

A look at the financial position of pensioners and near-pensioners using HFCS data

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Introduction

Pensions are a cornerstone mechanism for individuals and households to smoothen consumption over their life cycle. Yet, in the face of ageing populations and budgetary pressures, public pension systems are coming under increasing strain in many European countries. Significant research and policy efforts are focused on ensuring that pension systems enable future retirees to enjoy living standards in retirement that are adequate, both relative to those enjoyed during their working careers and those guaranteed to present retirees.

The scope of this article is twofold. First, it aims to provide some measures of pension adequacy, gauging how pension incomes compare to labour incomes and to household expenditure levels. Such results can serve to cross-check insights from other data sources, including reports such as the recent 2024 Pension Adequacy Report (PAR) by the European Commission (European Commission, 2024). Second, by seeking to analyse comprehensively the level and composition of the wealth of households close to or at pension age, and how it interacts with their income and expenditure, it complements the work of Abela & Gatt (2021, 2022), which combined data from the 2015 wave of the Household Budgetary Survey (HBS) and the 2017 wave of the Household Finance and Consumption Survey (HFCS) to characterise in detail the saving behaviour of Maltese households.² The present article employs data from the HFCS, including more recent data from the 2021 wave, to analyse several aspects of the financial position of households close to or at pension age.

The traditional theoretical framework applied to the relationship between income and consumption (and, by implication, asset accumulation and decumulation) over a household's lifetime is the 'life cycle hypothesis' (Ando & Modigliani, 1963; Modigliani & Brumberg, 1954). This framework posits that younger households borrow in anticipation of higher future income, start saving as their income rises, and then decumulate their stock of accumulated assets to maintain consumption after retirement. Under such a framework, consumption is expected to follow a relatively smooth trajectory over the life cycle, and some extent of dissaving – or spending above regular income – by elderly households is expected.

² In particular, Abela & Gatt (2022) placed substantial focus on the link between the saving behaviour and asset positions of elderly households.

The literature commonly finds that most elderly households do not dissave in practice, and continue to accumulate net wealth, a result commonly referred to as the “retirement savings puzzle” (Love, Palumbo, & Smith, 2009; Laitner, Silverman, & Stolyanov, 2018). This result is usually rationalised in terms of the intention to leave a bequest and to insure against unforeseen medical expenses and/or longevity (DeNardi, French, & Jones, 2016; Ventura & Horioka, 2020). Nevertheless, in the absence of such preferences or if it has a sufficient stock of assets, a household can still rationally outspend its recurrent income in retirement, behaving broadly in line with the original life cycle hypothesis. Therefore, whilst assessments of pension adequacy typically focus on the relativity between income before and after retirement, as well as income-based measures of old-age poverty, it is informative to also consider expenditure levels, and to place the relationship between a household’s income and expenditure in retirement in the context of its asset holdings.

This article employs data from the 2017 and 2021 waves of the HFCS. Apart from collecting comprehensive data about household incomes, together with data on several expenditure categories, the main strength of the HFCS lies in its extensive data on household balance sheets. This enables a more comprehensive assessment of the financial position of current and future pensioners and their ability to supplement their pensions or cushion the impact of negative shocks by tapping into their accumulated assets.

The 2021 wave of the HFCS contains a sample of 1,018 households, whilst the 2017 wave contains 1,004. We carry out minimal data cleaning in order to preserve as much information as possible. In each wave, outliers from the distributions of household income and expenditure are dropped based on the procedure described in Belotti et al. (2021). Moreover, we drop households that either (i) receive ‘other income’ that is of an irregular nature, such as lottery winnings, (ii) receive material financial assistance from family and friends, or (iii) have a head of household aged less than 25. After cleaning, the analysis sample is composed of 964 households in the 2021 wave and 954 households in the 2017 wave.

Income in the HFCS is collected in gross terms. However, disposable income is more indicative of the resources available to households to spend or save. Gross income in the HFCS is therefore transformed to disposable income by deducting

estimated income tax and social security contributions.³ On the expenditure side, data availability constraints necessitate considering only expenditure on four key categories – food, utilities, rent, and interest.⁴

The main findings are as follows. Per-capita household disposable income declines with the age of the household head, and income at older ages is predominantly derived from pensions. In terms of expenditure, using available categories of key expenditure items, the data suggest that, on average, households continue to spend similar amounts per person across the life cycle. Most pension-aged households spend about half their pension income on these expenditure items, and four out of five pensioners can cover expenditure on these items through their pension in the 2021 wave. Nevertheless, some elderly households spend significantly more than their recurrent disposable income on the items we are able to account for, at times whilst having very low levels of wealth. Further analysis shows that the share of elderly households that is both income-poor and wealth-poor is small and compares favourably to results from other countries. A larger share is income-poor but wealth-rich. In terms of younger households that are approaching retirement age, the proportion that are relatively poor is low, but these also tend to be low-wealth households. These findings carry potentially important and diverse implications for policymakers looking to strengthen the financial position of current and future pensioners.

The role of pensions in household income

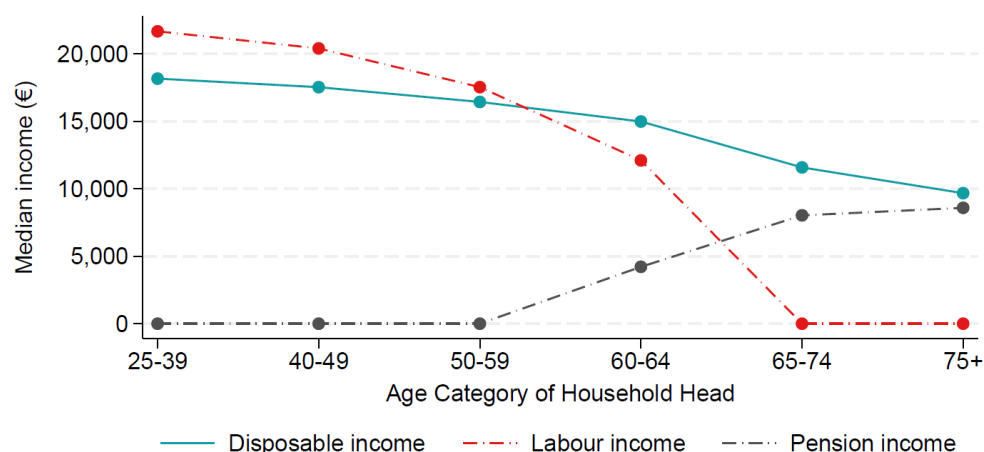
A characteristic of pension systems is that, upon transitioning from work to retirement, household income tends to decline as pension income typically does not fully replace earnings from labour. Chart 1 below illustrates this using data from the 2021 HFCS wave, plotting the median value of different categories of household income by age of the household head. Overall, median equivalised disposable income declines gradually as household heads approach retirement age. Across the age distribution, other sources of income account for small

³ Income tax is calculated for each household based on a regression model estimated on output data from EUROMOD, a tax-benefit microsimulation model for EU countries including Malta and applied to household incomes in HFCS data. Social security contributions are estimated for each individual in every HFCS household, based on actual rules in force in the income reference years of the survey (2016 and 2020 for the 2017 and 2021 waves, respectively).

