

The evolution of Social Security Contributions & coverage in Malta

**A supplementary paper prepared for the 2025
Pension Strategy Group (PSG) report**

Reference: Paper 1

Bernard Mamo, Senior Manager

*Pension Strategy Directorate, Ministry for Social Policy and
Children's Rights (MSPC)*

2025 PSG Technical Secretary

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Chapter 1 – Introduction

The history of Malta's pension system reflects the island's gradual adaptation to changing social and economic conditions. Under British colonial rule, early forms of social welfare began to emerge, culminating in the introduction of the Social Security Act of 1956. This act laid the foundation for a formal pension system, introducing a contributory old-age pension scheme that initially covered a limited segment of the population, primarily public sector employees and certain private sector workers.

Following Malta's independence in 1964, the pension system expanded to include a broader range of beneficiaries, including the self-employed. Operating as a Pay-As-You-Go (PAYG) system, contributions from current workers funded retirees' pensions. The approach aligned with emerging European social welfare models and provided a combination of basic guaranteed benefits and earnings-related pensions.

However, Malta's aging population and increasing life expectancy began to strain the system, highlighting the need for reform. After joining the European Union in 2004, Malta embarked on significant pension reforms to ensure long-term sustainability. A major overhaul in 2006 introduced a three-pillar framework. The first pillar remained the state PAYG pension system, while the second pillar encouraged voluntary occupational pensions, and the third pillar promoted private retirement savings with tax incentives. This reform also raised the retirement age to 65 and extended contribution periods to better reflect modern demographic realities.

Recent years have seen efforts to encourage greater participation in the second and third pillars through financial incentives and public awareness campaigns. The government has also introduced measures to address pension adequacy and ensure retirees have sufficient income security. Today, Malta's pension system combines the traditional PAYG framework with modern supplementary schemes, balancing the need for social protection with fiscal sustainability and adaptability to demographic challenges.

Focusing on the former element, sustainable revenue flow is the backbone of a PAYG pension system, as it directly determines the system's ability to function effectively. Unlike fully funded systems that rely on accumulated reserves, a PAYG system operates on a real-time basis: contributions from the current workforce are used to pay the pensions of retirees. Therefore, any disruption or

imbalance in the flow of contributions can have immediate consequences for retirees, workers, and the broader economy.

A steady and predictable inflow of revenue ensures that pension payments are made on time and in full. In a PAYG system, there are no significant reserve funds to act as a buffer. As a result, any shortfall in contributions could lead to delays in pension disbursements or even reductions in benefits. This immediacy makes the system highly dependent on maintaining a healthy flow of contributions to fulfil its obligations.

Demographic trends pose a significant challenge to sustainable revenue flow in PAYG systems. As populations age and life expectancy increases, the ratio of workers to retirees—the support ratio—declines. This means fewer workers are available to support a growing number of retirees, leading to potential revenue shortfalls. Sustainable revenue flow is critical to address these demographic challenges and ensure that the system remains solvent without placing undue strain on current or future generations.

Sustainability also plays a pivotal role in maintaining intergenerational equity, a cornerstone of the PAYG system. The system relies on an implicit social contract, where today's workers fund retirees with the expectation that future workers will do the same for them. If revenue flow is insufficient, younger generations may face higher contribution rates or reduced benefits, creating a sense of unfairness and jeopardizing the trust that underpins the system.

Furthermore, a lack of sustainable revenue flow can impose a significant fiscal burden on governments. In cases where contributions fall short, governments may be forced to step in to cover deficits, diverting resources from other essential public services or increasing public debt. Over time, this reliance on government intervention can undermine fiscal stability, especially in countries already grappling with tight budgets or economic challenges.

Beyond fiscal and intergenerational concerns, sustainable revenue flow is essential for broader economic stability. Pension payments represent a significant source of income for retirees, sustaining their consumption and contributing to overall economic activity. If revenue shortfalls lead to reduced pension benefits, retirees' purchasing power diminishes, which can have a ripple effect on the economy, particularly in sectors reliant on consumer spending.

Policy stability is another key reason to prioritize sustainable revenue flow in a PAYG system. Inconsistent or unpredictable revenue streams may force governments to implement abrupt policy changes, such as increasing contribution rates, reducing benefits, or raising the retirement age. These sudden shifts can

lead to public dissatisfaction, social unrest, and a loss of trust in the system. A stable and reliable revenue flow, on the other hand, allows policymakers to introduce gradual adjustments that are easier for the public to accept and adapt to.

Finally, a well-functioning PAYG system depends on the confidence of both contributors and beneficiaries. Workers are more likely to comply with contribution requirements, and retirees are more likely to rely on the system, if they perceive it as secure and sustainable. This confidence is underpinned by a consistent revenue flow that demonstrates the system's ability to meet its obligations over time.

In light of the latter defined primacy and building on the 2018 paper prepared for 2020 Strategy Review, this paper assesses the evolution of social security contribution coverage in Malta, as well as identifies potential policy- or socially borne caveats - which may require direct remedial action.

The research falls in line with the 2015 PSG's principles, particularly, with respect to:

- i. An adequate and sustainable pension system sustained by a strong employment policy;
- ii. The pension system is rendered socially sustainable by providing for a fair balance between contributions and benefits across generations;
- iii. To remain adequate and sustainable, the pension system needs to evolve and effectively to respond to long-term developments.

Thus, utilizing the data provided by the Malta Tax and Customs Authority (MTCA) and Department of Social Security (DSS), the following sections assess the revenue side of Malta's pension system by examining key factors such as the evolution of contributors, the level and structure of contributions, and wage dynamics. Understanding these elements is crucial for evaluating the system's financial health and its ability to support future retirees.

The analysis will also consider broader economic and demographic trends, including labour market participation, wage growth, and policy measures influencing contribution inflows. By exploring these factors, the long-term viability of Malta's pension revenue framework and potential areas for reform or reinforcement are assessed and identified. Furthermore, this section is further subdivided into the two contributory class systems being the social security contributions class 1 system and the social security contributions class 2 system.

Chapter 2 - The Social Security Contribution Class 1 system¹ in Malta

Starting off, the data presented in figure 1 reveals significant growth in the number of taxpayers contributing to the social security system, increasing from 151,152 in 2008 to 282,734 in 2023, an approximate 87% rise over 16 years. This upward trend suggests an expanding labour force, better enforcement of contribution policies, and possibly the inclusion of previously uncovered groups.

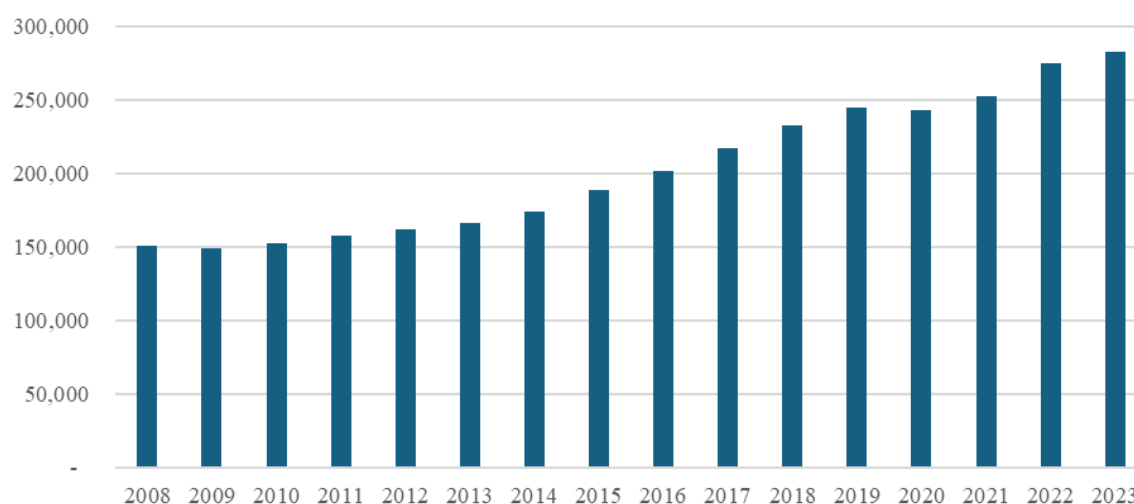


Figure 1: Total taxpayers for the years 2008-2023.

Furthermore, figure 2 outlines trends in the number of contributors to a social security system by category from 2008 to 2023.² Over this period, the largest group consistently comprises those paying the 10% rate, increasing from 100,182 contributors in 2008 to 175,001 in 2023, reflecting a 74.7% growth. This group represents the backbone of the system, and its steady growth underscores its importance in sustaining contribution revenue. Contributors paying the maximum rate also saw significant growth, rising from 31,111 in 2008 to 82,563 in 2023, marking an increase of 165.4%. The rapid growth is indicative of both an

¹ In Malta, Class 1 social security contributions are compulsory payments made jointly by employees and employers to support the nation's welfare programs and public healthcare system. Both the employee and employer each pay 10% of the employee's basic weekly salary, with contributions being bound by specific minimum and maximum thresholds, which can differ depending on factors including the employee's date of birth.

² For full clarity, cross-comparing figures 27 and 28, one will note that the total number of contributors in the latter are higher than number of contributors in the former. This arises that in the case of figure 28, contributors can, during a single year, be paying multiple types (A-F) of social security credits and thus be included in multiple categories.

expansion of higher-income earners and the annual adjustments to contribution thresholds that brought more individuals into this category.

Those paying the flat rate (no students) showed modest growth, increasing from 17,228 in 2008 to 19,547 in 2023, representing a 13.5% rise, while students paying the flat rate increased from 2,623 in 2008 to 5,484 in 2023, demonstrating a 109% increase, albeit from a smaller base. The undefined rate category remained negligible throughout the period, with contributions fluctuating from single-digit numbers in earlier years to a peak of 343 in 2018, before declining to 138 in 2023 (outlier systems).

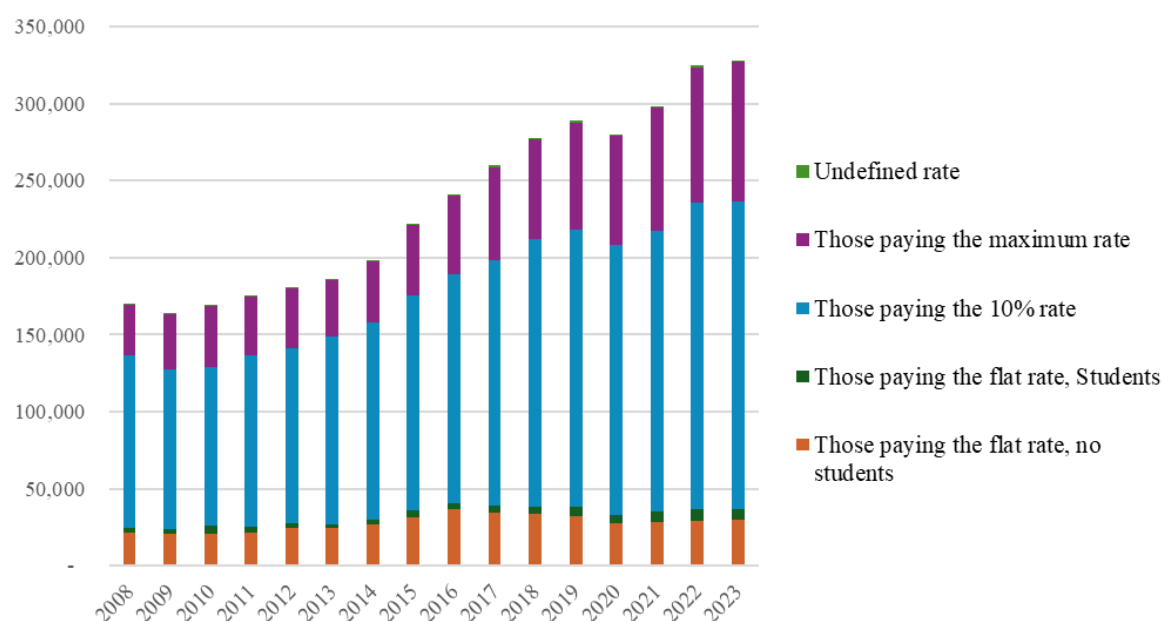


Figure 2: Total taxpayers by category, for the years 2008-2023.

Going forward, figure 3 highlights a consistent and significant growth in social security contributions from 2008 to 2023, reflecting both economic and policy-driven changes. Total contributions increased from €315 million in 2008 to €900 million in 2023, marking a nearly 185% rise over 16 years. This upward trend suggests an overall strengthening of the social security system, driven by higher employment levels, wage growth, and adjustments to contribution policies.

As previously identified, the "10% rate" category has consistently been the largest contributor, accounting for 64.6% of total contributions in 2008 and 54.1% in 2023. While its share of the total has slightly declined, it remains the dominant revenue source, indicating its critical role in the system's financial health. Other categories have also shown notable growth. Contributions from individuals paying the maximum rate rose dramatically, from €95 million in 2008 to €389 million in 2023—a 309% increase. This sharp growth may reflect rising earnings

among higher-income earners or adjustments to the maximum contribution thresholds.

Similarly, contributions from those paying the flat rate (excluding students) increased steadily, from €15 million in 2008 to €21 million in 2023, demonstrating consistent performance. Contributions from students paying the flat rate also doubled over the period, though their overall impact on total revenues remains minor. Meanwhile, contributions under the "Undefined rate" category were sporadic and negligible, with occasional peaks but often registering zero contributions in several years.

A closer look at year-on-year growth reveals accelerated increases in recent years. From 2016 to 2023, contributions grew significantly, with the largest single-year jump occurring between 2021 and 2022, when revenues rose by approximately €70 million. This acceleration reflects a combination of policy reforms and strong economic performance. As already mentioned, the robust rise in contributions, particularly from the maximum rate category, suggests that higher-income earners played an increasingly important role in bolstering the system's revenues.

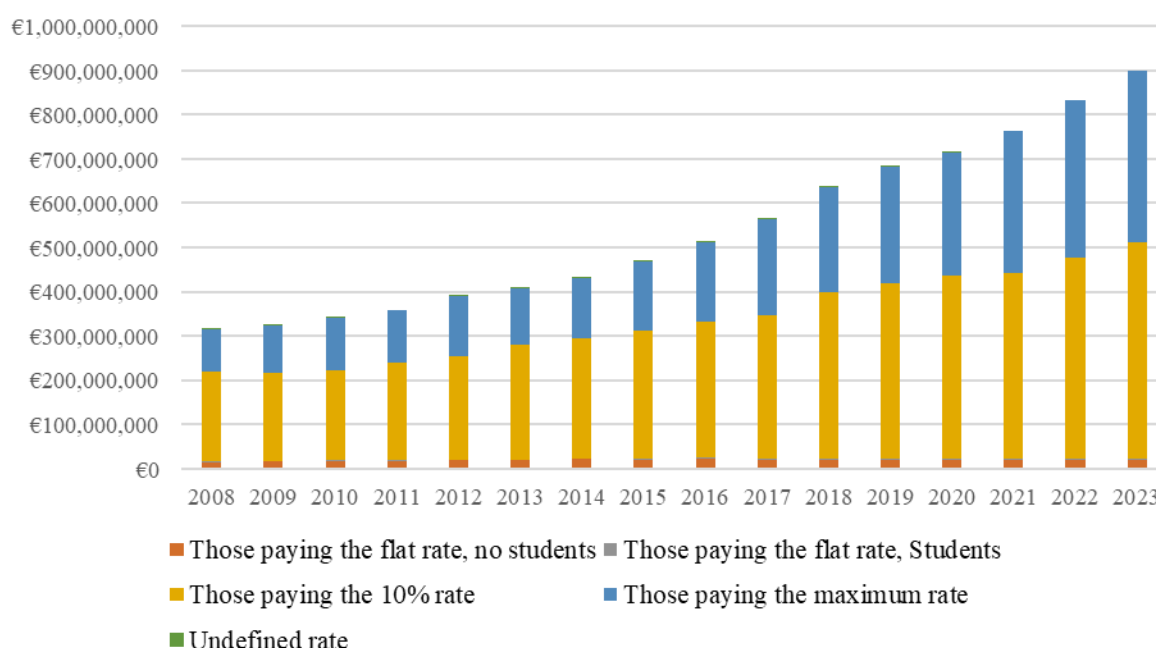


Figure 3: Contributions by category for the years 2008-2023.

Combining total unique taxpayers with total contributions, the average contribution per taxpayer increased from €2,084 in 2008 to €3,181 in 2023, representing a 53% growth, driven by wage increases, higher contribution rates, and broader coverage (refer to figure 4). The most significant annual growth in taxpayer numbers occurred between 2015 and 2020, with total taxpayers rising from 189,405 to 242,884, reflecting the reported strong economic performance,

improved compliance, and policy-driven efforts to expand the tax base. On the other side of the coin, sustaining this trend will depend on continued economic performance and strategic policy adjustments to maintain and expand coverage.

