

Strategic Review on the Adequacy, Sustainability and Social Solidarity of the Pensions System

2010 Pensions Working Group

Launched on 1st March 2011

To be concluded on 31st May 2011

Will be led by Chairman, Pensions Working Group

Documentation available on www.pensionsreform.gov.mt

Electronic Consultation on pensionsreform@gov.mt

Consultation

Camilleri Report – 1997/1998

Galdes Report – 2000/2003

World Bank Report – 2004

White Paper – 2004

Spiteri Gingell Report – 2005

Government's Principles for Reform – 2006

Parliamentary Debate - 2006

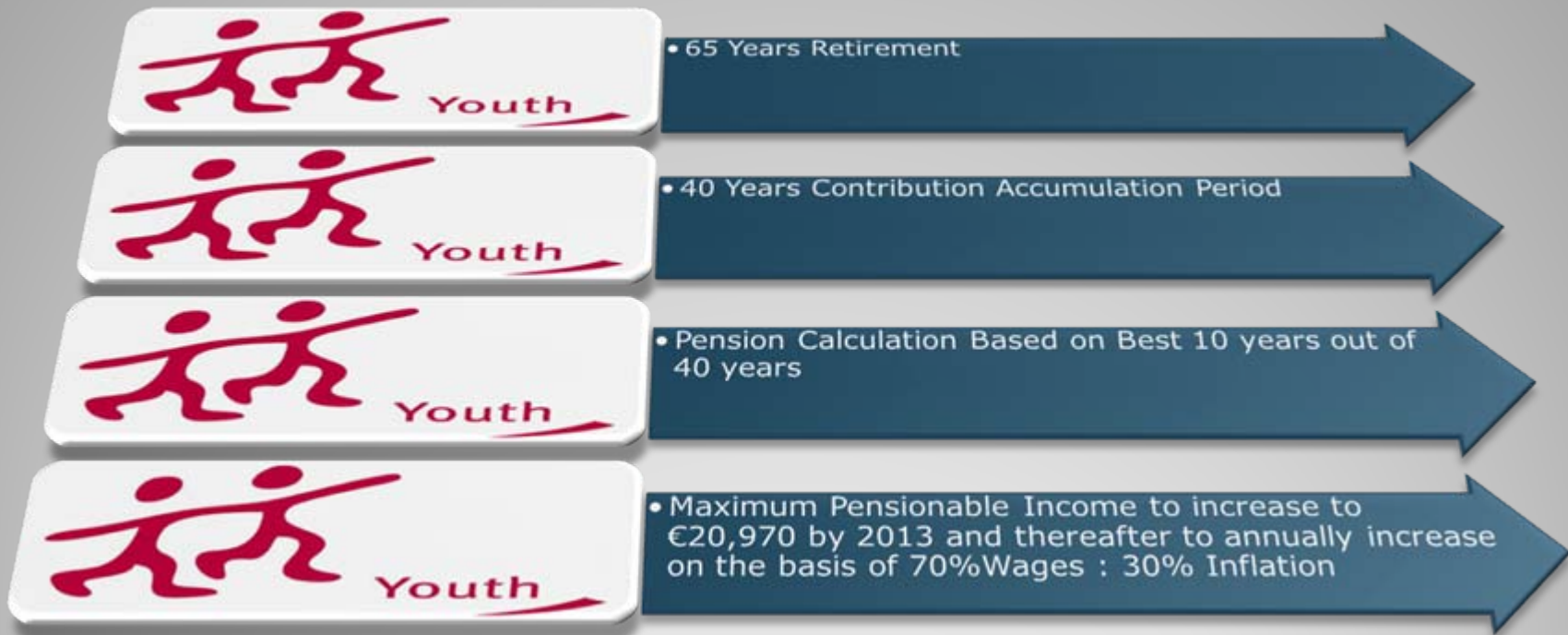
Enactment of Legislation – 2006

Review of Second and Third Pillars - 2009

A Decade of Reform



The Need for On-Going Review



2007 Reform Impact on Switchers



- Child Rearing Credits Awarded for 2 Years for every Child (4 years if child is disabled)



- Must Return to the Labour Market for an equivalent amount of years for Credits Awarded