⁴ A comprehensive measure of household expenditure is not available in the HFCS. From the available categories, we therefore focus on four which can be considered ‘basic’ expenditure, as they relate to food and housing. Expenditure on ‘trips and holidays’, whilst available, is excluded. According to the most recent HBS (National Statistics Office, 2015), another important expenditure category for elderly households is health, which accounts for an average of 9% of total expenditure for households with a head aged 65+.

proportions of the total, such that the dynamics of the latter are largely driven by those of labour and pension income.

Median labour income per equivalised person – that is, accounting for household composition – tends to decline gradually across age groups; increasing incomes between the 25-39 and 40-59 age categories are offset by growing household sizes, whilst median earned income starts to decline in absolute terms at older age groups.⁵ In the 60-64 age group, the median household earns both labour income and pension income, which is likely due to many of these households including both pensioners and younger members, and some households including members earning both sources. Overall disposable income declines slightly more sharply beyond this age group, as pension income replaces labour income as the main component of household income.



Sources: HFCS, Author's calculations.

Notes: All incomes are presented at household level and in equivalised terms. Labour and pension income are gross of income tax.

Figure 1: Annual median equivalised income by household age category (HFCS 2021).

Data show substantial increases in pension income among older households between the two survey waves analysed. In the 2021 HFCS wave, the median household with a head aged 65 or older received a gross pension income of €899 monthly, up from €737 in the 2017 wave. In equivalised terms, the median gross pension income among households with a head aged 65 and over in the 2021 wave is €702, up 21.9% from 2017 levels. Between the 2017 and 2021 waves, median household disposable income increased by 13.2% to €1,082 per month in the 65+ age bracket, whilst median *equivalised* household disposable income

⁵ Income may also be lower for households of older ages due to cohort effects, such as lower employment rates among older females.

increased by 20.7%. While the data indicate rising levels of pension income across the time period in question, it is important to consider whether these increases were sufficient to maintain the adequacy of pension benefits.

The PAR presents different indicators of the extent to which pension income replaces labour income across countries, based on data from the EU Survey on Income and Living Conditions (EU-SILC). Some of these indicators can also be constructed using HFCS data. To maintain, as much as possible, comparability between the two data sources, we focus solely on the Aggregate Replacement Ratio (ARR). This is the ratio of the gross median individual pension income across the 65-74 age group to the gross median individual work income across individuals aged 50-59, both excluding social benefits (Eurostat, 2025). This ratio thus compares pension income in the initial years of retirement to labour market income at the later career stages, encompassing the transition from work to retirement income. The estimated ARR in the 2017 wave is 56.5%, falling slightly to 55.5% in the 2021 wave. Figures published by Eurostat using EU-SILC place this ratio at 57% in both the 2017 and 2021 waves. The broadly constant ARR value is in line with results for most other European countries, where this ratio has almost universally remained stable or decreased since 2017. Eurostat figures put the EU average ratio at 58% in 2021, minimally higher than that in Malta; the ratio exceeds 60% in six countries, whilst sixteen EU member states had levels lower than Malta.

Among current retirees, pension income is predominantly derived from the public pension system. However, as many as 15.4% of pensioners in the 2021 HFCS wave claimed to be receiving income from private or occupational pension plans. These could reflect matured pre-1979 occupational plans, other life insurance schemes entered into by households with the intention of supplementing pension income, or private pension plans held with overseas providers. The median annual income from such plans among beneficiaries is €4,800 in 2021, compared to a median of €8,587 for the public pension. However, for half of those receiving pension income from a private plan in the 2021 data, this plan accounts for at least 50% of their pension income.

Personal and occupational pensions are expected to increase in prominence as a component of retirement income for future retirees, in light of the well-known challenges that ageing societies pose to the sustainability of pension systems. However, uptake of these schemes remains quite low. Of all individuals aged between 25 and 64 in the 2021 sample, 6.9% stated that they contribute to a

voluntary pension plan. 13.0% of individuals in the same demographic declared being enrolled in a life insurance scheme in the latter wave, and 1.7% stated that they had enrolled in an occupational pension plan.⁶

Although personal pension plans in Malta were initially regulated in 2015 (Malta Financial Services Authority, 2015), most individuals stating that they were members of a voluntary pension plan in the HFCS claim that they had been contributing for periods of time that place their initial contributions before 2015. The share of individuals aged between 25 and 64 who actively contributed to a pension plan for up to six years in the 2021 wave amounts to 2.8%. Data from internal sources suggest that by the end of 2020, around 0.3% of Maltese residents aged between 25 and 64 were enrolled in such plans. This would suggest a significantly lower share than that reflected in the survey. It is once again possible that pension plans enrolled in by survey respondents are not limited to schemes established in Malta. However, the survey data also indicate that the share of current working-age individuals enrolled in private pension schemes is lower than current pensioners receiving incomes from voluntary plans. Whilst this could also be, in part, due to the larger selection and awareness of financial instruments, which can be leveraged to accumulate funds for use in retirement, this finding still indicates that more can be done to increase uptake of these schemes in Malta.

