Submission Report by MSV Life p.l.c. on the 2010 Final Report of the Pensions Working Group - Strategic Review on the Adequacy, Sustainability and Social Solidarity of the Pensions System

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This Submission Report contains the views, comments, recommendations and general observations of MSV Life p.l.c. on the contents of the Final Report prepared by the Pensions Working Group (PWG) on the *"Strategic Review on the Adequacy, Sustainability and Social Solidarity of the Pensions System"*.

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About MSV Life p.l.c.

MSV Life p.l.c. (MSV) is the leading provider of life insurance protection, long term savings and retirement planning in Malta. MSV is jointly owned between Bank of Valletta p.l.c. (50%) and Middlesea Insurance p.l.c. (50%).

MSV at a glance (information as at 31 December 2010)

- The largest life insurance company in Malta.
- Authorised share capital – €60 million.
- Issued share capital - €54.75 million.
- Shareholders' equity - €109 million.
- Annual business written - €147 million.
- Total Assets - €1,130 million
- Managed Savings - €1,004 million
- Total number of policies in force - 100,000
- Total number of customers – 83,000

Section 1 – Views and comments by MSV Life p.l.c. on recommendations of the PWG

Recommendation 20
The 2010 Pensions Working Group recommends that the Government should consider linking the official retirement age of the First Pension system to a retirement age - longevity index.

Recommendation 21
The 2010 Pensions Working Group recommends that the Government should consider indexing the 61 years of age opt out rule to a retirement age – longevity index grafted onto the First Pension system so that the disincentive period increases in equal relativity to increases in the official retirement age.

MSV Life views and comments on Recommendations 20 and 21:

- The demographics show that current and future generations of workers will have to pay twice: once for their own pension and once for current pensioners and those about to retire.

- If this is the case, it seems fair to give that generation a degree of control over its own pension provision in the form of a defined contribution element.

- That being said, the First Pension in conjunction with the wider system of social security must be able to provide a safety net to guarantee a healthy lifestyle in retirement.

- We see no benefit in discouraging people from working in retirement whether that happens as a result of attainment of the State Retirement Age (SRA) or earlier upon election. Continuing to work should not affect benefits received upon SRA. Government should be encouraging people to work and save for longer and encouraging career changes later in life. Indeed in doing so, the Government will be creating more resources for those not able to work by generating higher tax receipts.

- We therefore strongly agree with the recommendation made by the PWG to link the SRA to life expectancy. Whilst we acknowledge that measures relating to changes in SRA are invariably met with public and trade union resistance and are therefore difficult for politicians to implement, a link created now that sets the SRA based on life expectancy at the current SRA (e.g. SRA = Life Expectancy – 20) may help to de-politicize the issue in future. It was interesting to note that recently the Italian Government decided to bring forward the implementation of this measure from 2015 to 2013.

Recommendation 26
The 2010 Pensions Working Group recommends that the Government should consider introducing a Mandatory Second Pension directed at persons who are aged 45 years and younger at the time when it is introduced.

MSV Life views and comments on Recommendation 26:

- The recommendation of the PWG for a Mandatory Second Pension directed at persons who are aged 45 years and younger is certainly a step in the right direction, however we would recommend that this is extended to all employees regardless of age. We do not agree that a minimum 20 year contribution and accumulation period is necessary since any increase in the savings ratio is desirable no matter what the time horizon. In order to deal with relatively small pension funds at retirement age we would recommend the introduction of "Trivial Commutation". This would enable an individual with a relatively small accumulated pension fund (say less than €10,000) to withdraw the funds as a lump sum rather than having to use them to provide a trivial pension.

- Should the Government proceed with implementing the Mandatory Second Pension just for those aged 45 years and younger then we would recommend the removal of the current disincentives for employers to start making provision for all employees (and not just for those who are aged 45 years and younger). There are already a considerable number of employers considering contributing to group retirement schemes but are discouraged due to the lack of fiscal incentives.