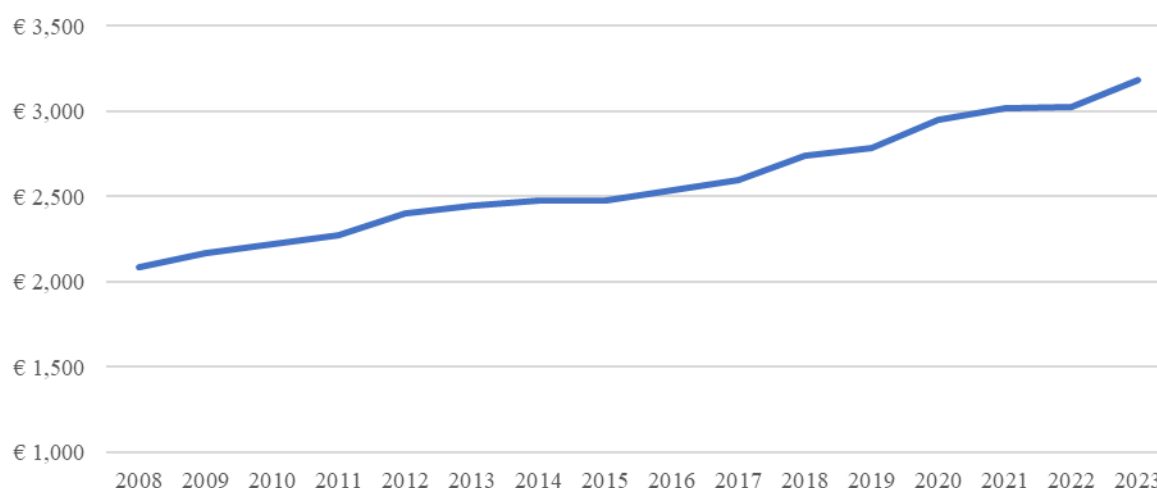


Figure 4: Average contribution per taxpayer, for the years 2008-2023.

Furthermore, cross comparing the average contribution per taxpayer with total contributions, one notes that the former did not follow the same pace as the latter. This trend is a result that contributions are linked to basic wages and not the totality of one's wages. In reference to figure 5, contributions as a percentage of per capita total wages ratio have consistently declined, dropping from 14.3% to 12.1%.

Adjusting the ratio to only consider basic wages, the ratio has similarly (but to a larger extent) dropped from 18% to 15.5%. This highlights the dynamics among three specific groups: those earning low basic wages who pay a flat rate (which exceeds the legislated rate), those with basic wages above the maximum pensionable income (who face a lower effective rate), and those whose basic wages fall between these two categories (and who pay the legislated rate).

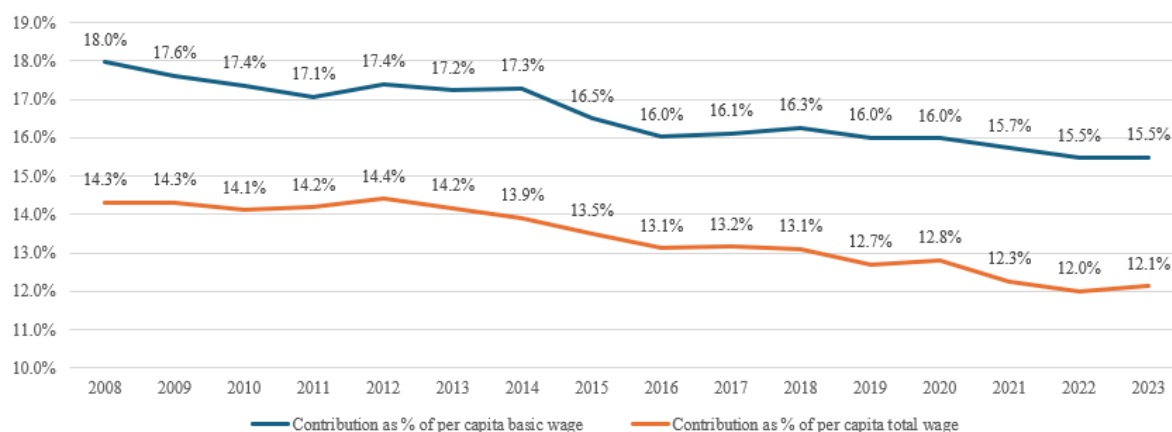


Figure 5: Contribution as % of per capita basic wages and per capita total wages.

Further disaggregating the statistics by sex and age, figure 6 outlines the number of contributors by gender from 2008 to 2023, highlighting consistent growth in workforce participation for both men and women. Over the period, male contributors increased from 94,004 in 2008 to 161,457 in 2023, reflecting a 71.7% growth, while female contributors saw a more significant rise, growing from 57,132 in 2008 to 121,122 in 2023, representing a 112% increase. As one can denote, the reported faster growth rate among women indicates significant progress in female workforce participation and inclusion in the social security system.

While men still constitute the majority of contributors, the gender gap has narrowed steadily over time. By 2023, women accounted for approximately 42.8% of total contributors, up from around 37.8% in 2008. This trend further substantiates the argument that increasing gender parity in employment and contribution rates, driven by policies encouraging female labour force participation, economic shifts, and the societal changes supporting gender equity.

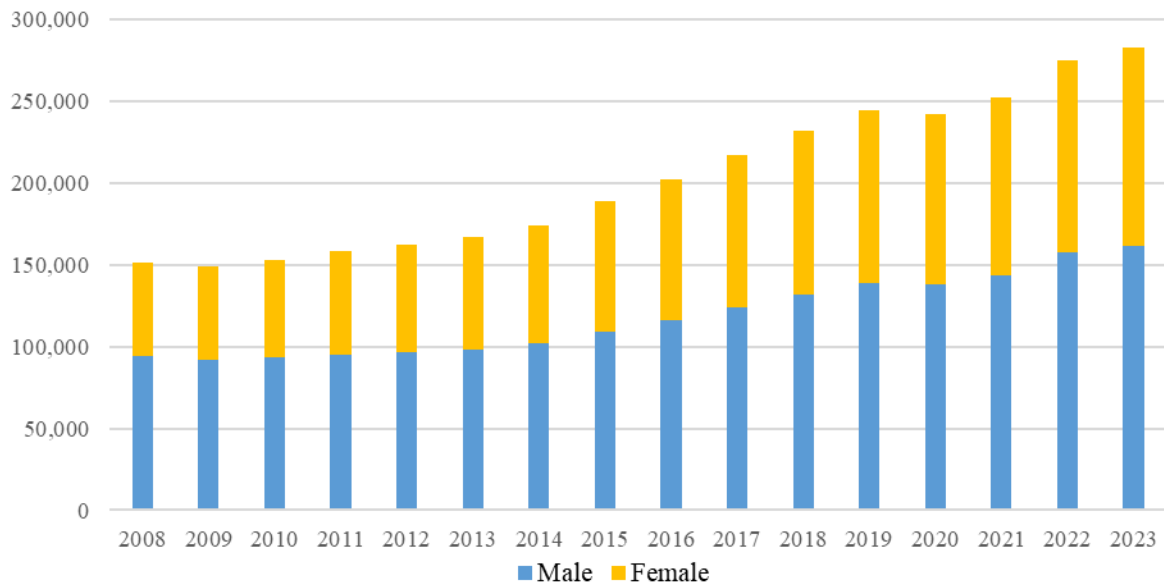


Figure 6: Total contributors by sex, for the years 2008-2023.

Introducing the age component, figure 7 provides a detailed breakdown of male contributors to the social security system by age group from 2008 to 2023. The data reveals key trends in participation rates across different age brackets and over time. Notably, the number of contributors generally increases with age, peaking in the mid-career range (ages 25 to 45), before gradually declining as contributors approach retirement age.

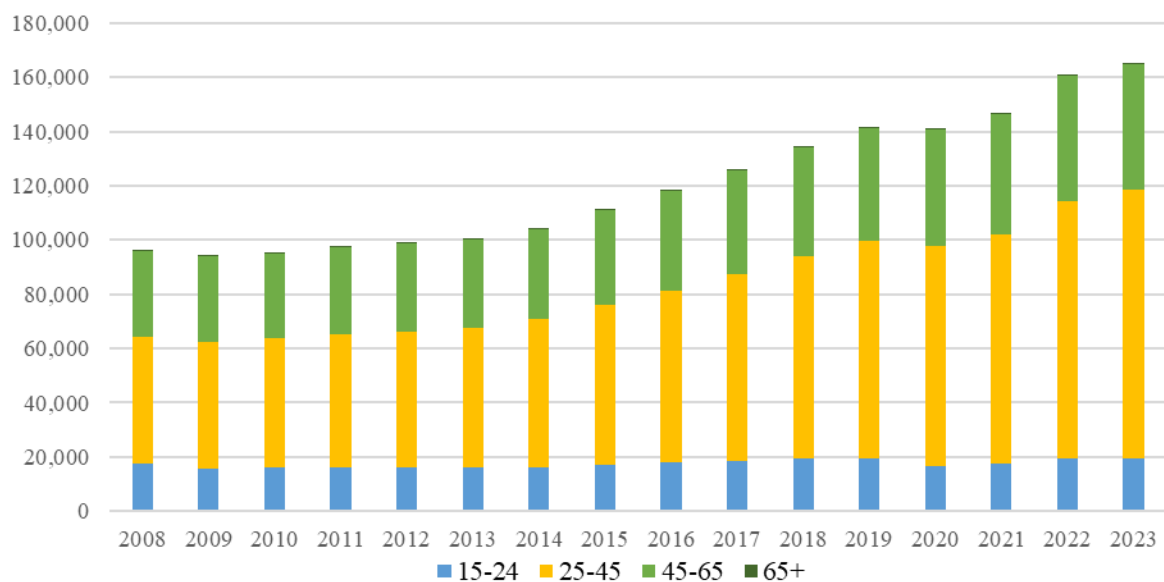


Figure 7: Male contributors by age brackets, for the years 2008-2023.

Contributors in the early career range (ages 15 to 24) show consistent growth over the years, indicating improved labour force entry among young males. For example, the number of 18-year-olds contributing rose from 1,704 in 2008 to

1,793 in 2023, while 24-year-olds increased from 2,619 in 2008 to 4,266 in 2023, demonstrating a significant rise in workforce participation.

The mid-career range (ages 25 to 45) consistently has the highest number of contributors, reflecting the prime working years of men. Contributors aged 30, for instance, increased from 2,608 in 2008 to 5,147 in 2023, highlighting strong labour force attachment during these years. This age group likely represents the backbone of the social security system due to higher employment stability and contributions.

In contrast, contributors in the late-career range (ages 46 to 65) show a more modest increase, with participation tapering off closer to retirement. For instance, contributors aged 60 rose from 1,362 in 2008 to 1,935 in 2023, while contributors aged 65 remained relatively low but stable, increasing from 123 in 2008 to 321 in 2023. This suggests gradual improvements in employment opportunities for older workers but highlights the natural decline in workforce participation as retirement approaches.

Thus, the data underscores a strong increase in participation across all age groups over the years, with notable growth among younger and mid-career contributors; indicating a healthy expansion of the workforce and a corresponding increase in contributions to the social security system. However, the tapering off of participation among older contributors suggests the continual need for policy interventions to extend workforce participation further into late-career years.

On the other hand, figure 8 provides a breakdown of female contributors to the social security system by age group from 2008 to 2023, showing significant growth in participation across nearly all age categories. Female contributors demonstrate increasing workforce involvement, particularly among younger and mid-career age groups. In the early career range (ages 15 to 24), the number of contributors has steadily risen, indicating improved opportunities for young women entering the labour force. For example, the number of 18-year-olds increased from 1,591 in 2008 to 1,797 in 2023, while 24-year-olds grew from 2,330 in 2008 to 3,317 in 2023.

The mid-career range (ages 25 to 45) consistently has the highest number of female contributors, reflecting the prime working years. Notably, contributors aged 30 rose from 2,267 in 2008 to 4,291 in 2023, highlighting substantial growth during this period. This age group represents a critical segment of the labour force and a significant source of contributions to the social security system. In the late-career range (ages 46 to 65), the number of contributors has also increased but at a slower pace compared to younger age groups. For instance, contributors aged

50 grew from 844 in 2008 to 2,129 in 2023, reflecting gradual improvements in labour force retention among older women. However, participation declines steadily beyond age 60, as many women transition to retirement.

As a general note, the data highlights robust growth in female workforce participation, with notable increases among younger and mid-career women. Although, in spite of the progress made in integrating women into the labour market and their growing contribution to the social security system, the decline in participation beyond mid-career years suggests potential opportunities for policies aimed at retaining older female workers in the labour force.

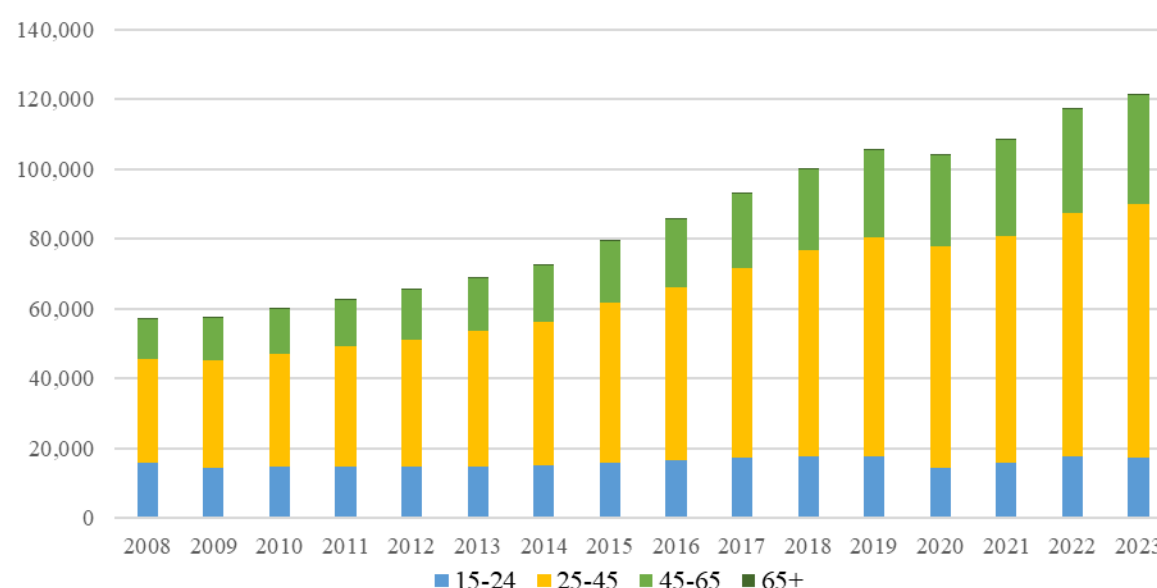


Figure 8: Female contributors by age brackets, for the years 2008-2023.

From a wage perspective, figures 9 and 10 outline the insurable wages of males by age in 2008 and 2023, reflecting trends in income growth and age-related wage patterns. Across all age groups, insurable wages increased significantly over the 16-year period, highlighting overall economic growth and wage progression. Younger workers (ages 15-24) saw steady increases in insurable wages, though these amounts remained lower compared to older workers due to limited experience and entry-level positions. For instance, the wage for 20-year-olds rose from €6,756 in 2008 to €12,149.88 in 2023, nearly doubling over the period.

In the prime working years (ages 25-45), wages showed the most substantial growth and consistently higher values compared to younger age groups, indicating career progression and higher-paying roles. For example, insurable wages for 30-year-olds grew from €12,956 in 2008 to €24,471 in 2023, reflecting a strong income trajectory. This age group forms the backbone of the labour force and contributes significantly to social security. Older workers (ages 46-65) also

experienced wage increases, though growth rates were slightly slower compared to mid-career workers. For instance, wages for 50-year-olds increased from €14,498 in 2008 to €27,832 in 2023, a significant increase but less dynamic than the earlier stages of career development. Wages beyond age 60 showed a tapering off, reflecting reduced career progression or partial retirement in the later years of employment.

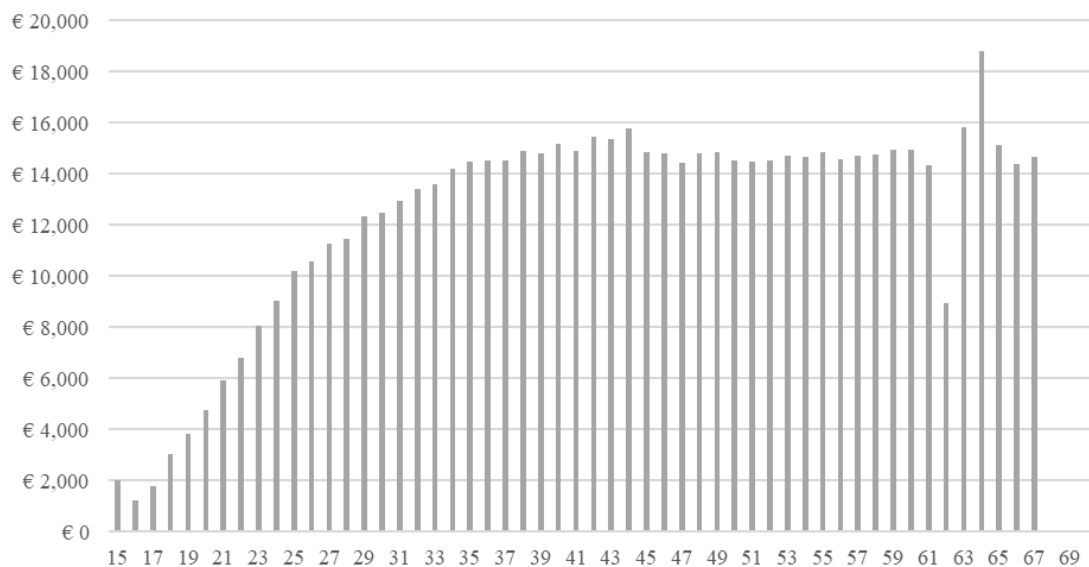


Figure 9: Insurable wages for males, by single age-bracket, in 2008.

