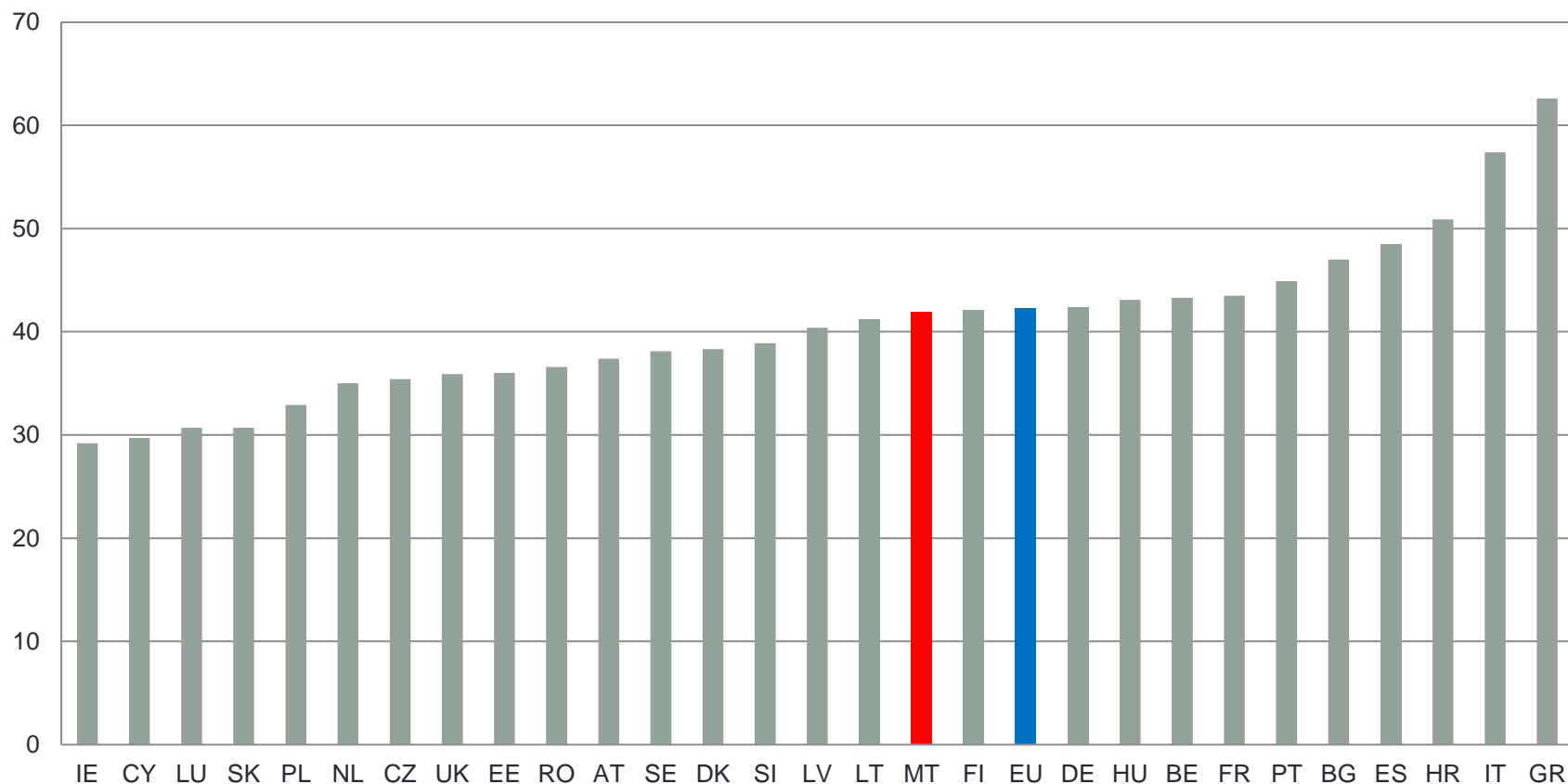
The Old-Age Dependency Ratio has been on the rise since the 80's.....

Old-Age Dependency Ratio [65+/(15-64)]



Focusing on the economically active population, the ratio for Malta is close to the EU average