- The requirement of mandatory contributions for all employers regardless of the number of employees is important to ensure that all employers and their respective employees are treated equally. Non-Mandatory Second Pensions often lead to social unbalance since only certain employers "of choice" end up providing retirement schemes to their employees and certain employers may even provide certain categories of employees (e.g. senior management grades) with more generous retirement benefits (e.g. France).

- Whilst ensuring the highest possible degree of consumer protection it is equally important to balance the need to protect consumers with the need to facilitate extra savings in mandatory or voluntary occupational savings schemes.

Recommendation 27
The 2010 Pensions Working Group recommends that the Government should consider inviting the Opposition and relevant representatives of both employers and employees to participate in the design and implementation of a Mandatory Second Pension. Strategic and important decisions have to be taken with regards to matters such as size of contributions; the sources of financing for these contributions and the phasing in of the framework, et al. To the extent possible the introduction of a Mandatory Second Pension should be based on a national consensus.

- We agree with the recommendation of the PWG to gain cross party consensus and to involve employers and employees. However we feel that representatives of the financial and insurance sectors should also be included in such consultation due to the wealth of knowledge and experience contained in the sectors.

Recommendation 29
The 2010 Pensions Working Group is of the considered opinion that whilst the person prudent principle and the qualitative and quantitative investment criteria established in the IOPS Directive suffice with regards to a voluntary ORP scheme or a Third Pension where a conscious decision to voluntarily invest in such an instrument is made, they do not suffice in providing the necessary level of protection for a Mandatory Second Pension framework where an individual is *forced* to save in such a scheme.

MSV Life views and comments on Recommendation 29

- Despite the concerns raised by the PWG on the person prudent principle we are of the view that insurance companies are still very well placed to play a major role in the provision of a funded Mandatory Second Pension and a voluntary Third Pension.

- Life insurers are well-positioned to ease the burden on public pension schemes by providing funded solutions. Since life insurance companies are subject to strict supervision and regulation, including comprehensive solvency requirements, they offer high levels of pension protection for their customers.

- Insurance products also pose a reduced risk to investors as they are subject to comprehensive regulation and supervision by public authorities. Compliance with statutory solvency margin and other prudential financial rules, means lower risk and a higher level of protection for the consumer.

- Insurers also have direct experience in providing other solutions for reducing investment and market risk such as “life-styling”, where assets are gradually switched from volatile assets to more stable ones near retirement.

Recommendation 30
The 2010 Pensions Working Group recommends that the introduction of a Mandatory Second Pension should be supported by a Default Fund framework based on a lifecycle investment strategy in which people who fail or are unwilling to make an investment choice are de facto enrolled in and that the Government should consider inviting, under the direction of ministerial policy orientation, the Malta Financial Services Authority to present recommendations on the most appropriate framework for the design and grafting of such a Default Fund onto the Mandatory Second Pension Framework.

MSV Life views and comments on Recommendation 30:

- Investment Approach during Accumulation Phase: We agree with the recommendation of the PWG that a Default Option, based on a lifecycle investment strategy, should be available as one of the investment options under the Mandatory Second Pension framework but that this should not be the only option available. Default Options are a powerful tool in reducing the risks of investor apathy. However, we would prefer a regime where market participants were each allowed to offer their own default fund or funds. Each fund should meet general principles which could be set by MFSA. We feel that this approach would enhance consumer choice whilst still providing safety to consumers.

- Contributors to a Mandatory Second Pension should still be given as wide an investment choice as possible with an optional 'lifestyle' feature for the asset mix to switch to Fixed Income Funds and Cash Funds as retirement approaches (e.g. 5 years from SRA).

- We believe investment freedom and choice is an important element of all retirement planning and as such there should be no differential between the investment rules for Second and Third Pillar Pensions. Therefore whilst we advocate the use of a default fund under the Mandatory Second Pillar Pension we would also recommend its availability through Third Pillar Pensions. Conversely we would recommend that the investment freedom and choices available under Third Pillar Pensions be equally applied Second Pillar Pensions.

