Strategic Review on the Adequacy, Sustainability, and Solidarity of the Pension System as Mandated by Article 64B of the Social Security Act

2020 Pensions Strategic Review Document for Public Consultation

The Pensions Strategy Group

15th December 2020

Invitation for Feedback

The pension reform recommendations presented to government in 2004 by the Pension Working Group concluded that the pension system constituted a critical and large part of the broader macro-economic framework and that a formal mechanism that ensured a periodic review on the system's adequacy, sustainability and solidarity constituted both good policy governance and decision making.

In launching the reforms in March 2006, the government at the time stated that it will introduce a legal trigger to ensure that a strategy review on the pension system is carried out every 5 years. The Social Security Act was amended to introduce the following article.

> "64B. (1) The Minister shall within intervals not exceeding the period of five years lay on the Table of the House a report reviewing the workings of Part V of this Act within the previous five years together with recommendations, if any, with a view of achieving further adequacy, sustainability and social solidarity:
>
> Provided that the first report shall not be submitted later than the 31st December 2010, and subsequent reports shall be submitted at intervals of not more than five years, as provided for in this sub-article, after such date.
>
> (2) The report mentioned in sub-article (1) shall be discussed by the Social Affairs Committee of the House or any other committee substituting the same."

The government added that the first strategic review is to be completed by a technical team of experts by the end of 2010. The first strategic review was submitted to the Social Affairs Committee of the House of Representatives in December 2010, subsequent to which a public consultation was carried out and a final report presented to the government in March 2012. The second strategic review was to be completed by the end of 2015. In June 2015, the government presented the strategic review for public consultation subsequent to which a final report was presented to the government in September 2015. The findings, and the report, of the 2015 strategic review were presented by the Chair of the Pension Strategy Group to the Social Affairs Committee.

The Ministry for Social Justice and Solidarity, the Family and Children's Rights 2020 Pensions received the Strategic Review report from the Chairperson of the Pension Strategy Group in December 2020 – as stipulated by the Social Security Act. It is to be noted that the Pension Strategy Group, though composed of government and external experts, is an independent technical group – that is, independent from government. The analysis and considerations presented in the report are solely the views of the Group. This Strategic Review **does not present recommendations**. Rather it presents an **analysis to stimulate public consultation and feedbac**k.

The Ministry, on behalf of the Group, is now placing the strategic review report in the public domain for consultation. The Group looks forward to a debate on how our pension system is to further evolve to ensure adequacy, sustainability and solidarity and welcomes feedback on the analysis in this Strategic Review document and on what further measures Government can take to ensure the sustainability and adequacy of the Maltese pension system. Information on how feedback can be provided is found on page 57 of this report.

The Pensions Strategy Group will, during the consultation period, carry out discussion sessions with constituted bodies, civil society, and the general public. The Strategic Review will at the end of the consultation period assess the feedback received and **present a final report to Government for its consideration**.

The main considerations and recommendations that the Group will eventually present to Government shall exclude a mandatory increase of the statutory retirement age or of the social security contribution rate, as per the electoral mandate of the current administration.

In August 2017, the Minister for the Family, Children's Rights and Social Solidarity appointed an inter-ministerial Pension Strategy Group directed to prepare a Strategic Review that assesses the workings of the pension system since the 2015 Strategic Review and future impacts, that may arise due to changing circumstances, with regard to its adequacy, sustainability, and social solidarity. It is to be noted that the Pension Strategy Group, though composed of government and external experts, is an independent technical group – that is, independent from government. The analysis and considerations presented in the report are solely the views of the Group. The Government has the right to acccept or reject part of or all of the submissions made by the Group.

This Strategic Review document, 2020, is the third strategic review to be submitted to the House of Representatives, following the inclusion of Article 64B in the Social Security Act which establishes that the "Minister shall within intervals not exceeding the period of five years lay on the Table of the House a report reviewing the workings of Part V of this Act". The other two strategic reviews were tabled at the House of Representatives in 2010 and 2015.

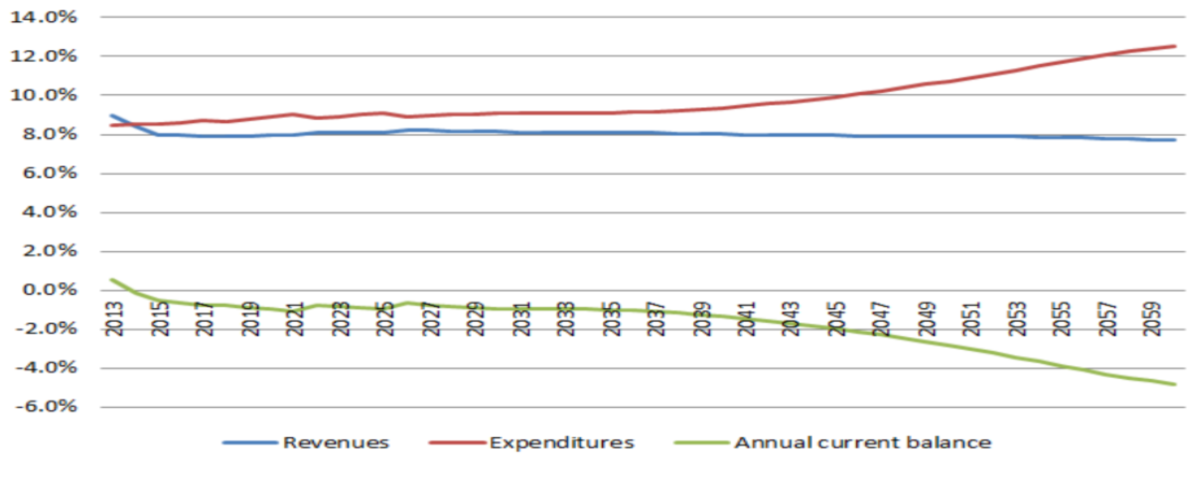
As can be seen from the Table below the 2020 projections for a 'no reform' scenario with regard to pension adequacy and deficit as a % to GDP are at 55.0% and -3.0% respectively: significantly positive compared to the projections of the 2010 and 2015 Strategic Reviews respectively.

Table (i): 2020 No Reform Scenario compared to the 2010 and 2015 Strategic Reviews.

	2010 Strategic Review (2060)	2015 Strategic Review (2060)	2020 Strategic Review (2070)
Adequacy	46.0%	51.7%	55.0%
Pension Deficit to GDP	-5.8%	-4.8%	-3.0%

The 2015 Strategic Review, based on the then EUROPOP and Aging Working Group's macro-economic assumptions, estimated that the Average Pension Replacement Rate would be 51.7%, an improvement of 6.7 percentage points on the 2010 Strategic Review. The 2015 Strategic Review as shown in the Figure below, estimated the ratio of total revenue as a proportion of GDP to decline marginally over the projection period from 9% of GDP in 2013 to 7.7% of GDP by 2060. This contrasts with the projected trends for expenditure which is expected to remain broadly stable by around 2040 and then rise to 12.5% of GDP by 2060. This implies a rise of 4.1 p.p. throughout the entire projection period. Consequently, the system balance is projected to worsen from a small positive balance in 2013 (taking into consideration the State contribution), to a deficit of 4.8% of GDP by 2060.

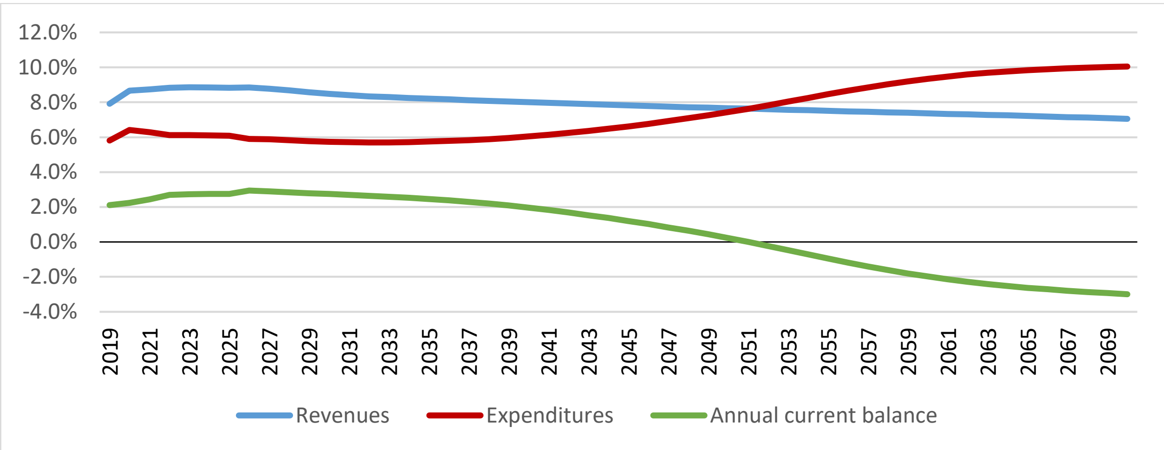
Figure (i): 2015 Strategic Review: Baseline No Reform Model Impact on the Pension System Deficit to GDP



The 2020 Strategic Review is based on the same two underlying assumptions as that on which the 2015 Strategic Review is based. The demographics projections are based on EUROPOP 2019. These demographic projections, however, show a significant increase in population when compared to EUROPOP 2013 on which the 2015 review was modelled. EUROPOP 2013 projected that Malta's population by 2060 would increase to 476,982 whilst EUROPOP 2019 project thats Malta's population in 2060 is estimated to be 693,613. The macro economic projections are based on the Aging Working Group (which reports to the Economic Policy Committee of the Economic and Financial Affairs Council of the European Council) 2021 report. These macro-economic assumptions take into account the impact of COVID-19 on the EU generally and Malta specifically.

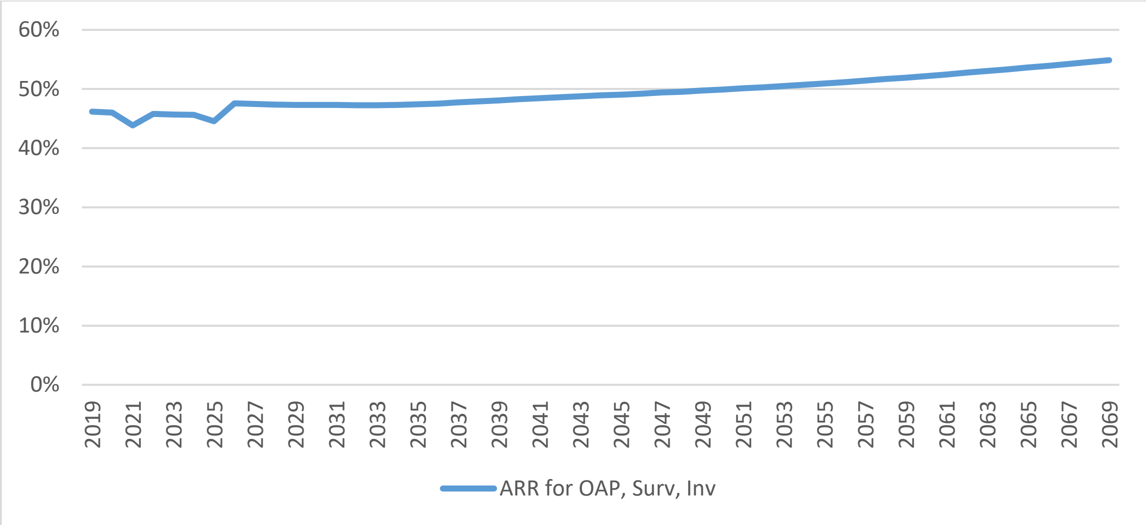
The Figure below shows the impact of the no reform baseline model as recalibrated on AWG 2021 assumptions. The projections cover contributory pensions for old age, survivorship and invalidity, and are based on data for 2019. In 2019, Government expenditure on these categories of benefits stood at €762.8 million. During the same year, revenues relative to social security contributions amounted to €1,046.1million, around a third of which reflect the State contribution under the obligations of the SSA. As illustrated in the Figure below, the ratio of total revenue as a proportion of GDP is projected to decline marginally over the projection period from 7.9 of GDP in to 7.0 per cent of GDP by2070. Expenditure is expected to remain broadly stable by around 2040 and then rise to 10.0 per cent of GDP by 2070, implying a rise of 4.3 p.p. throughout the entire projection period. Consequently, the system balance is projected to recede from a 2.1 per cent positive balance in 2019 (taking into consideration the state contribution), to a deficit of 3.0 per cent of GDP by 2070. This, however, is an improvement on the 2015 no baseline reform model projections, presented in Figure (i) above, which showed that up to 2045 the % of pension deficit to GDP fell from slightly below 0% in 2015 to 2% in 2045. Thereafter, however, it was estimated that in the 2015 no baseline reform model the % of pension deficit to GDP deteriorated to 4.8% between 2045 and 2060.

Figure (ii): No Reform Baseline Model: Impact on the Pension System Deficit to GDP: 2020-2070



Given that the assumptions on which the no reform baseline model projections are based are more positive, the adequacy level with regards to the APRR improves when compared to the 2015 projection. The APRR under the new projection bottoms out at approximately 45.0 per cent in 2025 before increasing to 48.0 per cent in 2026, after which it will progressively increase to 55.0 per cent till 2070 – an improvement on 2015 no reform baseline model where the APPR was estimated at 51.7%.

Figure (iii): No Reform Baseline Model: Impact on Adequacy: 2020-2070



Given that the assumptions on which the no reform baseline model projections are based are more positive, the pension system deficit relative to GDP improves, as discussed, above when compared to the 2015 projection. The pension system reaches a -2% deficit relative to GDP in 2061, as against 2045 in the 2015 no reform baseline model, with the pension system deficit in 2070 estimated at approximately -3.0% (estimated at -4.8% in 2060 in the 2015 no reform baseline model).

The projections carried out for the 2020 Strategic Review are for the period 2020-2070 – a 50 year period. However this Strategic Review, as with the preview reviews, is of the considered opinion that whilst Government should strive to strengthen the sustainability, adequacy and solidarity of the pensions system its goal should not be to rectify today the projection outcomes as they appear to be in 2070. Rather, the Strategic Review re-iterates that the Government should continue to undertake calibrated reforms of the pensions system over a five year period as mandated by the Social Security Act and in doing so adopting incremental measures that will have a long term impact towards the adequacy, sustainability and solidarity of the system.

The 2015 Strategic Review presented the following principles on which the pension system was to be based:

(a) A clear definition of the objectives of the pension system.

(b) An adequate and sustainable pension system sustained by a strong employment policy.

(c) The state pension should constitute a solid foundation, but it should not be the only source of retirement income.

(d) The pension system is rendered socially sustainable by providing for a fair balance between contributions and benefits across generations.

(e) To remain adequate and sustainable, the pension system needs to evolve and effectively to respond to long term developments.

The review concludes that the five issues highlighted in the 2015 strategic review have remained essentially unchanged, and, thus, that the principles articulated in the said review remain valid.

Due to the extraordinary circumstances brought about by the COVID-19 emergency, the Group was unable to conduct an extensive round of stakeholder consultations as had been done in previous reviews. In particular, members of the Group did not feel it was appropriate to try to hold consultations with pensioners due to their vulnerability, and the restrictions imposed by virtual meetings. In this light, the members of the Group felt that this Strategic Review **should not present recommendations**.

Rather it presents an **analysis to stimulate public consultation and feedbac**k on any issues which relate to, or affect, the adequacy and sustainability of our pension system.

Glossary

APRR	Average Pension Replacement Rate
ARP	At-Risk-of-Poverty
AWG	Aging Working Group
CBM	Central Bank of Malta
COLA	Cost of Living Adjustment
EI	Equivalised Income
EU	European Union
EUROPOP	Eurostat European Population Projections
F/T	Full-time
GDP	Gross Domestic Product
GNML	Guaranteed National Minimum Level
GNMP	Guaranteed National Minimum Pension
HBS	Household Budgetary Survey
HoR	House of Representatives
IP	Invalidity Pension
IIP	Increased Invalidity Pension
Md NEI	Median National Equivalised Income
MFIN	Ministry of Finance (as named up to 21st November 2020)
MFCS	Ministry for the Family, Children's Rights, and Social Solidarity (as named up to 21st November 2020)
MP	Minimum Pension
MPI	Maximum Pensionable Income
NMIP	National Minimum Invalidity Pension
NMW	National Minimum Wage
NWMP	National Minimum Widow's Pension
NDC	Notional Defined Contribution
NSO	National Statistics Office
OAP	Old Age Pension
p.p.	Percentage Points
PPS	Personal Pension Scheme
2004 PWG	2004 Pension Working Group
2010 PWG	2010 Pension Working Group
PAYG	Pay-As-You-Go
P/T	Part-time
SAC	Social Affairs Committee
S/E	Self-employed
SILC	Survey of Income and Living Conditions
SMD	Severe Material Deprivation
SSA	Social Security Act
2015 PSG / Strategy Group	2015 Strategy Pension Group
2020 PSG / Strategy Group	2020 Strategy Pension Group
TCN	Third Country Nationals
UK	United Kingdom
VORPS	Voluntary Occupational Retirement Pension Scheme
WB	World Bank
WP	Widow's Pension

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01.1 The 5 Yearly Review Mechanism

In 1979, the pension system was overhauled. A new pension system based on the Pay-As-You-Go (PAYG) model was introduced. Between 1979 and 2004 the fundamentals on which the PAYG pension system was based changed significantly – namely:

(i) The fertility rate collapsed, falling from over 2.1 to 1.4.

(ii) Longevity increased from 67 years and 74 years of age for males and females in 1979 to, respectively, 79 years and 84 years in 2004.

(iii) The Maximum Pensionable Income (MPI) which was pegged to the salary of the President of Malta (the highest state salary at the time), set at €13,980 in 1979 increased by 2004 only to €15,145 - an increase of €1,165 over a 24 year period (an average €48.50 annually). As salaries in the private and public sector increased much more than that, pension income stopped maintaining a two-thirds relationship with their salary for an increasing number of individuals. At the same time, the effective contribution rate paid to finance pensions fell below the statutory rate, as contributions started to be charged on an ever-smaller relative share of income.

(iv) After being awarded, the relativity of pensions to average salaries was eroded due to the indexation of benefits post-retirement.

In late 2003, as part of a pension reform process underway at the time, the Government commissioned the World Bank (WB) to review the robustness of the pension system and to submit recommendations as appropriate. The findings of the WB were dire. The WB projected that the Average Pension Replacement Rate (APRR) - that is, the average pension income in proportion to the average wage - would fall from 54% in 2004 to 14.1% by 2050. As the adequacy of the Malta pension system collapsed, the cost of the pension system, in terms of the pension deficit as a percentage of the Gross Domestic Product (GDP), was estimated to increase from (1.8%) in 2004 to (3.3%) in 2050. The WB underlined that, unless comprehensive reforms were carried out, the pension system was neither adequate nor sustainable for future generations. In June 2004 the Government commissioned a Working Group to study the WB report, review the pension framework, and submit recommendations with regard to "*future generations*". The report of the 2004 Pension Working Group (2004 PWG) was published as a White Paper in November 2004. Following a lengthy consultation process carried out between December 2004 and April 2005, the 2004 PWG presented a final report to Government in July 2005.