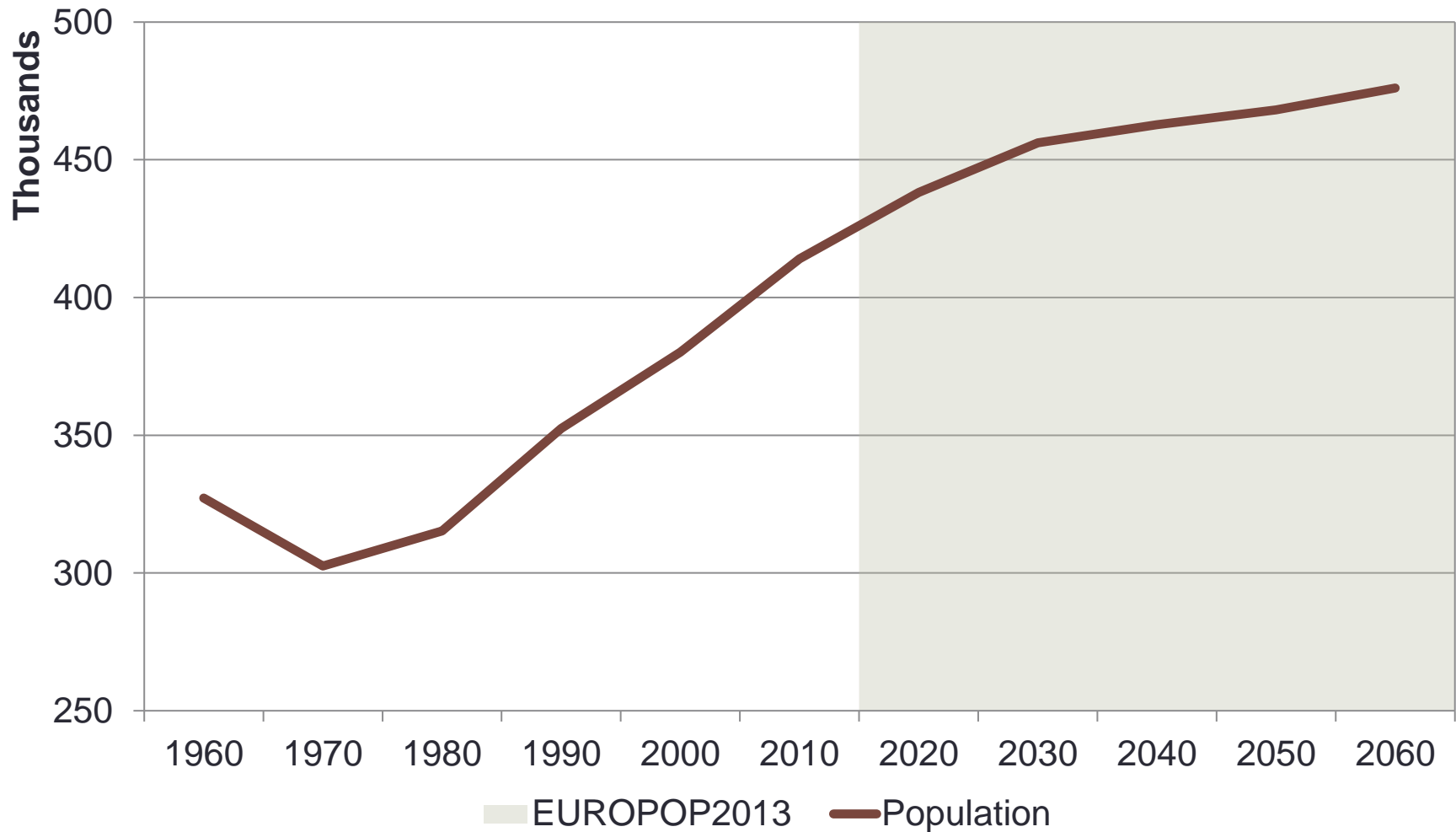
Effective Economic Old Age Dependency Ratio (2013)