- We also feel that existing With-profits Funds managed by life insurance companies should be allowed to qualify as default funds. With-profits funds are very conservatively managed and widely diversified funds that are subject to very rigorous prudential and supervisory regulation. Furthermore, with-profits funds are subject to an annual actuarial valuation that is in turn reviewed by an independent external actuary and by external auditors thus offering a very high level of consumer protection.

- We would strongly recommend that legislation should discourage or prohibit the setting up of special purpose employer investment funds as options under the Mandatory Second Pension framework, since there is no single employer in Malta that is sufficiently large to warrant the setting up of an SPV given the inherent costs involved. The expenses of running such a vehicle would in the end be borne by the investor and are likely to lead to lower future benefits. Given the small size of the population in employment, we would recommend that legislation will only allow approved pooled investment funds to be used under the Mandatory Second Pension framework.

- Administrative costs: Whilst we recognise the value that clarity, transparency and a degree of restriction of the charging structure will result in greater consumer confidence, we would strongly advise against using models such as the UK Stakeholder charging regime as this is unlikely to be financially sustainable from a provider point of view.

Recommendation 32
The 2010 Pensions Working Group recommends that Government should consider introducing the Third Pension framework as early as possible in 2011 in order to provide the appropriate vehicle for persons to save for their pension voluntarily should they wish to do so.

MSV Life views and comments on Recommendation 32:

- Government must create the environment to encourage voluntary provision and personal savings. It must not stifle incentive, opportunity and responsibility for individuals who may want to provide more than the minimum for themselves and their families.

- Governments need to install mechanisms to incentivise savings and to get people into a savings habit.

- Pension saving is no different from ordinary long term savings. Precautionary saving can subsequently become retirement saving.

Recommendation 33
Given that a Third Pension framework will be introduced prior to a Mandatory Second Pension the 2010 Pensions Working Group considers it to be of strategic importance that a Third Pillar framework is designed in such a way to facilitate persons who invest in it to be able to migrate into the Mandatory Second Pension as otherwise people may decide against investing in a Third Pension if they fear that they would have to pay an addition saving contribution once the Mandatory Second Pension is introduced.

MSV Life views and comments on Recommendation 33:

- We agree with the recommendation of the PWG that credit should be given to any contributions which an individual makes to a voluntary third pillar scheme, once a mandatory second pillar pension is introduced. Otherwise, individuals will postpone a decision to subscribe to a voluntary arrangement, until they are aware of what their mandatory future obligations would be.

- We would further recommend that individuals who start saving through a Third Pillar Pension be given the opportunity to have any future mandatory employee and/or employer contributions directed into the same pension, so long as the said Third Pillar Pension meets the criteria established for the Mandatory Second Pillar Pension. This will reduce the number of pension plans any one individual will hold and help in simplifying the retirement planning process.

Recommendation 34
The 2010 Pensions Working Group recommends that given that Malta is yet to establish instruments for saving for one's retirement let alone building a culture for saving for one's retirement there is merit that in the building of such a culture the Government may wish to consider putting together a tax incentives framework to spur people to invest in a Third Pension.

Recommendation 35
The 2010 Pensions Working Group recommends that the Government should consider introducing a fiscal instrument directed to incentivise persons to invest in savings for their retirement through a Third Pension that is designed on the following basis that the:
(i) fiscal instrument is in the form of a tax deduction
(ii) contribution is tax exempt;
(iii) maturity value is tax exempt;
(iv) annuity or income received is taxable.

MSV Life Comments on Recommendations 34 and 35:

- While making people save more by means of statutory measures is nearly always unpopular, providing fiscal incentives to encourage people to undertake voluntary saving is usually welcomed.

- Most EU countries already use some form of fiscal incentives – usually on the EET model (contributions exempt, investment income exempt, but taxation at the point of withdrawal).

- We therefore agree with the recommendation of the PWG that Government should introduce a simple but robust tax incentives framework to stimulate voluntary savings.

