



Pensions Adequate and Sustainable – *Social Impact Assessment* –

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The Management Efficiency Unit



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- § Our role is to assist Ministries and Departments in the development and implementation of effective change management strategies intended to lead to the improvement of public services.
- § MEU offers management consultancy services in four key areas:
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 - § Operations management consulting
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 - § Non-technical IT consulting (BPR, eGovernment)
- § Its projects have encompassed sectors such as social policy, education, finance, health, IT, investment, utilities, justice, home affairs, environment, national competitiveness, culture, tourism, sports, procurement and eProcurement, and regional affairs (Gozo).



- 1. Identification of stakeholders covered by proposed reforms**
- 2. Macro social impact of:**
 - a. current system
 - b. reforms proposed in WP
- 3. Social impact of reform on specific groups**
- 4. Short (2005 – 2010), medium (2011 – 2025) and long term (2026 – 2050) assessment**
- 5. Assessment on the determination of appropriate State responsibility**
- 6. Issues and mitigation**



§ Quantitative analysis using:

- § Pensions Reform Options Simulation Toolkit (PROST) data and projections
- § Household Budgetary Survey – Average Annual Expenditure of:
 - § Household 1 – 1 adult 65+
 - § Household 2 – 2 adults, no dependent children with at least 1 adult 65+

§ Qualitative analysis:

- § Documentation review
- § Observations and feedback from the general public and other stakeholders

§ Potential social impacts covered:

- § lifestyle ▪ community ▪ cultural ▪ health ▪ quality of life
- § taken from International Association for Impact Assessment (IAIA) Training Resource Manual



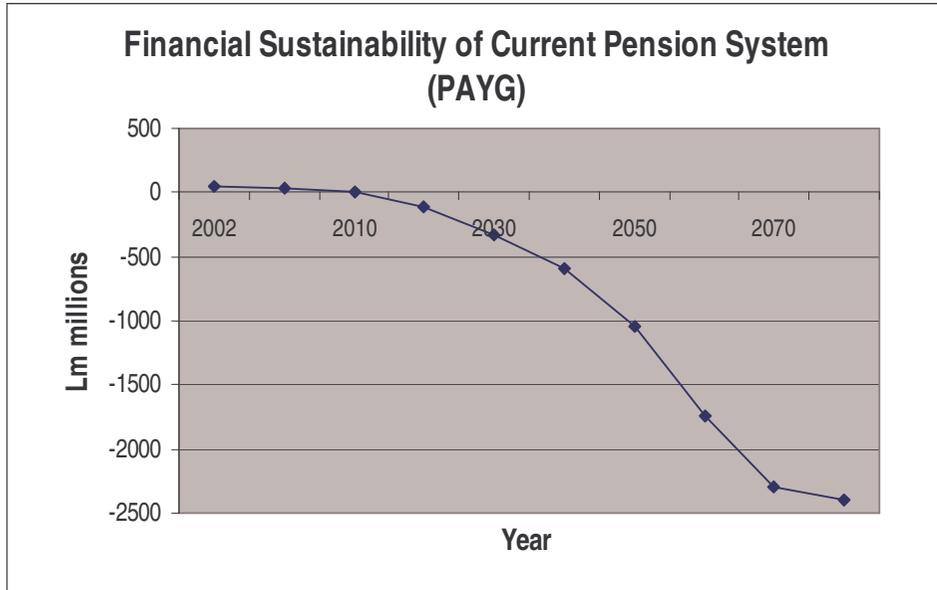
Covered

- § Workers by age
- § Current pensioners
- § Workers by status of employment
- § Workers by type of employment
- § Employers
- § Gender considerations
- § Persons with disability
- § Widows, widowers and survivors
- § Foreigners working in Malta and Maltese working abroad