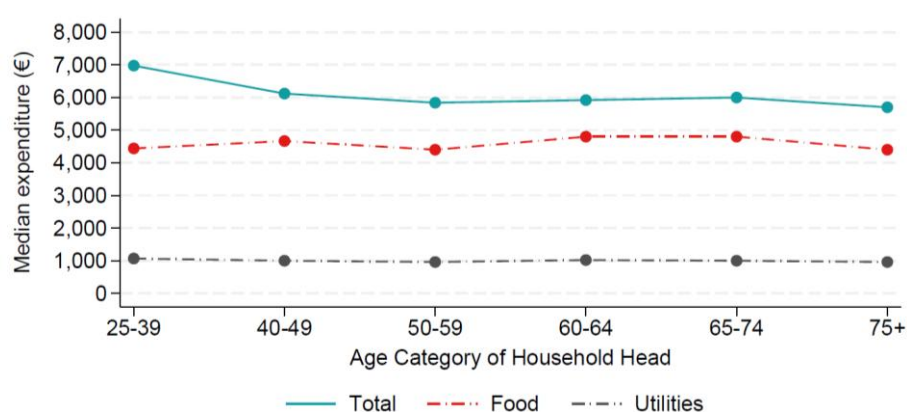
The relationship between pensions and household expenditure

The PAR outlines three key dimensions along which it measures the adequacy of a pension system: its ability to prevent old-age poverty, the extent to which it replaces pensioners' pre-retirement income after their working life ends, and the ability to maintain their standard of living for the duration of their retirement. Standard-of-living metrics do not only account for households' income, but also for their ability to afford regular expenditure. In this section, we focus on how income comoves with expenditure for elderly households, using the components of key household expenditure available in the HFCS.

When accounting for household composition, expenditure on the selected components remains relatively constant over the household life cycle, declining

⁶ The definition of a 'life insurance' policy applied in the HFCS excludes those policies that only provide benefits in the case of death of the insured persons. As such, life insurance policies taken out for the purpose of taking out a mortgage are not included in this figure.

slightly only due to the lesser role of interest payments on mortgages at older ages. This is illustrated in Chart 2 below, again using data from the 2021 HFCS wave. This suggests that household expenditure on some basic components, adjusted for household composition, does not decline measurably upon retirement. Although a household may rationally dissave to finance expenditure in old age, as suggested by life-cycle models, this observation may carry important implications in cases where households do not have a sufficient stock of assets to sustain their pre-retirement level of expenditure. In absolute terms, ideally pensions are sufficient to cover expenditure on key items, and assistance to vulnerable pensioners should also be calibrated with this in mind.



Sources: HFCS, Author's calculations.

Notes: Total expenditure refers to the sum of food, utilities, rent and interest.

Figure 2: Annual median equivalised expenditure on key items by household age category (HFCS 2021).

For the median household aged 65 and over, the key expenditure categories combined take up slightly more than 50% of disposable income (Chart 3).⁷ A slight leftward shift of the distribution can be observed between the waves. The median expenditure share declined by 1.8 percentage points (p.p.), and the 75th percentile value declined by 5.8 p.p., from 80.8% to 75.0%. For approximately 11% of households in the 2021 survey wave (and 14% in 2017), key expenditures exceed disposable income, and a handful of observations in both waves show expenditure exceeding disposable income by more than 50%. Although caution is warranted due to the low observation counts, the main contributing factor in cases where expenditure exceeds disposable income seems to be significantly

⁷ The median and the distribution of the expenditure ratio to disposable income does not differ materially between households with heads aged 65-74 and those aged 75+.

lower equivalised disposable income, although equivalised expenditure is also slightly higher, on average, for this group of households.

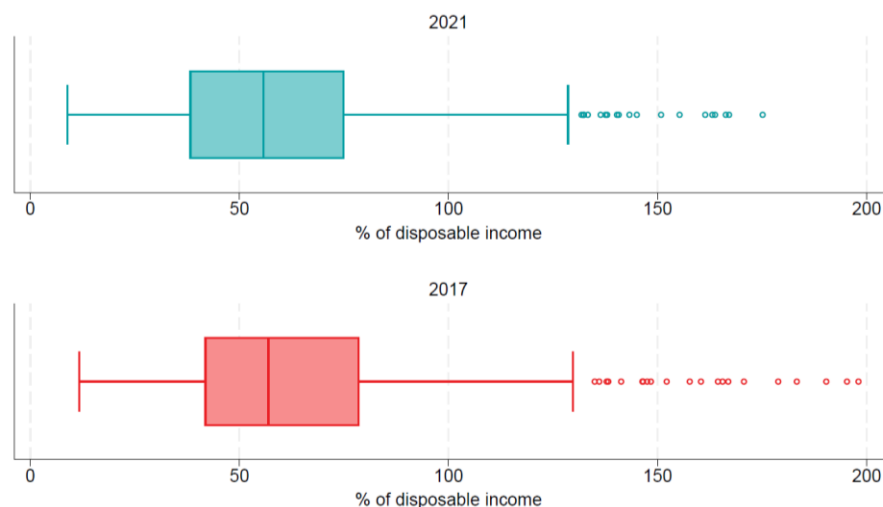


Figure 3: Distribution of key expenditure-to-disposable-income ratio, households aged 65+.

Plotting the ratio of key expenditure to *pension* income (Chart 4), we see that in both waves, the median pension-aged household can more than cover its key expenditure through pension income. The median value is 70% in the 2021 wave, down from 78% in 2017. As above, though, a number of households do not manage to cover such expenditure through their pension, and some extreme observations show that the expenditure categories we consider here add up to more than double their pension income, implying the need for significant dissaving or for other flows of income to make up for the shortfall. Chart 5 presents this data from a different angle, showing that 79% of pensioner households can cover all key expenses with their pension income in the 2021 wave. This share is up from 69% in the preceding survey.



Figure 4: Distribution of key expenditure-to-pension-income ratio, households aged 65+.



Figure 5: Share of households aged 65+ able to cover each expenditure item through pension income (HFCS 2021).

We re-estimate this result for different subgroups of elderly households. We begin by isolating households that are composed solely of individuals aged 65 and over and have no labour income. Within this segment, we differentiate between single pensioners, coupled pensioners with one pension income, and coupled pensioners with two pension incomes. Across both survey waves, these subcategories cover close to three quarters of all households with a head aged 65 and over. Chart 6 shows, for each survey wave, the proportion of households in each subcategory whose pension income covers key expenditure. In all three subgroups, this measure improves between the two survey waves. Couples with one source of pension income are naturally slightly less likely to adequately cover their needs

through pension income only, yet more than seven out of ten such households still cover key expenditure through their pension income.

On aggregate, 84.1% of households in these three subcategories have a pension income that covers the expenditure items we consider in the 2021 wave, up from 76.4% in 2017. These proportions are higher than when considering *all* households with heads aged 65 and over, since the latter include households for which pension income is not the primary source. They are also slightly higher than the share of households with sufficient pension income if we further restrict our subsample to households with no labour income, up to 2 old-age members, and *only public* pension entitlements. This covers key expenditure for 81.8% of households in 2021, 5.3 p.p. more than in 2017.