Demographic Projections

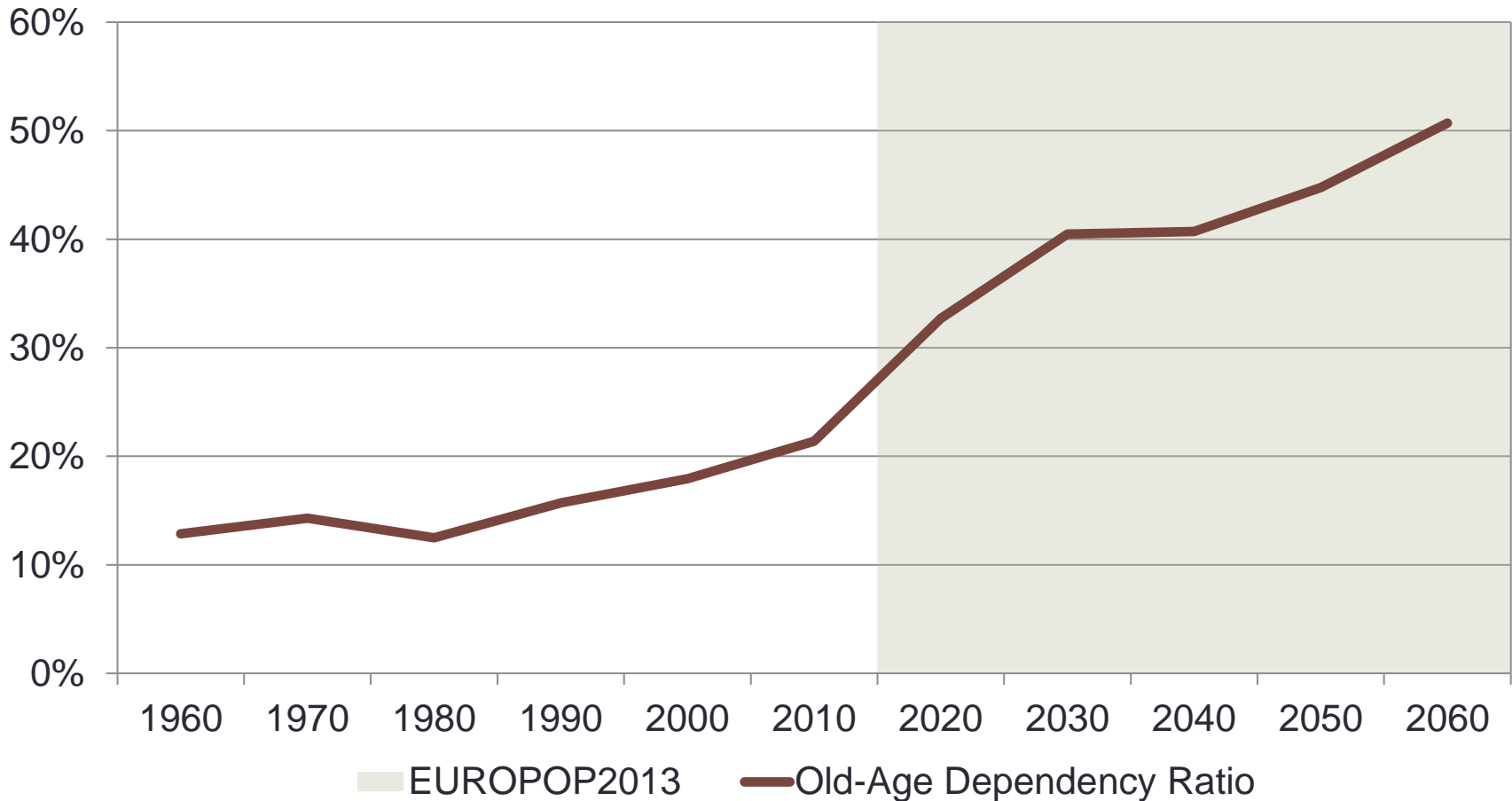
- The demographic projections are based on the EUROPOP 2013 exercise by Eurostat;
- Exercise assumes a process of (partial) convergence in the fertility rates across Member States to that of the forerunners over the very long-term. Expected to reach 1.78 for Malta by 2060.
- Life expectancy at birth is projected to increase by 6.4 years for males and 6.3 years for females over period 2013-2060
- Net migration for Malta projected to average around 1,400 over the period 2013-2060.

Total population to reach 476,000 by end of 2060...