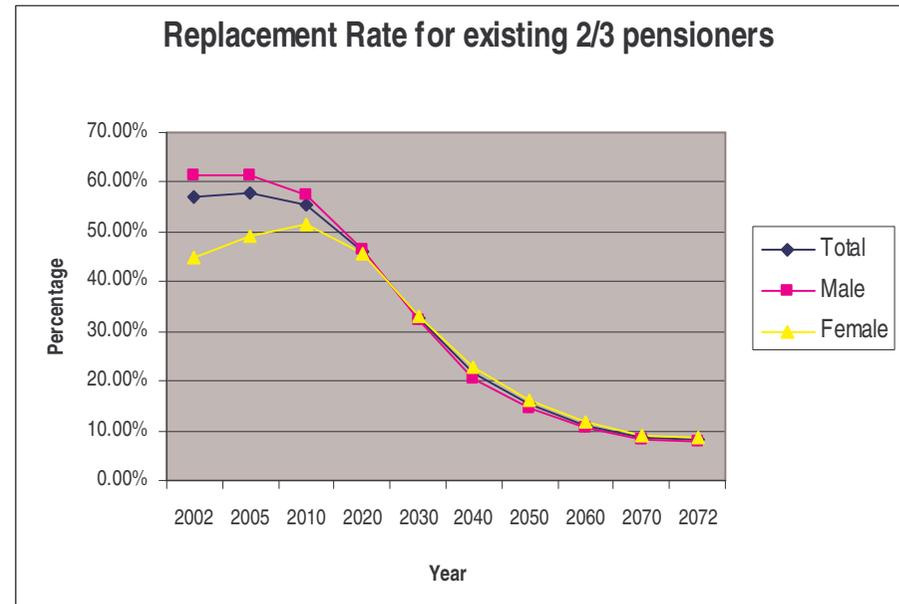
Excluded - consistent with White Paper TORs

- § Pre 1979 public service employees (service pension)
- § Armed Forces and Police personnel (service pension)
- § Members of Parliament
- § Maltese Nationals working in third countries

Macro social impact – no change 1



Sustainability



Adequacy

Macro social impacts – no change 2



§ Potential lifestyle impacts

- § ↓ disposable income - ↓ Consumption - changed lifestyle
- § Lack of financial independence
- § ↓ Social life

§ Potential cultural impacts

- § Developments in the gender roles - no incentives for atypical employment
- § Does not recognise family responsibilities for pension entitlement
- § Social tensions between the young and old and age discrimination

§ Potential community impacts

- § ↑ pressure on Government infrastructure, community, NGO and neighbours

Macro social impacts – no change 3



§ Potential quality of life impacts

- § Pensioners would have considerably lower income than other citizens
- § Government may need to ↑ taxation
- § Unchanged ceiling – ↑ quality of life during employment at expense of ↓ quality of life on retirement

§ Potential health impacts

- § ↑ stress and anxiety to make ends meet
- § ↑ isolation
- § ↑ risk of melancholy and depression for those fit to work beyond 61

Macro social impact – proposed reform 1



§ Potential positive lifestyle impacts

- § Pensioners can be more financially independent
- § Pensioners can maintain a standard of living which is closer to that of pre-retirement than under current system
- § Pillar 2 no option to liquidate – ensures more adequate pension
- § Transition periods allow some time to prepare for change
- § Incentives to participate in labour force

§ Potential negative lifestyle impacts

- § Contributors would have lower disposable income due to Pillar 2 contributions
- § If cost of Pillar 2 is transferred to consumers – may lead to inflation
- § Pillar 2 may be perceived as imposition on one's savings decision
- § Annuities – inadequate household income for widow / widower
- § Change in child minding patterns - \uparrow in costs – \downarrow disposable income
- § \uparrow in retirement age may require redeployment for some

Macro social impact – proposed reform 2



Dimension	Potential Positive Impacts	Potential Negative Impacts
Cultural	<ul style="list-style-type: none"> § Change in perception of invalidity pension § No discrimination between employed and self-employed § Reinforces “new” gender roles § ↑ value to life-long learning 	<ul style="list-style-type: none"> § Some people may find it hard to accept the introduction of concept of self-help § Some people may find it hard to accept that the ‘Job for life’ culture may no longer be applicable
Community	<ul style="list-style-type: none"> § ↑ demand for childcare and elderly services § ↓ dependence of pensioners on community for free services 	