The final report by the 2004 PWG underlined that the primary reason why the pension system was no longer fit for purpose was the lack of reforms during previous years. The 2004 PWG underlined that, given that the pension system constituted a critical and large part of the broader macro-economic framework, a mechanism was to be introduced to ensure that a periodic review is carried out that ensures that the system adopts, and adapts to, changing social and economic conditions. The introduction of such a periodic strategic review would ensure that as a policy matter, the adequacy, sustainability and solidarity of the pension system is placed under constant scrutiny. This would also avoid the need for 'big bang' reforms to the pension system – allowing for measures to be adopted and introduced in doses and degrees in accordance with the opportunities and challenges that arise over time.

This recommendation was accepted by the Government. The Social Security Act[1] (SSA) was amended to introduce the following article.

[1] Social Security Act, CAP.318

"64B. (1) The Minister shall within intervals not exceeding the period of five years lay on the Table of the House a report reviewing the workings of Part V of this Act within the previous five years together with recommendations, if any, with a view of achieving further adequacy, sustainability and social solidarity:[2]

Provided that the first report shall not be submitted later than the 31st December 2010, and subsequent reports shall be submitted at intervals of not more than five years, as provided for in this sub-article, after such date.

(2) The report mentioned in sub-article (1) shall be discussed by the Social Affairs Committee of the House or any other committee substituting the same."

In 2017 Article 64(B) 1 of the Social Security Act was amended to include the part shown in italics: "… achieving further adequacy, sustainability and social solidarity *in such manner that a stable proportion is kept between the contribution periods as referred to in article 53 and the periods of time during which it is expected that the pension will be paid in accordance with Part V of this Act:*

In 2008 the Government set up the 2010 Pensions Working Group (2010 PWG) to draw up the first strategic review. This was presented to Government and subsequently presented to the Social Affairs Committee (SAC) of the House of Representatives (HoR) in December 2010. In 2013, within months of a new administration, the Government set up the 2015 Pension Strategy Group (2015 PSG) to draw up the second strategic review. The 2015 PSG published its report for public consultation in June 2015, and submitted its final report to the Government in September 2015, and subsequently to the SAC of the HoR.

01.2. The 2020 Strategic Review of the Pension System

This report presents the third strategic review – which is to be presented to Government and tabled by at the SAC of the HoR by the end of 2020. The Government set up a 2020 Strategy Pension Group (2020 PSG or Strategy Group), composed of government and external experts, in mid-2017. The composition of the 2020 PSG is presented in Appendix 1. The terms of reference of the 2020 PSG are presented hereunder:

01. To review the pension system with regard to its adequacy, sustainability, and solidarity – with particular regard to:
    (a) Addressing changing needs and issues relating to society and the labour market.
    (b) Reforms to the pension system directed to ensure a socially sustainable system that provides for a fair balance between contributions and benefits across generations.
    (c) Reforms outside of the pension system to ensure that pension income is not the only source of income.
    (d) Reforms to address challenges faced by current pensioners.
02. To review previous pension reform work generally and he 2015 strategic review specifically.
03. To model different scenarios with regard to short, medium, and long term strategies for reform.
04. To present short, medium, and long term recommendations to the pension system.
05. To evaluate and assess the impact of the proposed reforms to the pension system.

The methodology applied by the Strategy Group consists of the articulation of a series of working papers on issues relating to adequacy, sustainability, and solidarity that the Group considered to be of strategic relevance. The working papers include:

- Pensioner's income and exposure to the risk of poverty.
- Policies to support the employment of older workers in Malta.
- Review of principles underpinning the Maltese Pension system.

[2] In 2017 Article 64(B) 1 of the Social Security Act was amended to include the part shown in italics: "64B. (1) The Minister shall within intervals not exceeding the period of five years lay on the Table of the House a report reviewing the workings of Part V of this Act within the previous five years together with recommendations, if any, with a view of achieving further adequacy, sustainability and social solidarity *in such manner that a stable proportion is kept between the contribution periods as referred to in article 53 and the periods of time during which it is expected that the pension will be paid in accordance with Part V of this Act:*

- The coverage of social security contributions in Malta.
- Ensuring a fair balance between contributions and benefits across generations.
- Impact of an aging society on the labour force.
- The future evolution of minimum pensions in Malta.
- An insight of employees with multiple employers in Malta.
- Voluntary pension schemes and behavioural heuristics.
- Fertility and the impact of Government policies.
- Divorce and pensions.

In carrying out its work, the Strategy Group worked closely with the:

- National Statistics Office (NSO) with regard to the design of a demographics baseline for Malta.
- Economic Policy Directorate (EPD) within the Ministry of Finance (MFIN), and the Department of Social Security (DSS) within MFCS with regard to scenario modelling.

It is to be noted that the Pension Strategy Group, though composed of government experts, is an independent technical group – that is, independent from government. The analysis and considerations presented in its work are solely the views of the Group. The Government has the right to acccept or reject part of or all of the submissions made by the Group. This Strategic Review does not present recommendations. Rather it presents analysis and considerations to stimulate public consultation and feedback. The Strategic Review will at the end of the consultation period assess the feedback received and present a final report to Government for its consideration. Furthermore, the reform considerations presented for public debate re-affirm the exclusion of increasing the statutory retirement age and the social security contribution rate.

01.3 Background to Pension Reform

01.3.1 The 2004 Reforms[3]

The terms of reference of the 2004 reforms were specifically those of "securing adequacy and sustainability of the pension system for future generations". Thus, the 2004 pension reform was designed to affect different cohorts of the population differently. People born on and before 1951, aged 55 and over as at 1st January 2007 were exempt from the negative changes stemming from the reform. They benefited from two measures: (i) changes directed to allow persons in retirement to work and receive their full pension income; and (ii) the MPI, previously frozen, was to increase by the Cost of Living Adjustment (COLA). Persons born between 1952 and 1961, that is 46 to 54 years of age as at 1st January 2007, were affected by transitional reforms – with the effect becoming more onerous the closer a person was to being 46 years of age. The government underlined that further measures relating to persons born on and after 1961 were to be attained through budget measures.

The future generations, defined as the 'switchers' cohort, born on and after 1962, and aged 45 years as at 1st January 2007, were subject to the full swathe of the reforms. The reforms impacting a person born on and after 1962 included an increase of the retirement age from 61 to 65 years of age, an increase of the contributory history from 30 to 40 years; a change in the calculation of the pension income from the best three consecutive years out of the last 10 years to the best 10 years out of 40 years, and the introduction of a child rearing credit amongst others. As stated above, the reform measures had to ensure that the decline in the APRR by 2050 be stabilised to provide dignity to persons in retirement. The underlying principle was that persons retiring in 2050 would have the same level of quality of life as that enjoyed by those persons who retired between 2004 and 2010. An important reform directed to the achievement of this goal was the introduction of an annual indexation mechanism of [*70% wage inflation + 30% retail inflation*] - annually increasing both the MPI and the pension income of the 'switchers' cohort.

[3] Pp 134-136, Spiteri Gingell, D., The adequacy pension conundrum, Journal on Ageing in Developing Countries, 2019, 4 (2): 133-144

The adoption of a mandatory second pension pillar was also recommended by the 2004 PWG – in part, to protect the pension system against the demographic risk which population projections at the time were showing an ageing and decreasing Maltese population by 2050. It was recommended that the mandatory second pension would be based on an employee and employer contribution of 4% each, introduced between 2011 and 2023 in order to allow for a smooth phasing-in, enabling business and households to adjust accordingly.

The 2004 reforms further recommended the introduction of third pension products as well as the setting up of a home equity release framework to enable people to (i) save over and above the combined state and mandatory second pensions so that during retirement they are in possession of a pension income that is closer to that enjoyed during employment; and (ii) liquidate part or all of their capital investment in a home asset, thus boosting their pension retirement nest egg. One other 2004 reform measure that merits mention was the setting up of a safety net designed to protect future pensioners from being at-risk-of-poverty (ARP) through a Guaranteed Minimum Pension (GNMP) - benchmarked at 60% of the median income.

The reaction by both business and unions to the introduction of a mandatory second pension pillar was negative. Business underlined that the targeted 4% new contribution would undermine competitiveness, whilst unions argued that disposable income would be reduced. The Parliamentary Opposition also positioned itself against a mandatory second pension. The government too came out against this recommendation. In taking the 2004 forward, the Government adopted only those recommendations relating to key parametric reforms to the state pension. The complementary reforms relating to the introduction of a third pension sector and a home equity release framework, although approved in principle, were never implemented. The reforms also included supporting policies such as measures to increase female participation in the labour market. At the time, due to local cultural and traditional norms, female participation hovered slightly above 30%. This meant that the majority of households benefited from only one pension income - primarily that of the male spouse who, in the Maltese polity, is still predominantly considered to be the main bread winner.

01.3.2 The 2010 Reforms[4]

The 2010 strategic review was triggered by the newly introduced Article 64B of the SSA. The terms of reference of the 2010 strategic review were once again directed towards future pensioners – with the Government maintaining its earlier position that reforms to the pension system for persons born on and before 1961 were to be attained solely through budget measures. The modelled projections of a 'no reform scenario', for the period of 2010 to 2060 reaffirmed that the parametric changes introduced as a result of the 2004 reforms secured only an APRR of 45% by 2060. The projections further showed that the state pension system balance would be in equilibrium between 2014 and 2035; subsequently deteriorating from approximately 0% to -5.8% by 2060.

Given that the review was carried out in the midst of the financial and economic crisis, a critical question that the 2010 PWG grappled with was whether a mandatory second pension remained a viable option. The 2010 review posited that the "question relating to the introduction of a second mandatory pension must be answered with regard to the knowledge and certainty that an APRR of 45% will not be adequate as against the uncertainty on the global economy and behaviour of the financial markets as well as its impact on the national economy".[5]

The review recommended that the government should seek to introduce a mandatory second pension at the earliest possible - and not later than 2018. The review, however, emphasised that the framework for a mandatory second pension should take on board lessons learnt from the economic and financial crisis - embracing mechanisms such as a default fund based on a lifecycle investment strategy, to provide protection to those persons who do not, or are unable to, decide how to invest and to manage that investment over their working period. Once again the recommendation to introduce a mandatory second pension was rejected by government, the Opposition, business and the unions - the reactions being similar to those presented in 2004.

[4] Pp 136-137, Ibid
[5] Pg iii, Strategic Review on the Adequacy, Sustainability and Social Solidarity of the Pensions System, 2010 Pensions Working Group, Final Report, 2010, http://family.gov.mt/financial-education/publications/Documents/Malta_Pensions_Strategic_Review_2010.pdf

The 2010 review, again, underlined the importance of introducing a third pension voluntary framework incorporating occupational and personal pensions, home equity release, and similar measures at the earliest possible, so that individuals are provided with the opportunity and choice to provide for a quality of life in retirement that reflects more closely that enjoyed whilst in employment. Once again, whilst accepting the recommendations in principle, no action was taken by the Government.

It is to be noted that, of the 50 recommendations, only two were implemented. The first related to the recommendation on financial education. The Government set up an independent commission in 2011 and tasked it to draw up a strategy for financial education and to carry out the International Network on Financial Education (INFE) / Organisation for Economic Co-operation and Development (OECD) survey by the end of 2012. The second related to the recommendation for the setting up of a Pensions Strategic Unit within the responsible ministry. A director to head and set up the unit was appointed in late 2012.

01.3.3 The 2015 Reforms[6]

The 2015 strategic review was triggered by the incoming new administration within months from being elected to office in March 2013. For the first time, the terms of reference tasked the technical reform group to present recommendations relating to current pensioners. The modelling carried out with regard to a no-reform scenario showed an observable improved situation, when compared with that of the 2005 reforms and the 2010 review – an APRR of 51.7%, an improvement of 6.7 p.p. when compared to 2010. The pension percentage to GDP was projected to remain relatively stable up to 2040, at -1.0% and thereafter degenerating to -4.8% by 2060 compared to -5.8% under the 2010 review. This improvement was propelled by the macro assumption, made by the Economic Policy Committee (ECP) of the Economic and Financial Affairs Council (ECOFIN) of the European Council (EoC), that the participation rate of persons aged 15 to 64 years would be 75.4%, as against that of 70.3% in 2010.

The review established that the underlying philosophy for reform to the pension system was to be based on five principles: (a) the need for a clear definition of the objectives of the pension system; (b) an adequate and sustainable pension system sustained by a strong active employment policy; (c) that the state pension should be a solid foundation, but not the only source of retirement income; (d) that the pension system needs to provide a fair balance between contributions and benefits across generations in order to be socially sustainable; and that (e) to remain adequate and sustainable, the pension system needs to be able to evolve, particularly to respond to long term developments. As a matter of principle, the review rejected the introduction of an automatic indexation mechanism that linked the retirement age with longevity. The 2015 PSG preferred a policy approach that incentivised individuals to opt for later retirement once they reach the statutory retirement age, by offering them the chance to contribute, more so that they qualify for a full pension, or if they have already qualified for one, providing them with the opportunity to attain an increased pension income by deferring their pension. Similarly, the 2015 PSG did not recommend the introduction of a mandatory second pension, but instead focused on the introduction of voluntary pensions, recommending that their performance be assessed closely.

The review targeted four aspects for reform: (a) changing needs and issues relating to society and the labour market; (b) retaining a fair balance between contributions and benefits across generations; (c) reforms to ensure that the pension income is not the only source of income; and (d), addressing challenges faced by current pensioners. The 2015 reforms also assessed the possibility, with the assistance of the WB, to migrate the PAYG pension system to a Notional Defined Contribution (NDC) PAYG system (recommended in the 2010 review for study). The review concluded that the benefits stemming from such a complex transition were too small to mitigate the risks associated with such an institutional framework overhaul. In all, the review presented 27 recommendations.

[6] Pp 137-138, Ibid

The review underlined that any single recommendation taken on its own would not result in the desired impacts to the strengthening of adequacy and sustainability of the pension system that the review sought to address. It emphasised that policymakers were to avoid the temptation to cherry pick but should rather embrace the recommendations in their totality. The 2015 PSG projected that, if its recommendations were implemented, an APRR of 45% would be attained with a pension deficit to GDP of -3.6% by 2060. If these reforms were to be complemented by behavioural change, it was projected that the pension deficit to GDP would further decrease to -2.3% by 2060 – when compared to the -4.8% deficit projected in 2010.

01.4 Implementation of Recommendations Presented in the 2015 Strategic Review

The table below presents the proposals for pension reform recommended by the 2015 strategic review and the action taken by government.

Table 1: Review of Action on Post Consultation Proposals for Reform Recommended by the 2015 Strategy Pension Group

Recommendation 01: Crediting Contributions for Child Rearing, Family Growth, and Gender Equality. The review reformed the child rearing crediting provision introduced by the 2004 reforms as follows – persons: 1) Born on and after 1962: 4 years for every child up to three children subject to the condition that parent was in prior employment; and 2 years for the 4^{th} and more children subject to the condition that the person is to work for an equivalent period. The qualifying period for the contributory pension increased from 10 to 12 years. The credit assigned to parents with a severely disabled child was 10 years. 2) Born between 1952 and 1961: 2 years for every child up to three children subject to the condition that parent was in prior employment; and 1 year for the 4^{th} and more children subject to the condition that the person is to work for an equivalent period. The qualifying period for the contributory pension increased from 10 to 12 years. The credit assigned to parents with a severely disabled child was 5 years.		The recommendation was approved by the Government and implemented in the 2016 budget.
Recommendation 02: Crediting Contributions for Human Capital Development and Life Long Learning. The review proposed the introduction of a new crediting provision for human capital development and lifelong learning as follows – for persons: 1) Born on and after 1962: 1 month per year of study for lifelong learning; 3 months of studies for level 5; 6 months of study for levels 6 and 7; and 12 months per year of study for level 8. Maximum number of credits capped at 60 months. 2) Born between 1952 and 1961: 1 month per year of study for lifelong learning; 2 months of studies for level 5; 3 months of study for levels 6 and 7; and 6 months per year of study for level 8. Maximum number of credits capped at 30 months.		The recommendation was approved by the Government and implemented in the 2016 budget.
Recommendation 03: Accounting for Contributions Paid under the age of 18 by persons born before 1962.		This recommendation is being implemented in the 2020 budget.
Recommendation 04: Removing the Ceiling on the Payment of Contributions Post-65 Years of Age.		This recommendation was not adopted by the Government.

Recommendation 05: Reconciling Atypical Employment with the Contributory Principle: The pension system is to reflect emerging employment patters and should be reformed to ensure that the full contributory entitlement is paid by both a person and an employer in the event that a person works a 40 hour week irrespective of the number of employers the person is engaged with as a part-time worker.		This recommendation was presented as Pledge 17 of the section of the 2017 Electoral Manifesto titled 'strengthening pensions'. This recommendation is yet to be implemented.
Recommendation 06: Facilitating the Transition of Workers from the Shadow to the Formal Economy.		This recommendation was approved by the Government. A series of measures were introduced by the Government to transition persons from the shadow to the formal economy. Reforms undertaken include the introduction of tapering and in-work benefits. The persons benefiting from the tapering and in-work benefits stood as at September 2019 at 1,692 and 4,857 respectively. It should be noted that the number of persons benefiting from (a) the Social Assistance benefit fell from 10,784 in 2013 to 6,453 for the same period – a decrease of 40.2%; and (b) the Unemployment Assistance benefit fell from 4,330 to 633 for the same period – a decrease of 85.4%.[7]
Recommendation 07: Introducing an Economic Migration Policy for Malta: An immigration policy that targets high and semi-skilled competencies, skills and knowledge as a measure to strengthen Malta's human capital and labour market challenges arising from population ageing should be introduced at the earliest possible.		This recommendation was approved by the Government. Reforms were carried out to fast track employment of Third Country Nationals (TCN).
Recommendation 08: Incentivising Active Participation of Elderly Persons through the Removal of the Mandatory Retirement Age: There cannot be an abrupt transition from a pension system – and labour market – that is governed by a Statutory Pensions Retirement Age which is also the Mandatory Retirement Age to one that abolishes the Mandatory Retirement Age criterion on age equality based legislation. A debate cannot be ignored and recommends a process of discussion under the tutelage of the Malta Council for Economic and Social Development with the aim of leading to a possible abolition of the Mandatory Retirement Age.		This recommendation was not adopted by the Government.

