Malta Insurance Association

43A/2 St. Paul's Buildings, West Street, Valletta VLT 1532, Malta
Tel: (+356) 21232640, Fax: (+356) 21248388
Email: mia@maltainsurance.org • Website: www.maltainsurance.org

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Mr David Spiteri Gingell
Chairman
Pensions Working Group
Loqus Business Consulting Ltd,
F26 Mosta Technopark,
Mosta MST 3000

Dear Mr Spiteri Gingell,

In line with our discussions with you on 6th June 2011, we would like to record the following comments, many of which already echo the general principles contained in your December 2010 Final Report entitled – "Strategic Review on the Adequacy, Sustainability and the Social Solidarity of the Pensions System.

1 The pension reform should take the form of a journey, starting from the incentivising of voluntary second and third pillar pension schemes, followed by the establishment of mandatory second pillar pensions.

2 The journey should commence without delay within the context of a voluntary third pillar pension suitably incentivized with appropriate fiscal instruments.

3 Voluntary, tax-incentivised second and third pillar schemes should be introduced with immediate effect as an add-on to the PAYG system, with the tax incentive model used being Exempt Exempt Tax (EET).

4 Life insurers are well-positioned to ease the burden on public pension schemes by providing funded pensions. Since they are subject to strict supervision

and regulation, including comprehensive solvency requirements, they offer high levels of pension protection for their customers.

5 Credit should be given to any contributions which an individual makes to a voluntary third pillar scheme, once a mandatory second pillar pension is introduced. Otherwise individuals will postpone a decision to subscribe to a voluntary arrangement, until they are aware of what their mandatory future obligations would be.

6 The right balance must be achieved between excessive fragmentation and competition to obtain economies of scale in search of the optimal set-up driven by free market principles.

7 A fast track opportunity should be given to incentivize the conversion of existing financial products on maturity into pension savings without incurring any tax. In particular, individuals who have life endowment policies nearing maturity should be offered fiscal incentives to reinvest their proceeds, instead of withdrawing lump sums at this point in time.

8 Investment Approach during Accumulation Phase: We do not oppose that the available investment options under Pillar 2 should include, but not be limited to, a Default scheme. We understand that the accumulated fund and future investment under a default scheme of this nature would be allocated according to a predetermined investment mix - with the balance progressively shifting more towards cautious investments as retirement approaches. Further to this it should be possible for the Default scheme to be extended further to allow for an "Adventurous Default", "Managed Default" and "Cautious Default" which allow for varying degrees of risk to be selected in particular in the early accumulation stage by a customer who does not have the benefit of significant investment expertise.

9 However prescribing the availability of a default scheme should not apply to a Pillar 3 pension, since this is a completely voluntary arrangement and therefore the investor should be allowed greater investment freedom.

10 Administrative costs: Whilst we recognise the value that clarity, transparency and a degree of restriction of the charging structure will bring to consumer confidence, there should be resistance to any indication of EXACT copying the UK Stakeholder charging regime as this is unlikely to be financially sustainable from an insurance manufacturing perspective.

11 Annuity: Given the challenges of longevity risk management particularly under Solvency II, the lack of market size and the potential impact of the impending reversal of the Gender Directive carve-out for insurance in December 2012, our view is that a traditional open market annuity product is unlikely to be attractive from a financial perspective for neither the insurance company nor the customer. As such to avoid the risk of a maturing lump-sum simply being frittered away, we would propose a controlled income drawdown product approach – with a maximum lump sum payable on maturity (say 25%), followed by annual allowable withdrawal levels and the transfer to the estate of the deceased of the remaining investment in case of early death.

Yours sincerely,

Anton Felice

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