- May be shared between both parents to maximum assigned

Crediting of Contribution for Parents for Child Rearing

Commissioned NSO to undertake a Climate Survey

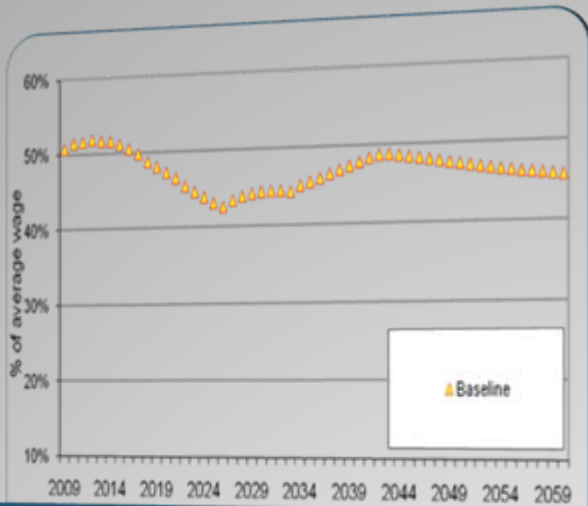
Commissioned World Bank for Actuarial, Modelling and Second Pension Review

Consultation sessions held with over 30 stakeholders

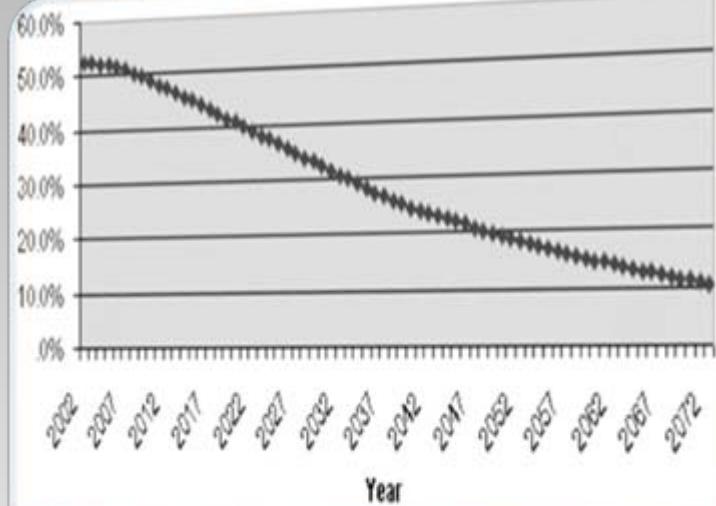
Visit to Sweden to understand NDC

Worked with MFSA and Department of Inland Revenue

Methodology



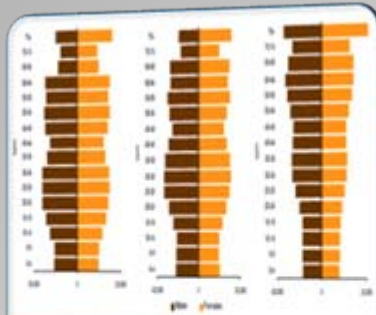
2010
Modelling:
APRR



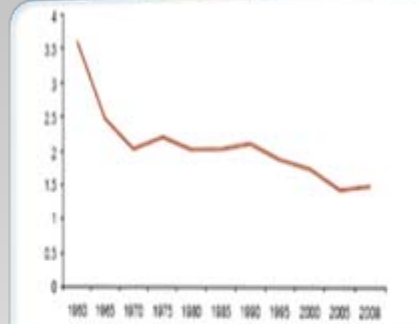
2005
Modelling:
APRR



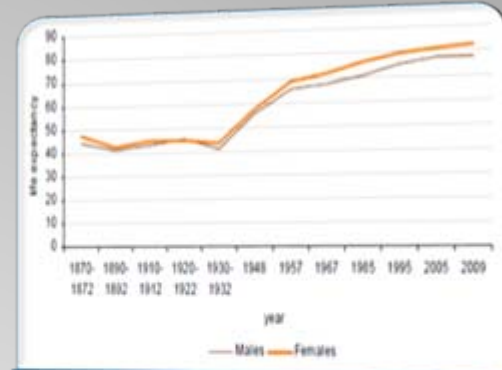
Base-line Model Behaviour



Population



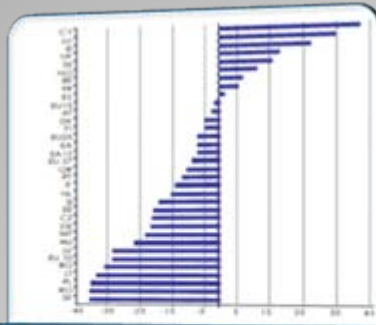
Fertility



Longevity



Demographic Projected Behaviour



Children Below
15 years - 2060



	Men			Women		
	1	2	3+	1	2	3+
2000	100	100	100	100	100	100
2005	100	100	100	100	100	100
2010	100	100	100	100	100	100
2015	100	100	100	100	100	100
2020	100	100	100	100	100	100
2025	100	100	100	100	100	100
2030	100	100	100	100	100	100
2035	100	100	100	100	100	100
2040	100	100	100	100	100	100
2045	100	100	100	100	100	100
2050	100	100	100	100	100	100
2055	100	100	100	100	100	100
2060	100	100	100	100	100	100

Employment
Rates by
Children



Age Group	1990		1995		2000		2005		2010	
	Rate	Rate	Rate	Rate	Rate	Rate	Rate	Rate	Rate	
15-19	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
20-24	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
25-29	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
30-34	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
35-39	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
40-44	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
45-49	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
50-54	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
55-59	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
60-64	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
65-69	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
70-74	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
75-79	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
80-84	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