[7] Reported generated by the Department for Social Security, February 2020

Recommendation 09: Strengthening the inter-generational social contract through a PAYG NDC system: The report recommended that, given the presence of a rather strong GNMP which makes the system unlikely to deliver satisfactory results in terms of enhancing pension adequacy and sustainability, such a complex systemic change was deemed to be inappropriate.	✓	This recommendation was approved by the Government. The decision was made to retain the pension system on the existing PAYG architecture.
Recommendation 10: Ensuring a Fair Balance between Contributions and Benefits Across Generations (a)**:** 5 year strategic review of the pension system is strengthened through the setting up of a special body which every 5 years would establish the parameters of the pension system architecture with a view to announcing changes necessary to maintain balance between contributions and benefits across generations, 15 years in advance and thereby ensuring that persons can make appropriate adjustments.	✓	This recommendation was approved by the Government. The Government, however, retained the model of establishing a Pension Strategic Group to carry out the 5 year strategic review.
Recommendation 11: Ensuring a Fair Balance between Contributions and Benefits Across Generations (b)**:** For the pension system to remain equitable across generations, the social contract underpinning pension transfers needs: (i) to be able to adjust gradually to changing demographic conditions; (ii) allow individuals the flexibility to retire at the respective pension age, (iii) have the contribution period required to qualify for a full pension needs to be based on a stable ratio between the number of years contributing to that spent drawing the benefit; and (iv) a growth of the maximum pensionable income to reflect changing demographic conditions so as to provide a better deal for future contributors.	✓	This recommendation was approved by the Government.
Recommendation 12: Ensuring a Fair Balance between Contributions and Benefits Across Generations (c): Establishing a contribution period that reflects a full career definition would be a truer and fairer mechanism than the contributory period currently in place in the pension system in so far that a balance is maintained with changing needs and issues relating to society and the labour market. The first tightening in this relationship was proposed to be introduced as at 1st January 2016. This presents a minimum of 15-year-in-advance announcement to persons who today are aged 50 years or less (born in 1965 or after). The contributory period for this cohort of persons is being proposed to increase from 40 to 41 years.	✓	This recommendation was approved by the Government. In the 2016 budget, the Government increased the contributory period from 40 to 41 years for those persons born on and after 1969.
Recommendation 13: Incentivising Late Exits from the Labour Market: To prevent that the provision of Article 62A of the SSA does not become an 'exit route' from the labour market despite the increase of the statutory pension retirement age set respectively for persons born between on and after 1952, the 2015 PSG recommended: (a) A person will receive a top-up to his or her pension in the event that he or she remains in employment between 62 and 65 years of age without claiming their pension (2% top up of	✓	This recommendation was introduced by Government in 2017 as follows:

pension value for 62 and 63 years of age, and 4% top up of pension value for 64 and 65 years of age) – which increase constituted a permanent increase. (b) The number of contributions for persons born on and after 1969 accrued for one to retire under Article 62A is based on a principle where 7/8ths of the credits are paid (which are to include credits related to invalidity).		62 years of age: top-up of 5% 63 years of age: top-up of 5.5% 64 years of age: top-up of 6% 65 years of age: top-up of 6.5%. The maximum top-up was established at 23% of the entitled pension value, is permanent, and is inherited by the spouse. Initially this measure was introduced for persons employed in the private sector. It is now applicable for all employees. This recommendation was approved by the Government and introduced in the 2016 budget. The number of pensioners who delayed their pension entitlement and benefitted from an increase in their pension rate was as follows; 398 in 2016, 573 in 2017, 110 in 2018, and 1098 in 2019.
Recommendation 14: Incentivising the Deferral of a Retirement Decision: A person may opt for late retirement - that is s/he remains in employment post the statutory pension retirement age of 65 years of age and during which period s/he defers their pension until they formally retire. Persons who defer their retirement and pension beyond 65 years will enjoy an annual pension increase compounded for every full year of deferment.		This recommendation was not adopted by the Government.
Recommendation 15: Defining the Guaranteed National Minimum Pension (GNMP): The 2015 PSG recommended that the GNMP should be set at a poverty threshold which is established on 1st January 2016 (2016 was the proposed point of entry of the gradual phasing in of the GNMP for all in line with the current the government's Electoral Manifesto proposal). The proposed GNMP mechanism was recommended to be introduced in a phased manner for all pensioners targeting at the first instance the most vulnerable pensioners: pensioners who as at 1st January 2016 were 76 years of age and over.		The Government accepted the principle established in the recommendation. Nevertheless, the Government adopted a different implementation method – as shown hereunder: a) 2016 budget: The Guaranteed National Minimum (GNML) pension increased to €140. Other increases were introduced in subsequent measures. The GNML for married

		persons increased from €140/week in 2016 to €161/week in 2020; and for single persons from €140/week in 2016 to €157/week in 2020. b) 2016 Budget: The National Minimum Pension (NMP) increased to €141.82/week for married persons and €130.3/week for single persons. In 2020 the NMP stands at €159.96/week for married persons and €144.20/week for single persons.
Recommendation 16: Establishing Relativity of the Old Age Pension (OAP) with the National Minimum Wage (NMW): The Old Age Pension is to be linked to the NMW so that any increases to the latter would automatically result in increases to the Old Age Pension.	✗	This recommendation was not adopted by the Government.
Recommendation 17: Synchronising the Old Age Pension Retirement Age with Article 62 (A) of the SSA: The 2015 PSG considered the retirement of 60 years of age for the OAP as a potential 'formalised' exit route from the labour market and recommended that this is increased to 61 years of age to render it consistent with the contributory retirement age.	✗	This recommendation was not adopted by the Government. It is, however, to be noted that the Old Age Pensions since 2018 increased by the same basic amount by which the social security contributory pensions increased.
Recommendation 18: Introducing Incentives for a Voluntary Third Pension: The Strategy Group recommended that MFIN set up a technical committee constituted of the appropriate government entities and constituted bodies to recommend to the Ministry by September 2016 proposals to incentivise the introduction of *voluntary* occupational pension schemes within the private sector.	✓	This recommendation was accepted by Government. MFIN set up a working group to draw up a voluntary occupational retirement pension scheme framework supported by fiscal incentives. This framework was introduced in 2017. The Government reviewed and improved the fiscal incentives framework following feedback that the original incentive package not sufficiently attractive to employers. The first voluntary workplace pension schemes are expected to be placed on the market in 2020. Incentives for voluntary workplace pension schemes

		were also added. As at 2019 tax base the number of persons who are members of Voluntary Occupational Retirement Pensions Schemes (VORPS) employers paid contributions for 979 employees – of which a significant number of 904 employees contributed to the scheme. The 2021 Budget speech states tht there are 2,000 occupational pension beneficiaries.
Recommendation 19: Nudging Persons to Save for Retirement: The Strategy Group recommended that during the 2020 Strategic Review carries out an in-depth review on the performance of the scheme. In the event that the Review shows that voluntary pensions would not have delivered as planned, it should strategically assess the introduction of Mandatory Opt-In Voluntary Opt Out framework, which would see the employer responsible for managing the administration aspects of the scheme and the government responsible for the fiscal incentive.		As at 2019 tax base the number of persons who are members of Personal Pension Schemes (PPS) stood at 6,484. For the same period, The 2021 Budget states that there are 11,000 PPS members. The tax credit on the PPS contribution has increased from 25% of an annual €2,000 to a €3,000 contribution.
Recommendation 20: Accessing Wealth Accumulated in Property for Retirement Income: The Group recommended that the Government should conduct a study to assess the scale of the informal Equity Release market, and carry out a study of the possible take-up of more formal arrangements including the setting up of a Home Equity Bank.		This recommendation was accepted by the Government. MFIN set up a working group to draw up a home equity release framework. On 1st September 2019 the Government issued Subsidiary Legislation 371.21 titled 'Equity Release Financial Products Regulations.' There are currently no products on the market.
Recommendation 21: Inculcating a Culture of Literacy with regard to Financial Savings and Investments and Retirement Income: The Strategy Group recommended that a strategy for retirement and financial literacy is drawn up and a locum of responsibility established for its implementation.		A Strategy for retirement and financial capability was launched by Government, following consultation, in 2017. The Strategy is branded as ĠEMMA. The management and implementation of ĠEMMA rests with the Office of the Permanent Secretary at MFCS. A significant number of knowledge and education programme of activities is underway.

Recommendation 22: Maximum Pensionable Income: The recommendation presented by pensioners' associations to increase the MPI for persons born on and before 1951 was not accepted by the Strategy Group as this would constitute a benefit for which current pensioners had not contributed for and which would be borne by future pensioners, who were operating within a pension system that was far more rigorous and facing significant risk as a result of uncertainty.	✓	This recommendation was accepted by the Government.
Recommendation 23: Annual assessment: The Strategy Group recommended that the existing Collective Agreement based re-assessment for current pensioners and persons within the Exempt and Transitional Group should be replaced by an indexation mechanism based on the following formula: Pension increases annually by a *% (percentage) of a ratio of [50% Wage Growth : 50% Inflation Growth] or the full COLA whichever is the highest*.	✗	This recommendation was not adopted by the Government.
Recommendation 24: Calculation of Pensionable Income for Persons in the Transitional Group: The Strategy Group recommended that by not later than 2018, the pensionable income for the persons born between 1952 and 1961 was to be calculated as follows: (a) best 3 consecutive years in the last 15 years for employed persons born from 1952 to 1961; and (b) best 10 consecutive years in the last 15 years for self-employed persons born from 1952 to 1961.	✗	This recommendation was not adopted by the Government.
Recommendation 25: Gender equality (a) – survivor pension to be replaced by the eligible full pension as this was gender discriminatory and failed to take into account a woman's economic contribution as a family carer during her lifetime: the Strategy Group whilst accepting the merit of the recommendation presented by pensioners' associations underlined that as presented the proposal was not affordable and should be rejected.	✓	This recommendation was accepted by the Government.
Recommendation 26: Gender equality (b) – the Strategy Group recommended that the surviving spouse should get the deceased spouse's full pension as opposed to the 5/6th today provided that the surviving spouse has or would have a right to a pension in his / her own right.	✓	The recommendation was approved by government and implemented in the 2016 budget.
Recommendation 27: Service pension – the Strategy Group recommended that the Government should continue with its current policy with regard to phasing out of the service pension for abatement purposes by committing itself to ignore an additional €200 annually from the original amount of the service pension abated from the social security pension through fiscal budgetary measures.	✓	The recommendation was approved by government and implemented in the 2016 and subsequent budgets. From 2016 to 2019 an estimated 16,200 pensioners benefitted from this measure.
Recommendation A – Post consultation: Entrenching in the pension system rights to divorced or separated persons or persons whose cohabitation or partnership breaks down.		This recommendation was presented as Pledge 14 of the section of the 2017 Electoral Manifesto titled 'strengthening pensions'. This recommendation is yet to be implemented.

01.5 Other Reform Measures to the Pension System introduced by the Government since 2013 outside of the Strategic Review

The Table below presents reforms to the pension system that the Government introduced since 2013 outside of the strategic review process.

Table 02: Reforms to the Pension Systems carried out since 2013 outside of the 2015 Strategic Review

Budget 2014	Exemption of pension income from taxation for pensioners whose income resulted solely from their pension, and the said income did not exceed the NMW. A total of 8,560 pensioners in receipt of a pension that does not exceed the NMW benefitted from this budget measure.
	Extension of the tax rate of 15% on income generated by self-employed pensioners.
	Pensioners employed as part-time (P/T) self-employed (S/E) assigned a tax rate of 15% if their income was not higher than the income on which the lowest social security contribution rate was paid.
	Widows to benefit from the full pension as the link between incomes earned and children’s age is removed.
	Phasing out of the service pension for abatement purposes by committing ignoring an additional €200 annually from the original amount of the service pension abated.
Budget 2015	Persons with missing social security contributions provided with the opportunity to pay for up to 5 years missing contributions – whichever year these may occurred.
	Women aged between 62 and 74 years that did not qualify for a pension awarded a €200 bonus if they paid for more than 5 years’ contribution; and a bonus of €100 if they paid between 1 and 5 years’ contributions. A total of 12,379 persons benefitted from this budget measure at a cost of €1.77m.
	Phasing out of the service pension for abatement purposes by committing ignoring an additional €200 annually from the original amount of the service pension abated. A total of 4,830 pensioners benefitted from this budget measure.
Budget 2016	Measure to improve the pension rate of persons who were in good income employment but who in their later years unsuccessfully partook in S/E work thereby affecting negatively their pension income calculation.
	Pensioners or their widows to receive their pension income on the day of retirement or from the date of death. A total of 4,048 new pensioners benefitted from this budget measure.
Budget 2017	Over a period of 2 years persons who were over 61 years of age were to be exempt from paying income tax on their pension income and other income up to a maximum of €13,000; with married persons up to a maximum of €14,000. A total of 91,667 pensioners in receipt of a contributory pension benefitted from this budget measure.
	To secure gender equality the female pension flat rates were reviewed resulting in an average weekly increase to the pension income of up to €20.

	Phasing out of the service pension for abatement purposes by committing ignoring an additional €200 annually from the original amount of the service pension abated. A total of 4,500 pensioners benefitted from this budget measure.
	Women aged between 62 and 74 years that did not qualify for a pension awarded a €250 bonus if they paid for more than 5 years' contributions; and a bonus of €150 if they paid between 1 and 5 years' contributions. A total of 13,073 persons benefitted from this budget measure at a cost of €2.56m.
	Introduction of savings bonds directed towards pensioners to improve the rate of return on their investments.
2018 Budget	Phasing out of the service pension for abatement purposes by committing ignoring an additional €200 annually from the original amount of the service pension abated. A total of 3,250 pensioners benefitted from this budget measure.
	Measure primarily directed towards women with gaps in their contributory history that allows at the age of 65 years for the calculation of their pension income to include contributions paid following their statutory retirement age. By virtue of this measures 784 persons requested a bill to settle arrears of social security contributions.
	Pensioners who are yet to reach 65 years who work as S/E or P/T can pay their contribution on their net earnings on a pro-rata basis.
	Introduction of bonds directed towards pensioners who are 62 years of age.
2019 Budget	Phasing out of the service pension for abatement purposes by committing ignoring an additional €200 annually from the original amount of the service pension abated, and commutation for abatement purposes of service pensions is to be based on ignoring 75% and not 50% of the said amount. A total of 4,693 beneficiaries benefitted from these two budget measures at a cost of €2.34m.
	Women aged between 62 and 74 years that did not qualify for a pension awarded a €300 bonus if they paid for more than 5 years' contributions; and a bonus of €200 if they paid between 1 and 5 years' contributions. A total of 12,669 beneficiaries benefitted from this measure at a cost of €3.04m.
	Pensioners who worked in Libya provided with the opportunity to fill up to 10 years of missing contributions subject to the provision of evidence that such contributions were paid in Libya.
	Introduction of bonds directed towards pensions who are 62 years of age.
2020 Budget	All contributory pensions increased by €3.51 weekly over and above the cost of living award. Approximately 94,000 pensioners in receipt of a contributory pension benefitted from this measure at a cost of €17m.
	Phasing out of the service pension for abatement purposes by committing ignoring an additional €200 annually from the original amount of the service pension abated, and commutation for abatement purposes of service pensions of persons aged 72 years is to be based on ignoring 75% and not 50% of the said amount.

	The number of pensioners in receipt of Contributory Pension and a Service Pension who should benefit from these two measure is 4,000.
	Widow pensioners with children under 18 years of age provided with an increase of €5.46 weekly for each child. The number of pensioners in receipt of a Widows pension (WP) who should benefit from this measure is 378.
	Introduction of bonds directed towards pensioners who are 62 years of age.
2021 Budget	Pensioners, over and above the COLA, will receive a weekly increase of €3.25 in their pension income.
	Ceiling for income earned by pensioners which will be tax exempt is increased to €14,058.
	Persons who are 63 years of age and over and who do not qualify for a contributory pension are to receive an additional €50 bonus –thus persons who paid less than 5 years of contributions will receive a bonus of €250; and those who paid over 5 years will receive a bonus of €350.
	Persons who are born on and after 1961 will have contributions paid before the age of 19 taken into account in the calculation of their pension.
	Legal recognition for the receipt of the survivor's pension for widows who are in a civil union or a cohabitation relationship.
	Service pensioners have €200 commuted and persons who will are 72 years of age will benefit from the fact that 25% only of the service pension will be commuted.
	Issuance of Government Savings Bonds for persons who are 62 years of age and over.
	With regard to PPS, annual contribution subject to 25% tax credit incentive is increased from €2,000 and €3,000.

02.1 Demographics and the Labour Market: The Underpinning Fundaments of the PAYG Pension System

The PAYG pension system is underpinned by two core fundamentals: demographic and labour market behaviour – the behaviour of which determine the system's viability, and the level of adequacy it affords. As shown in the previous chapter, the essential elements of the sustainability of Malta's population – fertility and life expectancy – changed significantly, for the worse, between 1979 and 2004. In parallel, participation in the labour market at the start of the reform journey was not optimised: female participation stood at 33.2%, participation of retirees and migrants negligible.

This section reviews:

(a) The labour market and demographic landscape. This review is based, where data is available, on the following milestones.

2004	2005	2010	2015	2020
White Paper Launched	Reform Final Report	1st Strategic Review	2nd Strategic Review	3rd Strategic Review

(b) The assumptions upon which projections of both the labour market and demographics of the 2020 review are based.

02.1.1 The Demographic Landscape[8]

The Maltese population between 2004 and 2019 increased by 111,896 persons, from 402,668 to 514,564; or by 27.8%. As can be seen from the Table below, Malta's population experienced a significant increase between 2010 and 2015. In 2017, the NSO announced that methodological improvements led to the revision of the migration flow data for the European Union (EU) and regular TCN migrants for the period 2012 – resulting in an increased resident population as at 31st December 2016 – at 442,603.[9]

Table 03: Malta's Demographic Behaviour

	2004	2005	2010	2015	2016	2018	2019
Total	402,668	404,999	414,989	450,415	460,297	493,559	514,564

This increase in population is not the result of an increase in the fertility rate. As can be seen from the Table below, between 2005 and 2019 the fertility rate fell from a rate of 1.39, already significantly below the 2.1 benchmark required for the sustainability of a nation's population, to 1.14.

[8] Unless otherwise stated all data presented in this section was made available to the 2020 Pensions Strategy Group by the National Statistics Office.
[9] Presented by NSO to MFCS within the context of ARP and AROPE indicators, November 2020

Table 04: Total Fertility Rate

1980	1985	1990	1995	2000	2005	2010	2015	2016	2018	2019
1.99	1.99	2.05	1.82	1.69	1.39	1.36	1.37	1.37	1.23	1.14

Indeed, between 2000 and 2019, live births decreased by 1.0% - from 4,392 to 4,350. Live births between the ages of 20 to 29 decreased from 2,486 to 1,588 – or by 36.1%; whilst for the ages of 30 to 39 these increased by 60.1% - from 1,542 to 2,469. Over the past ten years the average age of parents who gave birth has increased from 28.6 years to 30.6 years.

Table 05: Number of Live Births

Mother's Age	2000	2010	2015	2016	2018	2019
14-19	246	254	134	149	134	132
20-24	899	530	494	499	440	412
25-29	1,587	1,268	1,309	1,279	1,199	1,176
30-34	1,092	1,244	1,580	1,602	1,647	1,632
35-39	450	535	684	798	862	837
40-44	113	65	120	140	155	151
45+	5	2	4	9	7	9

The increase in Malta's population is the result of migration flows – the net difference between emigration and immigration. As can be seen from the Table below, net migration increased from 2,293 in 2009 to 20,343 in 2019 – an increase of 787.2%.

Table 06: Migration Flows

	2009	2010	2011	2012	2013	2014	2015	2016	2018	2019
Total	**2,293**	**74**	**1,659**	**4,251**	**6,119**	**9,346**	**9,841**	**8,748**	**17,102**	**20,343**
Males	1,181	-309	838	2,293	3,677	5,387	5,432	4,546	10,835	13,535
Females	1,112	383	821	1.958	2.442	3,959	4,409	4,202	6,267	6,808

Male life expectancy at 61, 65 and 70 years of age increased respectively by 2years,1.8 years and 1.8 years from 2012 to 2019; whilst female life expectancy for the same age groups increased by 1.7 years, 1.5 years and 1.6years. However like in many other developed economies, life expectancy has stabilised in more recent years.