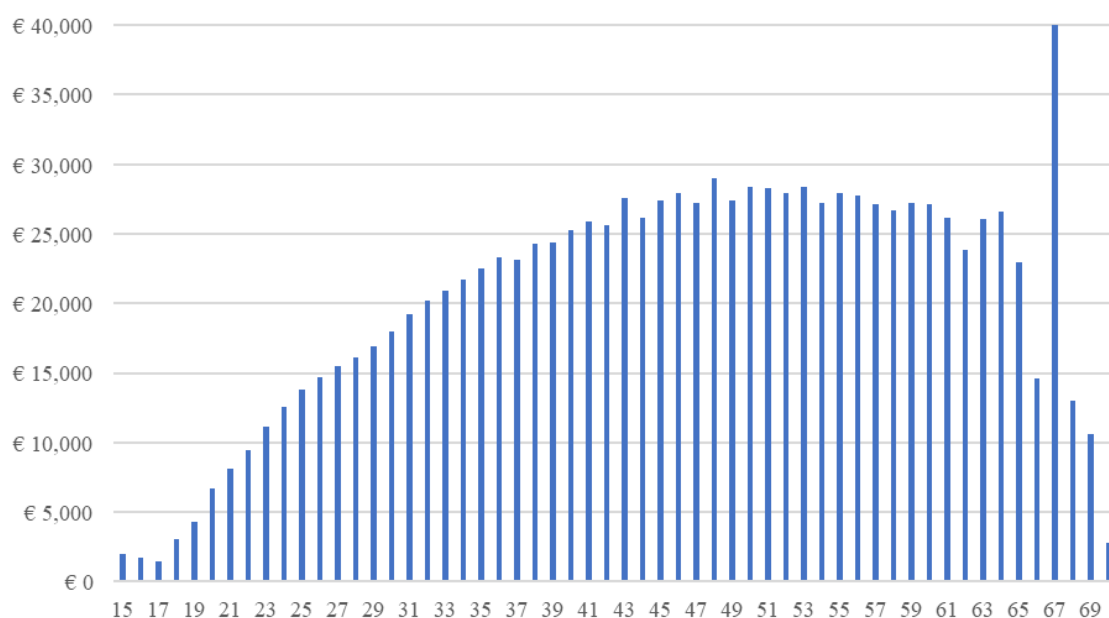


Figure 10: Insurable wages for males, by single age-bracket, in 2023.

On the other hand, figures 11 and 12 present the insurable wages of females by age in 2008 and 2023, highlighting steady growth in wages across all age groups over the 16-year period. Younger workers (ages 15-24) show increasing wages,

reflecting improved opportunities and entry-level earnings for women. For example, wages for 20-year-olds rose from €4,567 in 2008 to €12,032 in 2023, a substantial increase demonstrating progress in integrating young women into the labour force.

In the prime working years (ages 25-45), insurable wages consistently increase and are significantly higher compared to younger age groups. For instance, wages for 30-year-old women increased from €11,609 in 2008 to €19,753 in 2023, reflecting career advancement and higher-paying roles during these critical earning years. This age group represents a vital segment of the workforce, contributing significantly to the social security system. In the later career years (ages 46-65), wages continued to grow but at a slower pace compared to the earlier stages of employment. For example, wages for 50-year-old women rose from €10,756 in 2008 to €20,351 in 2023, indicating sustained, albeit more gradual, increases in earnings. Beyond age 60, wages taper off significantly, reflecting reduced career progression and the approach of retirement.

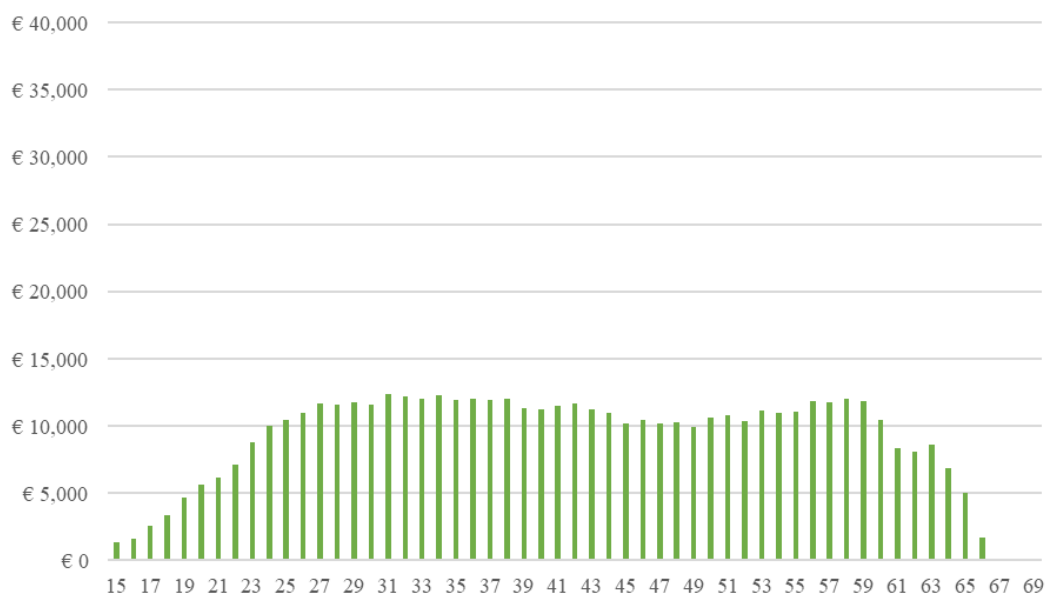


Figure 11: Insurable wages for females, by single age-bracket, in 2008.

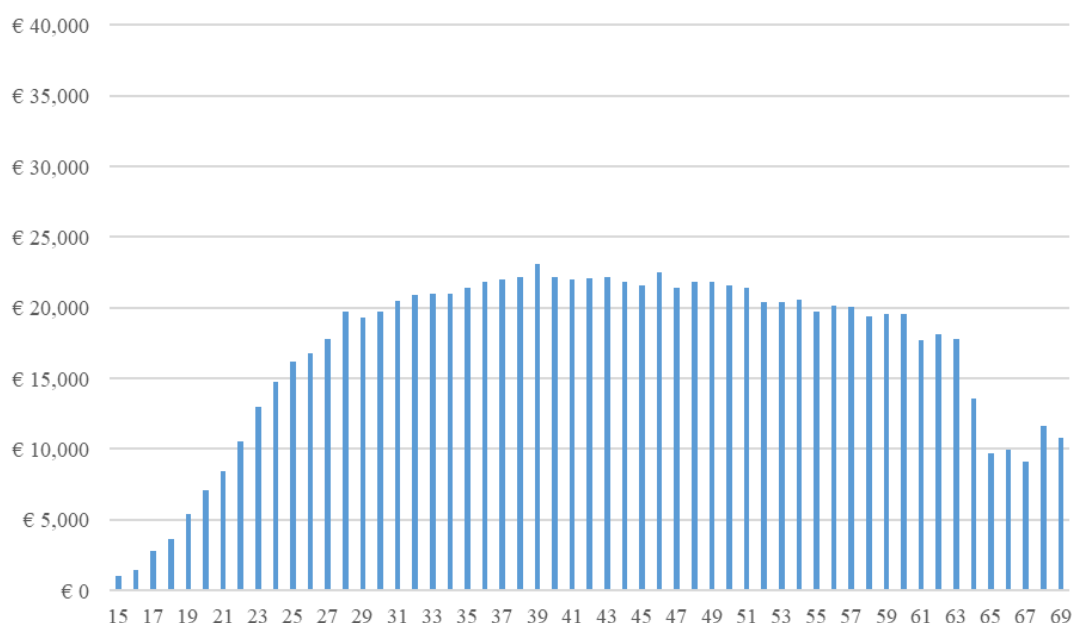


Figure 12: Insurable wages for females, by single age-bracket, in 2023.

As of yet, the analysis has strictly focused on basic wages, as individual contribution values are dependent, amongst others, on the individual's respective level of basic wages. In other words, the increasing average contribution per taxpayer metric is indicative of similarly increasing basic wage levels. Figure 13 provides an overview of total basic and aggregate wages, as well as the relationship between contributions and these wage metrics from 2008 to 2023.

Over this period, both total basic wages and total aggregate wages exhibit consistent growth. Total basic wages increased from €1.75 billion in 2008 to €5.80 billion in 2023, representing a significant rise that reflects wage growth and potentially an expanding workforce. Similarly, total aggregate wages grew from €2.20 billion in 2008 to €7.41 billion in 2023, showcasing a substantial upward trend, which could be attributed to higher employment levels, economic growth, or rising salaries.

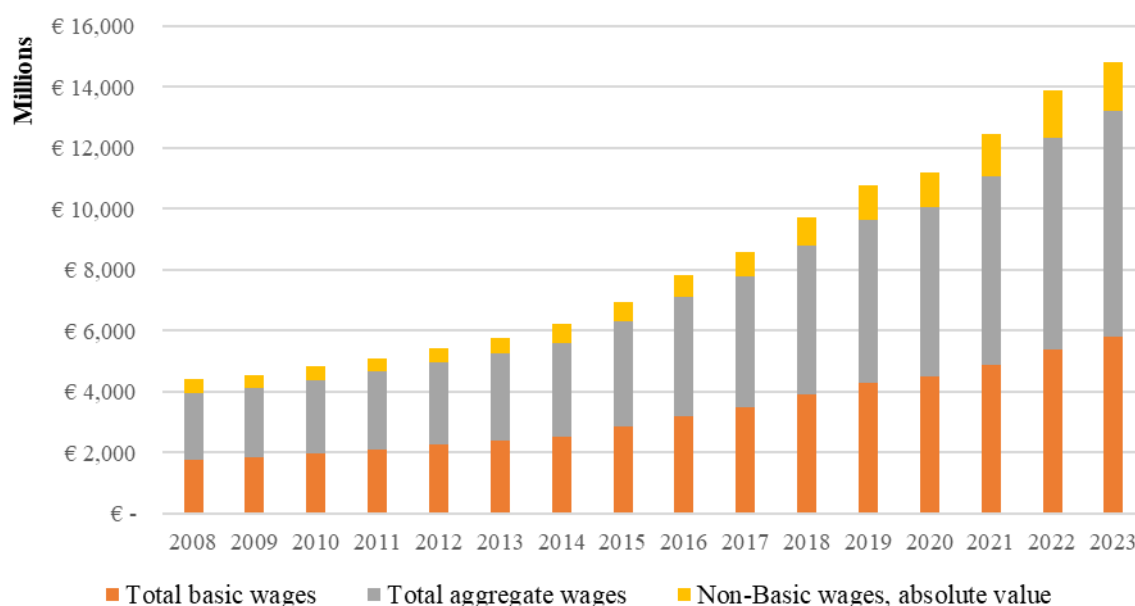


Figure 13: Disaggregation of basic wages, for the years 2008-2023.

Furthermore, and as further explained and referred to in the sub-section assessing the erosion of the social security base, non-basic wages from 2008 to 2023 show a steady and significant increase over the 16-year period. For ease of reference, non-basic wages refer to earnings beyond the basic salary, such as bonuses, allowances, overtime, and other forms of additional compensation.

In 2008, non-basic wages amounted to €447 million, and this figure grew to €1.6 billion by 2023, representing an increase of approximately 260%. The growth has been relatively consistent, with notable acceleration starting in 2014, where non-basic wages surpassed the €600 million mark. The trend continued with sharp increases in subsequent years, particularly between 2018 and 2023, where non-basic wages almost doubled.

This substantial rise indicates the increasing role of non-basic wages in overall earnings, reflecting changes in compensation structures, economic growth, and possibly labour market demands for more flexible or performance-based pay. Such a trend could also signal shifts in employment practices where non-basic components are used to attract and retain talent, especially in competitive industries. Hence, the key observations are three:

1. **Steady Growth:** Non-basic wages have grown consistently over the years, with sharp accelerations in specific periods, particularly after 2014.
2. **Economic and Employment Trends:** The increasing reliance on non-basic wages suggests evolving compensation structures, economic expansion, and changing labour market dynamics.

3. Implications for Social Security: As non-basic wages grow, they may fall outside traditional insurable income thresholds, impacting the contribution base for social security systems.

Figure 14 highlights trends in salaries, pensionable income, and income ratios from 2008 to 2023, reflecting the evolution of insurable and total wages in the social security system. The average insurable salary increased steadily from €11,599 in 2008 to €20,536 in 2023, demonstrating a nearly 77% growth over the period. Similarly, the average total salary rose from €14,558 in 2008 to €26,222 in 2023, representing an approximately 80% increase, indicating overall wage growth in the economy.

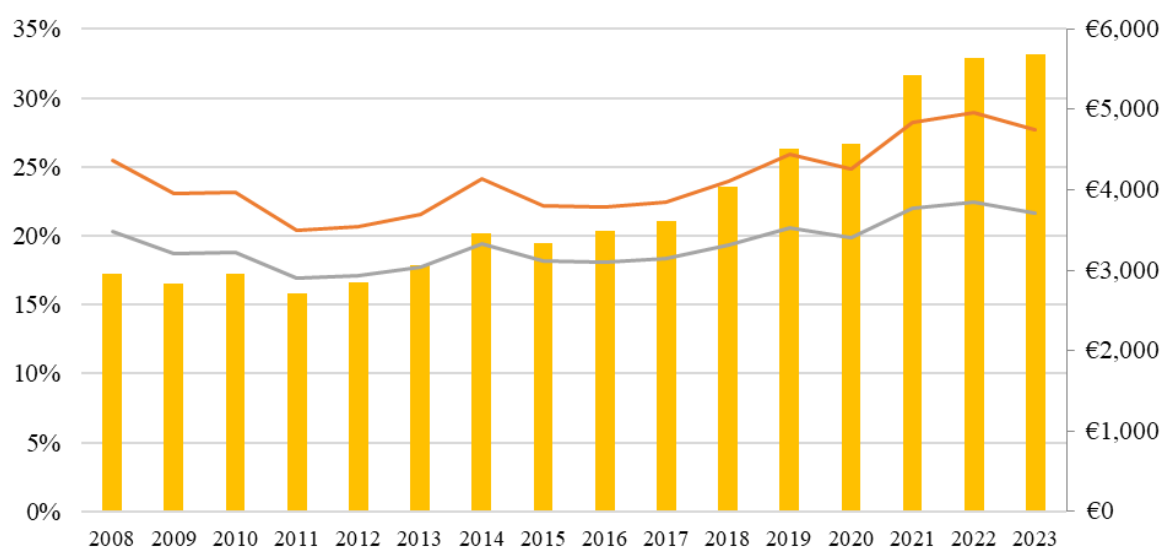


Figure 14: The non-basic wage component in total wages, for the years 2008-2023.

The ratio of the average total salary to the maximum pensionable income increased steadily, starting at 87.7% in 2008 and reaching 97.7% in 2023, suggesting a closing gap between total earnings and the maximum pensionable threshold; thus, indicating the need for further efforts to align pensionable income limits more closely with actual earnings trends, potentially enhancing equity and sustainability in the pension system.

The average gap between total and insurable salaries widened over the years, growing from €2,959 in 2008 to €5,686 in 2023, highlighting a gradual divergence between insurable income and total earnings. This suggests that while wages are rising, a growing portion of income may fall outside the scope of insurable earnings, impacting the social security contribution base. In other words, the data reflects steady growth in wages, adjustments to pensionable income thresholds, and a widening gap between insurable and total salaries.

Ultimately, these trends point to ongoing challenges and opportunities in ensuring adequate contributions to the social security system while keeping pace with broader economic developments.

The increasing gap between basic wages and total wages in the context of social security is reflected in a lower contribution base; specifically, this refers to the social security contribution base erosion (SSCBE). Figure 15 further delves into this element, categorizing SSCBE into three types, and tracks its evolution from 2008 to 2023. Each type represents a different cause of erosion in the wage base for social security contributions. Type 1 SSCBE, caused by wages declared as non-basic, grew from €216.46 million in 2008 to €629.92 million in 2023. Whilst this suggests an increasing reliance on non-basic forms of compensation, the trend also points towards lower potential in overall contribution inflows.

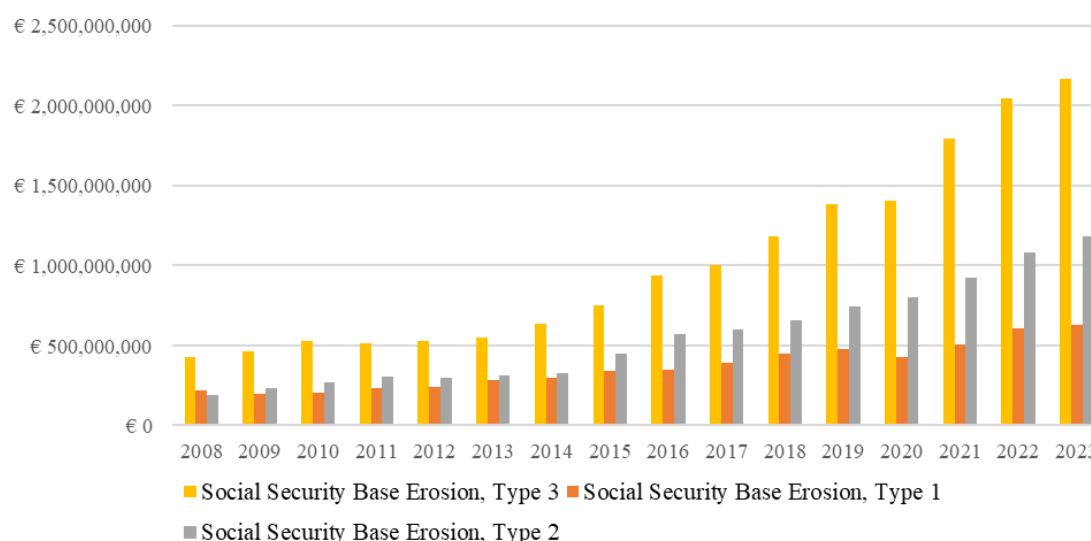


Figure 15: Social Security Contribution Base Erosion by type.