85-89	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
90-94	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
95-99	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
Total	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	

Live Births by
Age of Mother



Fertility Impact

Increase credits for child rearing biasing towards families with more children

Introduce child rearing credits mechanism for Transitional Group

Establish National Pro-Natal Commission

Recommendations

	2009	
	Mar-Dec	Jan-Feb
Labour Supply	171,688	171,843
Employment	166,671	162,918
Unemployment	15,017	18,925
Inactive	171,179	171,807
Activity rate (%)	96.7	94.8
Employment rate (%)	96.8	94.9
Unemployment rate (%)	3.2	5.1

2009 Active Participation Rates



Age group	Sex		Total
	Males	Females	
	%	%	%
April - June 2010			
15-24	41.5	41.1	41.3
25-34	91.1	85.1	88.5
35-44	48.7	12.1	30.2
Total	79.5	39.5	59.9

Employment Rate by Age



Female University Graduates: 1980 - 2005



Increase Active Participation

Reform disability scheme from 'condition' to 'functionality'

Strengthen community care infrastructure to alleviate pressures particularly on females

Render Child Care facilities more affordable and work closer will Local Councils

Introduce Before and After School Care programmes

Train management in the application of new work practices such as flexi-time, tele-working, etc

Recommendations

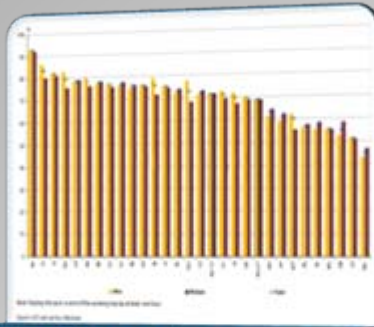
Incentivise females (and males) to join the formal economy and decrease participation in the black market economy

On-going assessment of policy measures introduced to increase female participation in the labour market, so as to gauge success, identify lessons learnt, etc as a means to inform future policy making

Undertake national educational campaign aimed at males / fathers to raise awareness on a more egalitarian family and social model, and encourage the social partners to promote more equal sharing of family and / or caring responsibilities

Government assumes an active affirmative policy to retain beyond the official retirement age employees who can add value and, therefore, acts as the trail blazer in this regard