Table 07: Life Expectancy of Malta's Population at Different Reference Years

	Male						
Reference Years	**2012**	**2013**	**2014**	**2015**	**2016**	**2018**	**2019**
At 61 Years of Age	20.8	21.6	22.0	21.9	23.0	22.4	22.8
At 65 Years of Age	17.6	18.4	18.7	18.8	19.7	19.2	19.4
At 70 Years of Age	13.8	14.6	14.8	14.9	15.8	15.3	15.6
	Female						
Reference Years	**2012**	**2013**	**2014**	**2015**	**2016**	**2018**	**2019**
At 61 Years of Age	24.4	25.0	25.2	25.2	25.7	25.8	26.1
At 65 Years of Age	21.0	21.5	21.7	21.6	22.1	22.3	22.5
At 70 Years of Age	16.7	17.1	17.5	17.4	18.0	18.0	18.3

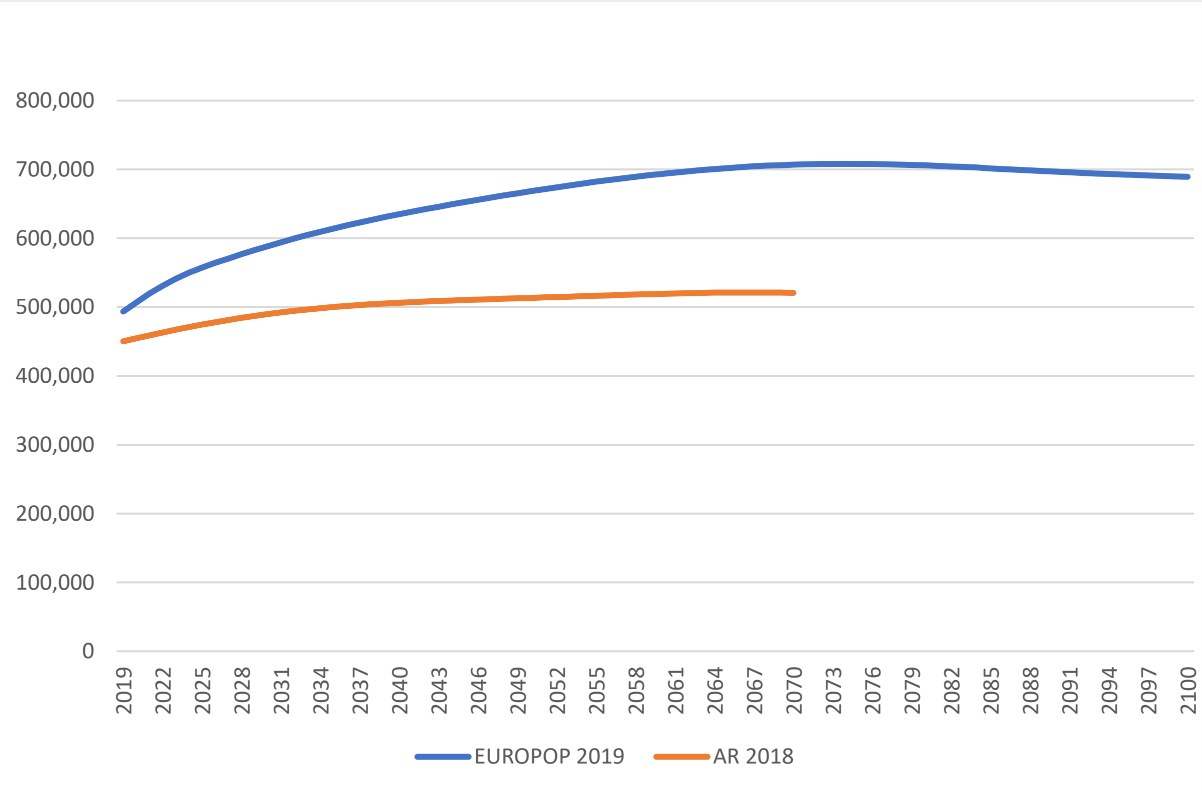
In terms of healthy life years and life expectancy at 65 years of age, that of males increased by 3.5 years between 2005 and 2018, or 33.3%; whilst that of females increased by 3.4 years, or 30.6%. Healthy life expectancy has not experienced the stabilisation in recent years seen in overall life expectancy.

Table 08: Healthy Life Years and Life Expectancy at 65 Year[10]

Reference Years	2005	2010	2015	2018
Male	10.5	12.0	13.4	14.0
Female	11.1	11.7	14.0	14.5

In establishing the demographic population for the modelling of the 2020 'no reform baseline' and the reform scenario, EUROPOP 2019 demographic projections, produced by EUROSTAT are used. As can be seen from the Figure below, Europop 2019 projects that in 2100, the population in Malta will stand at 689,359 individuals. A significant increase in the population is projected to take place between 2020 and 2070, after which it stabilizes. In 2070, the population is projected to be of 706,915, substantially higher than the approximate 475,000 that EUROPOP 2013 projected and which was used for the 2015 strategic review.

Figure 01: Malta's Projected Population



The Table below presents the evolving age structure of the Europop 2019 Projections Baseline Model between 2020 and 2100, as at 1st January of each year.

[10] http://ec.europa.eu/eurostat/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=tepsr_sp320&language=en

Table 09: Evolving Age Structure of the Europop 2019 Projections Baseline Model between 2020 and 2100[11]

Age	2019	2020	2030	2040	2050	2060	2070	2100
0-5	28,051	28,786	30,140	28,778	30,835	31,482	31,337	32,235
%[12]	5.7	5.7	5.1	4.5	4.6	4.5	4.4	4.7
6-10	22,742	23,273	26,414	25,686	25,977	27,347	27,280	27,780
%	4.6	4.6	4.5	4.0	3.9	3.9	3.9	4.0
11-14	16,711	17,376	21,956	21,888	20,907	22,175	22,476	22,724
%	3.4	3.4	3.7	3.4	3.1	3.2	3.2	3.3
0-14	67,504	69,435	78,510	76,352	77,719	81,004	81,093	82,739
%	13.7	13.7	13.3	12.0	11.6	11.7	11.5	12.0
15-65	339,472	347,962	392,798	425,118	430,398	413,042	405,483	382,922
%	68.8	68.6	66.7	67.0	64.4	59.5	57.4	55.5
66+	86,583	89,554	117,383	133,440	160,256	199,567	220,339	223,698
%	17.5	17.7	19.9	21.0	24.0	28.8	31.2	32.5
66-75	54,945	56,334	60,239	61,239	80,331	98,462	90,006	83,792
%	11.1	11.1	10.2	9.6	12.0	14.2	12.7	12.2
76+	31,638	33,220	57,144	72,201	79,925	101,105	130,333	139,906
%	6.4	6.6	9.7	11.4	12.0	14.6	18.4	20.3
Total	493,559[13]	506,951	588,691	634,910	668,373	693,613	706,915	689,359
% Change	-	2.7%	16.1%	7.9%	5.3%	3.8%	1.9%	-2.5%

As can be seen from the Table above, Malta's population is expected to increase by 199,964 or 39.4% between 2020 and 2070. Over this period, the share of persons aged 0-14 years will decrease by 2.2 percentage points whilst the share of the working population 15-65 is expected to decrease by 11.2 percentage points. Share of Retirees aged 66+ are expected to increase by 13.5 percentage points from 17.7% to 31.2% of the total population.

02.1.2 The Labour Market Landscape[14]

On 1st January 2027, the statutory retirement age will be 65 years; and the first persons from the 'switchers' cohort, born on and after 1962, will start to retire (unless they exited the labour market through the early pension route). The total number of persons in the new workforce cohort (15-64) will be 376,404 in 2027 – an increase of 42,529 (12.7%) when compared to the workforce in 2019, where the statutory retirement age was 63 years of age. By 2070, the workforce between 15 and 64 years of age will be 396,883, an increase of 18.9% over 2019.

[11] Europop 2019 projections produced by Eurostat
[12] % is defined as % of total project population
[13] Note: Eurostat takes the population as at 1st January of the year, whilst NSO takes population as at 31st December. Thus, the figure for population in 2019 in this table (taken from Eurostat's Population Projections) will be equal to the 2018 population in Table 3 (Taken from NSO).
[14] Unless otherwise stated all data presented in this section was made available to the 2020 Pensions Strategy Group by the National Statistics Office

During the period, 2027 and 2070, the working cohort aged between 61 and 64 years of age will increase from 24,500 to 35,022– and increase of 10,522 persons; or 42.9%. The Table below presents the projected total working age population.[15]

Table 10: Projected Total Working Age Population EUROPOP 2019.

Age	2019	2020	2030	2040	2050	2060	2070	2100
15-64	333,875	342,131	386,716	417,778	421,181	402,952	396,883	374,624

The old age to working age population dependency ratio (i.e. the ratio between the number of persons aged 65 and over and those aged 15-64) will fall from 1 person in retirement to 3.62 persons of working-age in 2019 to a ratio of 1 :1.73 in 2070, and to 1 : 1.61 in 2100.

Table 11: Old Age to Working Age Population Dependency Ratio [16]

Age	2017	2020	2030	2040	2050	2060	2070	2100
15-64	3.62	3.59	3.13	2.97	2.49	1.92	1.73	1.61

It is to be noted that the pension system provides an early exit route from the labour market: although a person's statutory retirement age may be between 62 to 65 years of age, a person, if born between 1952 and 1961, may retire at 61 years subject to the condition that it hase a paid or credited contribution accumulation period of 35 years (40 years if born between 1962 and 1968; and 41 years if born on and after 1969) and that once it exits the labour force it cannot work until it reaches 65 years of age.[17] This measure was one of the reforms introduced in 2007 directly primarily towards persons who are employed in manual and other physically strenuous jobs.

The pension reforms of both 2010 and 2015 expressed concern that this measure could constitute a legitimate exit route from the labour market for persons whose statutory retirement age increased from 62 to 65 years of age. In 2010, the government did not accept the recommendation to penalise persons who opted to exercise this exit route by a percentage of their pension income for the period they exited the labour market and the new statutory retirement age. The 2015 PSG adopted a different approach – that of incentivising persons to remain in the labour market and forgo their pension by increasing their pension income from 5% if they retired at 62 years of age, increasing to 23% if they worked up to 65 years of age; an increase which is also passed on to the spouse or partner in the event of the person's death. In addition, those born on or after 1969 now need 41 years of contribution to be able to exit the labour market at age 61, of which 7/8ths of the contributions must be paid.

The 2020 PSG assessed the impact of the pension age rise from 61 to 63 years of age stemming from the 2004 reforms on the labour market activity[18]. This study concludes that the data from the national employment register suggests that the rise in the labour supply in the age brackets directly affected by the pension age rise accounted for 5% of the entire rise in the labour supply during recent years. Whereas nearly 60% of women and 56% of men born in 1951 – who were unaffected by the reform - who were active, left the labour force by the time they reached age 63, for those born in 1956 the labour force drop-out rates declined to 14% for women and 36% for men. In the absence of this change in behaviour, the 50 and over workforce would be approximately 3,500 less than it actually was.[19]

Additionally, disaggregated data, broken down by occupational category and by economic sector confirms that, prior to the pension age changes, there was a pronounced difference in the labour market participation of various groups of full-time workers. The pension age rises appear to have led to a convergence of employment behaviour. Whereas less than a fifth of male workers employed in elementary occupations who were born in 1951 remained in full-time employment after they reached age 61, nearly three quarters of the cohort born in 1957 were still working after that age. Looking at

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[15] Malta Demographic Population Projected Baseline, Scenario 2, National Statistics Office, February 2020
[16] Ibid
[17] With regard to a person born on 1969 and over, that person must have a contribution accumulation history of 41 years, of which 7/8ths must be paid contributions or contribution credits accrued as a result of the receipt of an invalidity pension.
[18] Grech, A, A., The impact of the pension age rise on labour market activity in Malta, Pension Strategy Group, January 2020
[19] Pg 11, Ibid

men born in the same birth cohorts who were working as managers, the increase was from 57% to 82%. The convergence among women is, if anything, even more pronounced. The data also shows that men working in construction are increasingly working beyond the early exit age. Whereas just 14% of construction workers born in 1951 worked till they reached age 63, the proportion amongst those born in 1956 rose to 61%. Post-61 employment rates, thus, improved substantially in most sectors.[20]

The study shows that the pension age rises have boosted the labour supply significantly, leading to thousands of workers staying longer in economic activity. Moreover, this has tended to be in sectors that are heavily affected by ageing. It also indicates that concerns about certain groups of the workforce being less able to work beyond the early exit age have not really materialised. Manual workers have had a faster increase in their post-61 employment rates, possibly contributing to less inequality in retirement income provision.[21]

A research paper by the CBM estimates that the gradual increase of the pension age to 65 years should boost employment by over 7,200 by 2026. About 56% of this increase should be among men. The share attributed to women may seem somewhat high, given that at present the number of older women in employment is a third of that of men in the same age group. It further estimates that the potential labour supply should rise by 5.8% to 203,000 over the next decade. This implies that, whilst the first rise in the pension age boosted the potential labour supply by 0.6%, by 2026 the gradual rise to 65 should result in an upward shift of 3.6%.[22] These projections compare well with those of international studies. In a study on the UK Barell, Kirby & Orazgani (2011) argue that a 1 year extension of working lives increases GDP by 1 percent about six years after its implementation. They also find that, had the UK kept its pension age at 60 for women and 65 for men, between 2010 and 2030 growth would on average have been 0.3 percent lower.[23]

As can be seen from the Table below, the number of persons in full-time (F/T) employment between 2012 and 2019 increased from 145,500 to 216,500 – an increase of 48.8%. During the same period the unemployment rate, for persons aged 15-74 years, fell to 3.6%; that of males falling from 5.6% to 3.4%, and that of females from 7.2% to 4.0%.[24] Of particular note is the increase in the number of females in F/T employment when compared to that of males during the same period: 69.0% compared to 39.4%.

Table 12: Number of Persons in Full-time Employment by Sex (20-64 years): 2012-2019[25]

	2012	2015	2018	2019
Total	145.5	163.8	201.0	216.5
Males	99.1	108.9	127.9	138.1
Females	46.4	55.0	73.1	78.4

The number of persons in P/T between 2012 and2019 increased from 20,300 to 28,400, an increase of 8,100 persons or 39.9%. As can be seen from the Table below, increases occurred with regard to both males and females: males increasing by 56.9% and females by 34.2%.

[20] Ibid
[21] Pg 12, Ibid
[22] Pg 14, Grech, A. A., The possible impact of pension age changes on Malta's potential output, Policy Note, Central Bank of Malta, April 2016
[23] Pg 15, Ibid
[24] Report prepared by the National Statistics Office, February 2020
[25] Eurostat

Table 13: Number of Persons in Part-time Employment by Sex (20-64 years): 2012- 2019[26]

	2012	2015	2018	2019[27]
Total	20,300	25,600	28,200	28,400
Males	5,100	6,600	8,200	8.00
Female	15,200	19,000	20,000	20,400

Table 14: Usual Hours Worked per week

		Year			
		2012	**2015**	**2018**	**2019**
Male	**15 or less**	2,384	2,747	2,998	3,819
	16-25	3,971	4,794	5,042	5,466
	26-35	5,016	5,967	6,692	6,187
	36-40	75,513	85,648	98,072	99,815
	41 or more	22,166	22,006	29,017	34,371
	Total	109,050	121,162	141,821	149,658
Female	**15 or less**	4,232	5,057	5,164	4,579
	16-25	8,507	10,319	10,118	11,302
	26-35	11,308	14,839	17,771	19,103
	36-40	35,091	40,424	55,459	57,707
	41 or more	4,973	6,521	8,180	10,718
	Total	64,111	77,160	96,692	103,409
Total	**15 or less**	6,616	7,804	8,162	8,398
	16-25	12,478	15,113	15,160	16,768
	26-35	16,324	20,806	24,463	25,290
	36-40	110,604	126,072	153,531	157,522
	41 or more	27,139	28,527	37,197	45,089
	Total	173,161	198,322	238,513	253,067

The average number of hours worked in 2019 was 39.2 hours, with males and females working on average 41.1 and 36.5 hours per week respectively. As can be seen from the above table, between 2012 and 2019 there was an increase in people working in all categories, with the biggest increase being in the number of people working 41 or more hours (an increase of 66%). Females working 41 or more hours increased by 116% over this period. For males, the biggest increase was in the 15 hours or less category which increased by 60%, followed by a 55% increase in the 41 or more category.

Table 15: Number of Persons Aged 15 and over holding a Second Job: 2012-2019[28]

	2012	2015	2018	2019
Total	8,600	8,700	8,200	8,700
Males	6,500	6,200	6,200	6,400
Female	2,200	2,500	2,000	2,300

[26] Eurostat
[27] Data in this table corresponds to data for part time employment in Eurostat. Potential differences between Eurostat and NSO definitions of part time employees.
[28] Eurostat

The impressive increase in the total employment rate of females is shown in the Table below. In 2004, female employment rate stood at 34.3%. In 2019, female employment stood at 65.8% - an increase of 31.5 percentage points.

Table 16: Total Employment Rate by Gender (20-64 years): 2012- 2019[29]

	2004	2005	2010	2015	2018	2019
Total	57.9%	57.4%	60.1%	69.0%	75.5%	76.8%
Males	81.2%	79.7%	78.2%	82.1%	86.0%	86.5%
Females	34.3%	34.8%	41.6%	55.3%	64.1%	65.8%

The number of employed persons who are aged 65 years and over, increased from 2,600 to 54 between 2012 and 2019 – an increase of 2,800, or 107.7%. During the same period males over 65 years of age in employment increased by 2000 or 95.2%, whilst females increased 900, or 225%

Table 17: Number of Employed Persons Aged 65 years and over: 2012 –2019[30]

	2012	2015	2018	2019
Total	2,600	3,900	4,100	5,400
Males	2,100	3,200	3,500	4,100
Female	400	700	600	1,300

Between 2004 and 2019 the total working life increased by 8.5 years from 28 to 36.5 years – an increase of 30.4%. This is one of the strongest increases in the EU. In 2019, the male total working life reached 41 years – an increase of 2.6 years since 2004, or 6.8%; whilst during the same period that of females increased by 14.7 years –an increase of 86.0%.