Type 2 SSCBE, which arises from basic wages exceeding the applicable maximum insurable salary (MPI), also experienced substantial growth, rising from €192.87 million in 2008 to €1.18 billion in 2023. The dramatic rise highlights the growing gap between rising wages and the capped MPI, indicating a continual need for periodic adjustment of the MPI to align with wage trends. Similarly, Type 3 SSCBE, resulting from total wages exceeding the MPI, saw the largest increase, from €430.19 million in 2008 to €2.17 billion in 2023, a staggering 404% growth. The persistent and increasing disparity between total wages and the maximum contribution threshold, which could represent a missed opportunity for capturing additional contributions from high earners.

Hence, all three types of SSCBE have grown significantly over the years, with Type 2 and Type 3 showing the most pronounced increases. This growth reflects structural limitations in the social security contribution system, particularly the

failure to capture contributions from non-basic wages and the growing share of earnings exceeding the MPI. These trends highlight the need for reforms to expand the contributory base, such as revising the MPI and incorporating more forms of compensation into the SSC base, to ensure the system's financial sustainability.

Taking one step backwards, the study additionally tracked taxpayers by social security category, distinguishing between Maltese nationals and non-Maltese nationals from 2008 to 2023. Over the 16-year period, figure 16 illustrates a notable increase in the number of taxpayers, particularly among non-Maltese nationals.

Maltese nationals, who had 140,770 unique contributors in 2008, saw steady growth, reaching 166,420 in 2023, peaking at 170,569 in 2022. In contrast, third-country nationals have experienced an extraordinary rise in participation, growing from 1,255 in 2008 to 63,715 in 2023. Similarly, other nationals have significantly increased from 9,126 in 2008 to 52,598 in 2023.

All in all, these three trends reveal a dramatic surge in foreign workforce participation, particularly among third-country nationals, whose numbers have grown over 50 times since 2008. While Maltese nationals still account for the highest number of unique contributors, their growth rate is considerably slower compared to other groups.

In the context of pensions, it is vital to note the potential impact on future pension liabilities/expenditure on foreign contributors. Although, and as will be explained in detail in the sub-section titled “Quality and not quantity for contributor, employer and government”, the expected impact of said growth in terms of future pension expenditure is expected to be limited due to the fact that only a very small proportion (around 2%) of the foreign population has at least ten years’ worth of social security contributions (i.e. minimum social security contributions required for contributory pension).

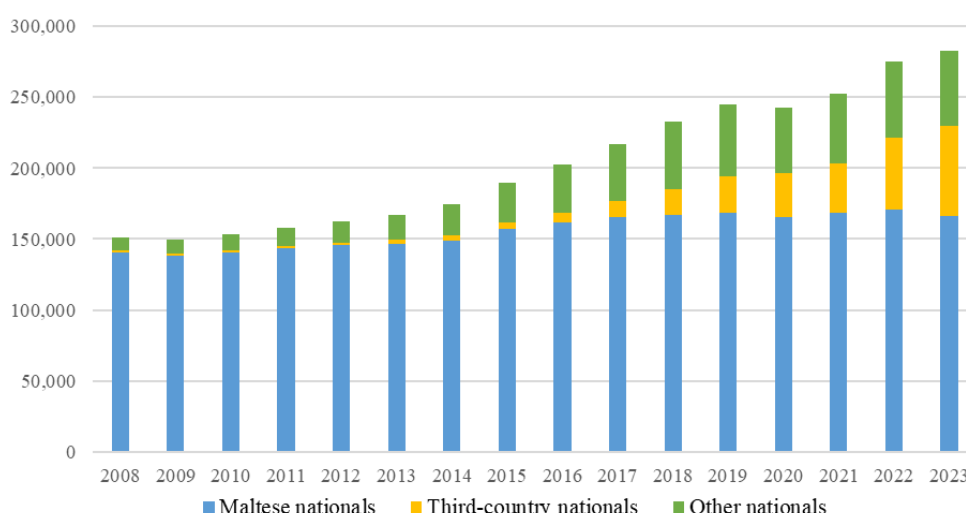


Figure 16: Contributors by nationality.

Alternatively, figure 17 presents data on social security contributions by nationality, distinguishing between Maltese nationals, third country nationals and other nationals, from 2008 to 2023. One can note that Maltese nationals consistently contribute the highest amounts, growing from €299.5 million in 2008 to €613.08 million in 2023. Their contributions exhibit a steady upward trend.

Meanwhile, third-country nationals, starting at a much lower base (€1.7 million in 2008), show exponential growth, reaching €136.77 million in 2023. Lastly, contributions from other nationals— EU or EEA citizens —also exhibit substantial growth, rising from €13.76 million in 2008 to €149.41 million in 2023, with significant jumps after 2014.

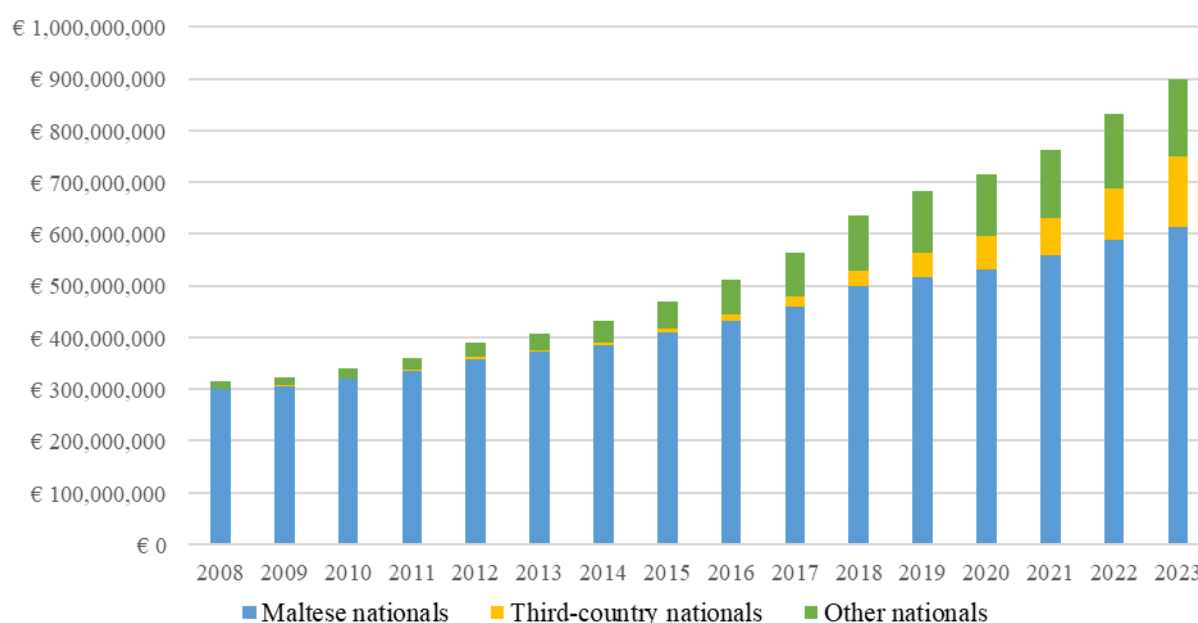


Figure 17: Contributions by nationality.

Thus, the data highlights that while Maltese nationals contribute the most, the growth rate among third-country nationals is the highest, signalling increased workforce participation or policy changes favouring foreign workers. Additionally, other nationals' contributions have surged since 2014, due to increased migration and other labour market shifts.

Intertwining unique taxpayers and contributions by nationality, figure 18 presents the average contribution per taxpayer from 2008 to 2023 for the three nationality groups, along with the contribution gaps between these groups. The following remarks can be noted:

1. Maltese Nationals consistently have the highest average contributions, increasing from €2,128 in 2008 to €3,684 in 2023. The growth is steady, with notable rises in 2019 (€3,063), 2020 (€3,211), and 2023 (€3,684), suggesting either income growth, tax policy adjustments, or higher workforce productivity.
2. Third-Country Nationals (TCNs) start with the lowest contributions at €1,362 in 2008 but gradually increase to €2,147 in 2023. While they experience some fluctuations (e.g., a decline from €1,775 in 2012 to €1,696 in 2013), there is a sharp rise from 2019 (€1,798) to 2020 (€2,080).
3. Other Nationals begin at €1,508 in 2008 and see the second-highest growth, reaching €2,841 in 2023. Their contributions show a steadier growth trajectory than TCNs, and they surpass the TCN average every year.
4. Gap Between Maltese and TCNs: The difference in contributions between Maltese and TCN taxpayers starts at €766 in 2008, fluctuating slightly but generally widening over time, peaking at €1,537 in 2023. The increasing gap suggests that while TCNs are contributing more, they are not catching up to the levels of Maltese taxpayers, potentially due to wage disparities, job market segmentation, and industry distribution.
5. Gap Between Maltese and Other Nationals: This gap starts at €619 in 2008 and also grows, reaching €843 in 2023. However, the increase is more gradual compared to the TCN gap. The relatively smaller gap compared to the TCNs suggests that other nationals (EU/EEA workers) have closer earning and tax contribution patterns to Maltese nationals.

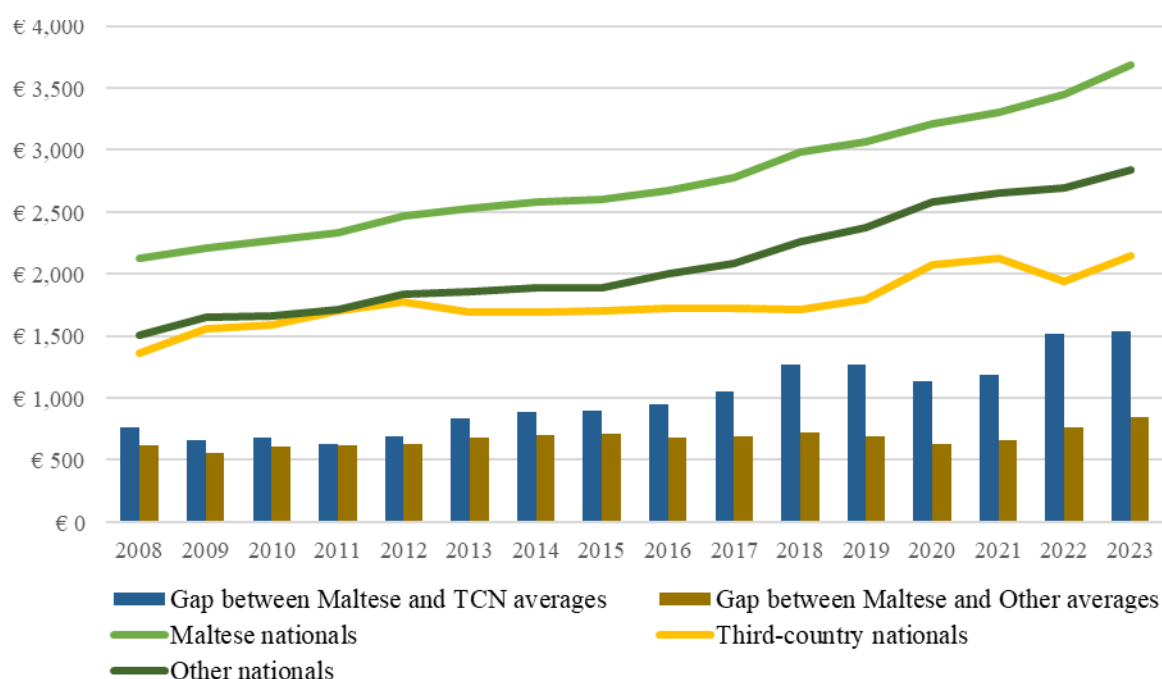


Figure 18: Average contributions by nationality, for the years 2008-2023.

In sum, the data reveals that while Maltese nationals remain the primary contributors to social security, the dramatic rise in non-Maltese contributors has played an increasingly vital role in supporting the system's sustainability. importance of ensuring policies that integrate and retain foreign workers, while balancing efforts to support and grow the participation of Maltese nationals in the system. In fact, the higher contributions from Maltese nationals feature their central role in funding the social security system, while the growing contributions from non-Maltese nationals reflect their increasing integration and importance to the system's financial sustainability. To this end, the value of policies that promote wage growth and ensure equitable contribution rates across all taxpayer groups.

Lastly, high employment and activity rates create the a priori assumption of high coverage rates; i.e. a population which is socially insured. On this note, figure 19 outlines the coverage rates by sex from 2008 to 2023, offering insights into workforce participation and inclusion in the social security system. Over the 16-year period, male coverage rates remained relatively stable, fluctuating between 87.2% in 2009 and a peak of 95.3% in 2022, before declining slightly to 90.2% in 2023.

In contrast, female coverage rates exhibited more variation, starting at 108% in 2008, gradually declining to 97% in 2014, then stabilizing around 100% from 2020 to 2022 before slightly dropping to 98% in 2023. The higher initial rate (above 100%) suggests increased inclusion of women in the workforce or

adjustments in how coverage was calculated. However, the stabilization in recent years indicates a narrowing gender gap in coverage. The total coverage rate remained strong throughout the period, hovering between 92% and 98%, with a peak of 98% in 2017 and 2018. While the overall system appears inclusive, the slight decline to 93% in 2023 might point to changes in labour market dynamics or participation trends.

Thus, the data highlights stable male coverage rates and gradual stabilization in female coverage rates over time. These trends reflect sustained workforce engagement for both genders, although recent slight declines suggest potential areas for improvement in ensuring universal coverage across all demographics. Efforts to sustain and expand participation, particularly for women, will be key to maintaining high total coverage rates in the future.

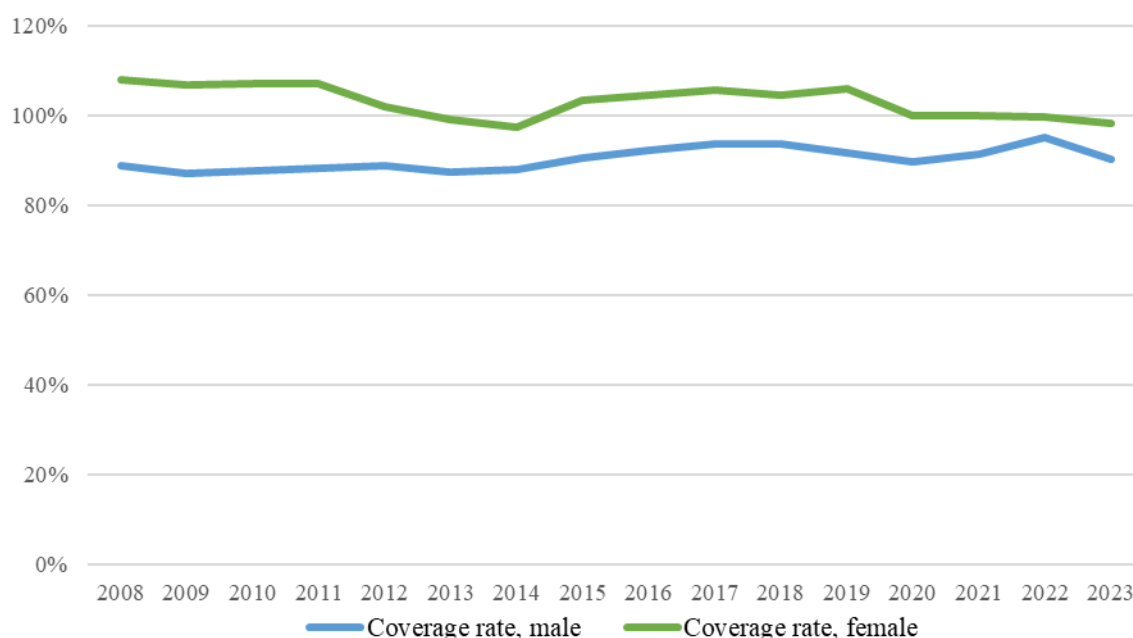


Figure 19: Coverage rates for males and females, for the years 2008-2023.

In conclusion, the statistics on Class 1 contributions highlight significant trends, including sustained growth driven by foreign labour, stable participation by Maltese females, and declining contributions from Maltese males, particularly in dual contribution categories. These shifts underline broader changes in Malta's workforce dynamics, possibly influenced by evolving economic conditions, labour policies, and demographic patterns.

To further contextualize these findings, the subsequent section will examine statistics related to Class 2 contributions and contributors, offering additional insight into workforce participation, age distribution, and demographic shifts within Malta's social security system.

Chapter 3 - The Social Security Contribution Class 2 system³ in Malta

In reference to Table 1, between 2008 and 2012, contributors in the SSC 1 only category experienced steady growth, rising from 150,002 to 160,957, with an average annual increase of 2,700 contributors. SSC 2 only remained relatively stable during this period, growing modestly from 19,490 to 19,127, while SSC 1 and 2 contributors increased slightly from 1,149 to 1,272. Among Maltese males, SSC 1 only saw minor fluctuations, ending at 85,736 in 2012, while SSC2 only showed a small decline from 15,973 to 15,190, and SSC 1 and 2 remained consistent, with minimal growth from 908 to 930.