Recommendations



Employed on Flexi-Time: 2006



	2006		2007	
	Quantity	Percentage	Quantity	Percentage
2006-01	100,000	100.0%	95,000	95.0%
2006-02	98,000	98.0%	93,000	93.0%
2006-03	96,000	96.0%	91,000	91.0%
2006-04	94,000	94.0%	89,000	89.0%
2006-05	92,000	92.0%	87,000	87.0%
2006-06	90,000	90.0%	85,000	85.0%
2006-07	88,000	88.0%	83,000	83.0%
2006-08	86,000	86.0%	81,000	81.0%
2006-09	84,000	84.0%	79,000	79.0%
2006-10	82,000	82.0%	77,000	77.0%
2006-11	80,000	80.0%	75,000	75.0%
2006-12	78,000	78.0%	73,000	73.0%
2007-01	76,000	76.0%	71,000	71.0%
2007-02	74,000	74.0%	69,000	69.0%
2007-03	72,000	72.0%	67,000	67.0%
2007-04	70,000	70.0%	65,000	65.0%
2007-05	68,000	68.0%	63,000	63.0%
2007-06	66,000	66.0%	61,000	61.0%
2007-07	64,000	64.0%	59,000	59.0%
2007-08	62,000	62.0%	57,000	57.0%
2007-09	60,000	60.0%	55,000	55.0%
2007-10	58,000	58.0%	53,000	53.0%
2007-11	56,000	56.0%	51,000	51.0%
2007-12	54,000	54.0%	49,000	49.0%
2008-01	52,000	52.0%	47,000	47.0%
2008-02	50,000	50.0%	45,000	45.0%
2008-03	48,000	48.0%	43,000	43.0%
2008-04	46,000	46.0%	41,000	41.0%
2008-05	44,000	44.0%	39,000	39.0%
2008-06	42,000	42.0%	37,000	37.0%
2008-07	40,000	40.0%	35,000	35.0%
2008-08	38,000	38.0%	33,000	33.0%
2008-09	36,000	36.0%	31,000	31.0%
2008-10	34,000	34.0%	29,000	29.0%
2008-11	32,000	32.0%	27,000	27.0%
2008-12	30,000	30.0%	25,000	25.0%
2009-01	28,000	28.0%	23,000	23.0%
2009-02	26,000	26.0%	21,000	21.0%
2009-03	24,000	24.0%	19,000	19.0%
2009-04	22,000	22.0%	17,000	17.0%
2009-05	20,000	20.0%	15,000	15.0%
2009-06	18,000	18.0%	13,000	13.0%
2009-07	16,000	16.0%	11,000	11.0%
2009-08	14,000	14.0%	9,000	9.0%
2009-09	12,000	12.0%	7,000	7.0%
2009-10	10,000	10.0%	5,000	5.0%
2009-11	8,000	8.0%	3,000	3.0%
2009-12	6,000	6.0%	1,000	1.0%

Employed on Tele-working: 2006



	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09
Labour Supply	146,012	147,510	149,266	151,891	151,507
Employed	138,633	140,357	143,094	145,510	143,827
Direct Production	42,309	42,636	41,792	40,436	38,330
Market Services	95,509	96,988	100,603	104,251	104,855
Temporary Employed	815	733	699	711	642
Part-Time Employment	39,283	42,115	45,235	47,090	49,736
Unemployed (part 1 & 0)	7,379	7,161	6,172	6,373	7,680
Unemployment rate (%)	5.1	4.9	4.1	4.2	5.1