Table 18: Total Working Life by Gender in Years: 2004-2019[31]

	2004	2005	2010	2015	2018	2019
Total	28.0	28.3	30.3	33.7	36.0	36.5
Males	38.5	38.2	38.7	40.1	41.0	41.1
Females	17.1	18.1	21.6	27.2	30.5	31.8

02.2 Assessment of the Pension System

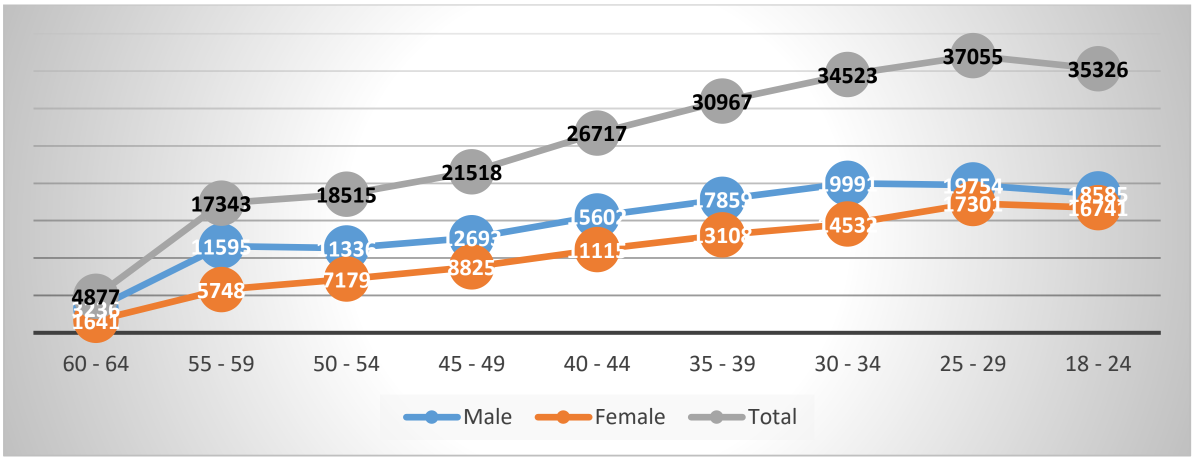
The Figure below presents the number of persons who contribute to the pension system as at the end of 2018 – a total of 226,841[32]. This is a significant increase when compared to the data on which the assessment of the pension system for the 2015 strategic review was based: a total of 167,921[33]. This constitutes an increase in paying contributors of 58,920 – or 35.0%. Of particular note is the increase in female contributors. In 2009, males stood at 74% of the contributors' population, which by 2012 this decreased to 61.3% - during which period the share of female contributors' increased from 26.0% to 38.7%. In 2018, the share of female contributors continued to increase – to 42.4%; or an increase of 3.7 p.ps.

[29] Ibid
[30] Ibid
[31] Ibid
[32] Report prepared by the Department of Social Security, February 2020
[33] The number of contributors was based on 2012 figures – pg 43, Strengthening the Pension System, Pension Strategy Group, Strategic Review 2015, Ministry for the Family and Social Solidarity, June 2015

The increased share of female participants is best seen when comparing female contributors in the 18-24 years cohort who stand at 16,741 in 2018 when compared to male contributors who stand at 18,585 – constituting 47.4% of persons employed; the 25-29 years cohort where female contributors stand at 17,301 compared to male contributors who stand at 19,754 – constituting 46.7% of persons employed; and the 30-34 years cohort where female contributors stand at 14,532 compared to male contributors who stand at 19,991 – constituting 42.1% of persons employed. When compared to females in employment between the ages of 50 to 64 years of age this constitutes a notable increase vis-à-vis the younger female generations' participation in the labour market. In the 60 to 64 years cohort, females constituted 33.7% of persons employed; and in the 50-60, females constituted 38.8% of persons employed. [34]

The increase in female participation stems from three important impacts. First, the older generation of female employees, which due to employment policy as well as social and cultural characteristics, was primarily male oriented is now retiring. Second, there is a considerable increase of women in higher and further education joining the labour market. Thirdly, a decidedly higher number of women are remaining in the labour market. The latter is the result of a series of supporting policies introduced since 2005, directed to create a supporting framework that enabled women raising a family to continue to be active in the labour market – including but not limited to family friendly measures, early child school drop-off and late child school pick-up, free child care as well as the pension gender based measures discussed earlier.

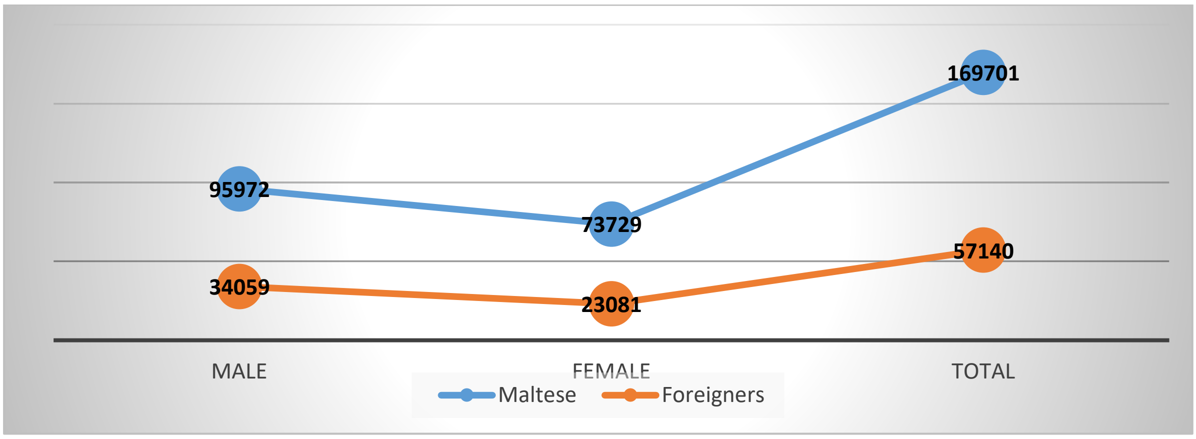
Figure 02: Male and Female Contributor Population in 2018



Of the total number of contributors in 2018, 214,410 – or 94.5% are employed; whilst 5.5% are S/E persons (12,431). As shown in Figure 03 below, 25.2% of the contributors are EU citizens and TCNs – of whom 40.1 % are female.[35] Between 2004 and Q1-Q3.2019, the total number of EU citizens increased from 11,852 to 29,767 – an increase of 151.2%; whilst that of TCNs increased from 8,036 to 28,298 – an increase of 252.1%.[36] It is to be noted that TCNs can only qualify for a contributory pension if they meet the qualifying number of pension contributions: 10 years for persons born before 1961, and 12 years for persons born after 1962. Given that most are staying less than 3 years, it is likely that these workers are contributing to the system but not accumulating any pension rights.

[34] Report prepared by the Department of Social Security, February 2020
[35] Ibid
[36] Report prepared by the National Statistics Office, February 2020

Figure 03: Male and Female Foreign Workers in 2018



The Table below shows the number of pensioners enjoying the retirement, invalidity and widow pensions.[37]

Table 19: Number of Pensioners between 2004 and 2018

	2004	2005	2010	2015	2017	2018
Retirement Pension	37,850	40,214	56,088	63,498	69,172	69,062
Increase on 2004						82.5%
Invalidity Pension	8,832	8,837	6,529	4,813	4,248	3,996
Increase on 2004						(121.0)
Widow's Pension	14,181	14,385	16,227	17,160	18,247	18,996
Increase on 2004						34.0%

The number of retired pensioners increased significantly between 2004 and 2015 – increasing by 67.7%. This increase is the result of the fact that during this period the bulk of the baby boomers started to retire. Indeed, between 2015 and 2017, and 2017 and 2018, the rate of increase of retirees slowed down – 8.9% and (0.1%). The number of retirement pensioners between 2004 and 2018 increased by 82.5%. During the same period the number of persons on an Invalidity Pension (IP) fell from 8,832 to 3,996 – a decrease of 4,836 persons, or (121.0%). This is the result of reforms triggered as part of the 2004 reforms, and which have continued since, directed to tighten the eligibility criteria to access the IP so that this does not become an exit route from the labour market – with the policy instrument redirected towards the principle of 'rehabilitation before pension' by means of offering suitable alternative work.[38] Pensioners receiving the WP increased on average by 344 person's year on year between 2004 and 2018.

The Table below compares the increases to the weekly maximum income for persons retiring in 2010 / 2015 and 2016, as the case may be with 2020.[39] The Two-Thirds Pension (TTP) – full rate - increased by 11.1% between 2010 and 2020; the Minimum Rate Pension (MNP) - increased by 5.7% between 2015 and 2020, whilst the GNMP increased by 15% between 2016 and 2020 for married persons.

[37] Report prepared by the Department of Social Security, February 2020
[38] Pg 71, Pensions Adequate and Sustainable: Reforms needed now to ensure adequate and sustainable pensions for future generations, White Paper, Office of the Prime Minister, 2004
[39] Report prepare by the Office of the Permanent Secretary, Ministry for the Family, Citizen's Rights, and Social Solidarity, January 2020

Table 20: Increases to the Weekly Maximum Income for Persons retiring in 2010, 2015 and 2020

	2010	2015	2016	2020
	€ / Weekly			
Retirement Pension				
Married				
Two-Thirds Pension – Max. Rate*	219.83	229.15	230.32	243.81
Two-Thirds Pension – Min. Rate**	65.95	68.75	69.10	73.14
Guaranteed National Min. Pension*	n/a	n/a	140.00	161.00
Single				
Two-Thirds Pension – Max. Rate	219.83	229.15	230.32	243.81
Two-Thirds Pension – Min. Rate	65.95	68.75	69.10	73.14
Guaranteed National Min. Pension*	n/a	n/a	140.00	157.00
Widow's Pension				
Maximum Pension for Widows*	183.19	190.96	191.93	204.15
National Minimum Pension for Widows*	109.37	118.69	130.30	144.20
Invalidity Pension				
Married				
Invalidity Pension***	84.84	94.16	95.32	109.22
Increased Invalidity Pension	119.11	128.43	129.60	143.50
National Minimum Invalidity Pension	126.86	138.03	139.43	153.56
Single				
Invalidity Pension***	71.68	81.00	82.17	96.07
Increased Invalidity Pension	95.81	105.13	106.30	120.20
National Minimum Invalidity Pension	109.37	118.69	119.86	133.76

*Assuming a full contribution average
**Assuming a minimum contribution average
***Also iro a Service pension

The following should be noted:

- The retirement single and married pension at the maximum rate increased by 6.39% respectively between 2015 and 2020 increased by 6.39% whilst the minimum rate for both single and married persons increased at the same rate, 6.38%

- The GNMP for single and married persons between 2016 and 2020 increased by 12.1% and 15.0% respectively.

The Table below presents the APRR – that is the average pension income when compared to the average wage.[40] As can be seen, the average wage between 2005 and 2019 increased by 61.1% - at a faster rate than the average increases in the retirement pension, the IP and the WP which during the same period increased by 43.5%, 28.1% and 42.6%.

[40] Report prepared by the Department of Social Security, February 2020

Table 21: Performance of the Average Pension Replacement Rate between 2014 and 2018

	2005	2010	2015	2017	2018	2019
	€	€	€	€	€	€
Average Wage	12,166	14,505	16,685	17,957	18,773	19,594
Increase on 2005		19.23%	37.14%	47.6%	54.31%	61.06%
Retirement Pension	5,495	6,568	7,005	7,358	7,695	7,884
Increase on 2005		19.53%	27.48%	33.9%	40.04%	43.48%
% of Average Wage	45.17%	45.28%	41.98%	40.98%	40.99%	40.24%
Invalidity Pension	4,238	4,508	5,056	5,181	5,434	5,514
Increase on 2005		6.37%	19.3%	22.25%	28.22%	30.11%
% of Average Wage	34.83%	31.08%	30.30%	28.85%	28.95%	28.14%
Widows Pension	5,395	6,307	6,930	7,797	7,353	7,695
Increase on 2005		16.9%	28.45%	44.52%	36.29%	42.63%
% of Average Wage	44.34%	43.48%	41.53%	43.42%	39.17%	39.27%

The MPI behaviour between 2007 to 2020 increased by COLA for persons born between 1952 and 1961 from €16,419 to €19,017, whilst during the same period for persons born on and after 1962 this increased from €16,419 to €24,986 on the basis of the afore mentioned indexation formula consisting of [*70% of Wage Inflation Increase + 30% of Retail Inflation Increase*]. The former increased by 15.8% whilst the latter by 52%.

Table 22: State of Account of a Notional Social Security Contributions Fund[41]

		2004	2007	2010	2015	2017	2018
		€000,000	€000,000	€000,000	€000,000	€000,000	€000,000
1	Social Security Contributions	295	320	365	489	586	647
2	Direct contribution SSA 1987	147	160	183	245	281	318
3	Additional Contribution				5	2	2
4 = 1+2+3	**Total Revenue**	**442**	**480**	**548**	**739**	**869**	**967**
5	Invalidity	36	37	29	24	22	22
6	Retirement	201	262	368	445	508	531
7	Bonus	26	29	47	66	72	74
8	Widows	77	90	102	119	134	140
9	Short Term	10	10	11	10	9	8
10	**Total Contributory Benefits**	**351**	**429**	**557**	**664**	**745**	**775**
11 = 4 -10	**Current Balance**	**91**	**52**	**18**	**75**	**124**	**192**
	Increase / Decrease on 2004		**(42.85%)**	**(80.2%)**	**(17.5%)**	**36.3%**	**110.9%**

[41] Ibid

The increased number of Maltese persons active in the labour market (in terms of increased female participation, aged 65 years and over, increased participation of persons aged between 61 and 63 years of age, etc.); the increased contributions paid by both persons born 1952 and over; and the high number of EU and TCN citizens gainfully occupied in Malta, result in an increasing positive balance in a notional *Social Security Contribution Fund* – that is, had the total contributory revenue been ring-fenced to meet the objectives of the contributory social security obligations as against contributory revenue being placed in the Consolidated Fund.

As can be seen from the above Table, decreasing surplus in the notional fund was reversed in 2015 – mainly the result of the additional revenue raised as the MPI for persons born on and after 1962 started to be increased as from 2011. The above shows that a notional Social Security Contribution Fund would as at 2018 have a surplus of €550m – assuming a cautious rate of return of 2.5% on the fund would render an interest of €13.8m in 2018. Against this surplus in the notional Social Security Contribution Fund are the future liabilities that are yet to be paid for future pensioners retiring on a higher MPI and the contributions paid by EU and EEA citizens – and, potentially, a pension to be paid to a smaller number of TCN citizens that meet the minimum criteria to qualify for a part or full Malta pension.

The study titled 'The evolution of social security contribution coverage in Malta' underlines that, whilst revenue in absolute terms has grown at an exceptional rate, contributions per taxpayer have not followed pace. From an average contribution of €1,876 in 2008, by 2017 the per capita contribution rose to just €2,277, an increase of 21%. This amounts to about two-thirds of the increase seen in per capita wages during the same period. This results from the fact that contributions are paid on individual's basic wages and not the entire wage income. The Table below suggests that as a percentage of total wages, social security contributions dropped from 14.3% in 2008 to 13.2% in 2017. Tax data indicates that, while in 2008 nearly €445 million of declared wage income were not classified as basic wages, by 2017 this amount rose to €704 million, a rise of 58%. In fact, approximately 18% of all declared wage income is not treated as basic wages and therefore does not require the payment of social security contributions or lead to pension entitlements. [42]

Table 23: Per Capita Contributions and the Effective Contribution Rate in Malta: 2008-2017[43]

	Contribution per taxpayer (€)	Contribution as % of per capita basic wage	Contribution as % of per capita total wage
2008	1,876	18.0	14.3
2009	2,000	17.6	14.3
2010	2,043	17.3	14.1
2011	2,071	17.1	14.2
2012	2,169	17.4	14.4
2013	2,209	17.2	14.2
2014	2,205	17.3	13.9
2015	2,157	16.5	13.6
2016	2,170	16.1	13.2
2017	2,277	16.0	13.2

Even if the focus is just on basic wages, the effective social security contribution rate is much smaller than the combined employee and employer rate of 20%. In 2008 contributions were equivalent to 18% of all declared basic wages, with the rate falling to 16% by 2017. This reflects the interaction of three particular groups, namely those on low basic wages which pay a flat rate (which is higher than the legislated rate), those earning basic wages above the maximum pensionable income (who pay a lower effective rate) and those earning basic wages in between these two groups (who pay the legislated rate). The Table shows how this distribution changed in terms of millions paid in basic wages.[44]

[42] Pg 4, Grech, A, A., The evolution of social security contribution coverage in Malta, 2020 Strategic Pensions Review
[43] Ibid
[44] Pg 5, Ibid

Table 24: Distribution of basic wages according to contribution rate: 2008-2017[45]

	Those paying the flat rate (€ millions)	Those paying the 10% rate (€ millions)	Those paying the maximum rate (€ millions)
2008	60.2	1,015.9	678.9
2009	65.7	990.9	780.0
2010	64.9	999.2	877.1
2011	67.8	1,153.2	882.7
2012	84.8	1,173.7	985.7
2013	83.2	1,295.3	997.3
2014	90.6	1,361.2	1,057.1
2015	96.6	1,467.9	1,291.6
2016	116.1	1,554.9	1,523.7
2017	88.3	1,531.3	1,686.9

The Table below shows the change in terms of number of taxpayers. In 2008, persons playing the *flat rate* amounted to 13.3% of all taxpayers and their combined basic wages comprised 3.4% of all basic wages declared. By 2017, their relative shares of total taxpayers and combined basic wages fell to 12.5% and 2.7% respectively. Moreover, whereas in 2008, their effective social security contribution rate amounted to 25.6%, by 2017 it fell to 20.1%. An important development was the rising share of persons on the *maximum rate*. In 2008 these amounted to 19.8% of all taxpayers and their combined basic wages comprised 38.7% of total basic wages. A decade later this group consisted of 24.7% of all taxpayers and their income amounted to 51% of all declared basic wages. In 2017, in fact, the basic wages of all those on the maximum rate started to exceed those of the other two groups. Besides accounting for a much larger share of all taxpayers, those on the maximum rate also saw their effective contribution rate fall from 14.1% in 2008 to 12.3% in 2017 (as their wages continued to rise faster than the maximum pensionable income).[46]

Table 25: Distribution of workers according to contribution rate: 2008-2017

	Those paying the flat rate (number)	Those paying the 10% rate (number)	Those paying the maximum rate (number)
2008	22,404	112,422	33,266
2009	21,524	104,108	36,191
2010	21,703	103,508	39,480
2011	22,432	112,922	38,076
2012	25,665	114,628	39,670
2013	25,753	122,513	37,121
2014	27,783	128,835	40,022
2015	31,792	140,545	45,928
2016	36,105	148,676	51,523
2017	28,926	145,992	57,290

Of note, the proportion of total wages which is paid as basic wages varies across the three groups of workers. The lowest share is of persons who pay the 10% contribution in 2017, who earned 79.3% of all their declared wage income as basic wages, as against the 85.5% share observed amongst those paying the maximum rate. By having more of their income declared as not being basic wages, these employees (and their employers) pay a lower effective contribution rate than 10%. In 2017, employees (and employers) that were liable for the 10% contribution rate paid an effective rate of 7.8% of their total wages - same as in 2008. This suggests that non-basic wages are a rather stable component of employees' remuneration packages, rather than temporary or irregular supplements. The reason why

[45] Ibid
[46] Pg 6, Ibid

these are shown as non-basic wages thus appears to be partly driven by social security contribution rate considerations.[47]

02.3 Pensioner's Income and Exposure to the Risk of Poverty

A cornerstone of the 2015 strategic review and subsequent measures introduced by the Government thereafter, was the strengthening of the pension system to one which secures that the value of the GNMP evolves upwards for current pensioners and for persons on the threshold of retirement. In essence, therefore, a significant part of the reform carried out over the past 5 years was directed towards measures introduced to improve the pensioner's and older persons' well-being.