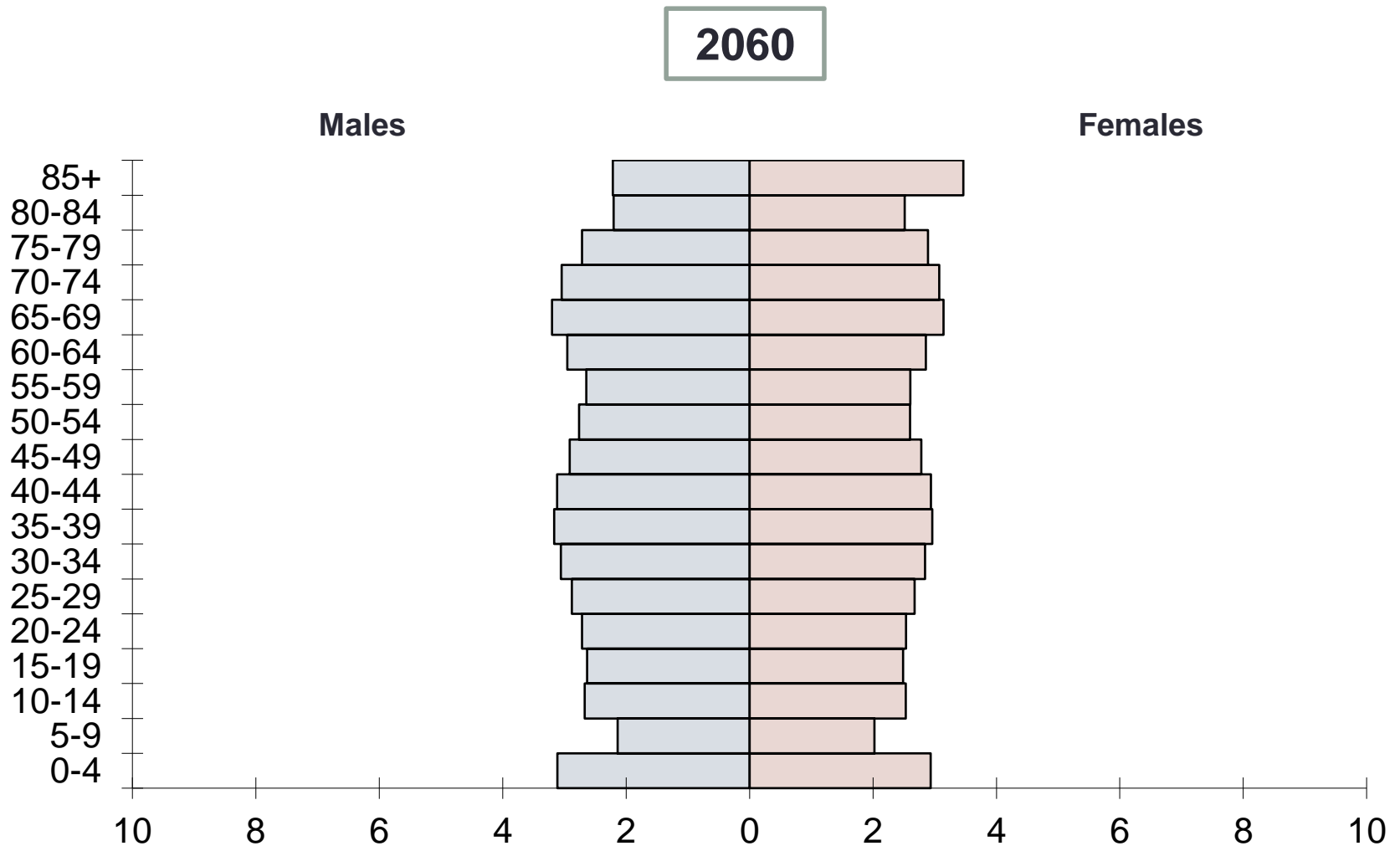


with the number of **older dependents** expected to continue rising

Old-Age Dependency Ratio [65+/(15-64)]