- It is important to ensure that the main features of the tax structure under the Second Pension and the Third Pension are consistent. One should not appear to be more fiscally advantageous than the other as this could lead to arbitrage between the two pensions.

- It is essential to ensure that recipients fully understand the value of the tax incentives provided. One way of achieving this is to re-brand tax-relief as being a matching payment.

- We strongly recommended that in the design of the tax incentive framework, Second and Third Pension products should be completely excluded from Document Duty (i.e. Premium Tax). Such a measure will contribute towards reducing the product charges.

- Similarly such tax incentive framework should also ensure that Second and Third Pension products are excluded from the current tax provisions relating to fringe benefits which currently deter/ dis-incentivise voluntary provision.

Recommendation 37
The 2010 Pensions Working Group is of the considered opinion that an opportunity exists to fast track the introduction of pension savings accounts by incentivising the conversion of existing financial products on maturity into locked pensions savings and recommends that the Government should consider working with appropriate stakeholder to devise a way forward in this regard by 2012.

MSV Life Comments on Recommendation 37:

- We agree with the recommendation of the PWG that an opportunity exists for measures to be implemented to encourage the conversion of future maturities from existing financial products into approved pension products which would qualify under a new fiscally advantageous regime.

- It will be important that such tax incentives are given only in the case of the reinvestments of maturity proceeds as otherwise current holders of financial products could be induced to surrender existing products to take advantage of the new fiscal regime.

- If the eventual selected tax incentives place a limit on the annual contribution that can be paid to receive tax relief then this may discourage holders of existing financial products from reinvesting all of the proceeds from such products. It would therefore make sense to make special provisions for this opportunity.

Recommendation 38
The 2010 Pensions Working Group recommends that the Ministry for Pensions and the Malta Financial Services Authority should consider studying the introduction of a regulated home equity release market directed to allow a person to boost his or her retirement income without the need to sell his or her property during his and his spouse's lifetime – which study should assess:

- Whether a specific legal framework would be required and whether amendment to the law of succession is required
- The design of a regulatory framework that would ensure the proper conduct of business by entities providing such products as well as securing robust protection of customers
- The introduction of appropriate governance mechanisms to prevent concentrated ownership of property by a limited number of private sector operators
- The risks and mitigation thereof of persons adopting home ownership products upon retirement
- The implication of equity release products in relation to taxation and succession duties

MSV Life Comments on Recommendation 38:

- Whilst we agree with the consideration of equity release in the PWG report we would recommend caution in the timing of any subsequent regulations. Home ownership is very popular in Malta and many individuals already view property as a means to retirement. Introducing a new concept regarding the use of property at the same time as new pensions regulations will simply distract from the more pressing and urgent messages which need to be conveyed regarding retirement.

Recommendation 39
The 2010 Pensions Working Group recommends that the Government should consider to reform the Children's Allowance benefits scheme so that a parent on a voluntary basis may request the Department of Social Security to open a Child Pension Account from which there will no withdrawal, will become the child's property at the age of 18, the balance will automatically be transferred to a pension scheme of the owner's choice.

MSV Life Comments on Recommendation 39:

- Whilst we agree with this recommendation we would recommend that consideration is given to allow such benefits to be paid into approved private savings products which will be subject to the required conditions of no withdrawals etc, however consideration should be given to allow one off withdrawals for specific and pre-defined purposes (such as computer purchase for education or specialist medical treatment). This has been successfully implemented in New Zealand through the Kiwi Saver Accounts.

- Such a measure will lead to greater empowerment and engagement on the part of young savers and would contribute towards creating a savings habit from a very young age through greater accessibility.

- We believe that other citizens who are not paying tax but are nonetheless contributing to society should also be able to save for retirement in a fiscally advantageous environment. Such people include those caring for children or elderly family members. A fixed annual contribution limit may be appropriate for such people.