As part of the work leading to this review, the 2020 PSG carried out a study to understand the extent to which the reforms embarked upon by the government following the 2015 review improved the position of pensioners and pension system. These findings are presented in a study titled 'Pensioners' Income and Exposure to the Risk-of-Poverty, 2017: Add-on Research Paper to the PSG Revision Report, 2019'.[48] This paper builds on a previous study which the 2015 PSG had carried out, and which was titled 'Analysis of Pensioners' Income' and appended to the PSG's report as Supplementary Paper Number 06.[49] The impact of the pension reforms introduced as budgetary measures in 2017 and 2018, is not visible in the 2017 EU Survey of Income and Living Conditions (SILC) income data presented in this research, given that the 2017 SILC income variable refers to the calendar year 2016. These reform measures, however, influenced the Severe Material Deprivation (SMD) data in 2017. The research reaches a number of conclusions – the key ones presented hereunder[50]:

01. The ARP tied to 60% of the Median National Equivalised Income (Md NEI) of persons 65+ is not an ideal indicator of the pensioners' well-being in Maltese society. Its hyperbolic output is not indicative of the pensioners' real income and well-being / hardship situation. The indicator does not reflect the heterogeneity of risks, faced by pensioners and older population as well as those faced by other 'working age' target groups such as single parents, immigrant population and families with three and more children. Their risks are different in type and in intensity. There is no equality of exposure when ARP.

02. The number of elderly 65+ who were persistently below ARP in the current year and at least 2 out of the preceding 3 years stood at around 3,154 (16.6%). This group should be the starting point of any deliberations aimed to help most needy elderly persons not because the numbers in this category are lower, but because the stakes are higher.

03. The overall impact of income distribution below 60% Md NEI is overwhelmingly positive, rendering 64% of all persons 60+ ARP (approximately 16,000) being densely distributed between 50% Md NEI and 60% Md NEI threshold, and therefore at a minimal ARP.

04. In the Maltese scenario, 50% Md NEI and 40% Md NEI thresholds would be much better indicators of ARP, than the 60% Md NEI threshold. Their use however remains rare.

05. The 2014-2017 ARP rates of persons 65+, show rapid increase in ARP of women when compared to the ARP rates of men, the increase in difference is from 1.3 p.p. in 2014 to 14.7p.p. in 2017. The relative median ARP gap of women contributory pensioners, however, is reduced, indicating that the upper half of all incomes of women contributory pensioners who are ARP is lower than the respective income threshold by only 9% in 2017. The gap in the case of men stands at 10.67% in the same year.

06. The trends in the median income of contributory beneficiaries 60 years of age and over who are ARP, show a healthy increase in the observed period. This manifests that the pension reforms

[47] Ibid

[48] Miljanick Brinkworth, M., Pensioners' Income and Exposure to the Risk-of-Poverty, 2017: Add-on Research Paper to the PSG Revision Report, 2019, Pension Strategy Group, December 2020

[49] Miljanick Brinkworth, M., Analysis of Pensioner's Income, Supplementary Paper Number 06, Pension Strategy Group, December 2014, Supplementary Papers to the Report 'Strengthening the Pensions' System; 2015 Pension Strategy Group, December 2014

[50] Pp 53-55, Miljanick Brinkworth, M., Pensioners' Income and Exposure to the Risk-of-Poverty, 2017: Add-on Research Paper to the PSG Revision Report, 2019, Pension Strategy Group, December 2020

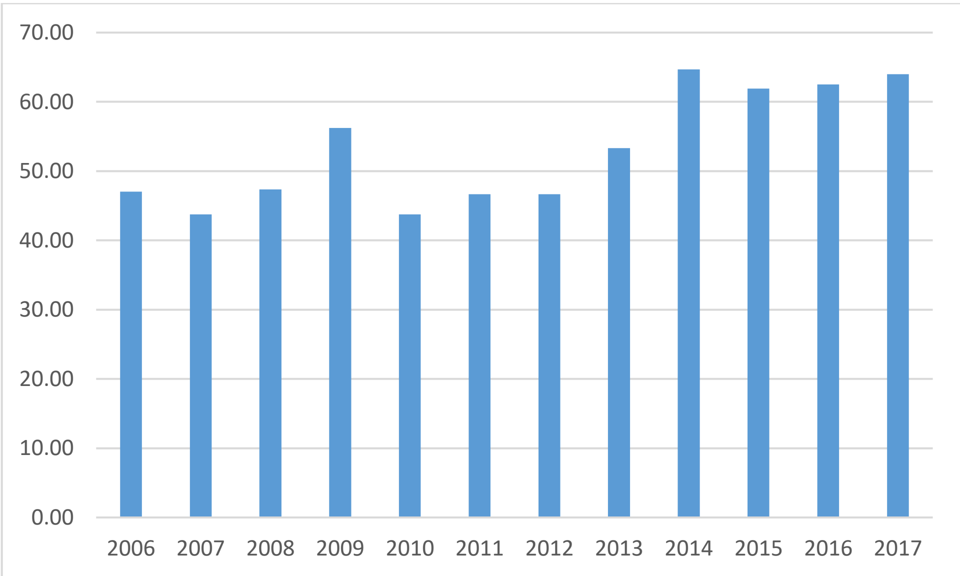
and other budgetary policy measures pensioners designed to ensure that pensioners have not been left behind were effective.

07. In 2017, 2,723 persons 65+ received contributory old-age benefits and an annual equivalised income of less than €6,347 - representing only 3.1% of the total number of the contributory pensioners 65+ estimated at 86,938 persons. The minimum rate of the GNML based on low average of 20-29 social security contributions in year 2016 was equal to €5,532.8 a year, for both single and married persons.

08. The low number of 2,723 pensioners however masks the strongest level of hardship experienced by a minority of pensioners. This calls for an even deeper focus on the circumstances of these families – one that should not be limited to the ARP 60% Md NEI based figures.

09. The median of the median ARP measured by Equivalised Income (EI) of contributory pensioners is well below the 5th percentile. The worrying sign is that the number of ARP pensioners below 5th percentile of the EI distribution, doubled in only three years, from 1,565 in 2014 to 3,212 in 2017. On the other hand, the number of ARP pensioners in the bottom half increased by only 590 in the same period - from 2,133 in 2014 to 2,723 in 2017. This shows that the MP safeguards work. The snowballing of the problem is, thus, in the middle part of the ARP contributory pensioners' EI distribution, between €6,347 and €6,806 EI, i.e. just below the 5th percentile and above the Md or the Md 60% EI.

Figure 04: Persons 60+ years of age, with income between 50% and 60% Md NEI, as a share of all persons 60+ and ARP: 2006-2017



10. Pension reforms and other budgetary policy measures worked well for the most deprived (EI below €6,347); however the number of pensioners in the €6,347 to €6,806 EI bracket increased. The highest increases in the number of contributory pensioners between 2014 and 2018 were recorded in the bottom 30% of the income distribution, 13,040 out of 18,428.

11. The difference in year-to-year increases in ARP thresholds between the total population and old age contributory beneficiaries stood at mere €73 in 2017, a further improvement from the €120 difference in 2015. This, too, shows that pension reforms and other budgetary policy measures directed to ensure that pensioners benefit from the flow of earnings of the working age population were effective.

12. More recent pension reform and other budgetary measures, such as the weekly increase of €2.17 due to all pensioners (contributory and non-contributory) introduced in the Budget 2019 are still to

be factored in the future ARP rate. This rate is expected to decline by 0.81% and significantly impact on the pensioners in the bottom two deciles of the income distribution is projected too[51].

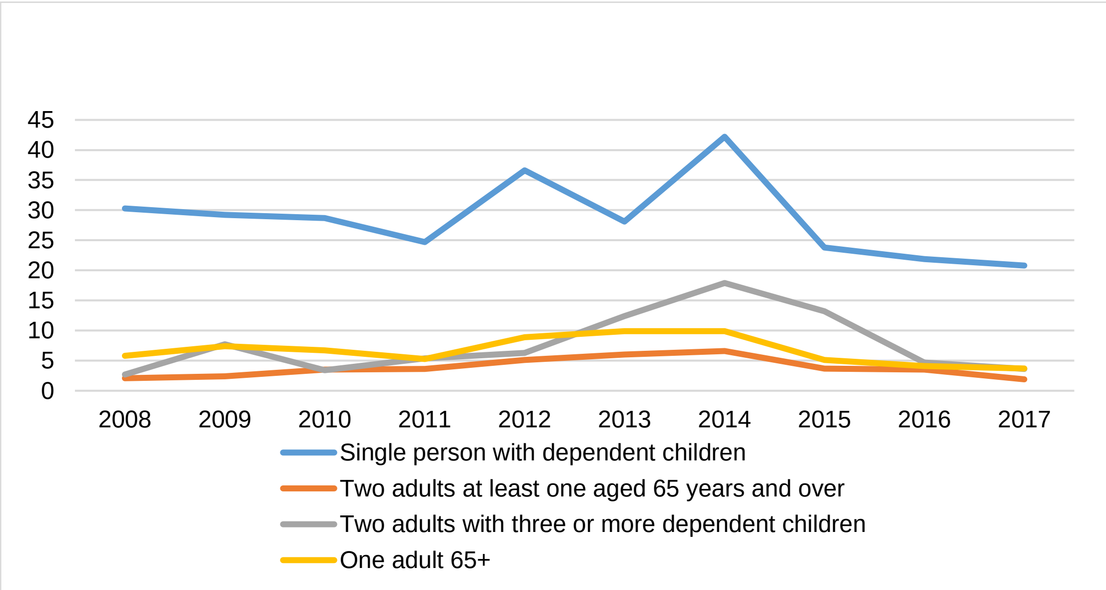
13. The overall SMD (based on 5 out of 13 items) indicates exceptionally good outcomes of the social policies aimed at the retired segment of the population. The SMD rate of 65+ old retired persons decreased from 19.6% in 2014 to 7.2% in 2017.

14. Retired persons have increased their annual expenditure from €12,284 in 2008 to €14,535 in 2015. This was only possible in the condition of their improved income which indeed had gone up by 30.6% in the period 2007-2015, a share which compares well with the increase in the disposable income of employed persons, increase of 32.8% in the same period.

15. Taking the consumption on leisure as a prime example of having money to spare, retired persons enjoyed an increase in expenditure on leisure from €2,043 in 2008 to €2,366 in 2015. In addition, older population 65+ spend 7.2% of their income in restaurants and hotels, which again compares favourably with households of employed persons, with higher income, who spend 8.6% in these establishments.

16. The Household Budgetary Survey (HBS) 2015 data shows persons aged 55-64, a broad age group which includes the youngest cohorts of pensioners, generated the highest average annual savings of €6,686, despite not being the highest earning age group. Older persons 65+ created significant annual savings, €3,119 or 17.7% of their disposable income.[52] This is the second highest share of savings among the five analysed groups. The household income is higher than the annual expenditure even in the second decile bottom 21% to 40% of all households, both one person 65+ and two-adult household types, which stands as a proof of saving abilities of the pensioners households.

Figure 05: Severe Material Deprivation by Household Type: 2008-2017[53]



17. The household median saving rate, expressed as percentage of the median income is higher for older persons than any other age group ranging from around 10% in case of 55-64 year olds, to exceptionally high 22% in case of persons 75 years and over. As expected, retired persons have higher household median saving rate of just below 10%, then employees (barring the self-employed) at 5%.[54]

[51] Pp 14-15, Ministry of Finance (2019), National Reform Programme (2018), Ministry of Finance, April 2019
[52] Household Budgetary Survey 2015, National Statistics Office, January 2018
[53] Pg 61, Miljanick Brinkworth, M., Pensioners' Income and Exposure to the Risk-of-Poverty, 2017: Add-on Research Paper to the PSG Revision Report, 2019, Pension Strategy Group, December 2020
[54] Gatt, W, 'A Profile of Household Saving Behaviour in Malta' in Quarterly Review 2015:1, Central bank of Malta, 2015

18. The successive issuances of the Malta Government Savings Bonds aimed at persons aged 62 years and over, proved that indeed this age category has a strong propensity to save and invest with total number of applications received increasing from 12,305 in September 2017 to 13,030 in March 2019 with the total nominal amount received of over €370 million.

The findings of this research study is corroborated by research carried out by the CBM which assesses household and consumption in 2010, 2013 and 2016.

Table 26: Median Value of Household Assets - 65 years and over [55]

2010 – €'000s											
	Main resid.	Other real estate	Vehic.	Valua.	Total Real Asset	Depos.	Secur.	Invest.	Pens& Life Ins.	Total Finc. Asset	Total Asset
65+	163.6	131.0	3.4	3.5	150.0	11.9	15.8	10.7	0	21.4	158.1
2013 – €'000s											
	Main resid.	Other real estate	Vehic.	Valua.	Total Real Asset	Depos.	Secur.	Invest.	Pens& Life Ins.	Total Finc. Asset	Total Asset
65+	182.8	114.6	2.9	5.4	196.0	13.3	18.3	20.7		20.5	199.9
2016 – €'000s											
	Main resid.	Other real estate	Vehic.	Valua.	Total Real Asset	Depos.	Secur.	Invest.	Pens& Life Ins.	Total Finc. Asset	Total Asset
65+	200.0	87.5	3.7	1.7	186.3	14.7	21.2	24.0		24.0	212.7

The 65+ cohort enjoys the lowest wealth accumulation at €212,694 – followed by the under 35 age cohort at €227,405 – with the highest being that enjoyed by the 35-45 age cohort at €290,599[56]. This is consistent with the life time savings and wealth journey of a household: ramping up wealth as one starts one's lifecycle – from entering into the labour market, raising a family, becoming mortgage free in the late 40 age cohort, to earning lower income and potentially dipping in investments in retirement. Of note, is the fact that as can be seen from the Table above, the median wealth of a household of over 65+ increased between 2010 and 2016 – both in terms of real and financial assets from €158,100 to €212,700. The Table below shows the median debt value of the 65+ aged household.

Table 27: Median Value of Household Debt – 65 years and over[57]

	2010				2013				2016			
	Total Mortg	Other Debt	Total	Total Rep	Total Mortg	Other Debt	Total	Total Rep	Total Mortg	Other Debt	Total	Total Rep
	€											
65+	0	0	0	50	0	1,295	2,800	287	0	932	1500	:

As can be seen from the above Table, the 65+ household has no mortgage debt. Credit card based debt increased between 2010 – though not to a level that this constitutes a danger that renders a 65+ aged household in a position that it cannot meet its outstanding debt payments. The other age cohort that was mortgage debt free between 2010 and 2016 is the 55 to 64 years household – with non-mortgage debt increasing from €2,589 in 2010 to €4,751 in 2016.[58]

[55] Attard, S., and Georgakopolous, I; Household Finance and Consumption Survey in Malta: The results from the Third Wave, WP/02/2019, Central Bank of Malta
[56] Pg 30, Ibid
[57] Pg 31, Ibid
[58] Ibid

02.4 The Macro Economic Assumptions

Previous reform baseline models, with the exception of the 2004 modelling, were based on the underlying macro-economic assumptions and projection methodologies applied for the carrying out of the periodic AWG Ageing Report– which report assesses the sustainability of age related expenses covering pensions, long-term care, health, education and unemployment benefits. The Table below presents the macro-economic assumptions on which the 2021 Ageing Report is based

Table 28: Demographic Dependent Macro-economic Assumptions on which the 2021 Ageing Report is based

Labour Participation Rate[59]	Total %		Young %		Prime Age %		Older %	
	20-64		20-24		25-54		55-64	
	2019	2070	2019	2070	2019	2070	2019	2070
Total	79.7	86.0	77.7	79.2	87.5	93.0	52.3	69.2
Male	89.4	89.6	78.0	80.7	96.7	96.4	67.8	73.8
Female	68.8	81.8	77.3	77.6	77.1	88.9	36.4	63.5
Unemployment Rate (15-64)[60]	2019 %		2029 %		2050 %		2070 %	
	3.4		4.4		4.3		4.3	
Employment Rate[61]	Total %		Young %		Prime Age %		Older %	
	20-64		20-24		25-54		55-64	
	2019	2070	2019	2070	2019	2070	2019	2070
Total	77.3	82.7	72.6	71.8	85.1	89.6	51.5	67.5
Male	86.8	86.4	72.3	72.3	94.2	93.2	67.0	72.5
Female	66.6	78.4	72.9	71.3	74.8	85.3	35.7	61.5

Total Weekly Hours Worked (15-74) ('000)[62]	Total	F/T	P/T		Total			Total		
	2019				2045			2070		
	9.830	93.1 %	6.9%		13.03	92.7 %	7.3%	12.20	92.4 %	7.3%

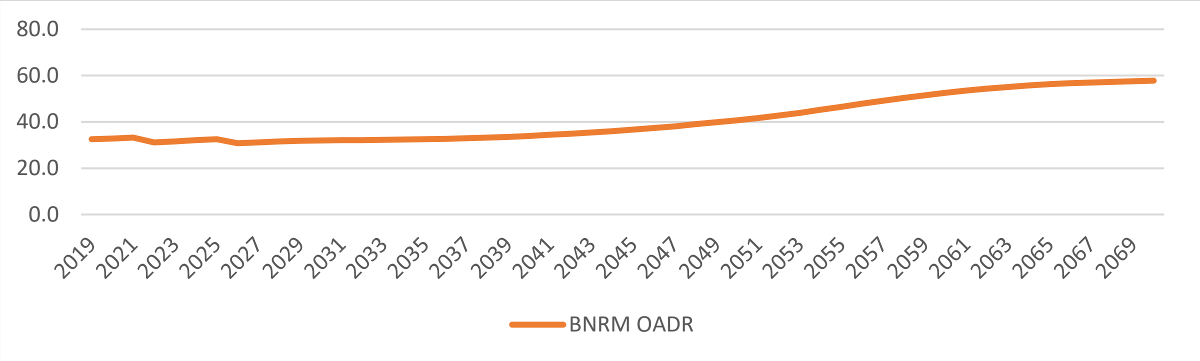
Potential GDP Growth Rate[63]	2019-2030	2031-2040	2041-2050	2051-2060	2061-2070	2019- 2070
	3.7	2.8	1.7	1.2	1.4	2.2

[59] Pp 47-48, Underlying Assumptions and Projection Methodologies, The 2021 Ageing Report, Directorate-General for Economic and Financial Affairs, European Commission, Official report is yet to be published.
[60] Pg 53, Ibid
[61] Pp 54-55, Ibid
[62] Pg 59, Ibid
[63] Pg 65, Ibid

02.5 The 2020 Baseline No Reform Model: Impact on Adequacy and Sustainability

The Figure below presents the Old-Age Dependency Ratio in a no reform baseline model. As can be seen from the Figure, this ratio is expected to improve over the term of the projection period – 2020 to 2070: increasing from slightly over 30.0 to slightly under 60.0.