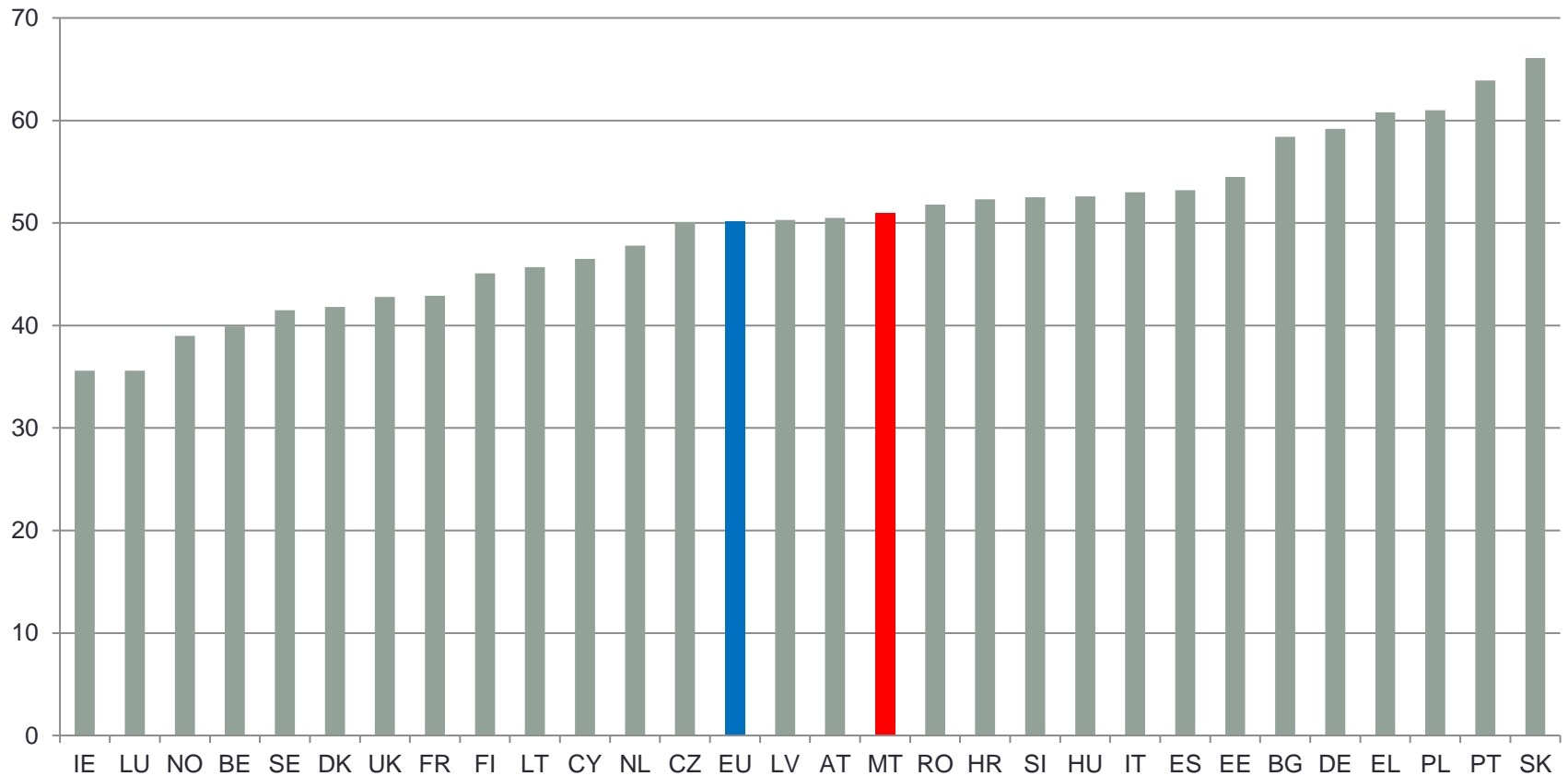


Share of persons aged 15-64 will become smaller relative to 65+



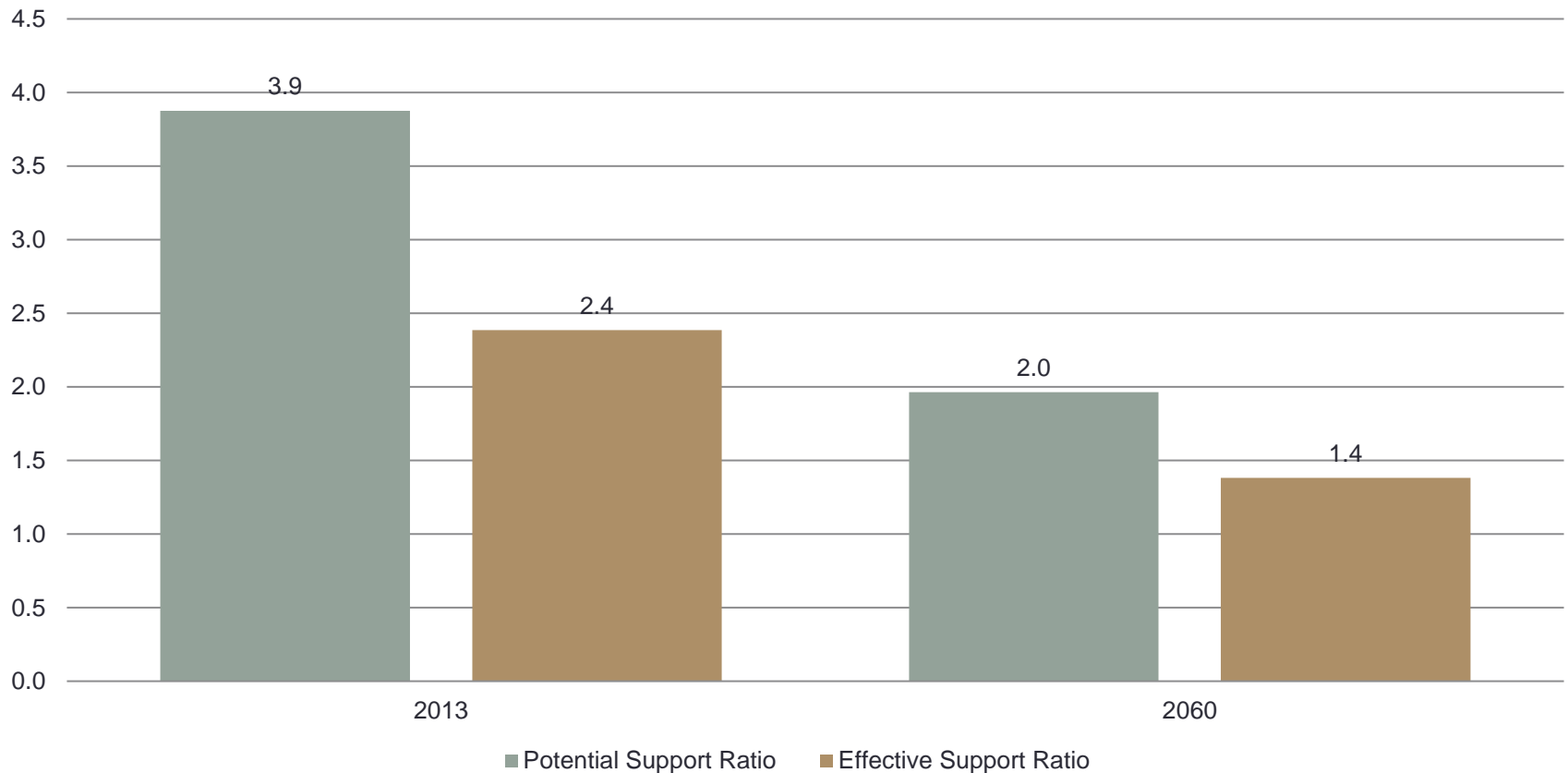
The OADR will exceed the EU average by 2060

Old-Age Dependency Ratio in 2060 (%)