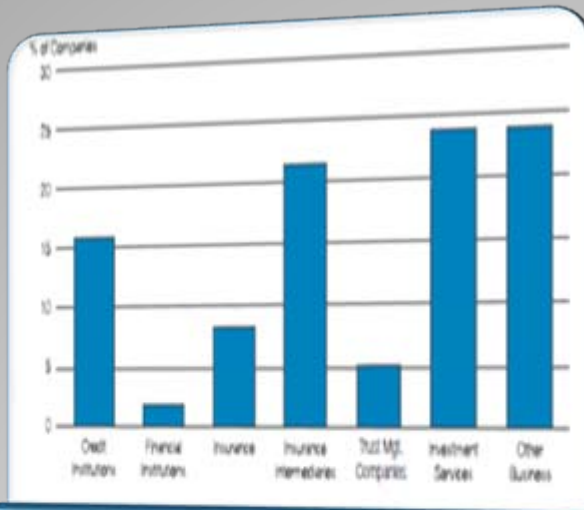
Employed Part-Time: 2009



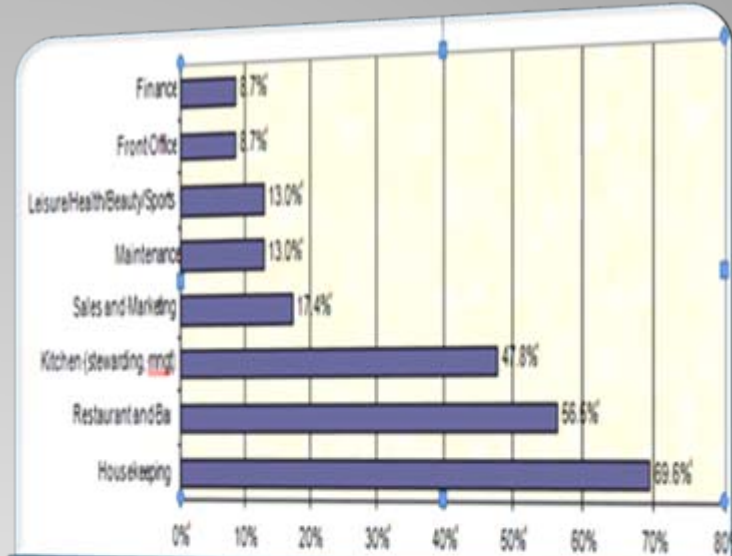
Atypical Employment

Reform the provisions in the Social Security Act relating to part-time work to ensure that the full contributory entitlement is paid by both a person and an employer in the event that a person works a 40 hour week on an atypical basis – that is, irrespective of the number of employers the person is engaged with

Recommendations



Skills Gap in the Financial Services Sector



Skills Gap in Tourism Sector

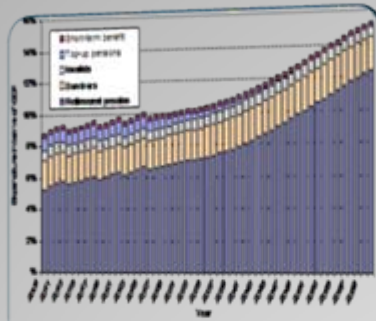


Targeting Skilled Immigration

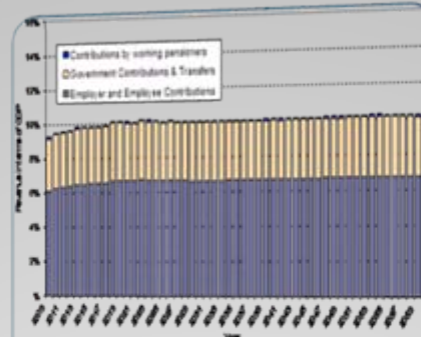
Malta should continue to invest heavily in education to build its indigenous human capital recommends that the Government

Malta should consider a targeted immigration and residency policy to narrow skills deficits and inadequate labour supply that is or may constrain the economy from growing further and where short run solutions on the labour domestic market are unlikely to give the desired results