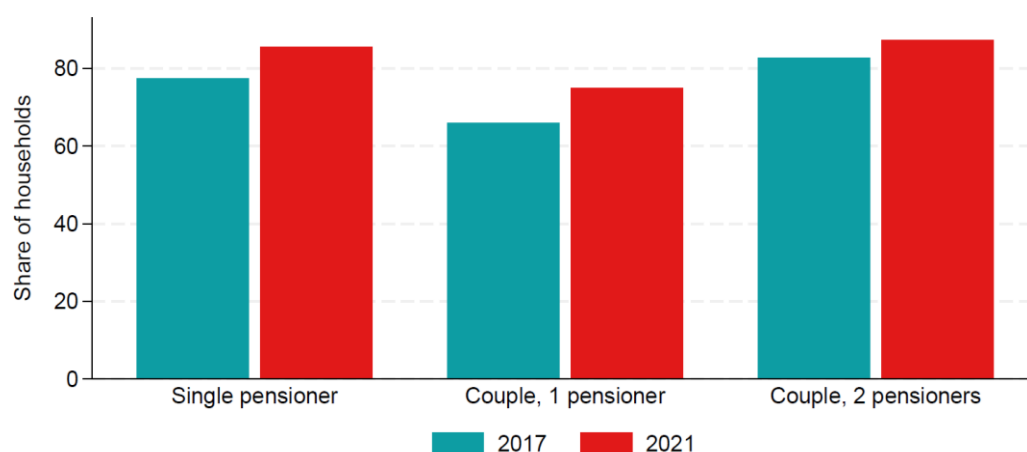


Figure 6: Share of households aged 65+ able to cover key expenditure through pension income in different subgroups (HFCS 2021).

Both the PAR and studies in the literature outline specific groups that are relatively more vulnerable to old-age poverty, such as those in advanced old age (75+) and single women. In the Appendix, Chart A.1 shows the same indicator for some more granular categories. All pension income sources, both public and private, are considered. Caution is warranted in extrapolating from these results since, for some of the groups, observation counts are rather low. Nevertheless, a consistent picture emerges that in both years, and across all subcategories, at least 70% of pensioners with no labour income are able to cover key expenditure through their pensions, with improvements in the ratio between the 2017 and 2021 waves. In the latter wave, only among pensioner households that pay rent does the ratio remain below 80%.

The nexus between income, expenditure and assets close to and during retirement

Results in the previous section suggest that consumption per head tends to stay relatively constant over age for some important expenditure categories. On the back of a decline in income, the level of wealth and its liquidity may be important to enable older households to maintain their standard of living after retirement. In what follows, we also extend the analysis to near-pensioner households, assessing their level of wealth and its degree of liquidity to gain an indication of their likely future ability to use wealth to withstand shocks and maintain consumption.

Chart 7 shows median values of the key asset categories across the two survey waves in use. These values are derived after cleaning data as previously described. Between the 2017 and 2021 waves of the HFCS, median total assets increased by 25.7% across the whole population of households. This is primarily driven by median real assets, which increased by 31.9%, from €208,000 to €274,250, whilst median financial assets declined by a similar proportion. For nine out of ten households in the 2021 wave, the majority of their real assets are accounted for by the household's main residence (HMR), while for the median household, the HMR makes up 94% of real assets. Meanwhile, most households' financial assets are composed of bank deposits.

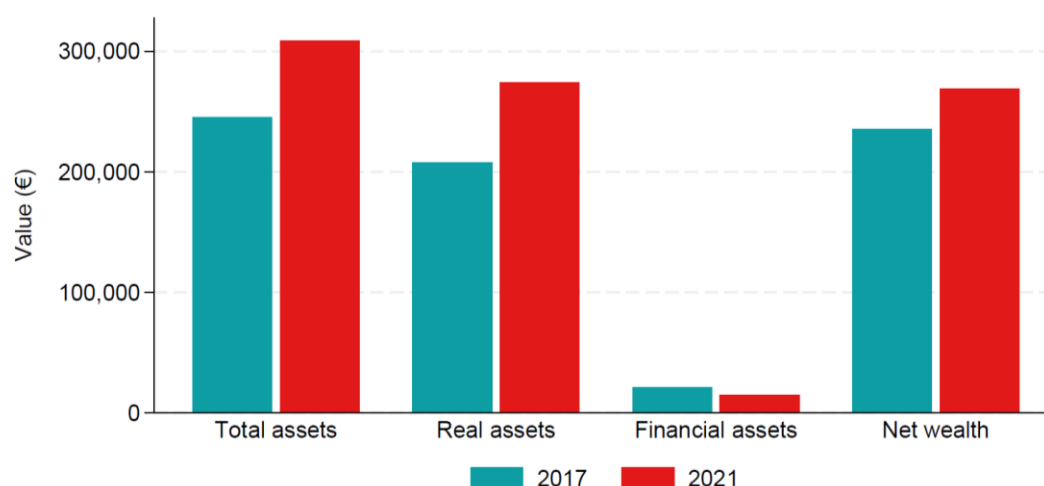


Figure 7: Median value by HFCS wave.

Median net wealth – the difference between total assets and total liabilities – increased by 14.2% across the two waves, from just over €235,000 to €269,000. The increase spans all age categories, as shown in Chart 8. The distributions are

characterised, particularly at older ages, by significant heterogeneity in the wealth levels. Net wealth roughly follows a hump shape over the life cycle, peaking sometime between the ages of 50 and 64, but all age groups include some households with both very low and very high net wealth. Overall, median net wealth in the 65-74 age group increased by 32.3% across the two waves, from €231,387 to €306,300, and by 23.7% for the 75+ bracket. The corresponding figure increased by 17.4% in the 50-64 age categories.

