SUBMISSIONS ON THE REPORT OF THE PENSIONS WORKING GROUP ON THE FIRST STRATEGIC REVIEW OF THE PENSIONS SYSTEM

A. PREAMBLE

1. The submissions below are being made with a caveat. The Alliance wishes to place on record its total disagreement with the unusual consultation arrangements Government has opted for. The Pensions Working Group, i.e. the same persons who drafted the report on the review of the pensions system, will now receive, evaluate and report upon to the Minister the submissions/criticisms of affected or interested parties relating to the same Group's conclusions. When the Group has already discarded or ignored the Alliance's submissions/proposals, it is difficult to imagine the PWG making changes of any substance.

2. In other countries, once the administration receives a report which it wishes to open for public consultation the document would be published and consultations would take place between representatives of those affected or interested and policy makers from the executive arm of Government. Unfortunately, some things in Malta are done differently, and not always better.

3. Keeping in mind the above caveat, the submissions which follow basically repeat in brief the Alliance's original submissions.

B. SUBMISSIONS

1. General Considerations

1.1 The submissions made in this part will deal mainly with the application of the Guaranteed National Minimum Pension to those born before the 1st of January 1962 and to the revision of the Maximum Pensionable Income of existing pensioners and the cohorts born before the 1st January 1962. Although the Alliance has reservations on some other recommendations of the PWG on none does it feel as strongly as it does in the case of the GNMP and the MPI.

1.2 The point of departure of the Alliance is that, on its own, a First Pillar pension must provide an income sufficient to enable a pensioner and his/her spouse to maintain a decent quality of life and not just exist. The concept of the so-called safety net advocated by organizations and bureaucrats such as the IMF, the European Commission and heads of Central Banks would result in people having to eke out their remaining years in poverty or at its risk.

1.3 The organizations and persons named would be more believable if they applied the same sort of measure to themselves. Understandably they do not. The European Commission is a case in point. While preaching austerity to EU members, especially those on its southern periphery, the Commission has asked member states for additional millions (€ 190 millions in the case of the United Kingdom) in 2012 to fund a 4.9% increase in pensions as against an inflation rate of around 2.8%. This would result in an average annual pension of approximately € 67,000. A bit more that the 'safety net' they love to promote!

1.4 While the Alliance wants to be reasonable at all times it cannot realistically ignore the chasm which separates ordinary citizens from the elites. Nor should policy makers! Many people fail to realise the plight of the majority of current pensioners. Just as they, politicians included, have failed to realise that the 2006 change from a formula of a pension based on the average of the three consecutive best years of earnings in the last ten years to a formula of the best ten calendar years in forty years will result in pensions unrelated to final earnings. Hence the emphasis on a mandatory Second Pillar Pension. The need for such a pension increases in the absence of a truly adequate First Pillar (adequacy measured by the quality of life which a pension permits).

1.5 Regarding the sustainability of a truly adequate First Pillar Pension for current and future pensioners, the Alliance stresses that Social Security (NI) contributions have, until very recently, consistently far exceeded payments on pensions and work related benefits and claims of unsustainability are alarmist. Contributions used to be 'ring-fenced' up to the mid-seventies. Then the NI Fund was abolished and contributions started going into the Consolidated Fund. From then on the excess of income over NI expenditure was 'misappropriated' to fund anything and anything. Up to three years ago the 'account' was always in black. So there is no justification for 22% of pensioners to be living at risk of poverty. The Social Security Fund should be reinstated and ring-fenced as early as possible.

2. <u>Guaranteed National Minimum Pension</u>

2.1 The Alliance was surprised that the PWG's report failed to make any reference to the Alliance's claim that <u>the minimum pension of</u> current pensioners and those retiring in future years and born before the 1st January 1962 should not be less than 60% of the National Median Income. In other words that they should receive the Guaranteed National Minimum Pension.

2.2 The GNMP is already being paid to those born on or after the 1st of January 1962 who, for one reason or another, take early retirement. This applies also to spouses of deceased persons in this cohort. While in 2011 the GNMP for a married couple comes to € 171.87 per week the National Minimum Pension for a couple comes to € 127.79 per week. If the GNMP, in terms of the 60% standard advocated by the OECD and the UN just about manages to maintain retirees above the risk of poverty, what quality of life does the NMP permits? We repeat there is an impellent need to apply immediately the 60% on median income pension level to all pensioners.

2.3 The Alliance expects the PWG to express itself unreservedly on this issue. Given the financial situation – although Government manages to find monies for many other types of recurrent expenditure – the minimum arrangement acceptable would be a GNMP for all introduced in three tranches starting from 2012.

3. <u>Maximum Pensionable Income</u>

3.1 The Alliance disagrees with the vast majority of the recommendations and also believes that guided by past experience, it would appear that giving reasons for such disagreements would be unproductive. The position with regard to the Maximum Pensionable Income is an altogether different matter. Here the Alliance feels duly bound to take issue with the assertions made by the PWG.