Recommendation 41
The 2010 Pensions Working Group recommends that the Government should task the National Statistics Office, the Ministry for Pensions and the Malta Financial Service Authority to carry out a specifically designed survey that will provide a baseline and acts as the starting point for assessing adult financial literacy in Malta.

Recommendation 42
The 2010 Pensions Working Group recommends that that the Government should consider establishing in 2011 a permanent Task Force on Financial Literacy that is assigned the terms of reference to design and implement a financial literacy strategy directed to help people achieve the following:
- be able to make financial decisions related to home ownership, saving, preparing for retirement, et al.
- attain a better level of understanding with regards to financial services products that they own, may yet purchase and in preparation for the introduction of a Mandatory Second Pension.
- attain a level of knowledge that allows for the placement of smart attitudes and habits such as asking appropriate questions prior to making an investment choice.
- recognise mis-selling and other unethical behaviour as well as the ability to interpret the fine line details that accompany a financial services product.
- understand the basics of how the market operates and the principles of risk and reward that may result when making financial investment decisions.

- understand how inflation, interest rates and fees associated with saving, investment and debt work.

Recommendation 43
The 2010 Pensions Working Group recommends that the newly established Task Force, if the Recommendation 32 is adopted by Government, should enter into discussions with the Directorate for Education Services to establish within the education curriculum the fundamental basics of financial management and literacy and to amend the Curriculum of Personal and Social Development subject at both the primary and secondary level of education to include modules on financial literacy.

Recommendation 44
The 2010 Pensions Working Group recommends that the newly established Task Force, if the Recommendation is adopted by Government, should enter into discussions with:
- the Employment and Training Corporation to introduce financial literacy training Programmes for persons in employment; and
- appropriate constituted bodies to assist employers to introduce seminars on financial literacy for their staff.

MSV Life Comments on Recommendations 41 to 44:

- We feel that during every legislature Government should run a minimum of two Nation-wide public information campaigns, aimed at raising the financial education and financial literacy of the general public.

- We full agree with the PWG in respect of the need to increase financial literacy. We are currently planning how we could contribute to such an initiative as part of our Corporate Social Responsibility programme.

- Every person should have access to easily understandable and meaningful information about their future state pension entitlement and how extra private savings can be made.

- We would recommend that a simple standard and common pension language is established. Such simple, common and clear vocabulary can be used by both the authorities and providers of pension products across all documentation, product literature etc.

- Pension decisions are often considered to be too complex for individuals to solve on their own, particularly as many individuals may have low financial capability. In many countries this general lack of financial capability has lead to significant shortfalls in pension savings.

- Behaviourally people are not good at two aspects of financial planning for retirement, namely deciding to save and eliminating risk in later years. This is often due to people not fully understanding what they expect to receive from state pension provision, nor how much additional pension saving is needed to ensure an adequate level of income in retirement.

- There is much that national and EU decision-makers, often in partnership with the private savings industry, can do to remedy this situation.

- Governments should ensure that every person has access to easily understandable and meaningful information about their future state pension entitlement and how much extra private saving is necessary. Several EU member states have already introduced initiatives in this area. For example, in Germany, Denmark, France and Sweden, each year every adult is sent an annual statement detailing their current state pension entitlement and how much they can expect to receive if they continue to work until the normal retirement age. This information is often available on-line and in some circumstances, also includes projected income from private pensions.

- The task of ensuring that people understand how much they need to save for retirement is far easier where people have a good understanding of the financial issues involved. This is why, in many countries where some reliance is placed on voluntary saving, governments aim to raise the financial capability of the population. Typical measures include: incorporating financial decision-making within the school curriculum, ensuring that government organisations or regulators provide information on financial products to the public; public information campaigns, for example TV advertising, to help people understand the issues involved in increasing saving or taking on debt, and providing free to use web-based financial planning tools. Sometimes, countries have set up a separate government commission specifically to take this agenda forward.