Maltese female contributors exhibited more substantial growth in SSC 1 only, increasing from 53,211 to 58,686, with annual gains of approximately 1,300. SSC 2 only and SSC 1 and 2 for Maltese females saw slight increases, reaching 3,458 and 342, respectively, by 2012. For foreign contributors, both males and females showed significant growth in SSC 1 only, with foreign males increasing from 6,697 to 10,076 and foreign females rising from 3,684 to 6,459. Their SSC 2 only contributions remained small but increased slightly, with foreign males reaching 313 and foreign females 256.

The period from 2013 to 2017 marked a phase of rapid growth and expansion. SSC 1 only contributors surged from 165,889 to 215,103, averaging annual increases of 12,800. SSC 2 only contributors remained relatively stable, fluctuating between 19,247 and 20,099, while SSC 1 and 2 saw a significant rise from 955 to 1,952. Maltese males in SSC 1 only steadily increased, peaking at 91,409 in 2017, while SSC 2 only began a slight decline, falling to 14,572 in 2017. SSC 1 and 2 for Maltese males doubled during this period, growing from 708 to 1,441. Maltese females experienced consistent growth in SSC 1 only, which rose from 60,484 to 72,207, while SSC 2 only increased modestly from 3,495 to 4,365. The SSC 1 and 2 category for Maltese females also saw growth, rising from 247 to 477. Foreign contributors experienced explosive growth during this time, with foreign males in SSC 1 only increasing from 11,950 to 31,102, and foreign females growing from 8,018 to 20,385.

³ Class Two Contributions are to be paid by all individuals who derive income of more than €910 from an economic activity and who are not employed. The Social Security Act defines two categories of persons that are required to pay Class 2 Contributions as follows: Self Occupied Persons - persons who earn income from Trade, Business, Profession, Vocation or any other economic activity that exceeds €910 per annum. Self Employed Persons - persons who receive income from rents, investments, capital gains or any other income.

From 2018 to 2023, the trends shifted as SSC 1 only contributors continued to grow steadily, rising from 214,450 to 282,103, with annual increases of over 13,500 contributors. However, SSC 2 only experienced a sharp decline post-2019, dropping from 21,870 to 13,416 by 2023. Similarly, SSC 1 and 2 contributors fell dramatically from a peak of 2,605 in 2018 to just 482 in 2023. For Maltese males, SSC 1 only saw slight declines after 2017, falling to 87,732 by 2023, while SSC 2 only dropped significantly to 9,076. SSC 1 and 2 contributions for Maltese males saw the sharpest decline, dropping from 1,918 in 2018 to just 331 in 2023. Maltese females, on the other hand, maintained consistent growth in SSC 1 only, increasing from 72,046 in 2018 to 78,130 in 2023, while SSC 2 only remained stable but declined slightly after 2020. The SSC 1 and 2 category for Maltese females also fell sharply from 638 in 2018 to 138 in 2023.

Foreign contributors, particularly males, saw significant growth in SSC 1 only, with numbers rising from 31,093 in 2018 to 73,418 in 2023, averaging annual increases of over 8,400 contributors. Foreign females in SSC 1 only followed a similar trajectory, growing from 20,379 in 2018 to 42,823 in 2023, with annual growth rates of around 4,400 contributors. In contrast, SSC 2 only contributions for both foreign males and females declined sharply after 2019, falling to 463 and 344, respectively, by 2023. Overall, this period marked a continued reliance on foreign labour and increased female workforce participation, particularly in SSC 1 only, while dual contributions across all groups declined significantly.

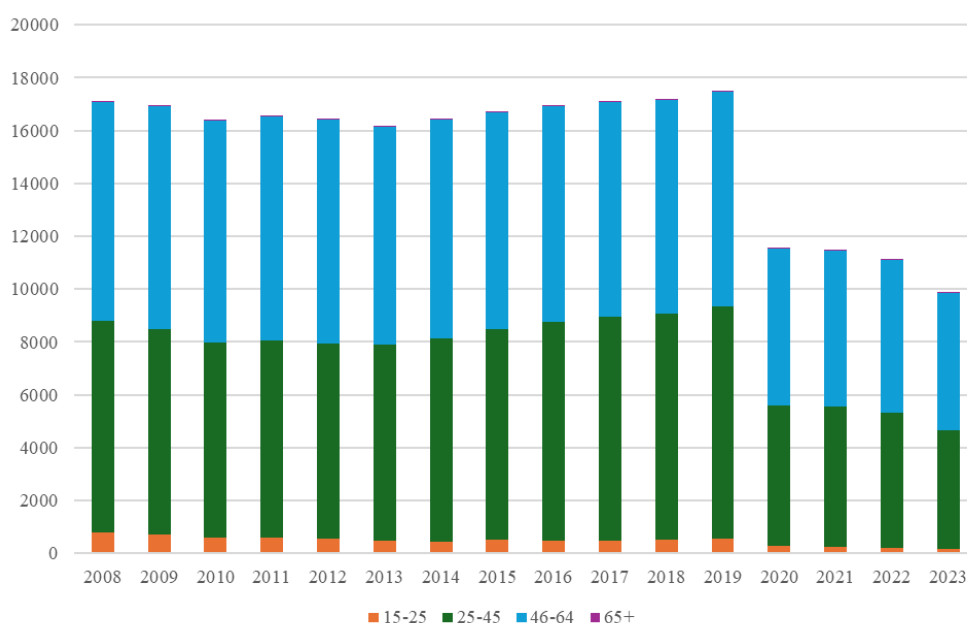


Figure 20: Male class II contributors by age brackets.

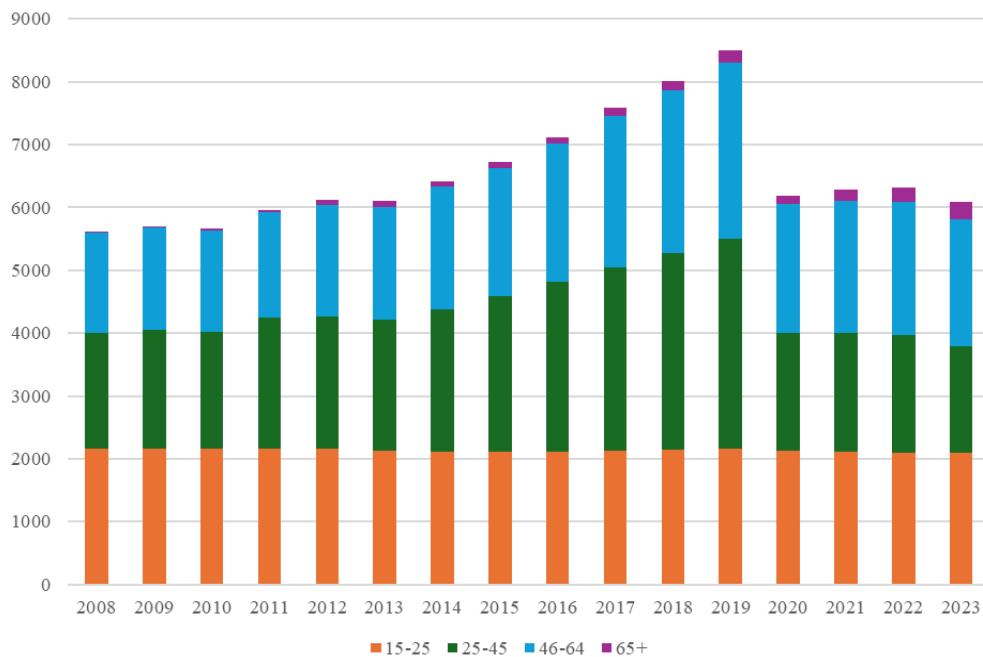


Figure 21: Female class II contributors by age brackets.

The data on Class 2 contributions highlights distinct trends among males and females over time, with a noticeable concentration of contributions in the 50-58 age range. For males, this group consistently records the highest number of contributors, with figures peaking at 568 in 2008 for age 55 before gradually declining to 248 in 2023. Female contributions also peak in the same age range but remain significantly lower, with age 55 contributors reaching 144 in 2017 and declining to 109 by 2023. Younger contributors, particularly those aged 15-25, consistently show low participation for both genders, with numbers declining further after 2017. By 2023, most contributions from this group fall into single digits, reflecting decreased engagement of younger individuals in Class 2 contributions, possibly due to extended education and changing workforce dynamics.

Older contributors aged 60 and above, although relatively small in number, have shown slight but steady increases, particularly after 2018. This pattern is observed across both genders, reflecting trends of delayed retirement or new employment opportunities for older workers. For instance, male contributors aged 66 increased from 0 in 2008 to 28 in 2023, while female contributors of the same age rose similarly. The average age of contributors has steadily increased, from 43.57 in 2008 to 46.56 in 2023 for males and from 40.35 to 45.63 for females during the same period, indicating an aging workforce across the board.

When comparing genders, males consistently outnumber females across all age groups, especially in the peak contributing range of 50-58. However, females tend

to have a lower average age of contributors, suggesting earlier exit from the workforce or other structural differences. Both genders exhibit a noticeable shift toward older contributors, with increasing participation from the 60+ age group over time. These trends underscore the aging nature of the workforce, reduced participation from younger workers, and an overall shift in workforce demographics. This evolution may have significant implications for workforce planning, retirement policies, and the economic inclusion of younger individuals.

Maltese male contributors	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
SSC 1 only	86410	84166	84655	85577	85736	85437	86109	88904	90450	91409	90932	90671	89749	90573	90720	87732
SSC 2 only	15973	15921	15455	15424	15190	15061	15111	14590	14621	14572	14124	14686	10177	10167	10052	9076
SSC 1 & 2	908	787	692	821	930	708	760	1352	1441	1441	1918	1405	541	456	407	331

Maltese female contributors	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
SSC 1 only	53211	53224	55083	57083	58686	60484	62013	66556	69430	72207	72046	75506	74995	77153	79111	78130
SSC 2 only	3215	3292	3261	3434	3458	3495	3712	3857	4084	4365	4519	4936	3330	3457	3626	3533
SSC 1 & 2	241	245	210	262	342	247	280	370	417	477	638	563	228	189	205	138

Foreign male contributors	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
SSC 1 only	6697	7012	7987	9019	10076	11950	15096	19299	24632	31102	31093	46976	48207	53082	67012	73418
SSC 2 only	200	217	249	300	313	395	560	735	863	1021	1161	1357	884	882	648	463
SSC 1 & 2	0	0	0	0	0	0	0	10	12	23	32	23	17	17	7	4

Foreign female contributors	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
SSC 1 only	3684	3931	4510	5319	6459	8018	10020	12730	15907	20385	20379	29677	29046	31085	37938	42823
SSC 2 only	102	109	137	205	256	293	365	415	531	654	763	891	571	562	414	344
SSC 1 & 2	0	0	0	0	0	0	0	5	9	11	17	18	8	10	5	9

Table 1: Distribution of contributors by sex and mix of contributions paid.

The data presented in Figure 20 show social security contributions categorized by the year they are referenced and the year they were actually paid, spanning from 2014 to 2023 (excluding 2017 due to incomplete data).⁴ Over the years, both categories exhibit an overall increasing trend, although there are fluctuations in specific years. Contributions linked to the reference year steadily increased from €38.2 million in 2014 to €57.4 million in 2023, reflecting an overall growth in contributions over the period. A similar trend is observed in contributions linked to the year paid, which rose from €39.8 million in 2014 to €64.5 million in 2023.

However, variations in the contributions linked to the year paid suggest irregularities in payment patterns. For example, there was a notable drop in 2016 (€32.8 million) compared to 2015 (€48.3 million), but this was followed by a sharp increase in 2018 (€49.7 million) and a further jump to €57.2 million in 2019. The most significant peak occurred in 2020, with contributions reaching €77.5 million, potentially due to government measures and economic shifts during the COVID-19 pandemic. This was followed by a decline in 2021 (€58.1 million) and a further dip in 2022 (€31.7 million), before rebounding significantly in 2023 (€64.5 million).

The disparity between contributions linked to the reference year and those linked to the payment year in certain years suggests delays or backlogs in payments. The large fluctuations in the year paid category indicate that contributions are not always settled within the same reference year, likely due to administrative processes, deferred payments, and policy adjustments. The data highlights the need for closer monitoring of payment timelines to ensure consistency between reference and payment periods, as well as stability in contribution collection.

⁴ Historical data including 2013 and previous years pertaining to the value of contributions paid could not be extracted.

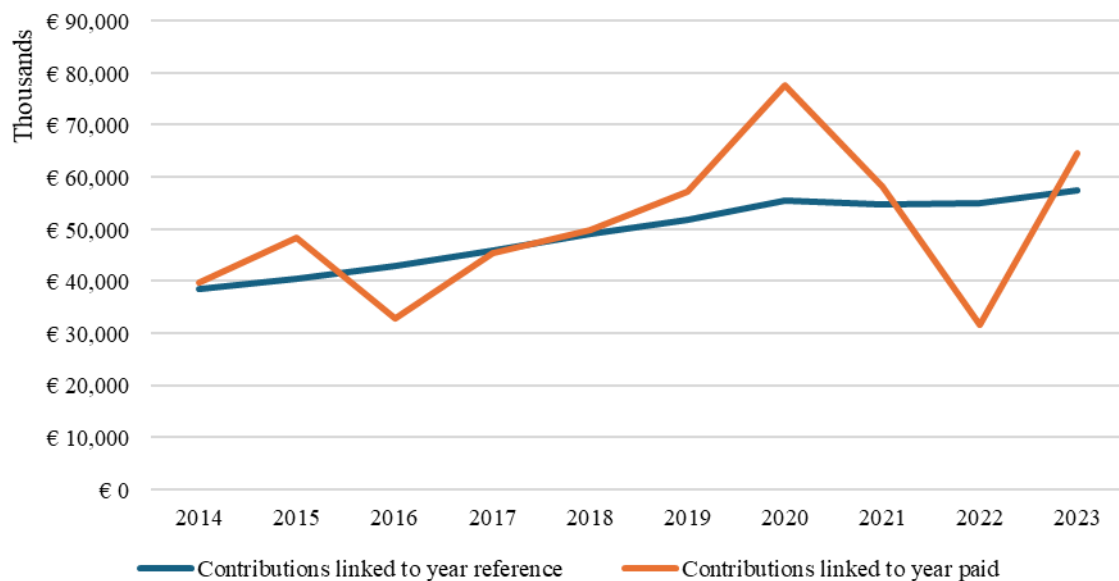


Figure 22: Class II contributions by year paid and year of reference.

Furthermore, figure 21 provides insights into the number of contributors linked to the year paid and their corresponding average contributions over time. Excluding 2017, which lacks data, the trend reveals an overall increase in contributors while the average contribution values exhibit notable fluctuations.

Between 2014 and 2016, the number of contributors showed a steady rise, from 22,671 in 2014 to 24,672 in 2015, followed by a slight drop to 23,565 in 2016. After the missing data in 2017, the number of contributors rebounded to 25,485 in 2018 and continued increasing to 26,714 in 2019. The most significant rise occurred in 2020, when the number of contributors reached 30,246, the highest recorded in the dataset. While 2021 saw a slight decline to 28,714, the numbers remained relatively stable in 2022 at 28,490, followed by a minor increase to 29,323 in 2023.

The average contributions, however, exhibit a less consistent pattern. In 2014, the average stood at €1,755.60, increasing to €1,958.57 in 2015 before experiencing a sharp drop to €1,390.30 in 2016, the lowest recorded value. After the missing data in 2017, average contributions recovered to €1,951.35 in 2018 and €2,141.63 in 2019. A significant spike occurred in 2020, when the average contribution surged to €2,562.79, suggesting external economic influences, possible policy shifts, or increased contributions from higher-income groups. However, this trend did not sustain, as the average dropped to €2,023.87 in 2021 before experiencing a drastic dip to €1,113.66 in 2022, the lowest value since 2016. This decline was followed by a rebound in 2023, with the average contribution increasing to €2,198.68.

The overall data highlights a growing contributor base, particularly post-2018, with 2020 marking the peak in both the number of contributors and average contributions. However, the fluctuations in average contributions suggest variability in individual contribution levels, possibly influenced by economic shifts, policy adjustments, or workforce dynamics. The sharp drop in 2022 despite a stable number of contributors implies a shift in contribution distribution, potentially indicating an increase in lower-income or part-time contributors. The rebound in 2023 suggests a recovery phase, restoring contribution levels closer to pre-2022 figures.

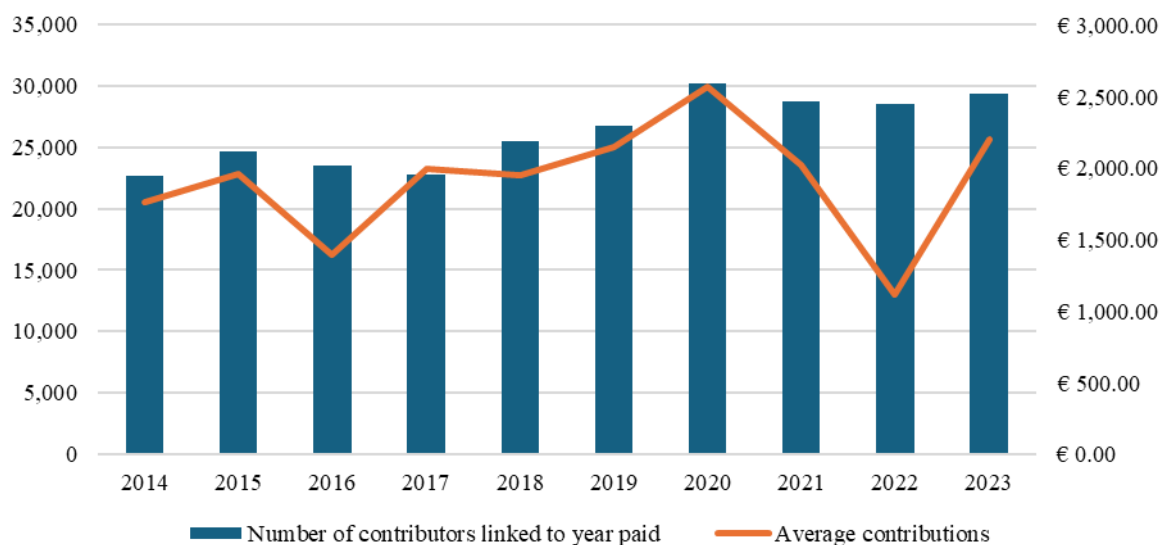


Figure 23: Class II contributions paid by year paid and average contributions paid.