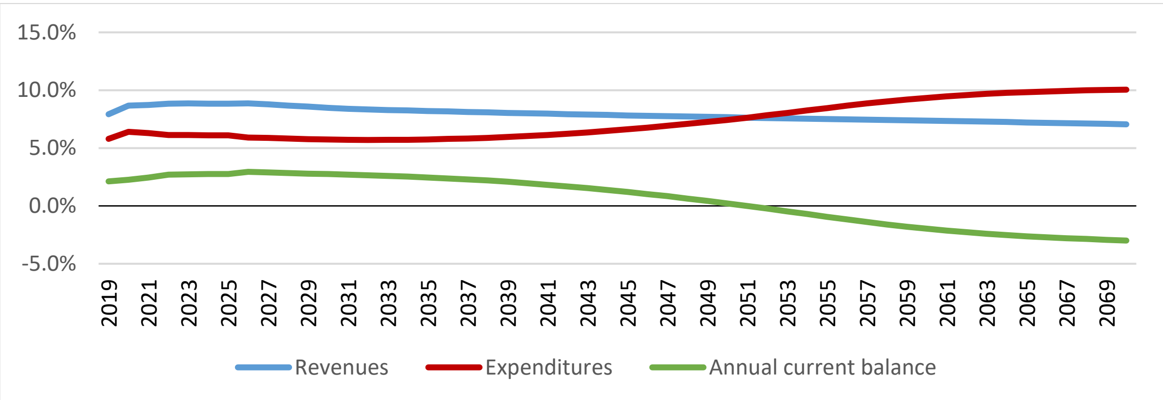
Figure 06: No Reform Baseline Model: Old-Age Dependency Ratio: 2020-2070



The Figure below shows the impact of the no reform baseline model as recalibrated on AWG 2021 assumptions. The projections cover contributory pensions for old age, survivorship and invalidity, and are based on data for 2019. In 2019, Government expenditure on these categories of benefits stood at €762.8 million. During the same year, revenues relative to social security contributions amounted to €1,046.1million, around a third of which reflect the State contribution under the obligations of the SSA.

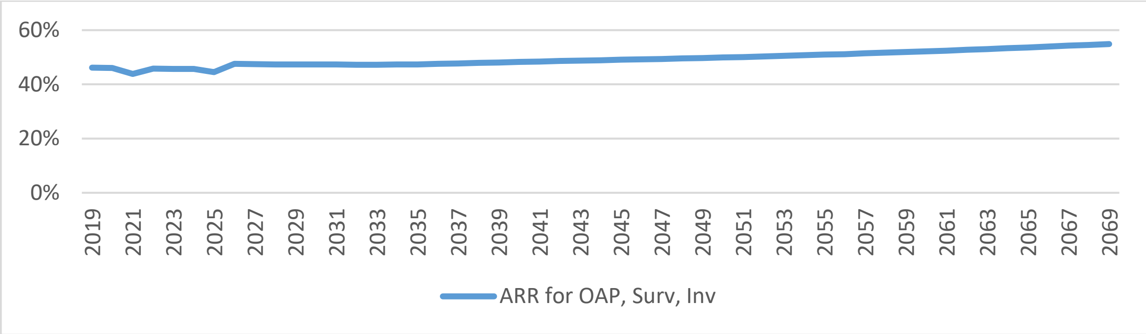
As illustrated in the Figure below, the ratio of total revenue as a proportion of GDP is projected to decline marginally over the projection period from 7.9 of GDP in to 7.0 per cent of GDP by2070. Expenditure is expected to remain broadly stable by around 2040 and then rise to 10.0 per cent of GDP by 2070, implying a rise of 4.3 p.p. throughout the entire projection period. Consequently, the system balance is projected to recede from a 2.1 per cent positive balance in 2019 (taking into consideration the state contribution), to a deficit of 3.0 per cent of GDP by 2070. This, however, is an improvement on the 2015 no baseline reform model projections which showed that up to 2045 the % of pension deficit to GDP fell from slightly below 0% in 2015 to 2% in 2045. Thereafter, however, it was estimated that in the 2015 no baseline reform model the % of pension deficit to GDP deteriorated to 4.8% between 2045 and 2060.

Figure 07: No Reform Baseline Model: Impact on the Pension System Deficit to GDP: 2020-2070



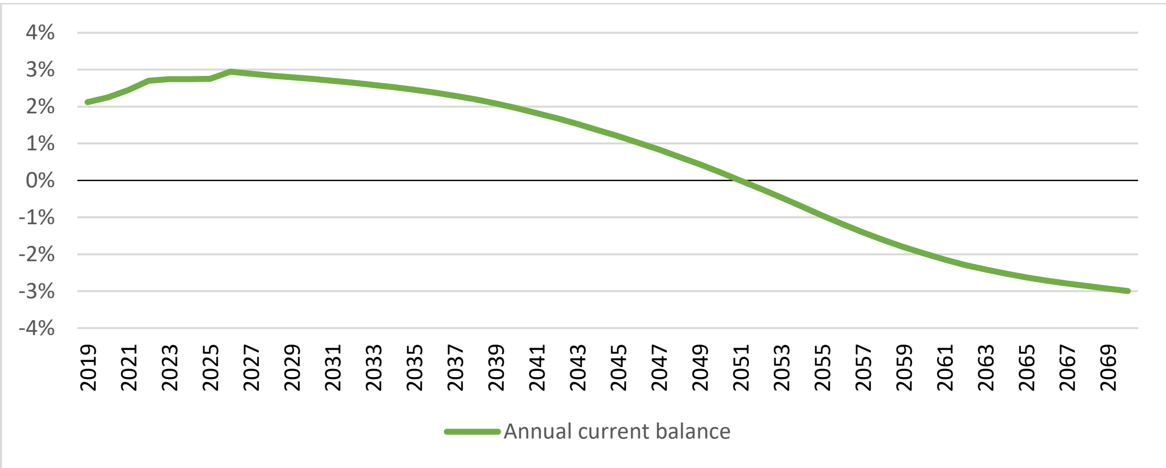
Given that the assumptions on which the no reform baseline model projections are based are more positive, the adequacy level with regards to the APRR improves when compared to the 2015 projection. The APRR under the new projection bottoms out at approximately 45.0 per cent in 2025 before increasing to 48.0 per cent in 2026, after which it will progressively increase to 55.0 per cent till 2070.

Figure 08: No Reform Baseline Model: Impact on Adequacy: 2020-2070



Given that the assumptions on which the no reform baseline model projections are based are more positive, the pension system deficit relative to GDP improves, as discussed, above when compared to the 2015 projection. The pension system reaches a -2% deficit relative to GDP in 2061, as against 2045 in the 2015 no reform baseline model, with the pension system deficit in 2070 estimated at approximately -3.0% (estimated at -4.8% in 2060 in the 2015 no reform baseline model).

Figure 09: No Reform Baseline Model: Impact on Adequacy: 2020-2070



02.6 Sensitivity Analysis on 2020-2070 No Reform Baseline Model Projections

Long term projections, such as those concerning pensions are not forecasts. 50 years, half a century, is far too long a period of time to assume that projections made today will truly materialise as planned. Furthermore, given the outbreak of the COVID-19 pandemic and the limited tools of monetary and fiscal policy to reignite economic activity, there is also considerable uncertainty concerning medium, let alone long-term economic developments.
Although the Strategy Group has considerable knowledge of the behaviour of workers and pension beneficiaries over the next 20 years, substantial uncertainty exists, for example, on productivity developments, unemployment, migration flows, and the magnitude of the associated fiscal costs.

For this purpose, the Strategy Group carried out a sensitivity analysis on pension system drivers to understand the extent to which projection results are influenced by the underlying assumptions. The following scenarios are modelled to simulate the behaviour of the pension system under different behaviour assumptions regarding the key drivers that affect the performance of the pension system.

Furthermore, given the high uncertainty surrounding the COVID-19 pandemic, two additional sensitivity tests were also carried out to take into account the potential impact it might have on the pension system. A description of the sensitivity tests follows alongside a summarising Table.

Population related sensitivity scenarios

- High life expectancy: this scenario models an increase in life expectancy at birth, with the demographic effects being realised in the outer years.
- Higher/Lower migration: – a scenario which assumes 33.0 per cent higher/lower migration compared with the baseline over the entire projection period.
- Fertility – A scenario where the fertility rate is assumed to be 20.0 per cent lower compared to the baseline scenario over the entire projection period.

Labour force related sensitivity scenarios

- Higher Employment Rate of older workers - This scenario models a 10.0 percentage point increase in the employment rate of older workers (55-74 years) when compared to the baseline projections. This increase is introduced linearly over the period 2021-2033 and remains 10.0 percentage points higher thereafter.

Productivity related sensitivity scenarios

- TFP Risk scenario – This scenario will assume a lower convergence rate of 0.8 per cent, rather than the 1.0 per cent used in the baseline scenario, thus implying lower labour productivity and lower potential GDP.
- Higher TFP risk scenario – The higher TFP growth scenario assumes convergence towards a TFP growth rate of 1.2 per cent.

Policy related sensitivity scenarios

- Linking Retirement age to life expectancy – this scenario considers the adoption of an automatic mechanism to revise the effective retirement age (the exit age from the labour market as estimated by the Cohort Simulation Model), thereby changing the statutory and early retirement ages in line with changes in life expectancy.
- Unchanged retirement Age – In this scenario, the early and statutory retirement ages, as well as the career requirements are frozen at the situation in the base year.

COVID-19 sensitivity scenarios

- Lagged recovery scenario - this scenario maintains the assumption of a relatively limited impact on potential growth (slightly higher than in the baseline scenario), but with a much more pronounced cyclical downturn and a longer recovery phase, resulting in a wide ‘U-shaped’ recovery instead.
- Adverse structural scenario - in addition to the stronger cyclical downturn in the lagged recovery scenario described above, this adverse structural scenario additionally assumes that the growth potential would be lower over the next decade and potential output growth will thus be permanently lower than in the baseline.

The Table below presents the pension system performance under different scenarios.

Table 29: Pension System Indicators under different Sensitivity Scenarios

	2019	2020	2030	2040	2050	2060	2070	
	%	%	%	%	%	%	%	
Baseline								
Total Revenue	7.9	8.7	8.5	8.0	7.7	7.4	7.0	
Total Expenditure	5.8	6.4	5.7	6.0	7.4	9.3	10.0	
Balance	2.1	2.3	2.8	2.0	0.2	-2.0	-3.0	
ARR for OAP	47.2	47.2	41.9	40.2	40.2	39.1	37.2	
High life expectancy								
Total Revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Total Expenditure	0.0	0.0	0.0	0.1	0.2	0.3	0.5	
Balance	0.0	0.0	0.0	-0.1	-0.2	-0.3	-0.5	
ARR for OAP	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	
Higher migration								
Total Revenue	0.0	0.0	0.0	0.1	0.1	0.1	0.1	
Total Expenditure	0.0	0.0	-0.2	-0.3	-0.6	-0.8	-0.7	
Balance	0.0	0.1	0.3	0.4	0.6	0.9	0.8	
ARR for OAP	0.0	0.2	0.6	0.6	0.4	0.3	0.3	
Lower migration								
Total Revenue	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	
Total Expenditure	0.0	0.0	0.2	0.4	0.7	1.2	1.1	
Balance	0.0	-0.1	-0.3	-0.5	-0.8	-1.3	-1.1	
ARR for OAP	0.0	-0.2	-0.7	-0.6	-0.4	-0.3	-0.4	
Lower fertility								
Total Revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Total Expenditure	0.0	0.0	0.0	0.0	0.2	0.5	0.9	
Balance	0.0	0.0	0.0	0.0	-0.2	-0.6	-1.0	
ARR for OAP	0.0	0.0	0.0	-0.1	-0.2	-0.2	-0.2	
Higher Employment Rate for older workers								
Total Revenue	0.0	0.0	-0.1	-0.1	-0.2	-0.2	-0.2	
Total Expenditure	0.0	0.0	-0.1	-0.1	-0.2	-0.4	-0.3	
Balance	0.0	0.0	-0.1	0.0	0.0	0.2	0.1	
ARR for OAP	0.0	0.0	0.2	0.1	0.0	0.0	0.0	
TFP Risk scenario								
Total Revenue	0.0	0.0	0.0	0.0	0.1	0.1	0.2	
Total Expenditure	0.0	0.0	0.0	0.1	0.2	0.4	0.5	
Balance	0.0	0.0	-0.1	-0.1	-0.1	-0.2	-0.3	
ARR for OAP	0.0	-0.1	0.7	1.2	1.5	1.9	2.3	
Higher TFP risk Scenario								
Total Revenue	0.0	0.0	0.0	-0.1	-0.1	-0.2	-0.3	
Total Expenditure	0.0	0.0	0.0	-0.1	-0.2	-0.4	-0.6	
Balance	0.0	0.0	0.0	0.0	0.1	0.2	0.3	
ARR for OAP	0.0	-0.1	0.3	-0.4	-1.1	-1.6	-2.1	

Linking Retirement Age to Life expectancy								
Total Revenue	0.0	0.0	0.0	0.0	-0.1	-0.2	-0.2	
Total Expenditure	0.0	0.0	0.0	0.0	-0.1	-0.3	-0.4	
Balance	0.0	0.0	0.0	0.0	0.0	0.1	0.2	
ARR for OAP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Unchanged Retirement Age								
Total Revenue	0.0	0.0	0.1	0.1	0.1	0.1	0.1	
Total Expenditure	0.0	0.0	0.1	0.1	0.1	0.2	0.2	
Balance	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	
ARR for OAP	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0	
Lagged Recovery Scenario								
Total Revenue	0.0	0.3	0.3	0.3	0.2	0.2	0.1	
Total Expenditure	0.0	0.2	0.0	0.0	0.1	0.1	0.2	
Balance	0.0	0.1	0.3	0.2	0.2	0.1	0.0	
ARR for OAP	0.0	0.0	0.4	0.4	0.3	0.2	0.0	
Adverse Structural scenario								
Total Revenue	0.0	0.3	0.3	0.4	0.5	0.6	0.7	
Total Expenditure	0.0	0.2	0.3	0.4	0.6	1.0	1.3	
Balance	0.0	0.1	0.0	0.1	-0.1	-0.4	-0.6	
ARR for OAP	0.0	0.1	0.2	1.1	1.8	2.4	3.0	

03.1 Introduction

In its strategic review, the 2015 PSG assessed past pension reform in Malta, considered views presented by stakeholders in discussions with it (and previous reform groups), as well as experiences and lessons learnt from pension reforms carried out locally and overseas, in order to establish the first principles and underlying philosophy which were to drive the recommendations it was to present. Within the context of this assessment the following are important issues that the 2015 PSG[64] believed should constitute the next stage of the reform of the pension system – the need to:

(ii) Seek to optimise poverty alleviation effectiveness.

(iii) Define what role the state has in smoothing income over the life-course.

(iv) Achieve the right balance between contributions and benefits.

(v) Introduce automatic adjustment mechanisms.

(vi) Ensure that administrative and technical implementation is given key consideration.

The 2015 PSG[65] presented the following principles on which the pension system should be based, and which its proposed reforms should be addressed:

(f) The need for a clear definition of the objectives of the pension system.

(g) An adequate and sustainable pension system sustained by a strong employment policy.

(h) The state pension should constitute a solid foundation, but it should not be the only source of retirement income.

(i) The pension system is rendered socially sustainable by providing for a fair balance between contributions and benefits across generations.

(j) To remain adequate and sustainable, the pension system needs to evolve and effectively to respond to long term developments.

An important step in the drafting of this report is that of determining whether the principles identified by the 2015 PSG continue to apply – and to what extent should these principles be modified to reflect demographic, societal and economic changes that have occurred since. This review is presented in a paper titled ‘Review of the Principles underpinning the Maltese Pension System’.

03.2 Reviewing the Underpinning Strategic Principles

The review concludes that the five issues highlighted in the 2015 strategic review appear to have remained essentially unchanged.[66]

[64] Pp 55-56, Strengthening the Pension System, Pension Strategy Group, June 2015
[65] Pg 55, Ibid
[66] Pg 6, Grech, A, A., Review of the Principles underpinning the Maltese Pension System, Pension Strategy Group, 2018

03.2.1 Principle 1: The need for a clear definition of the objectives of the Pension System

The first principle set out in the 2015 strategic review was that the State had to be clear about the objectives of the pension system. The review argued that the scope of the national pension system needed to be more clearly defined, both for current and future pensioners. The review proposed that the pension system should be kept as simple as possible, where contributors understand what they will get out of the system so that they can make the correct employment and savings decisions. Additionally, the State is to adopt an integrated approach where it defines the minimum income standard guarantee that it wants certain strata of the population to have access to. Additionally, the 2015 PSG underlined that poverty alleviation should as much as possible be kept separate from social insurance.

As discussed, and shown earlier in this document, the significant part of the pension reform measures introduced between 2015 and to date were directed towards those contributory pensioners who are ARP – resulting in a process where current pensioners on the lowest income are gradually moving towards the benefit generosity envisaged for the GNMP that will be introduced in 2026. This approach has enabled Government to alleviate the ARP of contributory pensioners in old age. [67] As presented in study titled Pensioners' Income and Exposure to the Risk-of-Poverty, 2017: Add-on Research Paper to the PSG Revision Report, 2019' protection against ARP has also been safeguarded by a series of social security budgetary measures introduced between 2016 and 2019.

The 2020 PSG posits the following:

01. The introduction of an integrated approach where the State defines a minimum income standard that it wants pensioners to have access to, should be offered on a household basis and should provide a graduated benefit depending on the benefits, income and in-kind benefits, and services earned by the household. Rather than simply establishing a link between the definitions of the guarantee to the ARP threshold, the Government should instead opt for a minimum budget approach which would be reviewed as part of the five year strategic review process.[68]

02. It reiterates the position made in both the 2010[69] and 2015[70] strategic reviews respectively that the MPI and the pension income of current pensioners should not be linked only to retail inflation but also to wage inflation – thereby securing a more socially equitable impact as such a measure (i) affects all pensioners and not only those pensioners who are covered by a Collective Agreement (CA) who benefit when there are increases following CA negotiations; and (ii) secures the important relationship between pension income and wage increases. The introduction of such a retail prices and wage inflation mechanism should replace the current CA pension re-assessment.

03. It continues to be important to separate the poverty alleviation function from the contributory insurance system. It should be noted that a significant number of households in Malta – primarily those born on and after 1961 - only rely on one pension, and pressure to raise the married pension income level makes it difficult to sustain the contributory principle that benefits should reflect one's contributions, rather than the specific circumstances faced by the individual (such as the need to support dependents). Rising female labour participation and pension entitlement will gradually diminish this issue. Nevertheless, this dichotomy will remain as long as a single and married rate are in place. To address this fully, the PSG considers that it would be best to move to having just a single rate pension coupled with a dependent pension top-up, with the latter being treated as a non-contributory benefit to be financed from general taxation.[71]

05. In 2017, the Government launched the Retirement and Financial Capability Strategy. The inculcation of retirement-based knowledge and education is important – primarily for those persons who are middle income earners. For this cohort of persons, the two-thirds pension is not only a misnomer but misleading, as it continues to promise a replacement rate of 67%, when in fact they will have a replacement rate of 45% and less. Whilst in 2008 there were just 33,266 taxpayers above the MPI threshold, this rose to 57,290 persons by 2018. The wages earned by those above

[67] Pg 7, Ibid
[68] Pg 8, Ibid
[69] Pg 105, Final Report: Strategic Review – Outcome of the Consultation Process and Proposed Next Steps, 2010 Pensions Working Group, March 2012
[70] Pg 105, Strengthening the Pension System, Pension Strategy Group, June 2015
[71] Grech, A, A., Review of the Principles underpinning the Maltese Pension System, Pension Strategy Group, 2018

the MPI threshold exceed the total paid to those workers paying the 10% contribution rate for the first time in 2017, while a decade ago they amounted to less than two-thirds.[72] The 2020 PSG emphasises that the retirement and financial capability platform must be institutionalised and provided with a more substantive budget.