....with the Effective Support ratio declining from 2.0 to 1.4 by 2060

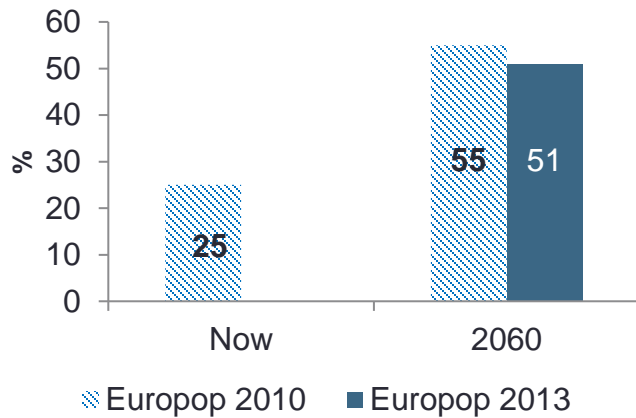
Support Ratios



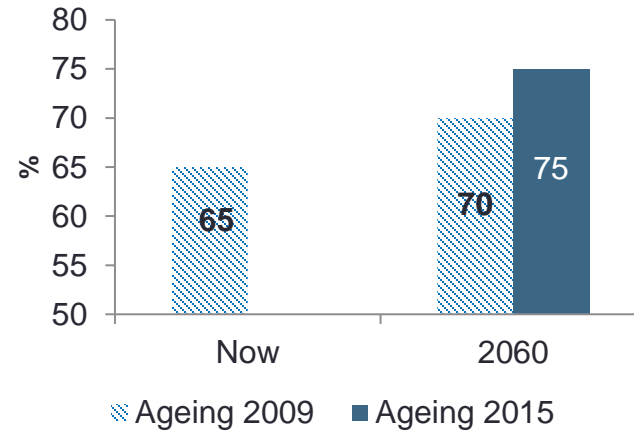
UNDERSTANDING THE CHALLENGE

Understanding the Challenge

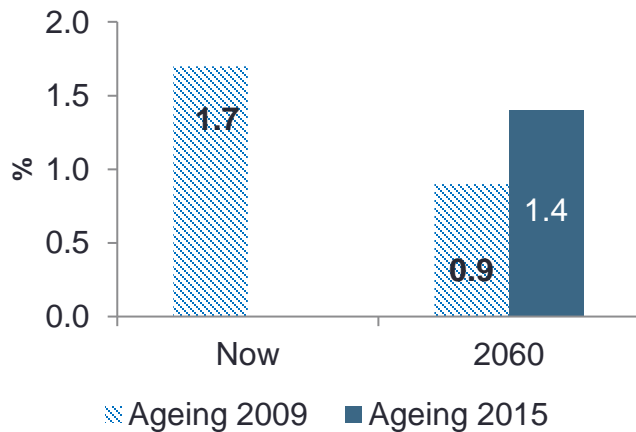
Old age dependency ratio



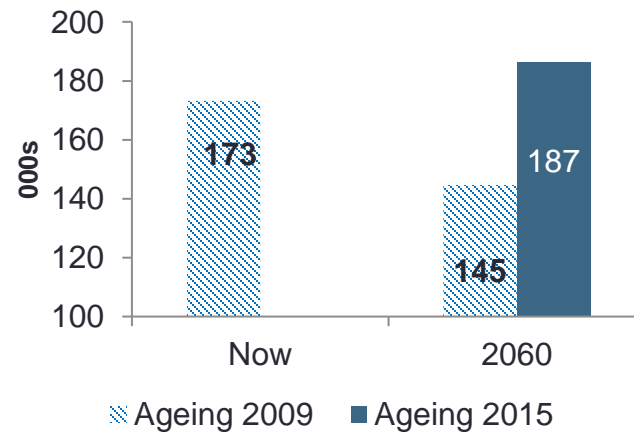
Participation rate



Potential growth rate

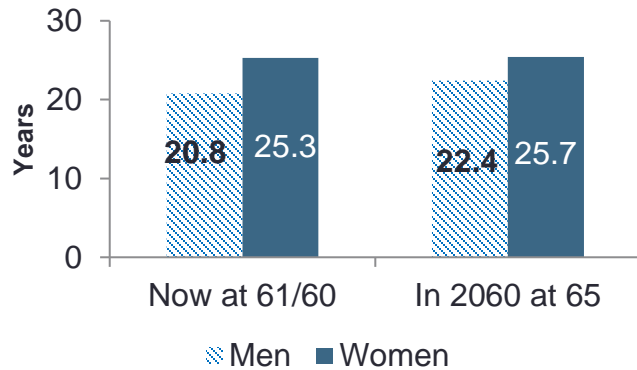


Number in employment

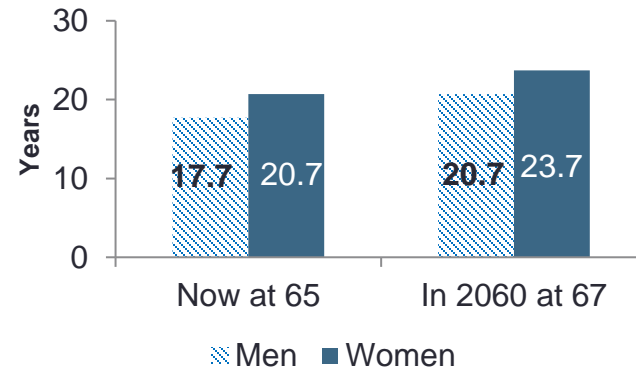


Understanding the Challenge

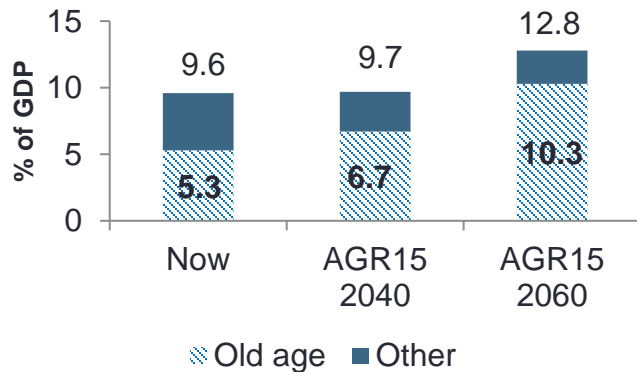
Life expectancy at pension age (Malta)