Lastly, Table 2 reveals a fluctuating pattern in contributor engagement over time, with notable peaks in 2016, 2020, and 2021-2022. The highest contribution year, 2016 (36,088 entries), stands out as a significant spike, suggesting a major push for participation during that period. However, a decline follows in subsequent years, with 2018 (24,691) and 2019 (25,925) reflecting lower but still substantial engagement. The 2020-2022 period marks a resurgence, with 32,571 contributions in 2020, 44,896 in 2021, and 45,860 in 2022, indicating a shift towards renewed interest, possibly influenced by external factors such as global events, digital transformation, or policy changes.

Older contributions from 2014-2016 show a gradual decline over time, suggesting that most early contributors do not remain engaged long-term. For instance, contributions from 2014 drop from 22,029 initially to just 83 in 2023, and 2015 declines from 25,335 to 88 in the same period. This trend underscores a high turnover rate, where new contributors replace older ones rather than maintaining long-term engagement. Despite this, a long-tail effect is observed, where small

numbers of past contributions persist over time, implying that while the majority disengage, a fraction of early contributors remain active.

The sharp increase in contributions from 2020 onward suggests a significant shift in participation, possibly driven by strategic initiatives, funding, or global changes that encouraged digital collaboration. The sustained high numbers in 2021 (44,896), 2022 (45,860), and 2023 (30,538 so far) indicate a strong recruitment phase where newer contributors are actively engaged. Given this trend, the coming years may continue to see high levels of participation unless significant structural or external disruptions occur.

In summary, contributor engagement has shown three key phases: an early peak in 2016, a dip in 2018-2019, and a resurgence from 2020 onward. Older contributions gradually phase out, while newer ones dominate, suggesting a model where fresh participation drives engagement rather than long-term retention. If the upward momentum from 2021-2023 continues, future contribution rates could remain stable or even increase, depending on organizational strategies and external influences.

		YEAR PAID									
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
YEAR REFERENCE	2014	22,029	1,429	354	332	333	274	148	53	42	83
	2015	-	25,335	1,233	488	367	303	325	52	43	88
	2016	-	-	36,088	2,129	536	322	437	144	50	92
	2017	-	-	-	21,980	2,599	510	456	218	252	108
	2018	-	-	-	-	24,691	1,929	781	230	242	275
	2019	-	-	-	-	-	25,925	2,539	345	287	355
	2020	-	-	-	-	-	-	32,571	12,863	418	547
	2021	-	-	-	-	-	-	-	44,896	10,457	825
	2022	-	-	-	-	-	-	-	-	45,860	2,492
	2023	-	-	-	-	-	-	-	-	-	30,538

Table 2: Distributions of contributors by reference year.

Chapter 4 - The Pension deferral system

Pension deferral policies in Malta have evolved as a strategic tool to encourage longer workforce participation while ensuring financial sustainability within the pension system. By allowing individuals to delay their pension claims, the policy aims to provide increased benefits upon eventual retirement, thereby improving financial security for retirees. The decision to defer pensions is influenced by various factors, including economic conditions, labour market trends, and legislative changes that impact eligibility and incentives for deferral.

The evolution of contributors within the pension system plays a crucial role in shaping deferral patterns. As demographic shifts lead to an aging workforce and extended life expectancy, more individuals opt to postpone retirement, either voluntarily or due to economic necessity. The deferral trends observed over the years reflect broader socio-economic changes, such as shifts in employment stability, wage growth, and policy reforms that either incentivize or discourage early retirement.

In 2016, the Maltese Government implemented a reform to introduce pension deferral incentives, providing financial benefits for individuals who choose to delay retirement beyond the early exit age despite having a full contributory record. This initiative has played a role in extending working careers. Grech's (2020) study found that individuals who continue working until the statutory pension age are increasingly likely to remain employed beyond that threshold, with each successive cohort exhibiting this trend at a faster-than-expected rate. The study attributes this shift largely to the impact of the deferral scheme.

In terms of take-up, the tables 3-6 provide an overview of the deferral population in the Maltese pension system from 2016 to 2024, categorized by pension type, number of deferred years, and date of birth.

The total deferral population has fluctuated over the years, with notable peaks in 2021 (1,284), 2020 (1,279), and 2023 (1,271), and a sharp decline in 2018 (166). The most deferred pension type is the Two-Thirds Pension (TTP), accounting for 6,657 out of 7,874 cases (84.5%), followed by the Increased National minimum pension (INMP) with 704 cases. The other pension types, such as the Retirement Pension (RP - 325 cases) and the Survivor's Pension (SRP - 33 cases), have relatively lower deferral counts. Over the years, deferrals increased significantly from 2016 (589 cases) to a peak in 2021 (1,284), before declining in 2022 (467) and stabilizing around 950 in 2024.

Furthermore, the majority of pension deferrals occur for two years (3,564 cases, 45.3%), followed by one year (2,649 cases, 33.6%), and three years (1,494 cases, 19.0%). Only a small percentage of pensioners defer for four years (122 cases, 1.5%), with 45 cases marked as "undefined." The trend shows an increase in longer deferral durations from 2019 onward, with most two-year deferrals occurring in 2020, 2021, and 2023.

The above-mentioned trend in preference is mirrored in the distribution of pension deferrals based on the percentage increase applied to the pension rate across various pension types. The majority of deferrals (3,403 cases or 43.2%) occurred at the 10.5% increase level. Another significant portion of deferrals took place at the 5% increase level (2,347 cases, 29.8%). The third most common deferral category was 16.5% (883 cases, 11.2%), demonstrating that some pensioners preferred to defer for longer to achieve a higher rate increase. Conversely, higher deferral levels such as 21% (600 cases), 22.5% (2 cases), 23% (95 cases), and 29% (3 cases) had far fewer participants, indicating that prolonged deferrals beyond the commonly chosen thresholds were relatively rare.

Assessing the beneficiaries of the deferral system by birth year, the largest deferral population comes from those born in 1957 (1,302 cases), 1958 (1,325 cases), and 1959 (1,265 cases), indicating a concentration of deferrals among individuals approaching retirement age during the period analyzed. Deferrals among older cohorts (born before 1955) are gradually declining (only 1,469 total cases). The sharp increase in deferrals for those born in 1960 (1,007 cases) and 1961 (241 cases) suggests a policy or eligibility shift influencing later cohorts.

In sum, the analysis identified four key (4) trends:

1. Increase in Deferrals Over Time: Deferrals peaked in 2021 (1,284 cases), 2020 (1,279 cases), and 2023 (1,271 cases).
2. Dominance of TTP Pensions: The Two-Thirds Pension (TTP) accounts for most deferrals (84.5%), highlighting its centrality in the Maltese pension system.
3. Preference for Short-Term Deferrals: Most pensioners defer for one to two years (nearly 80% of cases), indicating a tendency for short-term deferral rather than prolonged delays.
4. Impact of Birth Cohorts: Deferrals were concentrated among those born between 1956 and 1960, suggesting that retirement policy changes particularly affected individuals in this age bracket.

		Deferral population by pension type								Total
		TTP	RP	INMP	NMP	IRP	SRP	NMWP	ESRP	
Year Reference	2016	521	43	21	4	0	0	0	0	589
	2017	643	40	78	5	0	0	0	0	766
	2018	137	9	17	3	0	0	0	0	166
	2019	955	59	74	11	2	1	0	0	1102
	2020	1071	62	124	18	1	2	1	0	1279
	2021	1072	45	137	27	0	1	2	0	1284
	2022	406	12	39	7	0	1	2	0	467
	2023	1065	41	108	38	1	16	1	1	1271
	2024	787	14	106	28	0	12	0	3	950
	Total	6657	325	704	141	4	33	6	4	7874

Table 3: Distribution of deferral population by pension type and year of retirement.

		Deferral population by number of deferred years					Total
		1	2	3	4	Undefined	
Year Reference	2016	582	2	1	1	3	589
	2017	754	4	3	2	3	766
	2018	140	11	2	5	8	166
	2019	166	911	6	7	12	1102
	2020	205	1047	11	6	10	1279
	2021	202	1044	13	21	4	1284
	2022	211	207	22	26	1	467
	2023	241	211	791	27	1	1271
	2024	148	127	645	27	3	950
	Total	2649	3564	1494	122	45	7874

Table 4: Distribution of deferral population by number of deferred years and years of retirement.

	Deferral population by pension type									Total
	ALL	TTP	RP	INMP	NMP	IRP	SRP	NMWP	ESRP	
Percentage increase applied to pension rate	5	2007	129	174	17	0	17	2	1	2347
	5.5	146	1	4	3	0	1	0	0	155
	6	25	1	2	1	0	0	0	0	29
	6.5	82	1	3	0	0	0	0	0	86
	7	5	0	0	0	0	0	0	0	5
	7.5	16	0	0	0	0	0	0	0	16
	8	11	0	0	0	0	0	0	0	11
	10.5	2865	145	324	50	3	11	3	2	3403
	11.5	33	0	0	0	0	0	0	0	33
	12.5	27	0	2	3	0	0	0	0	32
	13.5	57	2	10	2	0	0	0	1	72
	14.5	22	0	0	0	0	0	0	0	22
	15.5	2	0	0	0	0	0	0	0	2
	16.5	731	29	90	30	0	3	0	0	883
	18	6	0	1	1	0	0	0	0	8
	21	489	9	80	23	0	0	0	0	601
	22.5	2	0	0	0	0	0	0	0	2
	23	76	6	7	4	1	1	0	0	95
	29	23	0	3	1	0	0	0	0	27
	None	32	2	4	6	0	0	1	0	45
	Total	6625	323	700	135	4	33	5	4	7874

Table 5: Distribution of deferral population by pension type and applicable top-up rate.

		Deferral population by date of birth														
		<=1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Year Reference	2016	589	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	2017	766	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	2018	76	90	0	0	0	0	0	0	0	0	0	0	0	0	0
	2019	18	999	84	1	0	0	0	0	0	0	0	0	0	0	0
	2020	10	73	1104	92	0	0	0	0	0	0	0	0	0	0	0
	2021	3	24	72	1072	111	1	0	0	1	0	0	0	0	0	0
	2022	3	2	38	105	179	138	0	0	0	0	0	1	0	0	1
	2023	0	3	4	53	893	185	131	1	0	0	1	0	0	0	0
	2024	4	0	0	2	82	683	110	65	1	1	0	0	2	0	0
	Total	1469	1191	1302	1325	1265	1007	241	66	2	1	1	1	2	0	1

Table 6: Distribution of deferral population by date of birth and year of retirement.

Chapter 5 - Identified policy areas of interest and caveats in the revenue-side of the Maltese first pillar pension system

As mentioned in the initial discussions of this supplementary paper, the long-term sustainability of Malta's contributory pension system rests not merely on how much revenue flows into it, but on who is paying, how consistently they pay, and on what portion of their earnings those payments are based. This section examines these interlocking dynamics in turn.

The chapter begins by tracing the changing composition of the contributor base—the growing share of maximum-rate payers, the rapid substitution of Maltese contributors with foreign workers, and what these shifts imply for the system's dependency ratio and its accelerating drift toward the mature stage of the pension life cycle.

Thereafter, the discussion then turns to the structural treatment of wages, assessing how the exclusion of non-basic earnings (bonuses, allowances, and overtime) from the contributory base erodes both revenue today and pension reference salaries tomorrow, while exposing latent inequities in how contributions paid translate into benefits earned.

Finally, it interrogates the quality rather than the quantity of contributions through the lens of contribution densities, showing how the frequency and continuity of payments—particularly the markedly lower and shorter records of foreign workers—reshape projections of future liabilities and call into question prevailing assumptions about Malta's fiscal exposure.

Taken together, these strands underscore a central tension running throughout the analysis: the trade-off between short-run contribution gains and the long-term pension liabilities they may, or may not, eventually finance.

The evolution of contributors and migration dependencies

Contributions from those paying the maximum rate have grown from 30.2% in 2008 to 43.3% in 2023, with contributors in this category increasing from 21% to 29% over the same period. What is interesting to note is that the ratio of the average insurable salary to the maximum pensionable income (post-62) is

showing an upward trend, starting at 69.9% in 2008 and fluctuating, reaching 76.5% in 2023, indicating an improvement in coverage alignment in recent years.

From the revenue-side, aside from the argument of closing the real gap between basic and total wages (which will be discussed further on), the observed trend is positive. However, from the expenditure-side, as contributions and contributors from maximum rate payers grow, the average rate of future pension liabilities increases as well. Considering this, the potential policy caveats of increasing contribution revenue are fundamentally two.

Primarily, the element of timing between the peaks of maximum contributors in the short-term and the maximum-pension beneficiaries in the future may not coincide with each other. In a pure PAYG system, the fundamental indicator of sustainability is the dependency ratio or more specifically, the system dependency ratio. This measures the relationship between the number of contributors (working population paying into the system) and the number of beneficiaries (retirees receiving pensions). Simply put, current contributions directly fund current pensions.

In the case of Malta, given that contributions are not ring-fenced to strictly service contributory benefit expenditure, and form part of the government's consolidated fiscal fund, the revenue-side of contributory pensions is utilised across the board. On the one hand, one may argue that the fiscal adequacy of the system is more resilient to the demographic and economic elements directly and indirectly impacting the annual flow of contributions. On the other hand, given the contributions' fungibility, the usage of said contributions is not directly interlinked with the public pension system's financing pillar; or rather, the primary function of the contributions collected is not being adhered to.

As outlined in the previous section, comparing and contrasting the annual flows of revenue and expenditure allows for the assessment of the system's internal sustainability and its intrinsic resilience to shocks. Focusing on the 2005-2023 period, the evolution of the annual net balance has experienced a reversal in trend. To provide further specification, figure 22 outlines the evolution of the annual net balance, illustrating an initial decrease from €78.7 million in 2005 to a deficit of €7.9 million in 2010, after which an all-time surplus of €376.1 million was registered by the end of the period under question.

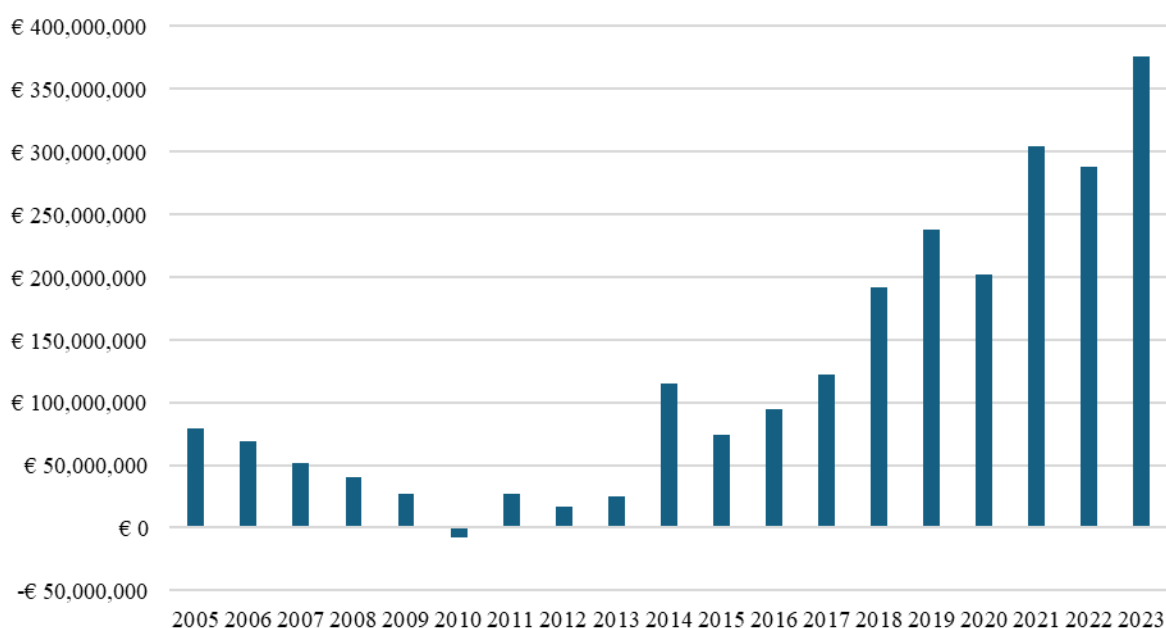


Figure 24: Evolution of the net annual balance if the contributory system is ring-fenced, 2005-2023.