Macro social impact – proposed reform 3



Dimension	Potential Positive Impacts	Potential Negative Impacts
<p>Quality of life</p>	<ul style="list-style-type: none"> § Pillars 2 and 3 – better standard of living / quality of life upon retirement § MFSA regulation and Compensation Fund – ↑ peace of mind § No capping on income earned after retirement § Shorter career still possible on basis of proportionate benefits § Credits for child bearing & rearing – ↑ children’s quality of life § Credits for life-long learning – employees have positive contribution to give throughout their career 	<ul style="list-style-type: none"> § Insecurity in the financial markets would give rise to concern § ↑ retirement age - ↓ quality of life for those with aspirations to enjoy their hobbies, etc.

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Macro social impact – proposed reform 5



Dimension	Potential Positive Impacts	Potential Negative Impacts
Health	§ ↑ retirement age – positive for those for whom work is a source of personal satisfaction and a means of social belonging	§ ↑ retirement age - ↑ in work-related stress



Social impact on specific groups 1

§ **Current pensioners** – no impact

§ **Future workers**

§ Although future workers may perceive that they have less chance to enter the labour market due to increase in retirement age, the labour stock would still be decreasing because of lower birth rates.

Comparison of Those in Employment Age between Current and Proposed System (in 000s)

Year	2002	2005	2010	2015	2020	2030	2040	2050	2060	2070	2072
Total Population	397	399	404	408	410	410	398	388	381	369	366
0 - 14	74	68	61	56	56	57	55	56	59	58	58
Current system 15 - Retirement Age	257	259	257	253	244	233	216	195	182	185	185
Proposed system 15 - Retirement Age	257	259	260	262	265	254	244	222	205	203	204
Current system - Retirement Age +	66	71	87	98	110	120	128	137	140	126	123
Proposed system - Retirement Age +	66	71	84	90	90	98	100	110	117	107	105

§ **Workers by age group**

- 60 – 55 age group
- 54 - 49 age group
- 48 - 45 age group
- 44 – 43 age group
- 42 – 40 age group
- 39 – 36 age group
- 35 – 26 age group
- 26 - 16 age group

Will be impacted differently depending on the age group

Social impact on specific groups 2



Age 1 Jan 2007	Pillar 2	Retirement Age				Accumulation Period (yrs)			Base-line for Calculation			
		Current 61	62	63	65	Current 30	35	40	Same as current	Avg. best 5 yrs	Avg. best 10 yrs	Avg. of 40yrs
55		ü				ü			ü			
54			ü			ü				ü		
53			ü			ü				ü		
52			ü			ü				ü		
51				ü		ü				ü		
50				ü		ü				ü		
49				ü		ü					ü	
48					ü	ü					ü	
47					ü	ü					ü	
46					ü	ü					ü	
45					ü		ü				ü	
44					ü		ü					ü
43					ü		ü					ü
42	ü				ü		ü					ü
41	ü				ü		ü					ü
40	ü				ü		ü					ü
39	ü				ü			ü				ü

Social impact on specific groups 3



Example:

§ 43 – 44 age group

- § First group to have their pension income calculated on the average of the total years of contributions;
- § No Pillar 2 to supplement their pension income

Average Replacement Rates and Average of 40 Years Contributions

Year	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Males										
Av. Replacement Rate of new retirees (P1) %	40.9	39.9	38.9	32.3	31.2	30.2	29.2	28.3	27.5	26.7
Percentage Change		-0.96	-0.97	-6.62	-1.09	-1.06	-0.97	-0.89	-0.84	-0.75
Females										
Av. Replacement Rate of new retirees (P1) %	39.0	38.1	37.2	29.8	28.9	27.9	27.1	26.3	24.5	23.9
Percentage Change		-0.90	-0.91	-7.39	-0.94	-0.95	-0.86	-0.78	-1.78	-0.58

Social impact on specific groups 4



§ Workers by status of employment

Unemployed	<ul style="list-style-type: none"> § ↑ retirement age – more time to look for job § Pillar 2 - ?
Private & public sector (post 1979) employees	<ul style="list-style-type: none"> § ↑ Pillar 2 contributions § Private sector less job security
Full-time and Part-time Employees	<ul style="list-style-type: none"> § ↑ contributions could lead to less wage increments § Removal of discriminatory measures for PT employees
Self employed persons	<ul style="list-style-type: none"> § Change in calculation base-line § ↑ contribution of employee and employer shouldered by same individual