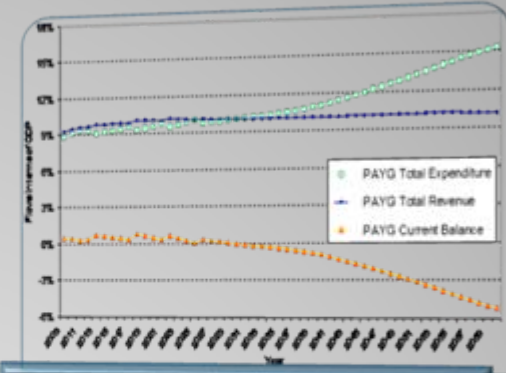
Recommendations



Benefits Payment



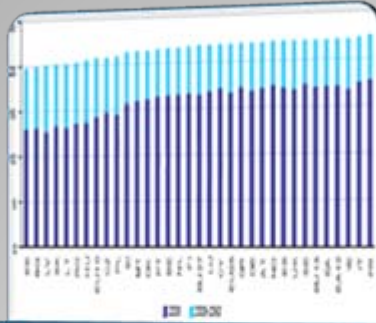
Contributions



Balance



Sustainability of First Pension



Projected Longevity by 2060

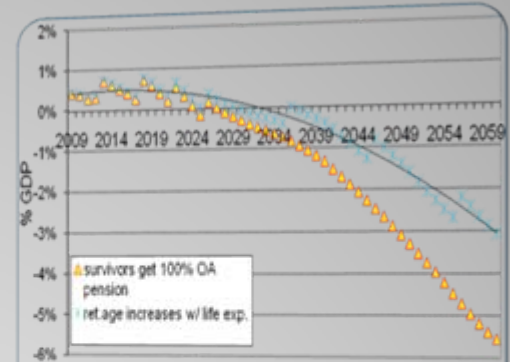


Year cohort	reaches 65 in	life expectancy at 65	Retirement age required	Time spent retired**	...compared to birth cohort 1959
1960	1961	82 y 3 mo	63 y	17 y 3 mo	0
1965	1965	82 y 7 mo	63 y 12 mo	17 y 12 mo	+0 mo
1970	1970	83 y 2 mo	64 y 6 mo	18 y 3 mo	+10 mo
1975	1975	84 y 7 mo	64 y 6 mo	18 y 5 mo	+1 y
1980	1980	85 y 1 mo	64 y 10 mo	18 y 7 mo	+1 y 2 mo
1985	1985	85 y 4 mo	65 y 1 mo	18 y 9 mo	+1 y 4 mo
1990	1990	85 y 10 mo	65 y 4 mo	18 y 12 mo	+1 y 6 mo
1995	1995	86 y 2 mo	65 y 7 mo	19 y	+1 y 7 mo
2000	2000	86 y 6 mo	65 y 10 mo	19 y 1 mo	+1 y 8 mo
2005	2005	86 y 9 mo	66 y	19 y 2 mo	+1 y 9 mo
2010	2010	86 y 11 mo	66 y 1 mo	19 y 3 mo	+1 y 10 mo
2015	2015	87 y 2 mo	66 y 3 mo	19 y 4 mo	+1 y 11 mo

* The calculation shows the retirement age required if the rate of the tax system for fully retired. The required retirement age for each cohort 1960-2015 is also indicated.

** The spent months included in its expectancy in the second retirement age.

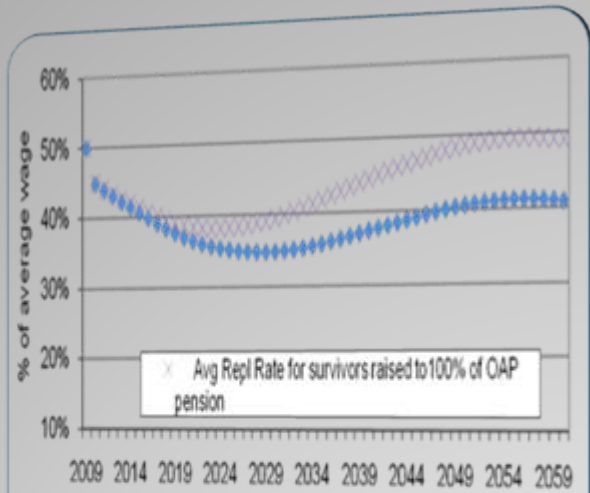
Swedish Longevity-Retirement Index



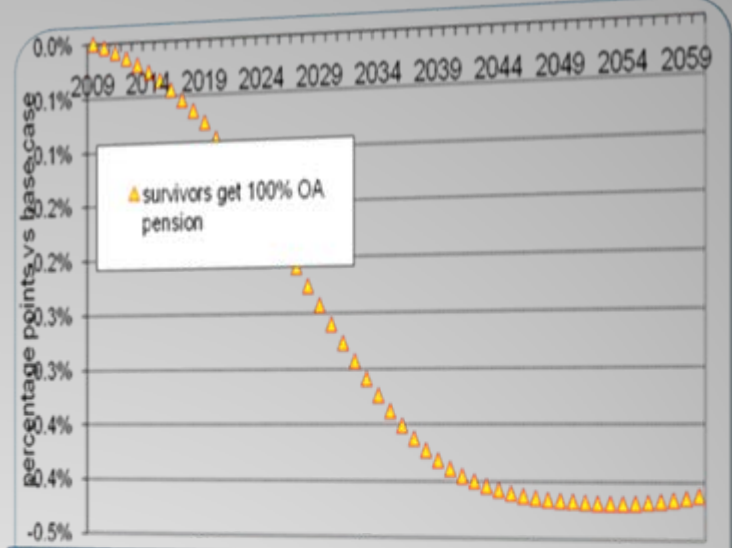
Introducing a Retirement-Longevity Index