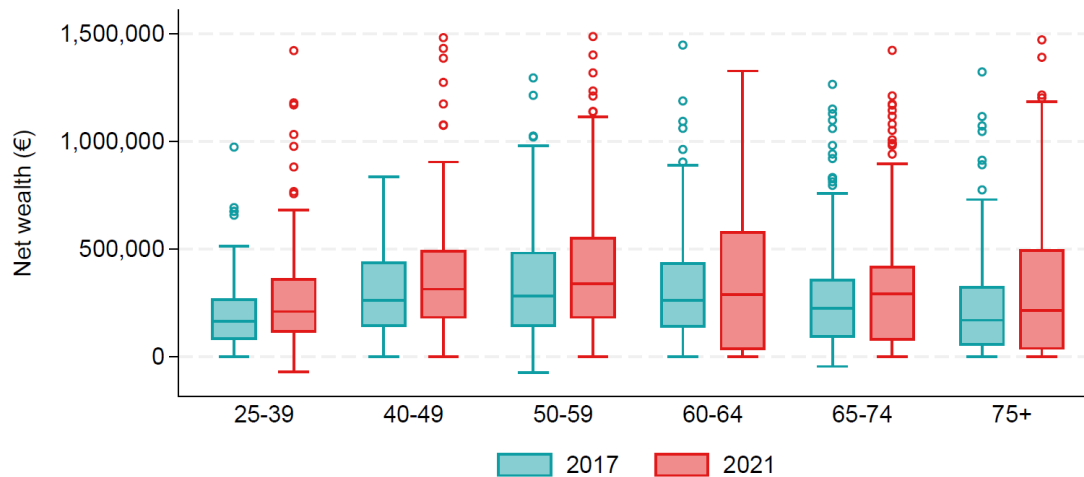


Figure 8: Distribution of net wealth by age.⁸

Increases in net wealth were driven by growth in the value of real assets. Real assets make up over 80% of total assets for all age groups in both survey waves, and their share increased by more than 7, 9, and 6 p.p. in the 50-59, 60-64 and 65-74 age groups, respectively (see Chart 9). It fell by only 0.1 p.p. for the age group 75+. Moreover, real assets are almost entirely composed of property in both waves. The share of property in real assets increases monotonically with age, with the median being 98.6% for households aged 65-74 in 2021, and 99.5% for households aged 75+. Meanwhile, median financial assets declined by over 30% for both the 50-64 and 65-74 age groups between the two waves, only increasing (by 9.9%) in the 75+ age cohort. The combination of an increase in the value of households' real assets with a decline in financial assets between the two survey waves, which affected all household groups except those in the oldest age bracket, implies a shift in the portfolio of most pension-aged and near-pensioner households towards a less liquid asset portfolio.

⁸ A few outliers with net wealth over €1.5 million are not shown.

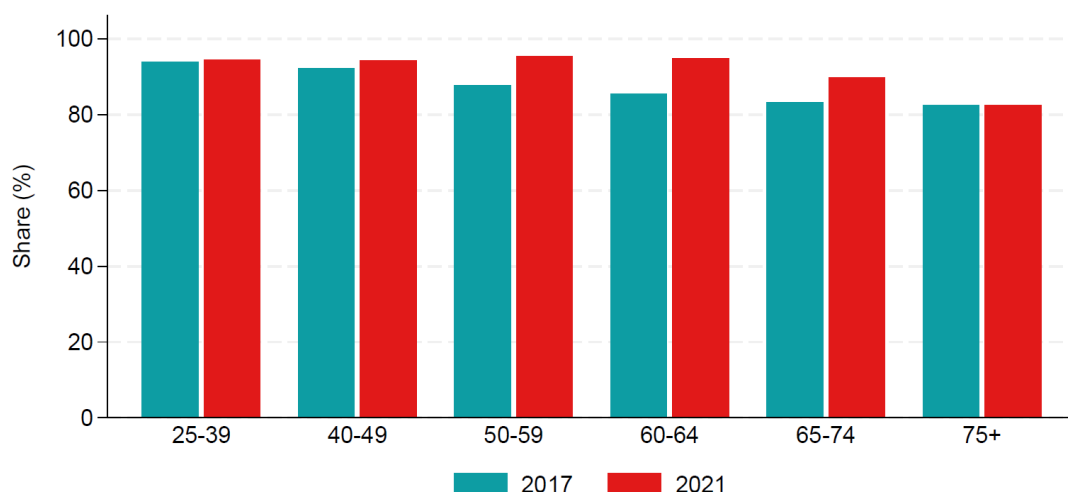


Figure 9: Median share of real assets in total assets.

Chart 9 also suggests that it is the oldest households, on average, that hold the highest share of their assets in financial assets. In level terms, the median household with a head aged 65 and over has financial assets of €17,500 according to the 2021 wave, with the corresponding value for the 50-64 group being €16,300. In order for such figures to be more informative, one can quantify how many years' expenses can be financed through households' current financial assets, as done in Abela & Gatt (2022). Again, considering only the four key expenditure categories used throughout this article – food, utilities, rent, and interest – half of retired (65+) households in 2021 had enough financial assets to cover up to two and a half years' worth of expenditure. The median household in the 50-64 age group could cover nearly two years' worth of its expenditure in 2021, again for the categories accounted for herein. Coupled with the fact that for most retired households, key expenditure lies below income, most of these households can sustainably maintain their regular expenditure levels whilst having a buffer for unforeseen outlays.

It is well established that a positive relationship between households' income and wealth tends to hold in the data. Chart 10 plots relationships between households' disposable income and net wealth using data from both HFCS waves, for households of all age groups. The data exhibit a clear, monotonically positive relationship between disposable income and net wealth, which only levels off above the 90th percentile of net wealth in both waves. Similar relationships result between income and asset levels. Key expenditure, expressed as a share of disposable income, tends to decrease with wealth except for relatively rich households (Chart 11). However, plotting this relationship separately for each

quartile of the distribution of expenditure ratios using 2021 data reveals that the relationship between expenditure and wealth is roughly flat, except at the highest quartile, where it is negative (see Chart 12). These findings imply the existence of a segment of households with very low levels of assets or wealth that are simultaneously spending the highest shares of their income on subsistence expenditure.