§ Workers by type of employment

Manual or technical	<ul style="list-style-type: none"> § Strenuous jobs
Clerical or administrative	<ul style="list-style-type: none"> § Lower wages in early years of career would decrease average earnings over 40 years
Professional or managerial	<ul style="list-style-type: none"> § Stressful jobs § Credits for life long learning

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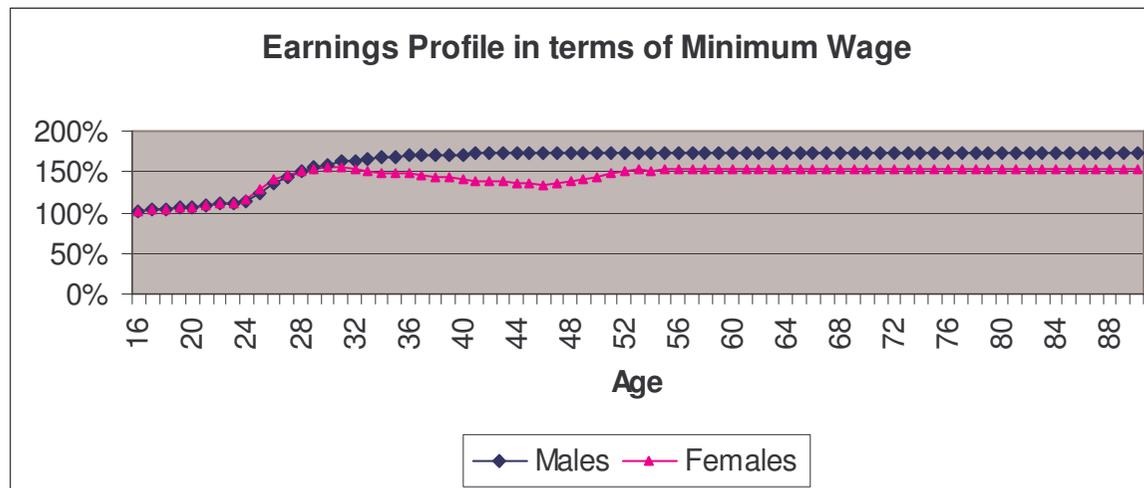
§ Employers

<p>§ Increase in Pillar 2 contribution – increase to cost of production and additional administrative work.</p> <p>§ Partly mitigated as contributions are tax deductible, but may however result in loss of competitiveness or be transferred to consumers as price hikes.</p>	
Public sector	§ Increased Government expenditure – may lead to other priorities not being fulfilled
Micro and small private enterprises	§ Transaction costs may have more significant effect, as they are less likely to have HR or Accounts Department
Medium-sized and large private enterprises	§ Variable costs increase proportionately to the number of employees