- Insurers play an important part in complementary pension provision. But they can play a greater role if they are assisted in this task by a policy environment that encourages saving and a savings culture. Therefore, to help foster the development of funded pensions and ensure that individuals have an adequate income in retirement, the European insurance industry is urging national and EU policymakers to:

    - Encourage national Governments to provide accurate and easily understood information on the actual value of pension benefits each individual can expect to receive from state provisions;

    - Encourage national governments to develop financial education and financial capability related to retirement provision so that individuals will be able to make an informed choice about whether, and how much to save in addition to state pension provision.

- Whilst the education of consumers forms an important leg of consumer protection there are two other aspects which we believe should be specifically addressed in the development of a financial literacy training strategy, namely:

    - Financial Advice – Minimum standards of financial advice should be introduced. This should include detailed requirements on what should be disclosed to clients at the point of sale as well as minimum academic qualification standards for advisers.

    - Consumer Reporting – The ongoing reporting by product providers should be sufficient to allow consumers to gain a clear picture of the range of likely proceeds from their savings at retirement. This will allow appropriate action to

be taken by the consumer during the period up to retirement. MFSA should regulate on product disclosure and specifically on methods of financial projection and the parameters used.

Section 2 - General observations by MSV Life p.l.c. on Annuities and compulsory annuitisation

- There are several references in the report that accumulated pension savings should at some stage be converted to annuities. We would strongly advise against the introduction of any form of compulsory annuitsation.

- Given the challenges of the management of longevity risk particularly under Solvency II, the lack of local longevity tables, the lack of market size and the potential impact of the Gender Directive carve-out for insurance (which is targeted for introduction in December 2012), our view is that a traditional open market annuity product is unlikely to be attractive from a financial perspective for neither the insurance company nor the customer.

- We would instead propose the controlled "income drawdown" approach with a maximum lump sum payable at maturity, followed by annual withdrawals within a specified minimum and maximum range. In the event of death, any outstanding balance that is not withdrawn may be transferred to the estate. Longevity risk is transferred to the individual which can allow potentially greater income levels in the earlier years and enable preservation of capital on death.

- The First Pension already provides a guaranteed minimum income benefit to pensioners and is sufficient to provide a minimum basic standard of living. Contributors are therefore already heavily "annuitized" through the mandatory PAYG system. It is necessary to encourage the public to make additional savings for retirement and to do so one would need to ensure that contributors are given more choice, flexibility and freedom and that end product is sufficiently attractive and flexible. Unfortunately annuities, and the rates which would be offered do not appear attractive to pensioners.

- Internationally annuities are assuming less and less importance in the "at retirement" market and are only ever purchased when it is compulsory to provide an income (e.g. UK pensions market) or when there are significant tax advantages (e.g. Purchased Life Annuities in the UK provide an income as part return of capital rather than income). Even when there is compulsion to provide an income, clients and providers are continuously seeking alternatives – demonstrating the lack of appetite from both clients and providers to take annuity business.

- One of the major challenges of annuities is the longevity risk – future improvements in life expectancy are notoriously difficult to predict. The uncertainty of lifespan passes from client to insurer and people continue to outlive current life expectancies. Insurance companies are expected to hedge this longevity risk and must match liabilities. Unfortunately there is a lack of instruments that can be used to do this. The most favoured would be long dated Government Bonds, for which demand already exceeds supply. Reinsurance can also be used, however this tends to increase costs and reduces rates to clients. Furthermore reinsurers companies are themselves becoming less willing to write annuity business due to longevity uncertainties.

- Another reason why annuitisation is not in itself a complete solution is because the value of fixed annuities is eroded with inflation. With increasing life expectancy time in retirement can easily be between 15 and 30 years or more. The effect of inflation over this

time is likely to be significant and turn an adequate income into one that certainly isn't. Inflation protected annuities possibly provide the answer, but may be considered expensive by consumers if they have a choice. The cost of the guarantee to the product provider certainly means that they must contain higher margins. There is also the problem of finding inflation linked assets of sufficient duration to match the liabilities. Some governments have attempted to provide a solution to this risk by issuing long date inflation linked debt.