3.2 The second paragraph of 3.26 of the supplementary paper attributes to this Alliance claims it did not make. Either our original submissions were not clear enough or were read in too much of a hurry and misunderstood. To remove any doubt we are attaching hereto (Annex 1) that part of the Alliance's original representations relating to the MPI. We reiterate that in order to lessen the discriminatory impact of the 2006 recommendations relating to the MPI the Alliance's proposals in this regard must be recommended for acceptance. A reasonable alternative would be to maintain the same ratio between Maximum and Minimum Pension as that between the salary of Scale 1 and that of Scale 20 in the Public Service. On a rereading, our original submissions and reasoning were clear enough and we see no need to repeat them here.

3.3 One final point has to be made. The Alliance's proposal on the MPI does not in any way undermine any fundamental principle of the pension system. A pay-as-you-go system, such as Malta's invariably results in those in employment paying for the pensions of current retirees. Each generation since 1979 has been paying for and subsidising retirees of earlier generations. If this has not been deemed wrong so far why should it start being deemed wrong now?

4. Second Pillar Pension

4.1 In principle, the Alliance is not against the introduction of a Second Pillar Pension. Prior to any mandatory introduction, however, two things require to be put right. The first is the 'cleaning up' of the Social Security Act through a programmed removal of the many discriminations resulting from the off-setting of service pensions against the Social Security Pension, or in consequence of the piecemeal changes to the Act made over the years. The second is the introduction of a First Pillar Pension which enables pensioners to live and not just to exist.

4.2 The Alliance reiterates its total and absolute opposition to the application of any portion of Social Security contributions to anything other than the benefits indicated in the Social Security Act. No part of such contributions should be applied to the creation of a Second Pillar Pension, mandatory or otherwise.

Joseph M. Azzopardi
Honorary Secretary

Profs Albert Cilia Vincenti
National Association of Pensioners

Rene' H. Formosa
B.O.V. Pensioners Association

Vincent Esposito
Ghaqda Pensjnanti G.W.U.

Gaetano Cuschieri
Ghaqda Pulizija Pensjonanti

George Mifsud
M.U.T. (Retired Teachers)

Alfred St John
Taqsima Pensjonanti U.H.M.

Paul Bezzina
Taqsima Pensjonanti M.U.M.N.

ANNEX 1.

2.7 Maximum Pensionable Income:

2.7.1 Act XIX of 2006 introduced different rates of Maximum Pensionable Income for then existing pensioners and for all those in employment and contributing to Social Security. This discriminatory regime provides for:

> persons born on or before the 31st December 1951 to be eventually entitled to an MPI of € 17,470 (= Lm7,500);
>
> persons born between 1st January 1952 and the 31st December 1961 to be eventually entitled to an MPI of € 20,970 (= LM 9,000)
>
> (in both cases the existing MPI to be increased each year by the amount of COLA in the rate of national minimum wage until the aforesaid amounts are reached);
>
> persons born on or after the 1st January 1962 shall have an MPI of € 20,970 on 1st January 2013 which, as from 1st January 2014, shall be "increased annually by such sum as corresponds to seventy per cent of the percentage increase in the national average wage .... plus thirty per cent of the inflation rate!"

This early act of discrimination was implicitly justified by the differences in contribution and pension qualifying conditions.

2.7.2. Here it may be well to remind that the original intention was to have an MPI equal to the salary of the President of the Republic. Indeed the original rate established in 1979 was changed each year until January 1981. The 1982 increase was not included because of 1982 – 1987 price and wage freeze. When the freeze was removed no one in authority deemed it just and necessary to start revising the MPI regularly. To-day the MPI is €17,116.06 (sic). Had COLA between 1982 and 2010 been added to € 15,723 (= Lm 6750) the figure on 1st January 2010 would have been € 20,424. If more correctly the 1981 MPI of € 15,723 is revised in line with inflation the figure in January 2010 would have been € 32,583. An index figure of 366.06 in 1981 became 758.58 at the end of 2009. This represents an inflation rate of 107.228% between end December 1980 and end December 2009.

2.7.3 The preceding paragraph highlights the arbitrariness with which the different rates of MPI yet to be attained were established. It also shows that statements that the pension caps

caps might make for inadequate pensions in 10 – 15 years time lack realism. Inadequacy is here and now. However the Alliance has no wish to re-opens old wounds; its only desire is to see a modicum of justice meted out to pensioners and would-be pensioners. Obviously, in an ideal world, one would prefer the immediate correction of what was not done, or done wrongly, in previous years.

2.7.4 The Alliance is made up of responsible people with a sense of realism. As such we are prepared to accept a partial solution over a period of time.

We propose that:

i. on 1st January 2013 there shall be a single MPI of € 21,000;
ii. from 1st January 2014 this MPI shall be increased annually

  a. by a sum equal to 70% of the percentage increase in the average national wage for the previous calendar year plus 30% of the inflation rate for those born on or after 1st January 1962;

  b. by a sum equal to seven eights of the sum resulting from the 70/30 formula in the case of those born between 1st January 1952 and the 31st December 1961;

  c. by a sum equal to three-fourths of the sum resulting from the 70/30 formula in the case of those born on or before the 31st December 1951;

iii. In addition the MPI will be further increased by € 500 each year between the 1st January 2015 and the 1st January 2026 to partially compensate for the absence of any adjustment between 1982 and 2004.

These arrangements would also result in an increase in contribution income.