03.2.2 Principle 2: An adequate / sustainable pension system needs a strong active employment policy

The 2015 PSG underlined that an active employment policy will render the system more sustainable. Additionally, it will also enhance the adequacy of the system and reduce reliance on the minimum pension guarantee, particularly if, as occurred in the 2007 pension reform, there is a further strengthening of the link between the contributions paid during one's career and the resulting pension entitlements. Section 02.1.2 titled 'The Labour Market Landscape' discussed earlier shows how active employment grew across all cohorts of the population, and how significant foreign worker migration was necessary to maintain economic growth.

The 2020 PSG posits the following:[73]

01. Traditionally, care for the elderly has been 'informal' – carried out by relatives – normally a female; though more recently, due to home based support benefits, care is also being provided by personal home assistants. In 2018 nearly 31,000 women claimed they were inactive due to personal or family responsibilities. The need for women to leave the workforce to provide long-term care, appears still relevant and is expected to increase as the demand for care for the elderly services will increase as the population ages. It is important to develop a strategy to ensure that long-term care does not reduce female labour participation. The same vigour and resources devoted to boosting childcare need to now be devoted for long-term care.

02. As shown earlier in the document, the number of persons employed who are aged 55 to 63 has increased despite the possibility to exit the labour market at 61 years – thus showing that the incentive mechanisms introduced in 2017 are leaving the desired effect. The momentum achieved in this regard is to be maintained; and improved upon if possible.

03. As shown earlier in the document, one demographic cohort where continued active participation in the labour market continues to be poor is that of persons aged 65 years and over. Incentive mechanisms to attract such persons to remain active are to be introduced.

04. The dependence on older workers amongst high valued added sectors has risen greatly in recent years. Up-skilling and re-skilling of older workers needs to be strengthened. This will require more flexible educational solutions, including training courses organised in close cooperation with employers.

03.2.3 Principle 3: The state pension should constitute a solid foundation, but it should not be the only source of retirement income

The 2015 strategic review, consistent with 2005 and 2010 reform reports, underlined that the pension system must ensure that it provides contributors with a solid pension income that assures dignity in retirement. For middle income earners, the retirement pension income will be far less than income earned in employment – and hence, potentially, significantly affecting their quality of life in retirement. Securing a quality of life that approximates income earned in employment means that the social security contributory pension income is to be complemented by other sources of retirement income. The third pension – PPS and voluntary occupational retirement pension schemes (VORPS) – was first recommended for implementation in the November 2004 White Paper. Regrettably, no action was taken until 2013 when a new administration was elected to government. The first PPS were only introduced on the market in 2015. The number of persons enrolled in a PPS increased from 3,612 to 6,484 as at base years 2018 and 2019 respectively – an increase of 2,872 new members or 79.5% on 2018.[74]

[72] Pg 9, Ibid
[73] Pg 12, Ibid
[74] Ad hoc report generated by the Commissioner for Revenue, March 2020

The response by employers to the introduction of VORPS was initially muted – as industry found the fiscal incentive framework less than attractive. This was subsequently reviewed, and established at a tax credit of 25% to a maximum of an annual contribution of €2,000 per employee paid by the employer – which contribution is treated for tax purposes as a Profit and Loss item. Employers have paid contributions for 979 employees – of which a significant number of 904 employees contributed to their respective scheme - an increase of 84 employees or 9.4% on 2018.[75] This incremental increase on 2018 is mainly due to the facts that (i) the new fiscal incentives are relatively still fresh whilst education and marketing of the positive impact to employers of these incentives is yet to be ramped up; and (ii) there are no local VORPS' products on the market.

Some 76.4% of persons in Malta own (freehold and ground rent) their home[76]. For the majority of people, buying a home is the single largest investment made in their lifetime. As shown earlier, by age 54 the mortgage on a home is paid. In owning their home people over their lifetime would have built up considerable amounts of equity in their home - with the value of the property constituting a high proportion of accumulated wealth of households aged 65 and over. Since 2004, the reforms have underlined the importance of providing owners of residential property with the opportunity to release part or all of their equity in their home as income for retirement. A positive step taken in this regard is that late in 2019 the Government issued a regulatory framework for equity release products. At the time of writing of this report, however, there are no equity release products available on the market.

The 2020 PSG posits the following:

01. Although the PPS were introduced as recently as at the end of 2015, the uptake over the 4-year period is encouraging. Be that as it may, research overseas shows that take-up by means of fiscal incentives alone will not result in coverage required to ensure that, primarily, middle income earners have a supplementary source of income to the contributory pension to allow them to bridge the gap between the contributory pension income and the income earned in employment. This is a result of behavioural heuristics. There is a strong case to replicate overseas experiences where VORPS are designed to counter behavioural heuristic triggers.

02. The current state of play, which results in low financial returns yet with property prices rising, poses particular challenges. It is important to modify fiscal incentives so that they become more advantageous to younger workers. One option could be to give starter bonuses or improved tax relief to young savers. Buying a property and saving for retirement should not be seen as conflicting objectives but rather as complementary goals.[77]

03. Persons should be enrolled in VORPS. Enrolling a person in their first job means that, assuming it pays a monthly contribution of €83 in PPS / VORPS over a period of 40 years with an interest rate of 2.5%, it will accrue a retirement nest egg of approximately €70,000. Enrolment should take place on signing of an employment contract with the person having the right to opt out of such an enrolment.

04. Research shows that getting persons on low income to invest in a pension retirement plan is not a correct approach. First, a person on low income receives the full two-thirds pension. Second a person on low income is more likely to face money management challenges during its lifecycle; which money management challenges likely to accentuate if it is to invest in a monthly PPS' contribution. The re-designing of VORPS to counter behavioural heuristic triggers should exclude persons in low income employment.

05. People hold investments in products that are not retirement pension plan products – such as, for example life endowment or unit index investment products respectively. Fiscally incentivised pathways should be introduced to attract persons to migrate such income on maturity into PPS.

06. Preparing for one's retirement should be a mind-set instilled at the earliest age possible. Fiscally incentivised pathways should be introduced to allow parents to invest for their children's retirement – which pathways should be supported by ĠEMMA based education campaigns
07. The effectiveness of the new home equity release products regulation is to be monitored.

[75] Ibid
[76] Census of Population and Housing 2011, Final Report, National Statistics Office, Malta, 2014
[77] Pg 14, Grech, A, A., Review of the Principles underpinning the Maltese Pension System, Pension Strategy Group, 2018

03.2.4 Principle 4: The pension system is rendered socially sustainable by providing for a fair balance between contributions and benefits across generations

The 2015 PSG report[78] declared that the foundation of the inter-generational contract underlying the provision of pensions is that workers contribute today towards the pensions of those who contributed in the past, on the promise that in future this will be done in their favour by future workers. For this contract to remain socially sustainable, the system needs to provide a fair balance between the ability of generations to contribute and their need for benefits. Given that the payment period for benefits is lengthening significantly due to continued increases in life expectancy, for the conditions governing to remain fair, the social contract needs to evolve.

The PSG underlined that an option to achieve this is to decide upon the ratio between the number of years society is willing to pay a pension, and the number of years it expects an individual to contribute towards this benefit, and seek to maintain this unchanged over time. This new social contract would require decisions on three parameters: (i) the age at which benefits could first be accessed; (ii) the minimum level of generosity allowed; and (iii) a formula that determines the entitlement created by each year of contribution, taking into consideration the period for which entitlements will be drawn.[79] Rather than focusing on a relatively blunt parameter, like the retirement age indexation mechanism, the 2015 PSG[80] established that the preferred approach is to address the ageing transition by creating an inter-generationally fair link between the period spent in receipt of benefits and that spent earning them.

Under this approach, lower-income or manual workers – who tend to start contributing earlier and have shorter longevity – are not disadvantaged vis-à-vis professional workers. Eurostat data indicates that there is a gap of 4.5 years between those with low and high educational attainment.[81] Yet, as discussed earlier, the data shows that persons working in manual or physically tough jobs are increasingly working beyond the early exit age. By focusing on the contributory period, rather than the retirement age, this gap is addressed. The main argument against an increasing contributory period is that certain categories of workers have to take career breaks. This is particularly relevant for women. Recent reforms, however, to the contribution credit system, which increased the credits for childcare and introduced credits for lifelong learning and human capital, partially address these concerns. The introduction of a more generous minimum pension also ensures that those who do not have a complete contribution record have access to a better social safety net.[82]

The 2015 PSG recommended that the contribution period is increased from 40 to 41 years for those born on 1969 or after. Men born in that year currently have a life expectancy of 34.4 years, implying that they could draw a pension for 17.4 years if they retire at 65 or else for 21.4 years if they retire at 61. This implies that every year of contributions could earn them between 0.4 and 0.5 years of benefits. The principle that the number of contribution years needs to rise in line with the expected period for which a pension will be drawn, creates an incentive for those on middle-to-high incomes to lengthen their careers in line with longevity. On the other hand, those on low incomes face less pressure due to two factors, namely: (i) the generosity of the system towards them is higher, (ii) they start their careers earlier. Take for instance, a manual worker who starts contributing at age 18. If the contribution period is set at 43 years, he still would be able to retire at 61. For a professional worker who started contributing at 22, taking into account credits awarded, to have the full contributory period, he would need to retire at 63. Given that the latter worker will draw a pension for longer; this later retirement is only fair.[83]

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[78] Pg 59, Strengthening the Pension System, Pension Strategy Group, June 2015
[79] Pg60, Ibid
[80] Ibid
[81] England, K., Vogt, T., Azzopardi Muscat, N. (2016), The evolution of life expectancy in Malta over half a decade, *The Synapse.net*, 15(03): 13- 16 https://www.um.edu.mt/library/oar/bitstream/handle/123456789/14277/The%20evolution%20of%20life%20expectancy%20in%20Malta.pdf?sequence=1&isAllowed=y
[82] Pg 16, Grech, A, A., Review of the Principles underpinning the Maltese Pension System, Pension Strategy Group, 2018
[83] Ibid

The 2020 PSG posits the following[84]:

01. The principle presented in the 2015 review[85] to establish a ratio of contribution years to expected benefit years should be maintained. The Strategy Group assesses the current contributory accumulation periods and whether these are to be adjusted for future pensioners so that this principle is retained.

02. The principle presented in the 2015 review[86] that an advance warning of 15 years should be given to workers of any changes in their contribution conditions to allow them to take corrective action should be retained but should be linked to the early pension age 61 rather than the standard pension age of 65.

03. The principle presented in the 2015 review[87] that the change in contribution accumulation period is done within the framework of the 5 yearly strategic reviews should be retained until such time that a longevity table is prepared by the NSO whereby the Government could issue such changes – potentially doing this every two years.

03.2.5 Principle 5: To remain adequate and sustainable, the pension system needs to evolve and effectively to respond to long term developments

The 2015 review[88] contended that society, economy and demography changed substantially away from one where the male is the main breadwinner, had a stable career and a level of wages. In most households, both men and women work, careers are less stable, while women are likely to take time out for family or extended family care, and fast changing environments demand that for a person to remain employable they need on-going learning, re-skilling, and up-skilling. The economy is increasingly relying on different forms of labour arrangements – such as flexible working, the use of highly skilled immigrants and job-sharing among others. Malta's demography has changed dramatically, with fertility falling below replacement, the country becoming a net importer (rather than exporter) of migrants, while those surviving well beyond pension age have tripled over the last three decades.

The reforms since 2004 have sought to ensure that the pension system responds to these changing dynamics. The measures introduced since then, and reinforced by the 2015 review, have achieved much in this regard. The pension system is today far more gender equal. Measures are introduced to compensate for gaps in employment for child rearing and for human capital development and lifelong learning. There are still a number of matters which were raised in the 2015 review which remain pending.

The 2020 PSG posits the following:

01. The principle presented in the 2015 review[89] -- that the pension system is to reflect emerging employment patterns and atypical employment be established at law.

02. The impact of family separation and divorce on pension entitlements too needs to be addressed. This is particularly relevant, as many older women do not have significant pension entitlements on their own account, and rules such as the minimum contributory requirement could penalise them[90].

[84] Pg 17, Ibid
[85] Pg 83, Strengthening the Pension System, Pension Strategy Group, June 2015
[86] Pg 82, Ibid
[87] Ibid
[88] Pg 62, Ibid
[89] Pg 69, Ibid
[90] Pg 18, Grech, A, A., Review of the Principles underpinning the Maltese Pension System, Pension Strategy Group, 2018

The 2007 pension reform's key innovation of introducing the legislative requirement of regular strategic reviews, helps create a forum whereby long-term developments such as the ones described above are discussed. The 2015 strategic review noted that the

> ".. undertaking of regular reviews… can provide the flexibility needed, help improve the understanding of the system, while enabling the system to respond to long term developments".[91]

It further recommended that

> "… the scope of these reviews may need to be better focused and set out more clearly in the legislation, while a permanent standing commission reporting to the House of Representatives could help generate the cross-party consensus needed in this area".[92]

This strategic review underlines the importance of retaining the five-year review. Nevertheless it emphasises the importance of a more systematic design, review, reporting and monitoring structure. The carrying out of such systematic pension system work requires the presence of a dedicated permanent technical team.

[91] Pg 60, Strengthening the Pension System, Pension Strategy Group, June 2015
[92] Ibid

Invitation for feedback during the consultation phase

In the light of the social and economic analysis in previous chapters, the Group is inviting constituted bodies, civil society, and the general public to express its views and make suggestions and recommendations on how our pensions system can be further improved, by ensuring its adequacy and sustainability, while respecting the above-mentioned 5 principles, namely:

Principle 1: The need for a clear definition of the objectives of the Pension System

Principle 2: An adequate / sustainable pension system needs a strong active employment policy

Principle 3: The state pension should constitute a solid foundation, but it should not be the only source of retirement income

Principle 4: The pension system is rendered socially sustainable by providing for a fair balance between contributions and benefits across generations

Principle 5: To remain adequate and sustainable, the pension system needs to evolve and effectively to respond to long term developments

The Group now kindly requests that you provide your feedback by 1600hrs of 30th March 2021.

Feedback is to be sent to:

Email: pensions.strategy@gov.mt

Post: The Chairperson
Pension Strategic Review
C/O Office of the Permanent Secretary
Ministry for Solidarity and Social Justice, the Family and Children's Rights
Valletta

The Pensions Strategy Group will, during the consultation period, carry out discussion sessions with constituted bodies, civil society, and the general public. The Strategic Review will at the end of the consultation period assess the feedback received and **present a final report to Government for its consideration**.

The main considerations and recommendations that the Group will eventually present to Government shall exclude a mandatory increase of the statutory retirement age or of the social security contribution rate, as per the electoral mandate of the current administration.

The constitution of the 2020 Pension Strategy Group is as follows:

Chair:	Mr Mark Musu', Permanent Secretary, Ministry for the Family, Children's Rights and Social Solidarity
Members	Mr Alfred Camilleri, Permanent Secretary, Ministry of Finance
	Mr Joseph Camilleri, Permanent Secretary, Ministry of Equality and European Affairs
	Dr Aaron A. Grech, Chief Economist Office, Central Bank of Malta
	Mr Frans A Camilleri, Adviser, Office of the Permanent Secretary, Ministry for the Family, Children's Rights and Social Solidarity
	Mr Godwin Mifsud, Director General, Economic Policy Division, Ministry of Finance
	Mr Edward Buttigieg, Director, Contributory Benefits Department, Social Security Department
	Mr David Spiteri Gingell, Adviser, Office of the Permanent Secretary, Ministry for the Family, Children's Rights and Social Solidarity
Secretary:	Ms Vanessa Cauchi, Office of the Permanent Secretary, Ministry for the Family, Children's Rights and Social Solidarity

Note: Name of ministries and positions mentioned are as at August 2017 when the Group was set-up.

Article 64(B) of the Social Security Act states that "the Minister shall within intervals not exceeding the period of five years lay on the Table of the House a report reviewing the workings of Part V of this Act within the previous five years together with recommendations, if any, with a view of achieving further adequacy, sustainability and social solidarity in such manner that a stable proportion is kept between the contribution periods as referred to in article 53 and the periods of time during which it is expected that the pension will be paid in accordance with Part V of this Act".

The next strategic review report is to be submitted to the House of Representatives not later than 31st December 2020. The Minister for the Family, Children's Rights, and Social Solidarity has appointed a new Pension Strategy Group to draw up this strategic review. The terms of reference of the Pension Strategy Group are the following:

01. Review:
    (i) The 2015 strategic review titled 'Strengthening the Pension System' and subsequent implementation.
    (ii) The performance of personal retirement schemes and occupational retirement schemes with regard to uptake of savings for retirement.
    (iii) The Strategy for Retirement and Financial Capability with regard to behavioural change resulting in the uptake of savings for retirement.
02. Submit recommendations with regard to the further strengthening of:
    (i) The Social Security Contributory pension with regard to sustainability, adequacy, and solidarity, including developments in the proportion between the contribution period and the period of time that the pension is expected to be paid as stipulated in Article 64B of the Act.
    (ii) Existing and the introduction of new frameworks directed to nudge persons to save for retirement in order to bridge the gap between income earned in employment and the social security contributory pension income.
03. Assess the situation of current and future pensioners.
04. Model its recommendations for the period 2020 – 2070.
05. Take note of:
    (i) Government policy decisions with regard to pensions.
    (ii) Joined-up policy matters that affect the sustainability, adequacy, and solidarity of the pension architecture including but not limited to population, migration, employment, gender, poverty, etc.
    (iii) European Union decisions and policy direction with regard to pensions.
    (iv) Evolving and innovative approaches to pension reforms adopted by jurisdictions within and outside of the EU and by appropriate super-national institutions, think-tanks, etc.
    (v) Macro-economic and demographic frameworks and assumptions established European Union institutions for pan-EU pension reform modelling.
06. Consult with appropriate stakeholders in the undertaking of its work.
07. Set up working groups as appropriate for the carrying out of it work.
08. Engage the services of the World Bank to assist it with modelling on the PROST tool.

The Pension Strategy Group is independent from government.

In the drawing up of the Strategic Review Report the Group at times makes reference to the terms of Switchers, Transitional, and Exempt groups.

The 2004 reforms presented an incremental approach to reform – with the impacts of the reform depending on the date of birth of the person as from 1st January 2007. In this regard, the population was categorised into three Groups – as shown in the Table below.

Group	Age Group	Reform Impact
Exempt	Born on and before 1951.	Persons who would not be affected with any of the reform measures proposed. Persons in the Exempt Group were identified to be 55 years of age and over as at 1st January 2007.
Transitional	Born between 1952 and 1961.	Persons placed on a transitional mix of new reforms and outgoing parameters of the then existing pension system – with the bias of the transitional process edging towards the new reforms if the person's age is closer to the 45 years of age set for the switchers' group. Persons in the Transitional Group were identified to be between 54 years of age and 46 years of age as at 1st January 2007.
Switcher	Born on and after 1962.	Persons placed on the new pension system. These were identified to be persons who would be 45 years of age or younger as at 1st January 2007.