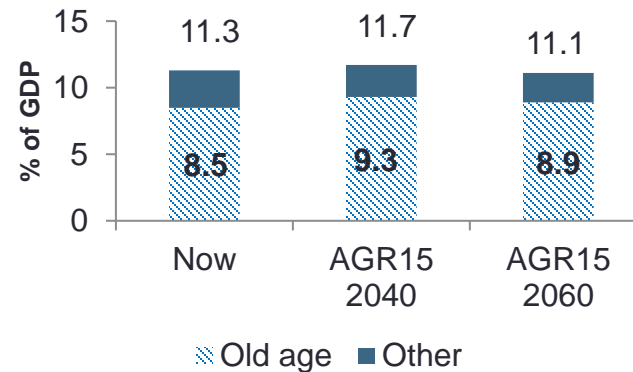
Life expectancy at pension age (EU)



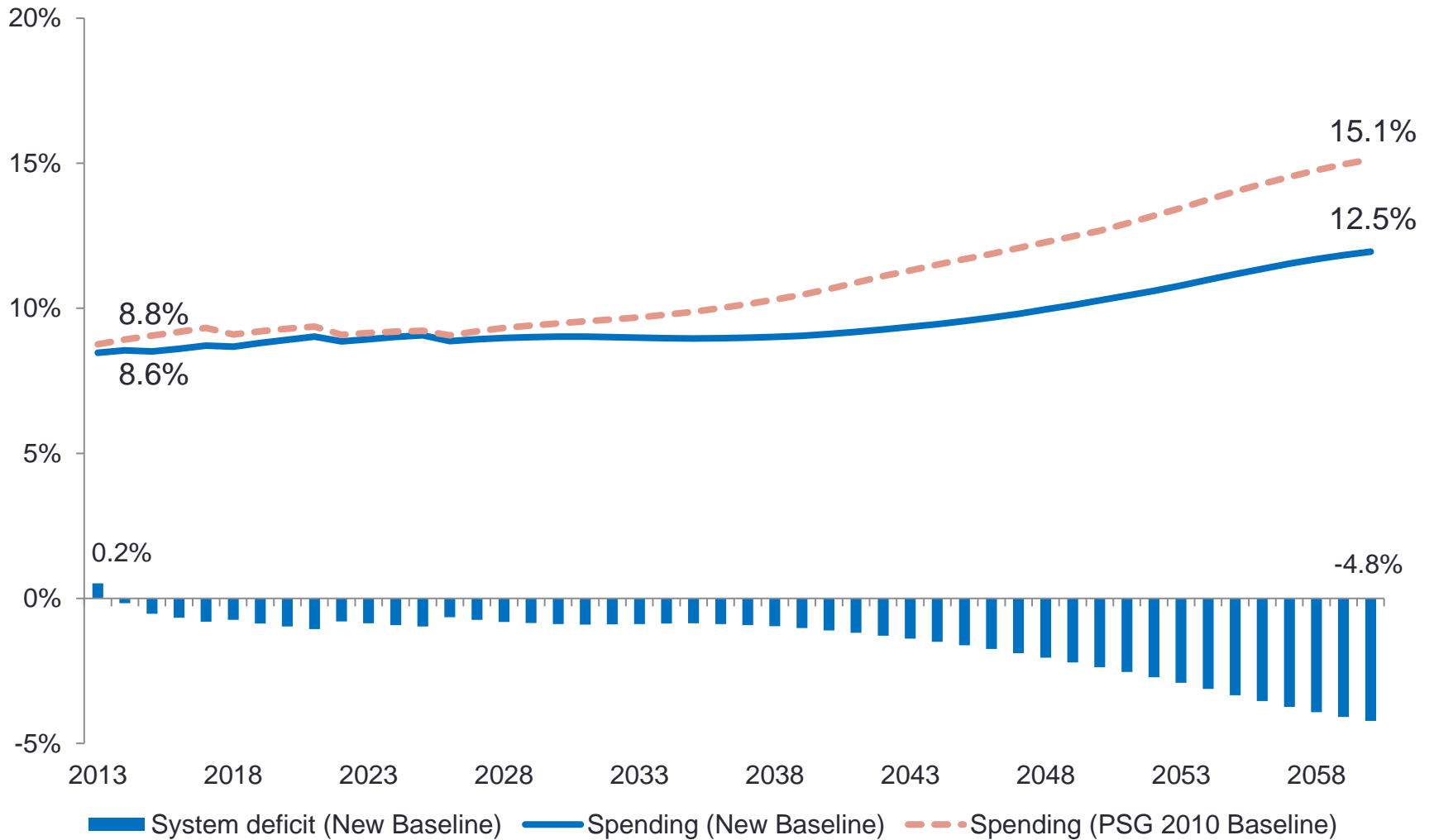
Pension spending (Malta)