Social impact on specific groups 6



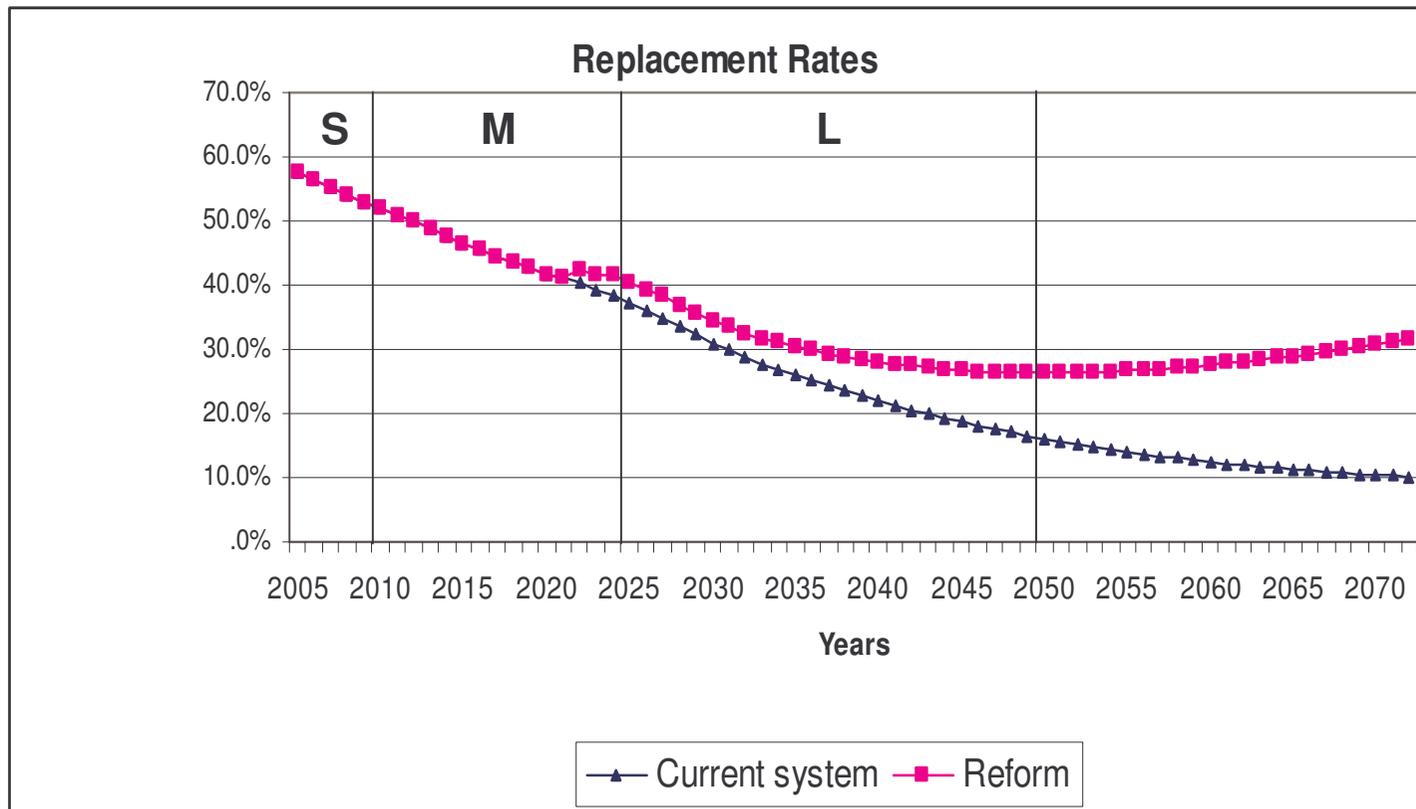
- § **Gender**
- § Sudden increase in retirement age from 60 to 61
- § Lower earnings profile for females and slower career progression - 40 year average baseline calculation
- § Credits to be given for child bearing and rearing
- § Higher life expectancy and same retirement age as males - higher retirement portion for females



§ **Widows, widowers and survivors** - Pillar 2 ?