Recommendations: Retirement Age



Adequacy impact of a Full Retirement Pension



Financial impact of a Full Retirement Pension



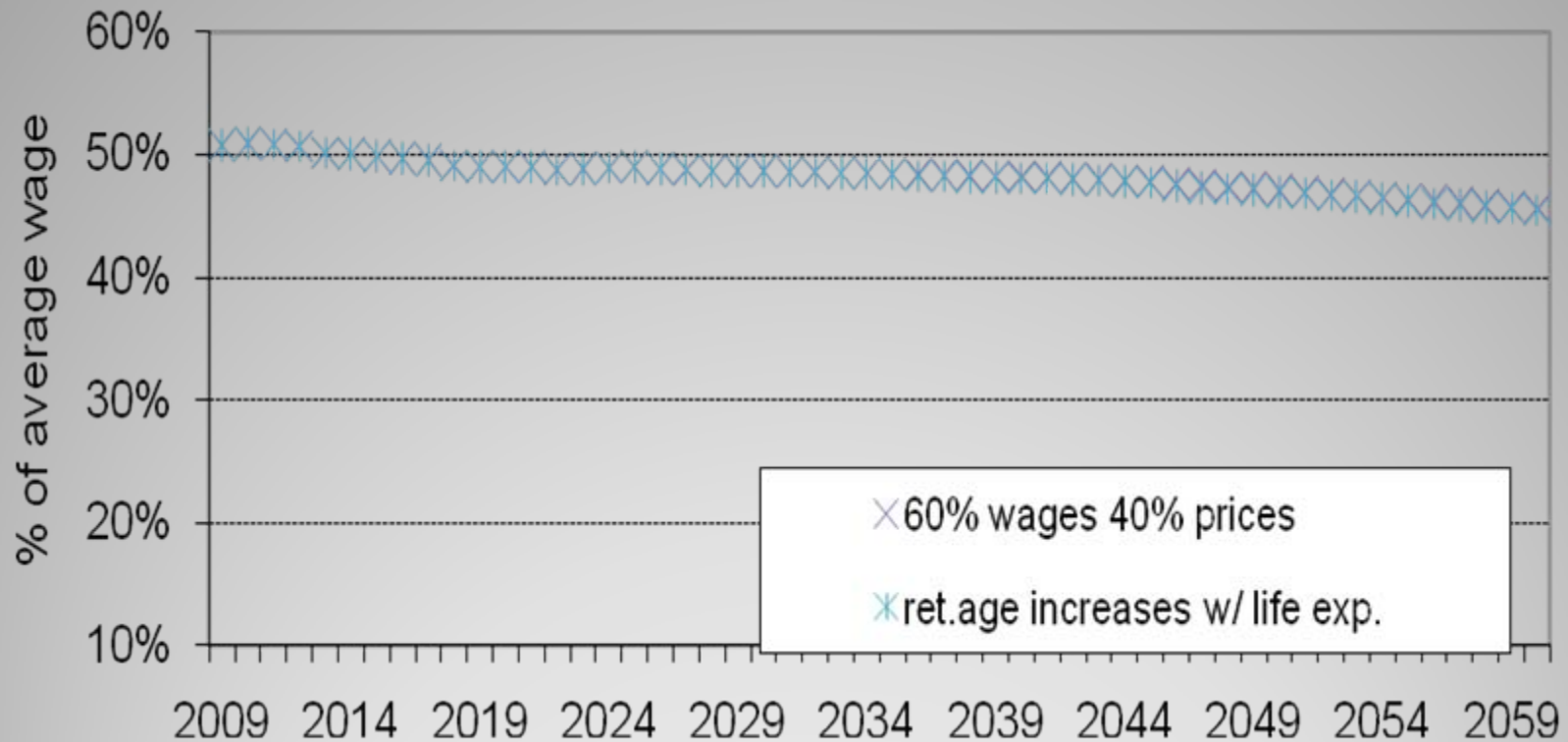
Recommendation: Placing Survivor's on a Full Pension

Widow who is aged 22 years and over when spouse dies prior to retirement age should earn income from gainful activity that exceeds the yearly average of the National Minimum Wage without forfeiting her right to a widow's pension in order to incentivise her to remain active in or re-enter the labour market