Figure 10: Relationship between disposable income and net wealth.⁹

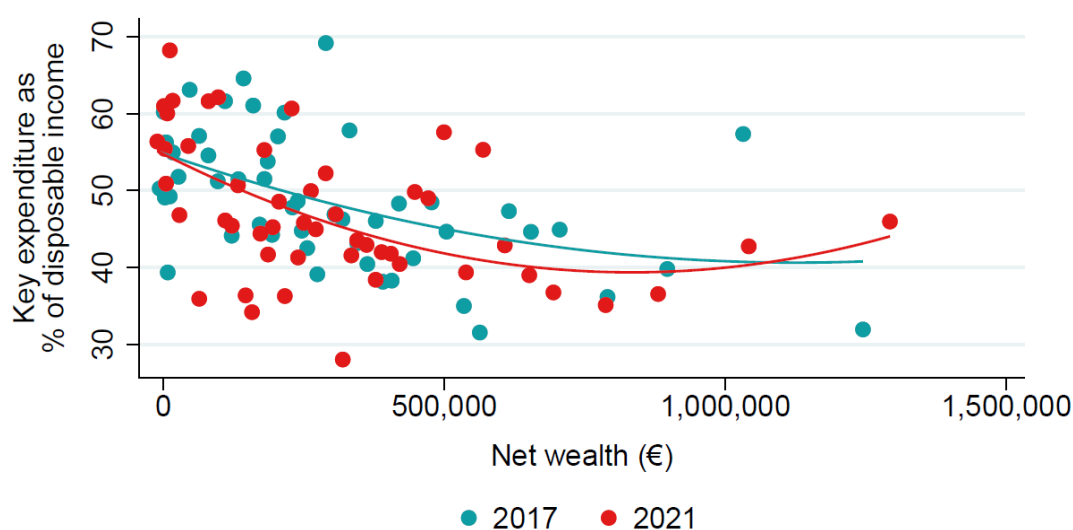


Figure 11: Relationship between the share of disposable income spent on key expenditure and net wealth.¹⁰

⁹ Observations with net wealth over €1.5 million are not shown due to low counts.

¹⁰ Observations with assets over €1.5 million and expenditure ratios above 150% are not shown due to low counts.

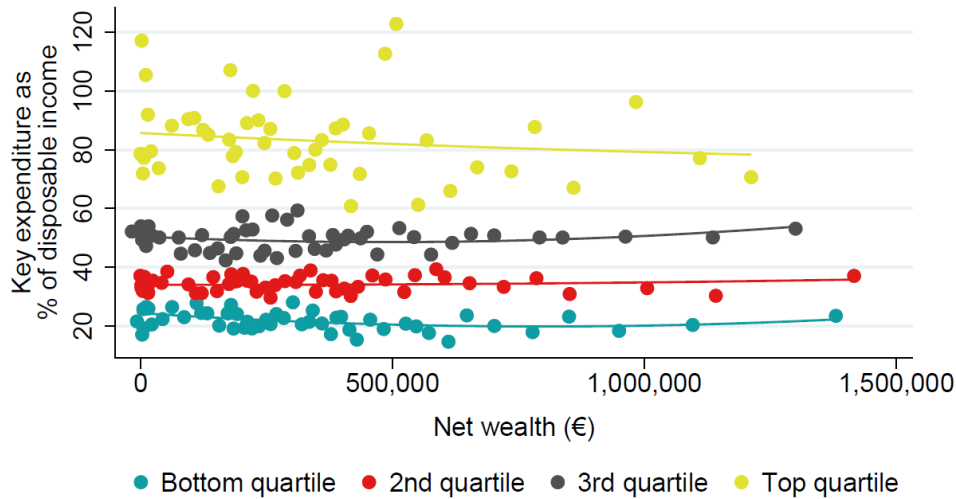


Figure 12: Expenditure ratio vs. net wealth, by quartiles of the ratio, 2021.¹¹

Of particular interest for the purposes of this article is the share of pensioner households and near-pensioners that fall into these potentially vulnerable segments. To assess this more formally, we use the income-asset matrix of Marcinkiewicz & Chybalski (2023). Households are categorised into three categories – “poor”, “medium”, and “rich”, in terms of both (equivalised) disposable income and net wealth. In each case, a household is “poor” if its disposable income/net wealth falls below half the aggregate median. The “medium” category includes households whose income/wealth falls between half and one-and-a-half times the median value, and the “rich” those households with values that exceed this latter threshold. The two variables so defined are then combined to categorise households into nine groups, as can be seen in Table 1.

We focus on a narrower definition of pensioner households, in line with the previous section, being households composed solely of individuals aged 65 and over (single pensioners or couples) that have no labour income. We then lay out what shares of these households fall into which income-wealth categories. Results are shown in Table 1 below. For brevity, this analysis is carried out using only data from the 2021 wave.

		WEALTH		
		Poor	Medium	Rich
INCOME	Poor	6.4%	8.8%	7.2%
	Medium	24.3%	18.6%	33.1%
	Rich	0%	0%	1.5%

¹¹ Observations with net wealth over €1.5 million and expenditure ratios above 150% are not shown due to low counts.

Table 1 – Income/wealth matrix for pensioner households.

By this categorisation, many pensioner households are relatively “asset-rich”, with over a third falling into the top wealth category. However, very few pensioner households have (equivalised) disposable income that exceeds 1.5 times the national median. We argue that this is expected due to the dynamics of income over the life cycle. However, a non-trivial share have both a low or medium income and relatively low net wealth per person. As discussed further below, attention needs to be given to such segments, which might require more targeted efforts by policymakers. Households that are current pensioners and are also not wealthy will additionally need different measures than those that are “income-poor” or “income-medium”, but also wealthy.

Pensioner households that are in the ‘poor’ or ‘medium’ income categories and have little wealth tend to spend remarkably similar shares of their disposable income to those that are wealthy. Both these groups spend a significantly higher share of their disposable income, in general, than households that are non-pensioners, irrespective of the level of wealth of the latter. Moreover, the median expenditure of wealth-rich but income-poor non-pensioners is *lower* than that of their wealth-poor and income-poor counterparts.¹² What this could suggest is that, in general, low-income households do not tend to increase their expenditure levels (relative to income) in line with their wealth holdings. In turn, this would emphasise the need for a focus on policy options that augment the resources of lower-income households, together with longer-term work to educate households on the possibilities of unlocking the value of their assets to sustain their living standards.

		WEALTH		
		Poor	Medium	Rich
INCOME	Poor	4.4%	1.9%	0%
	Medium	19.5%	33.7%	20.6%
	Rich	0.2%	8.0%	11.6%

Table 2 – Income/wealth matrix for households with head aged 45-64 and no pension income.

We repeat the above for households that are approaching retirement. We define these as households whose head is aged between 45 and 64 and with no members

¹² The median expenditure share is 63.5% for wealth-poor pensioner households, and 60% for wealth-rich ones. Non-pensioners that are not income rich have a median expenditure share of 48.1% if they are ‘wealth-poor’ and 39.6% if they are ‘wealth-rich’.

receiving pension income.¹³ The results are shown in Table 2. Relative to pensioners, a larger proportion of these households are high earners, as expected since they include households that are typically in their peak earning years. In terms of wealth, the share of ‘rich’ households is slightly less than the total among pensioners. It is also noted that some low-income households are present within this cohort, and most of them are also low-net-wealth units. As discussed below, different policy options might be better tailored to low-income households that are approaching retirement age, depending also on their level of wealth.