§ **Foreigners working in Malta and Maltese Nationals working abroad**

Short, medium and long term assessment 1

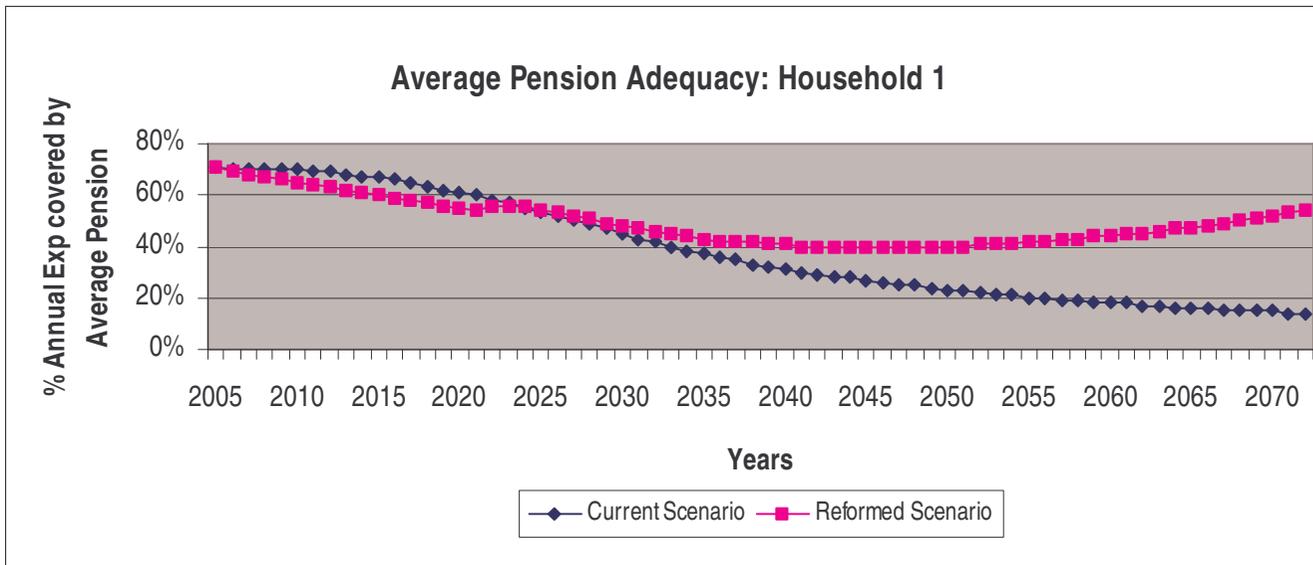


Short, medium and long term assessment 2



Projections of Average Pension Income

Period	Short term		Medium term		Long term		
Years	2005	2010	2011	2025	2026	2050	2072
Average Pension (Lm)							
Current Scenario	2545	2837	2890	3148	3129	2534	2638
Reformed Scenario	2542	2652	2677	3201	3214	4375	10115
Household 1: % of average annual expenditure covered by average pension							
Current Scenario	71	70	69	53	52	23	14
Reformed Scenario	71	65	64	54	53	40	54
Household 2: % of average annual expenditure covered by average pension							
Current Scenario	49	48	48	37	36	16	10
Reformed Scenario	49	45	44	38	37	28	37



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Short, medium and long term assessment 3



Impacts	Short – term (2005 – 2010)	Medium-term (2011 – 2025)	Long-term (2026 – 2050)
Culture change	Minimal	Yes	Yes
Increased female participation	Immediate - not very significant	Yes	Yes
Reduction in leisure and extension of working life	Females	Yes	Yes
Changes in lifestyle, consumption and savings	Those taking up voluntary Pillar 2	Yes for all those 45 and under in 2010 (2%)	Yes for all those 61 and younger in 2026 (5%)
Changes in commitments	Yes – in preparation	Yes	Would be factored in

Issues and mitigation measures- Examples



Theme	Risk	Mitigation
Consumption and savings	Pillar 2 – decrease in disposable income	Increase of women in labour market would increase household disposable income
Cost of production	Pillar 2 may lead to price hikes	Stepping up of mandatory Pillar 2 contribution could be made in a more gradual manner.
Pension account	Deficit may lead to uncertainty	Constant monitoring and forecasting
Indexing	Those relying on Pillar 1 only may be at risk of poverty if pension is insufficient	Special additional benefits related to utilities, house rental, etc may be provided
Credit system	Credits for Pillar 2?	Extend credit system to Pillar 2 or make Pillar 2 voluntary for exempt individuals
Retirement age	More people claiming invalidity benefits	Enforcement, retraining, atypical work conditions
Pension payouts	Calculation on 40 years - salary taken for year while credits are given could decrease average considerably	Salary for credits taken as at last year before credits were availed of
Employment	Pillar 2 might create an administrative burden	Could be marketed to employers similar to direct crediting of salaries
Social responsibility	Pillar 2 may be seen as Government abdicating from its social responsibility	Focused education campaign on need for change
Family friendly measures	Changes in childminding patterns and care for the elderly due to increase in female participation rate – increase in costs for employers and employees	Provision of grants and subsidies

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