Allow persons with five year gap due to higher education to be able to fill those gaps on the condition that the contributory rate paid is the maximum contribution rate due on the date the application to fill in the gap is made

Study the possibility of placing current First Pension on a Notional Defined Contribution framework

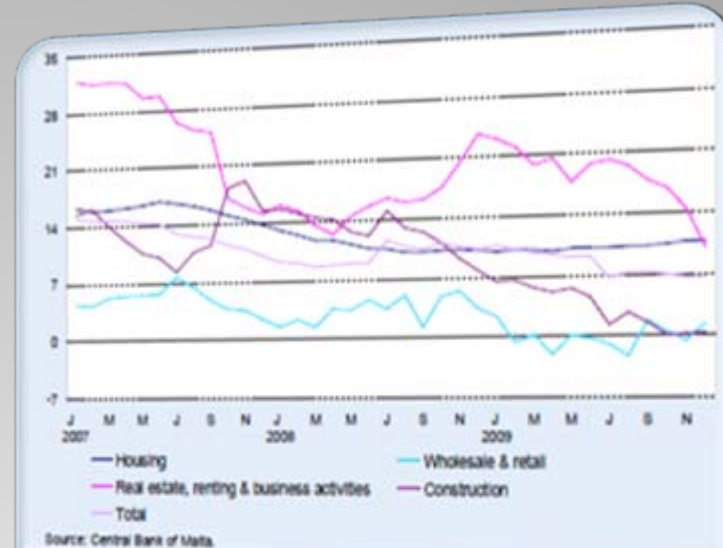
Other Recommendations



Impact of Proposed Changes to First Pension Replacement Rate to Average Wage



Public / Private Saving: 2005-2008 vs 1994-1997



Annual Private Sector Loan Growth - 2009



Savings and Mortgages

*Considered opinion that the financial and economic crisis, **of itself**, does not diminish the importance of private pension provision in a well balanced private and State pension framework directed to ensure a quality of life during retirement*

Key questions grappled with is not whether a Mandatory Second Pension is necessary but rather:

- *when should a Mandatory Second Pension be introduced;*
and
- *what is the best design framework for a Mandatory Second*

Mandatory Second Pension

Increase aggregate savings as well as individual savings

Negatively impact disposable income with particular regard to low income and lower middle income groups

Reduce revenue from VAT as a consumption today is deferred to one's retirement life cycle phase

Result in a loss of competitiveness

Negatively impact government finances as contributions paid by the State as an employer will be ring-fenced

Mandatory Second Pension: Impact on Local Economy

A decision to defer will impact the quality of life of future pensioners

• VS

A decision to introduce will have an impact on the quality of life on today's employees as well as employers

The Competing Pressures

As soon as possible - means issue can no longer be postponed or avoided:

But will take time. Sweden decision taken in 1994 and implemented in 2000

Consensus on design, phasing, governance et al of fundamental importance

Moving Towards a Mandatory Second Pension

*Establishing a Single Default Fund
Established by Government*

• *or*

*Hybrid Occupational Retirement
Pension with Mandatory Default
Option*

**Potential Framework Mechanism
for a Mandatory Second Pension**

Immediate

Based on an EET Fiscal Incentive Framework

Migrates into Mandatory Second Pension

Third Pillar: Third Pension

Year	Maturity / Surrender Value
2010	€34,000,000
2011	€36,000,000
2012	€40,000,000
2013	€34,000,000
2014	€43,000,000

**Fast Track to Third Pension:
Maturity of Financial Instruments:
2010 - 2014**

Year	Number of mortgages (accounts)	Total amount in Lm ('000s)^	Interest Rate (%)
2003	38,538	442,245	4.47
2004	41,981	539,092	4.30
2005	44,990	653,136	4.49
2006	47,055	759,837	4.95
2007	48,516	865,005	5.39

Third Pillar Leveraging Home Investment

Voluntary

Saving of Child's Allowance

Child assumes right of Account on 18 years

No cashable but transferrable into Pension Savings Account

Third Pillar Child's Pension Account

Permanent Commission

Undertake specifically designed survey that will provide a baseline and acts as the starting point for assessing adult financial literacy in Malta

Inculcate in School Curriculum

Promulgate at Work Place

Financial Literacy