Discussion and concluding remarks

In this article, we have sought to comprehensively examine the financial position of elderly households and those approaching pension age, using data from the 2017 and 2021 waves of the HFCS that allows us to account for income, expenditure and wealth.

As expected, income at older ages is predominantly derived from pensions, which have increased substantially in recent years. Relatively few pensioners – up to 15% in 2021 – are currently deriving pension income from sources other than the public scheme, and uptake of private schemes remains low. Household disposable income per (equivalised) person, as expected, declines with the age of the household head. Nevertheless, using available categories of key expenditure items – food, utilities, rent, and interest – the data suggest that, on average, households continue to spend similar amounts per person across the life cycle.

Most pension-aged households spend about half their pension income on these expenditure items, and four out of five pensioners can cover these items through their pension, according to the 2021 wave. Nevertheless, some elderly households spend significantly more than their disposable income on these items. Although it might be rational, in line with economic theory, for elderly households to spend more than they earn in recurrent income by decumulating their stock of assets, we find that a small share of households tend to spend more than they earn whilst having a low level of wealth. Further analysis shows that the share of elderly households that is both income-poor and wealth-poor is small, and compares favourably to results from other countries. A larger share is income-poor but wealth-rich. In terms of younger households that are approaching retirement age,

¹³ 45 was chosen as the starting age rather than 50 to increase the observation count, since a substantial share of households with a head aged between 50 and 64 have a member that receives pension income.

the proportion of households that are relatively poor is again low. These results provide a wide array of implications for policymakers. In particular, we can differentiate between implications that concern current pensioners and those that relate to future pensioners.

First of all, it is worth noting that a number of measures to increase pensioners' income have been taken in recent years. Apart from annual increases in pension rates beyond the cost-of-living allowance (COLA), and an income tax rebate for eligible pensioners implemented in 2017, a 2022 reform will progressively exclude pension receipts from taxable income (up to a cap) by 2026 (Sant, 2024). Such a measure simultaneously increases disposable income and strengthens the incentive for pensioners to remain active in the labour force. From the aspect of maintaining standards of living, it is positive that pensions are partially indexed to cost of living. In this regard, however, studies have shown that the elderly and lower income individuals have consumption baskets that are different from the average, and may face different inflation rates than the headline figures suggest (Darmanin, 2021; Grech, Borg, & Antonaroli, 2024). A more targeted approach can be to base cost-of-living pension indexation on the inflation rate of a basket of goods which is more representative of the purchases of elderly households.

In relation to poorer elderly households, which, as outlined by Sant (2024), are not likely to benefit from tax exemptions, other targeted measures are required. In the last few years, there have been consistent increases in annual grants to elderly individuals, especially those without sufficient social security contributions to qualify for a pension scheme, such as the Deficiency Contributory Bonus (DCB) and the Senior Citizen Grant. The recently-enacted additional cost-of-living benefit will also benefit poorer elderly households if their income is sufficiently low, but this is also in the form of a one-time bonus.

Within this context, and in light of our results showing that some older households have low incomes whilst having no assets to fall back on, a more comprehensive assessment system can be set up with further assistance for such individuals. Apart from an assessment of the level and composition of assets used for means testing, a phased means test may be introduced for certain means-tested old-age allowances such as the age pension. This may also involve streamlining different benefits into a basic, guaranteed income for the most vulnerable. A category of particular interest in this regard is elderly households that do not own their residence, in addition to having low levels of financial assets. Such streamlined

benefits can also be paid at more frequent intervals, providing beneficiaries with steadier streams of income.

Our data also reveal a segment of income-poor but asset-rich pensioner households, for whom additional possibilities arise. In such cases, equity release schemes are a potentially important policy avenue that has recently been introduced in Malta (Abela & Gatt, 2022). Mixed results have been found in the literature with regard to the adoption of such schemes, however. Some reluctance of elderly households to engage in such schemes has been documented, possibly linked once again to the bequest motive (Laitner, Silverman & Stolyanov 2018; Marcinkiewicz & Chybalski, 2023). In the long term, the effectiveness of such a policy can also decrease if homeownership were to decline. However, in the shorter term, research suggests that higher consumer awareness of such schemes can be an effective lever to increase their adoption (Fong, Mitchell, & Koh, 2021).

The latter point ties in with the well-established results on the importance of financial literacy and its association with wellbeing in retirement. This relates particularly to *planning* for retirement. It is still a well-known result that many households fail to accumulate sufficient wealth prior to retirement (Lusardi & Mitchell, 2007). Since it is difficult to raise income or asset holdings once retired, it is crucial to implement robust awareness programmes throughout the life cycle of individuals. This is further underscored by findings that the elderly poor tend to be individuals who were persistently poor (Maes, 2013). Targeted programmes may be of particular benefit, since certain demographics tend to exhibit consistently worse financial literacy outcomes (Lusardi, Mitchell, & Curto, 2014). This is consistent with available evidence for Malta (Ministry for the Family, Children's Rights and Social Solidarity, 2018). Further data about this topic may be gathered through future waves of the HFCS. Targeted financial education and/or active labour market interventions can also engage households that have low incomes and low assets well before retirement.

A crucial avenue with a view to long-term pension sustainability will be the uptake of private pensions. The uptake by current working-age individuals reflected in the HFCS is low, and internal data from other sources suggest it may be lower. By 2023, residents of Malta that were members of pension plans set up locally had increased more than fivefold since 2020 but remained below 2% of the working-age population. Sustaining existing financial incentives and accompanying them with further schemes to raise awareness, such as personalised information provision, is recommended.

Naturally, this work incorporates several assumptions and potential limitations. Results presented are descriptive and associative and cannot be interpreted as indicating causality. Moreover, the use of survey data, such as the HFCS, also carries a number of caveats of which users should be aware, as highlighted in Antonaroli, Deguara, & Muscat (2023). Future work can enrich this analysis by incorporating other data sources, such as the HBS, to incorporate more comprehensive consumption data. Formal models such as age-cohort-time models, which can be based on synthetic panel data, can more accurately characterise life-cycle consumption and saving behaviour (e.g. Mäki-Fränti 2022; Vink, 2016). Further analysis can also be enriched by employing data from forthcoming versions of both the HFCS and the HBS.