Assessing the net positive trend in the relationship between contributions and expenditure provides an indication at which stage of the life cycle the public pension system is. Specifically, despite the fact that the scheme is only approximately 50 years old, its features - a very strong contributor base with rising life expectancy and other demographic pressures - are making the system shift rapidly towards the maturer stage of any pension life cycle. For ease of reference, the ‘mature’ stage is characterised by a drop from the peak in contributors/contributions and a trend whereby the rate of growth in new beneficiaries starts outpacing the new contributors.

Secondly, future workers which will be required to ‘replace’ the high-paying contributors today and high paid pensioners tomorrow, may not be present. Specifically, this can be understood through a comparison of the current versus future average contributors. As previously mentioned, the number of Maltese contributors has only increased by 25,650 individuals, with almost the full majority stemming from individuals reporting the highest maximum (‘D’ class/category). On the other hand, non-Maltese contributors have increased by 105,932 individuals, with most individuals paying the 10% rate.

Furthermore, in reference to the average contribution per taxpayer metric by nationality, the gap of €637 reported in 2008 has continually increased and doubled (€1,223) by the end of the assessed period. Such can be due to either comparatively lower basic wages, lower contribution densities or a combination of both. In terms of the former, comparing the average basic wages of Maltese

and non-Maltese nationals, Maltese workers consistently earn higher total and average basic wages compared to non-Maltese workers.

Over time, total basic wages for both groups show steady growth, reflecting an expanding economy with increasing employment and rising wages. However, the average wage gap between Maltese and non-Maltese workers fluctuates, narrowing in some years (e.g., 2014–2015 and 2017) but widening significantly in recent years, reaching €6,604 in 2023. While both groups experience annual wage increases, the growth rate for Maltese workers outpaces that of non-Maltese, contributing to a widening disparity in average wages. Even though these trends point to an overall improvement in wages across the board, they also raise questions in terms of average contribution projections.

Further exacerbating the identified lacking interchangeability between the present and the expected contributor, is the comparatively lower contribution densities of non-Maltese nationals, whereby the average Maltese national contributes for 37.3 weeks, whilst the average non-Maltese national contributes for 22.7 weeks. For ease of reference, contribution density (in social security) refers to the proportion of time a worker actively contributes to a social security system relative to the total possible working period. This element will be further explained in a subsection below.

In sum, the trade-off between, and timing of, short-run revenue gains and long-term liabilities requires careful evaluation and has significant fiscal ramifications if not addressed; even more so if policymakers do not take advantage of current net positive contribution returns.

Assessing the informality in formality and impact of a non-basic wages on contribution revenue and pension reference salaries

Current Maltese legislation dictates that social security contributions, or national insurance, are based on an employee's gross wage or salary, or a self-employed person's profits. In other words, the social contribution rate is linked to the individual's basic weekly wage, which does not include allowances, bonuses, and/or overtime earned.

Even though the non-basic wage element has remained relatively stable at approximately one-fifth of total wages (slightly increasing to 22.4% in 2022) the average value of non-basic wage and the relative ratio between non-basic and basic wages have both increased. The latter trends point to a labour market where

supplementary earnings (i.e., non-basic wages including bonuses and overtime) are becoming more prominent, reflecting shifts in compensation strategies.

The questions for policymakers here are two – what are the direct implications of a rising element of non-basic wage on the first pillar pension and what is the real trade-off from doing so?

In terms of the former, the most immediate and direct impact relates to the flow of contribution revenue. As assessed in the sub-section titled “Social Security Base Erosion”, the first type of social security base erosion refers to the summation of the individual-based differences between the summation of basic and non-basic wages and the maximum pensionable income (post-1962) for the year. For ease of reference, if an employee has a basic wage of €10,000, a non-basic wage of €5,000 and the applicable maximum pensionable income is equal to €22,138 (2016 figure), the entire €5,000 are assumed as loss of social security base. If, on the other hand the individual had a non-basic wage of €15,000, the difference between the MPI and the basic wage is assumed as the loss of social security base.

Quantitatively, applying a flat 10% rate on the aggregate amount of these applicable non-basic wages, for the period between 2008 and the 2023, the government could have collected an additional €585 million; or an additional average annual employee contribution boost of 6.7%. For the sake of accuracy, should the applicable maximum pensionable income be linked to the date of birth of the individual, the total social security base erosion would be equal to €5.6 billion, 10% of which would be equal to €559 million, representing an additional average annual employee contribution boost of 6.4%. Furthermore, when assessing both metrics, it is important to note that the full or even partial shifting of non-basic wages to basic wages can have sensitively important implications for specific companies.

Shifting towards the second question, prior to discussing the trade-off between paid contributions now and pension benefits, one should assess why this question arises at all. Following the reform in 1978, the pension formula for the two-thirds pension includes three elements: the contribution average, the pensionable income and if applicable, the service pension. Maltese regulation pertaining to the calculation of pensionable income, for all the different variations based on the individual’s year of birth, dictates that pension income is strictly based on a specific number of years within a period of time. In reference to Table 7, one can note a higher degree of flexibility for individuals born on or after 1962, with the pension calculation being based on 10 years as opposed to three years, the

removal of the ‘consecutive’ element and potential reference years taken from the entire ‘career’ length.

DOB	Employed	Self-employed/Self-occupied
<i>Between 1952 and 1955</i>	Best three (3) consecutive years in the last eleven (11) years.	Best ten (10) consecutive calendar years in the last eleven (11) years.
<i>Between 1956 and 1958</i>	Best three (3) consecutive years in the last twelve (12) years.	Best ten (10) consecutive calendar years in the last twelve (12) years.
<i>Between 1959 and 1961</i>	Best three (3) consecutive years in the last thirteen (13) years.	Best ten (10) consecutive calendar years in the last thirteen (13) years.
<i>Between 1962 and 1968</i>	Best ten (10) calendar years out of the full forty (40) years.	
<i>Between 1969 and 1975</i>	Best ten (10) calendar years out of the full forty-one (41) years.	
<i>On or after 1st January 1976</i>	Best ten (10) calendar years out of the full forty-years (42) years.	

Table 7: Pension calculation by type of employment status and date of birth.

Although the pension income formula includes a contribution average element spanning beyond the years used to calculate the pensionable income, the average is based on the number of weeks paid and not the amount paid. Thus, individuals can decide to under-report their income during the years which will not be utilised for said pensionable income calculation. In other words, current legislation allows for scenarios whereby individuals which pay different aggregate amounts of contributions have the same pension level. Let us posit the case example of two individuals whereby individual A has always paid the highest maximum throughout their entire career whilst individual B has only paid the highest maximum rate SSC rate for the last ten years. In this scenario, under the assumption of both having full contributory records, both individuals will earn the same pension amount. In sum, the link between contributions paid and benefits earned, represented by an individually derived internal rate of return, varies from one individual to another.

Putting to the side the consideration of an individual’s changing ability and prioritisation of paying the highest maximum rate for a higher pension tomorrow, the method of pension income calculation has elements of both intergenerational and intragenerational inequity. What’s more, the argument doesn’t necessarily have to be tied to the comparison of individuals earning the maximum benefit, but for all levels of pension income. In a similar fashion, if an individual pays €1,200 amount over 30 weeks and another individual pays the same amount but over all 52 weeks, the first individual will be penalized due to the former individual having a lower contribution density.

However, operating under the assumption that employees/employers are not willingly under-reporting their income, one would expect that the relative share of non-basic wages in total wages increases with age and decreases as the individuals approach their retirement age (to maximise their respective pension incomes). However especially for individuals born on or after 1962 (i.e. which are most of the contributors), the removal of the policy that the chosen years need to be in consecutive order makes it difficult to properly test this assumption. Furthermore, given the *a priori* assumption that individual wages increase with age, the total value of non-basic wages is also expected to increase with age; hence, providing the single-age average value of changes in non-basic wages will most likely result in a spuriously defined relationship between the two variables.

In conjunction to these arguments, the decision of having a relatively higher non-basic wage component in an employee's compensation package is more dependent on the employer's wage expenditure strategy. Thus, to assess the prevalence of non-basic wages in wage contracts, a company-by-company evaluation would be required.

In reference to Figure 23, the heatmap illustrates the distribution trends of companies based on their non-basic wage components. A significant observation is the dominance of the 5% non-basic wage category, which has shown a notable increase over the years, particularly after 2015. This trend suggests that an increasing number of companies are allocating only a small portion of their total wages to non-basic components.

Moderate growth is evident in the 10% to 20% categories, indicating a steady but less pronounced shift toward slightly higher non-basic wage allocations. In contrast, companies allocating more than 50% of their wages to non-basic components remain minimal, as reflected by the lighter shading in those categories. The crux of the assessment outlines that approximately 90% of companies consistently fall in or below the 25%-30% non-basic wage category. Furthermore, approximately 48.2% of companies have reported total non-basic wages at higher than 25% of their total wages for at least once in the assessed duration; and for an average number of 2.4 years (considering only assumed years of operation).

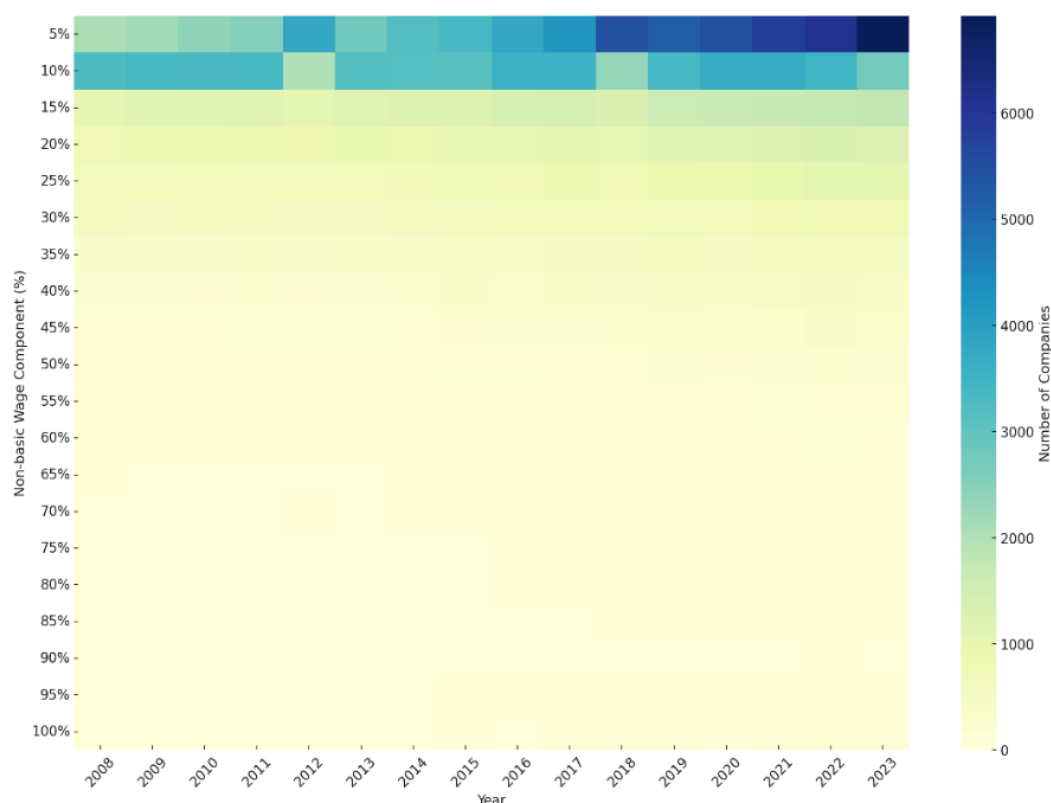


Figure 25: Company heatmap of non-basic wage component in total wages.

Branching off from the direct implications of non-basic wages on contribution revenue, other macro and micro-economic effects on the pension system relate to aggregate future beneficiary expenditure and individual pension levels, respectively. Specifically, individuals reporting higher non-basic wages (whereby their basic wage is lower than the maximum pensionable income for the year) during the years which have the highest basic wages, will have lower future pensions.

The primacy of understanding the implication of non-basic wages on individual pensionable incomes and pension levels arises from a separate evaluation which sought to quantify the gap between an individual's basic wage and applicable maximum pensionable income (Pre vs. Post 1962 limit). Going one step backwards, as the pensionable income is determined strictly by the reported basic wage in the chosen years for assessment and the assessed period of time (2008-2023), the exercise conducted does not accurately capture the real impact of pension levels but provides a metric of the potential loss in pension levels.

Going forward, in reference to Figure 24, the average ratio of basic wage to MPI gap began at 37.8% in 2008, gradually increased to a peak of 40.8% in 2015, and slightly declined to 38.8% in 2023. This trend indicates that basic wages have consistently fallen short of the MPI, with only marginal improvements in recent

years. In the same breath, an extension of this exercise is conducted to test the potential impact of the non-basic wage element on individuals 'reference salaries. Specifically, when non-basic wages are included, the 'Basic Wage and Non-Basic Wage to MPI' gap narrows slightly, starting at 29.2% in 2008, peaking at 32.8% in 2015, and decreasing to 30.5% in 2023.

Thus, the difference between the aforementioned average gaps has remained relatively stable throughout the period, fluctuating between 7.0% and 8.6%. The highest change occurred in 2008 (8.6%), while the lowest was recorded in 2020 (7.0%), suggesting a lack of substantial progress in reducing wage gaps over time.

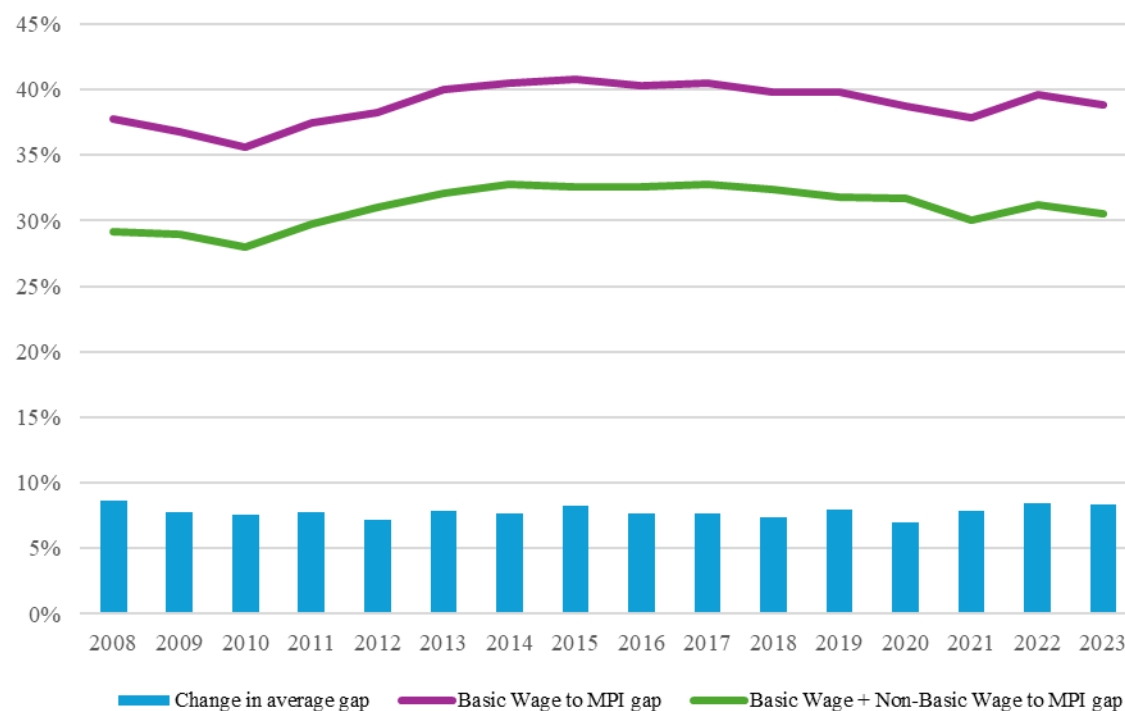


Figure 26: Relativity of basic wages and total wages to the applicable maximum pensionable income.

Overall, as the ratio is capped at 100% for basic value figures which exceed the individual's applicable maximum pensionable income (pre- or post-62) within the year under question, the evolution of the ratios suggests that total wages have struggled to keep pace with the MPI.

Despite slight improvements after 2015, the persistent wage gaps indicate the need for more comprehensive wage growth strategies to effectively bridge the divide and ensure wages are more aligned with minimum pension standards. Furthermore, focusing on the impact of the presence of non-basic wages, the average reference salary can effectively increase by 7.8%, and hence ultimately increase gross and net pension replacement rates.

Quality and not quantity for contributor, employer and government alike

The evolution of the contributors must be investigated not only on the basis of the social security rates which they pay, but also the frequency of their payments; or put differently, individual contribution densities. In conjunction to the previously provided definition, contribution densities are critical indicators of the adequacy and sustainability of social security systems, especially in pension schemes, as they directly affect future pension entitlements and the financial health of the system. Quantitatively, the indicator is derived by the following equation:

$$\text{Contribution density} = \frac{\text{Number of weeks with contributions}}{\text{Total Possible weeks in working life}} \times 100$$

Thus, a higher contribution density means that a worker has consistently contributed throughout his working life. Alternatively, a lower contribution density indicates irregular or intermittent contributions, often due to informal employment, unemployment, or career interruptions. Several factors influence contribution density in social security systems, shaping both individual retirement outcomes and the overall sustainability of the system. One major factor is labour market dynamics. High levels of informal employment significantly reduce contribution density because informal workers often do not participate in social security programmes. Additionally, precarious jobs and high unemployment rates contribute to fragmented contribution histories, limiting continuous engagement with the system.