Pension spending (EU)

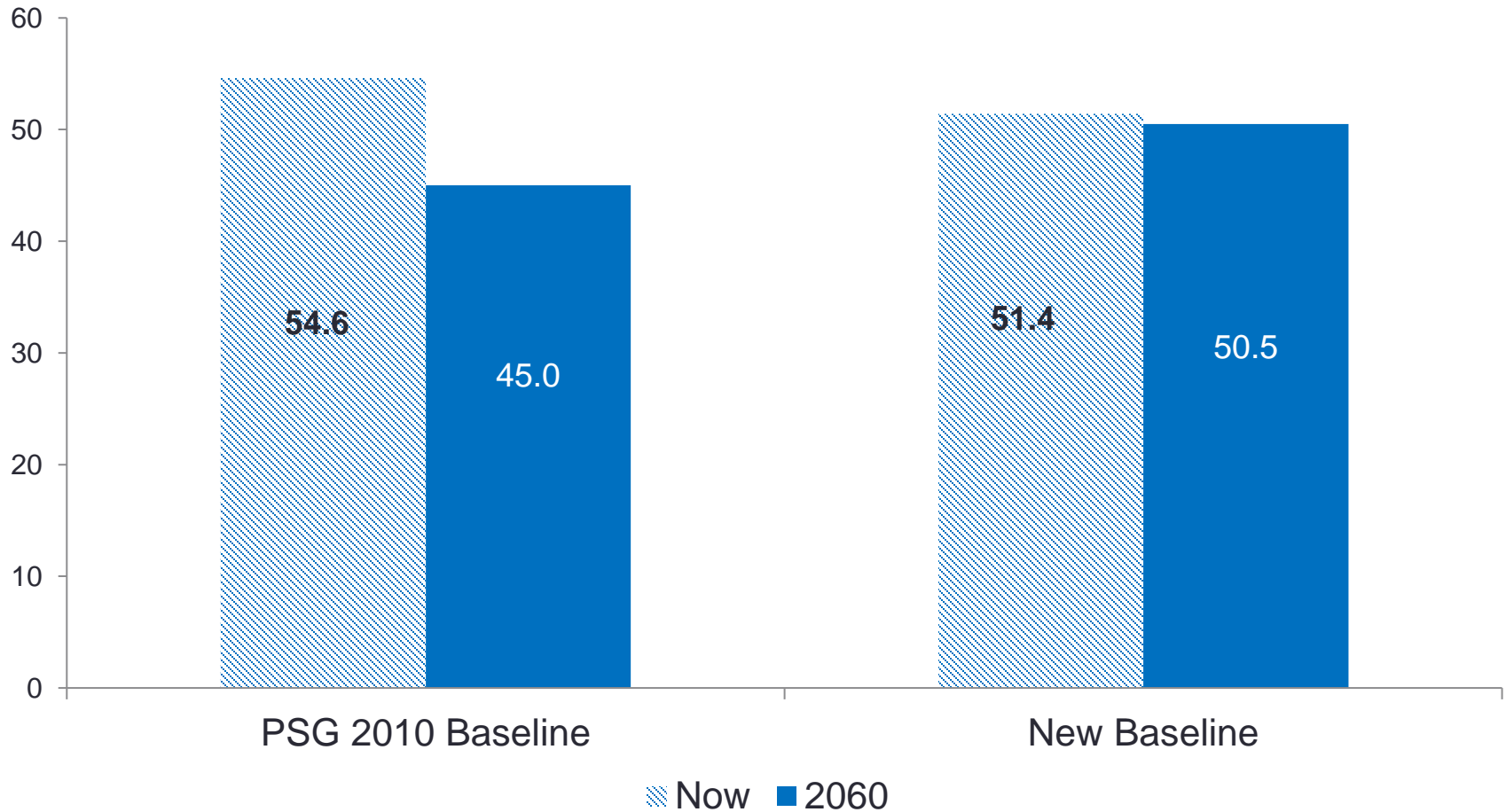


Revised Pension Spending Projections



Revised Adequacy Projections

Average Pension Replacement Rate (%)



Understanding the Challenge

- Elderly poverty rate in Malta is higher than the Euro area.
- Generosity of public pension set to decline by one eighth for future pensioners. Indications that private saving has declined over time.
- Currently period spent in receipt of state pensions is high compared to EU, while career lengths (32 as against 35) and contribution rates are smaller. In the future, period in retirement closer to EU if people retire at 65, but contribution period could remain relatively low.
- The Maltese state faces significant challenges to finance health and long-term care. Increase in these areas nearly as high as pensions.
- Pension system balance is stable up to around 2040, deteriorating progressively thereafter. Hence the need to revisit the pension parameters for persons born after 1 January 1962 with a view to strengthen financial sustainability whilst safeguarding the adequacy of their pensions.

THANK YOU