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Appendix

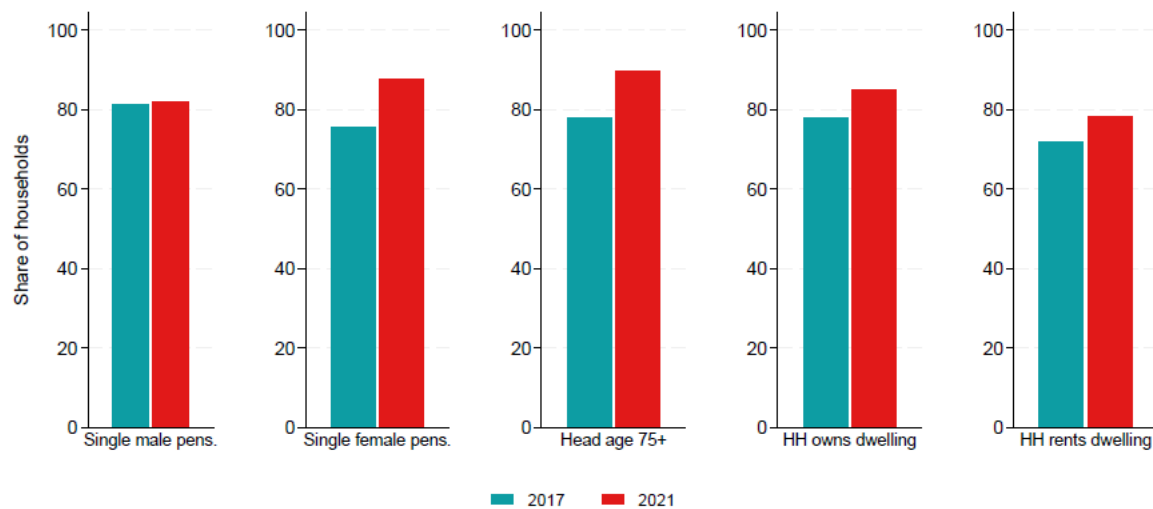


Figure A.1: Share of pensioner households able to cover key expenditure through pension income in different subgroups (HFCS 2021).

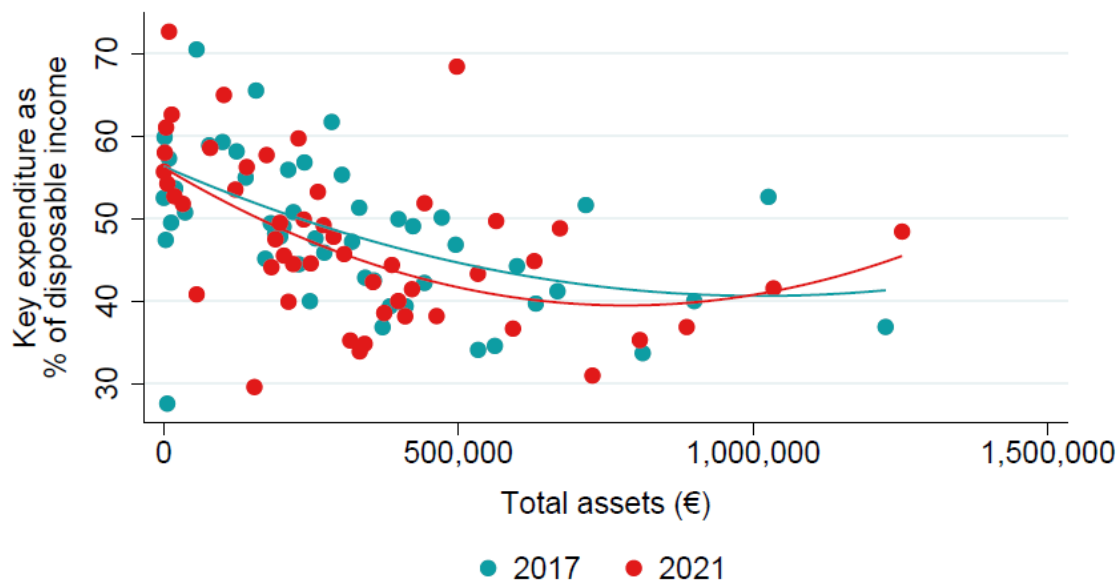


Figure A.2: Relationship between expenditure shares and total assets.¹⁴

¹⁴ Observations with total assets over €1.5 million and expenditure ratios above 150% are not shown due to low counts.

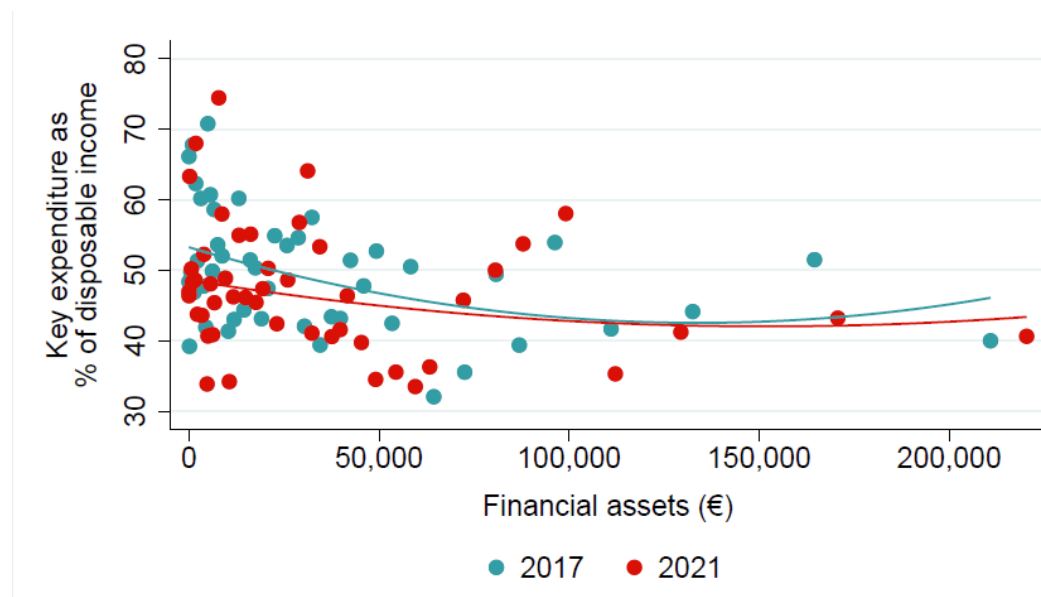


Figure A.3: Relationship between expenditure shares and financial assets. ¹⁵

¹⁵ Observations with financial assets over €250,000 and expenditure ratios above 150% are not shown due to low counts.