The type of employment also plays a critical role. Self-employed individuals and workers in non-standard forms of employment—such as gig economy participants and contract workers—tend to have lower contribution densities. This is largely due to weaker enforcement of mandatory contributions and the irregular nature of their work. Gender disparities further impact contribution density, as women often face career interruptions for caregiving responsibilities, are more likely to engage in part-time work, and are overrepresented in informal employment sectors. These factors collectively lead to lower and less consistent contributions among women.

Economic cycles also affect contribution density. During economic recessions, rising unemployment and underemployment can lead to prolonged periods without contributions, weakening both individual savings and the broader social security system. Furthermore, the policy and legal frameworks governing social

security systems significantly influence participation rates. Systems that rely on voluntary contributions often experience lower participation, while mandatory schemes tend to have higher compliance. Additionally, minimum wage policies and contribution thresholds directly impact how much and how frequently individuals contribute to social security.

Shifting towards the applied methodology, the contribution densities were derived using a three-stage process. Primarily, the initial and end dates of when the individual started and finished contributing were identified. With this approach, individuals which either have entered the labour market (or started paying contributions) in any year after 2008 or have retired in any year of the assessed period of time, the contributory period is individually adjusted to reflect the real applicable period. Therefore, if an individual is first observed to contribute in 2009 and the last year of contribution was in 2018, only the gap between the years is determined as the contributory period (i.e., 10 years).

The second stage of the process is the simple summation of all weeks of contributions. Extending on our previous example, if the individual has a total number of 370 paid weeks out of the possible 520 weeks, the contribution density of the individual is assumed as 71%, or an annual contribution density of approximately 37 weeks. Furthermore, given gender, nationality and generational differences, the statistic is replicated for males and females, Maltese and non-Maltese nationals, and by single-age bracket (from 18 to 65 years of age). Lastly, the contribution densities are disaggregated and individually assessed by class (class 1 or class 2).

Prior to discussing the results, one should additionally take note that as the data only provides partial visibility of individuals' contributory records, the interpretation of the statistic does not relate to pension benefits, but strictly to the element of contribution revenue. However, by multiplying the individual contribution density by the non-individualised period of assessment, the contribution density relevant for pension expenditure can be derived. Starting off with the former, the following salient results can be noted:

- i. The average annual contribution density of a male Maltese national is of 38.6 weeks, whereby the average period of assessment is 12.3 years;
- ii. The average annual contribution density of a female Maltese national is of 35.8 weeks, whereby the average period of assessment is 11.9 years;
- iii. The average annual contribution density of a male TCN is of 28 weeks, whereby the average period of assessment is 3.6 years;

- iv. The average annual contribution density of a female TCN is of 29.9 weeks, whereby the average period of assessment is 4.1 years;
- v. The average annual contribution density of a male other national is of 19.1 weeks, whereby the average period of assessment is 7.0 years;
- vi. The average annual contribution density of a female TCN is of 19.2 weeks, whereby the average period of assessment is 6.9 years;

On the other hand, when multiplying the contribution density by the total period of assessment (i.e. 16 years), the abovementioned results shift as follows:

- i. The average annual contribution density of a male Maltese national is of 29.9 weeks.
- ii. The average annual contribution density of a female Maltese national is of 27.6 weeks;
- iii. The average annual contribution density of a male TCN is of 6.6 weeks;
- iv. The average annual contribution density of a female TCN is of 7.8 weeks;
- v. The average annual contribution density of a male other national is of 7.8 weeks;
- vi. The average annual contribution density of a female non-Maltese national is of 7.5 weeks;

Finally, the process is repeated with class 2 paid contributions and added to the individual's annual social security contributions. Hence, the individually derived contribution periods of assessment are re-adjusted to reflect new starting and end points of an individual's contribution history. Specifically, the re-adjustment process led to a very minimal adjustment, with the average extension being of 6 weeks. As one can note, the re-adjustment mainly affects the individuals which have a contributory record composed of both class 1 and class 2 contributions. However, this segment of individuals only account for 1% of the total contributor population. Pertaining to the final estimates, the abovementioned indicators are updated as follows:

- i. The average annual contribution density of a male Maltese national is of 38.4 weeks, whereby the average period of assessment is 12.3 years;
- ii. The average annual contribution density of a female Maltese national is of 35.6 weeks, whereby the average period of assessment is 11.8 years;

- iii. The average annual contribution density of a male TCN is of 28 weeks, whereby the average period of assessment is 3.6 years;
- iv. The average annual contribution density of a female TCN is of 29.9 weeks, whereby the average period of assessment is 4.1 years;
- v. The average annual contribution density of a male other national is of 19.1 weeks, whereby the average period of assessment is 7 years;
- vi. The average annual contribution density of a female other national is of 19.1 weeks, whereby the average period of assessment is 7 years;

As similarly performed above, when multiplying the contribution density by the total period of assessment (i.e. 16 years), the abovementioned results shift as follows:

- i. The average annual contribution density of a male Maltese national is of 33.8 weeks.
- ii. The average annual contribution density of a female Maltese national is of 28.9 weeks;
- iii. The average annual contribution density of a male TCN is of 7.5 weeks;
- iv. The average annual contribution density of a female TCN is of 7.8 weeks;
- v. The average annual contribution density of a male other national is of 8.1 weeks;
- vi. The average annual contribution density of a female other national is of 7.8 weeks;

Aside from the observed difference between males and females (which will be further discussed in the upcoming subsection), Maltese nationals demonstrate the highest level of workforce participation in terms of social security contributions, both annually and over their working lifetime. TCNs, on the other hand, contribute significantly less, indicating that they may be engaged in short-term or less stable employment. Other nationals contribute more than TCNs but still fall far below the contribution levels of Maltese nationals. These findings highlight the lower integration of foreign workers, especially TCNs, into Malta's social security system, likely due to employment types, contract durations, or residency limitations.

In reference to the previously reported figures in the sub-section assessing the evolution of the average contributor, given that Maltese representation in contributors has massively declined (93% to 59%) and been replaced by non-

Maltese nationals, revenue flow projections need to be adjusted to reflect the changing average contribution densities. Hence, policymakers need to further understand whether, and if so which, pension policy reforms (parametric or outside the system) are required to adjust the system accordingly.

Furthermore, the above-mentioned trends need to give due consideration to the newly released public consultation document regarding Malta's labour migration. Specifically, Malta's Labour Migration Policy introduces comprehensive recommendations centred on four key areas to balance economic growth with social sustainability. Firstly, to promote retention and stability, the policy enforces stricter employer eligibility criteria based on staff turnover, encouraging companies to prioritize employee retention through better working conditions and training opportunities. The renewal period for work permits will be extended from one to two years for certain workers, and financial incentives will be introduced by increasing fees for first-time permits while reducing renewal fees. Additionally, the policy seeks to improve employers' direct access to recruit Third-Country Nationals (TCNs) without relying on costly intermediaries.

Secondly, the policy emphasizes the protection of employee rights and the enhancement of working conditions. Strengthened compliance measures, including more frequent inspections and stricter penalties, will be implemented to ensure adherence to labour laws. Salary payments to TCNs will be mandated through bank transfers to increase transparency and prevent exploitation. A more flexible system will allow TCNs a 30 to 60-day grace period to secure new employment after termination, providing job security and continuity. Moreover, employers making redundancies in similar roles will be barred from applying for new permits, ensuring fair employment practices.

Thirdly, to ensure that labour migration is aligned with Malta's labour market needs, the Labour Market Needs Test (LMNT) will be refined to prioritize job opportunities for local and EU nationals before resorting to hiring foreign workers. Workforce application limits will be introduced, restricting the number of TCNs that companies can employ based on their size, while quotas or moratoriums may be implemented for occupations facing labour surpluses. Additionally, firms will be required to maintain a minimum number of local or EU employees before being eligible to hire TCNs, promoting a balanced workforce.

Lastly, adopting a skills-based approach to migration, the policy introduces a Skilled Occupation List (SOL) that prioritizes roles critical to Malta's economic development. Salary benchmarks for high-value roles under the Key Employment Initiative (KEI) and Specialist Employment Initiative (SEI) will be reviewed to

attract highly skilled professionals. The policy also encourages training and integration programmes for low-skilled workers to enhance their capabilities and adaptability within the labour market. Collectively, these measures aim to create a fair, efficient, and sustainable labour migration system that supports Malta's economic growth while safeguarding the rights and welfare of all workers.

In sum, some of the described recommendations have the potential of influencing the contribution densities of the foreign-born working population. In particular, the stricter employment rules, reduction of renewal fee, extension of grace period, and most importantly that salary payments will only be made through bank transfers, will further bring current social security governance towards the level of flexibility and transparency required to ensure adequate coverage and formal employment. Furthermore, the introduction and implementation of the SOL will also aid in not only boosting the average contribution density but will most likely increase the average contribution value of foreign workers.

Going one step backwards, the fundamental question of what the indicators are trying to answer relate to the primacy of having high contribution densities in a Pay-As-You-Go (PAYG) system. From a system sustainability perspective, consistently low contribution densities create significant financial challenges. As in the case of Malta, where current workers' contributions fund existing retirees, a declining contributor base relative to the growing retiree population threatens the system's balance, increasing the risk of financial deficits and future insolvency.

However, the importance relates to not only to the revenue side of the system but also to pension benefits and social coverage. Specifically, in terms of pension adequacy, low contribution densities often result in lower pension benefits or even ineligibility for pensions, especially in systems with strict minimum contribution requirements. On the other hand, in terms of coverage and equity, low contribution densities disproportionately harm lower-income and informal sector workers, leaving them more vulnerable to poverty in old age due to inadequate social protection. This dynamic exacerbates existing inequalities, as wealthier, formally employed individuals tend to have more consistent contribution records and, therefore, greater retirement security.

Delving deeper into the element of future pension beneficiaries, it is important to highlight the interaction between minimum contributory pension criteria, foreign contributors and projected pension expenditure. As originally reported by Grech (2021)⁵, strong influxes of foreign workers have complicated the task of

⁵ A. G. Grech (2021). The Impact of Migration Assumptions on Ageing Expenditure Forecasts. Policy Note, Central Bank of Malta.

producing accurate population forecasts. Small countries are inherently more challenging to model, and the volatile nature of Malta's inflows and outflows magnifies the difficulty. Population projections made by Eurostat, which the European Commission relies on for its long-term ageing analyses, have thus been repeatedly revised upward.

A primary issue arises from how Eurostat's methods assume that most migrants eventually stay in Malta until retirement. This assumption is embedded in the time-series approach used; whereby separate models of immigration and emigration are set to converge over time. Furthermore, even though the European Commission does publish sensitivity analyses using different migration assumptions, these scenarios typically fail to account for the short average stay of foreign workers and the minimal pension vesting that results. As a consequence, official forecasts can overstate Malta's fiscal burden in the coming decades, potentially influencing both international credit ratings and local policy decisions in ways that needlessly constrain beneficial reforms—particularly those that might enhance pension adequacy.

In practice, it implies that today's large inflows of relatively young workers will contribute significantly to the older population in the coming decades. According to current Eurostat projections, Malta may have as many as 210,000 residents over the age of 65 by 2050, of whom about 42,000 would be former migrants. As a result, fiscal sustainability models that use these projections estimate that Malta will face one of the steepest increases in public pension expenditure across the EU, a rise nearly four times larger than the EU average.

However, administrative data paint a very different picture. As reported by Borg (2019)⁶, the vast majority of migrants leave the country within a few years of their arrival, with around half departing within two years. High migrant turnover means that, while the number of foreign workers remains robust, the population stock is sustained by a continuing cycle of new arrivals rather than by a single, settled cohort. Furthermore, qualifying for Malta's main pension (the Two-Thirds pension) requires at least ten to twelve years of contributions for partial entitlements (pro rata) and 35 to 41 years for a full pension. Given that the median migrant worker was around 32 years old, very few will remain in Malta long enough to reach retirement age and qualify for a full pension. Indeed, fewer than one in twenty of Malta's current foreign workers has any pension entitlement, and only a modest fraction of them will likely acquire such rights in the future.

To robustly test these results, above-mentioned metrics are replicated by utilizing partial (2008-2023) social security class 1 and class 2 contributor record data. The

⁶ Borg, I. (2019). The length of stay of foreign workers in Malta. Central Bank of Malta, Policy Note.

exercise finds that out of the 244,882 foreign individuals that have at some point between 2008 and 2023 contributed to Malta's social security contributory system, only 2.3% (5,736) of these individuals have paid at least ten years (520 weeks) of contributions. Comparing this metric to that reported by Grech (2021), the one-in-twenty ratio falls to one-in-fifty. For a complete picture, Figure 27 illustrates the distribution of foreign contributors on the basis of their respective number of paid contributions (weeks).

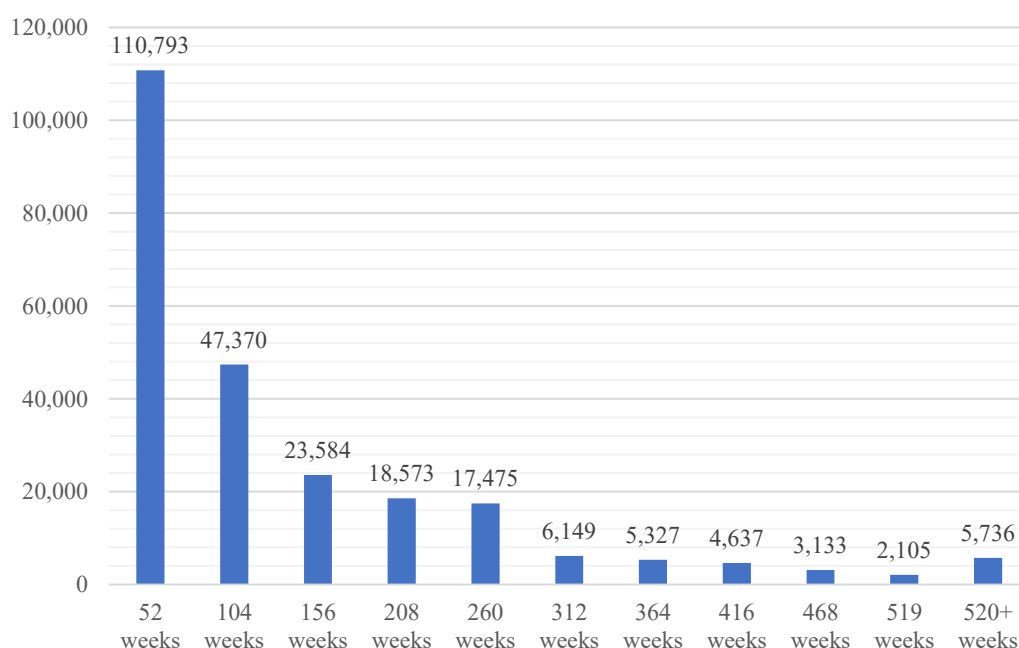


Figure 27: Distribution of foreign contributors by weeks of paid contributions.

Examining further, operating under the assumption that the last year where the individual has paid at least one SSC Class 1 or Class 2 contribution is equivalent to the individual leaving the country, Table 8 classifies foreign contributors by paid contributions and year of emigration. On this note, it is important to highlight that as the last data entry is 2023, the individuals which are classified in 2023 are individuals which can still be potentially present in the labour market.

For ease of interpretation, the following two case examples are referred to:

- In the year 2020, 890 individuals left Malta with an accumulated amount of social security contributions ranging between 105 and 156 weeks, i.e. 2-3 years' worth of paid contributions;
- In the year 2011, 345 individuals left Malta with an accumulated amount of social security contributions ranging between 157 and 208 weeks, i.e. 3-4 years' worth of paid contributions.

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
52 weeks	2275	1479	1672	2061	2247	2643	3228	3866	5113	179	6984	10651	3968	5466	12289	41465
104 weeks	0	866	595	522	649	696	843	1105	1368	73	3628	1386	6141	4194	3193	22111
156 weeks	0	0	575	297	304	344	377	484	638	45	2507	1134	890	2605	3888	9496
208 weeks	0	0	0	345	203	177	187	218	302	15	1252	834	712	702	2334	11292
260 weeks	0	0	0	0	244	136	117	129	163	9	675	512	616	656	775	13443
312 weeks	0	0	0	0	2	185	97	98	101	6	427	275	360	470	653	3475
364 weeks	0	0	0	0	0	1	147	58	57	3	248	159	242	291	601	3520
416 weeks	0	0	0	0	0	0	0	134	76	1	160	96	153	188	335	3494
468 weeks	0	0	0	0	0	0	0	0	97	1	118	75	85	114	219	2424
519 weeks	0	0	0	0	0	0	0	0	0	1	77	63	76	94	134	1660
520+ weeks	0	0	0	0	0	0	0	0	0	0	149	131	204	235	382	4635

Figure 28: Distribution of foreign contributors by paid weeks of contributions & year of emigration.

From a methodological standpoint, one should additionally highlight that from this analysis, it is hard to accurately pinpoint the year at which foreigners ultimately decide to settle in Malta. Specifically, five (5) factors must be considered:

1. The analysis is based on partial contributory records;
2. The assumption that no contributions is equivalent to the individual leaving Malta can be misleading as individuals may have shifted towards informal employment (i.e., do not pay contributions);
3. The transition in their decision making from being in Malta for the sole purpose of working towards the decision of bringing (where applicable) other family members;
4. The almost-annually-changing net rate of return of staying in Malta, and;
5. There are individuals which may have entered the labour market for a number of years, left and came back.

In spite of these caveats, the results clearly outline that the 10-year paid contribution threshold is only reached by a small percentage of foreign contributors, with the majority (89%) of foreign contributors having less than or equal to five years' worth of paid contributions.

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