- The general lack of mortality and longevity data in Malta will make pricing and rates for annuities very difficult and therefore potentially too conservative to the detriment of the end customer.

- The small pool of potential annuitants in Malta reduces the cross-subsidy impact, which will also be to the detriment of the client in terms of lower rates.

- The UK annuity market is fiercely competitive - based on volumes (which are ever increasing due to maturing personal pensions and a switch from Defined Benefit to Defined contribution schemes in general) and the associated economies of scale. Despite the fierce competition in the UK a 65 year old male can only reasonably expect an annuity rate of 5.6% (based on single life, no death benefits and no inflation protection). We would expect the market in Malta to price annuities much lower. We do not believe that rates of less than 5.6% with no return on death would be attractive to the Maltese customer when the YTM on a 2030 MGS is currently 5.25% with return of capital.

Section 3 - A case for encouraging voluntary long term savings – by MSV Life p.l.c.

1. The big picture

Government has recognised the “big picture” trends:

- Increased Life Expectancy
- Ageing Population
- Decreasing Birth rate
- Pension deficit
- Financial security post retirement
- Need to encourage long term saving
- Huge cost to fix problem
- Requirement for public/private solution

2. The options are limited

- Keep contributions at current level but accept that the value of state pensions will fall.
- Increase taxes or contribution levels to maintain state pensions at their current level.
- Increase the employment rate to increase the number of contributors.
- Raise the average age of retirement to increase contributions and reduce pension costs.
- Encourage medium to long term voluntary savings.

1. Socio –economic trends

- Increased Life Expectancy + Aging Population + Decreasing Births = Lower Economic Growth and Lower Output = Lower Long Term Savings.
- People would rather spend than save.
- In the younger age bands disposable income has reduced – young people are net borrowers to fund consumption.
- Family solidarity will provide for the unforeseen.
- Life is getting more complicated – multiple marriages, single parents, cohabitation, extended families, blended families and larger number of dependants.

- The current savings of most households are insufficient for their long-term financial security.

- Premature death of the main income earner has a more severe financial impact on vulnerable families.

- The demographic challenge: the ratio of individuals over the age of 60 to the total population currently stands at around 19%. This ratio is expected to increase steadily to 21.6% in 2010 and 31.2% by 2050.

- The density of life premium per inhabitant in Malta in 2009 amounted to €467 per inhabitant compared to an average of €1097 in EU.

- Life Insurance Premium / GDP Ratio: Malta 3.4% (2009) compared with an EU average of 5%.

- More and more families will have to rely on public resources for their welfare.

2. The responsibility of the State

- The attribute of thrift is part of the foundation upon which the prosperity of the individual and the nation is built.

- Government must create the environment to encourage voluntary provision and personal savings. It must not stifle incentive, opportunity and responsibility for individuals who want to provide more than the minimum provided by the State.

- Measures which encourage a person to save voluntarily for a worthwhile purpose is important especially when the motive is actuating the thrift is family welfare and long term provision.

- Most Governments are seeking to adjust public policy by introducing incentives that encourage greater use of voluntary protection and provision which will, in the long term, lead to the shrinking of both the Protection Gap and the Longevity Gap.

- Remove regulations that discourage voluntary provision above the minimum provided by the State.

3. Diminishing savings and the need to incentivise savings

- In Malta, the household saving ratio has been on a steady decline and is at this point at its lowest. According to official sources, in 2008 it amounted to between 1% and 5% of household disposable income. Consideration must however be given to the fact that a substantial part of the declared savings is directed towards investment through the

acquisition of houses in the form of mortgage repayments. The overall trend is pointing to a declining household saving ratio.

- As we live longer savings levels throughout Europe are falling.

- Any state pension system should be stable, comprehensible and which does not penalize voluntary savings.

- In most countries the incentives to save are inadequate.

- Pension saving is no different from ordinary long term savings. Precautionary saving can subsequently become retirement saving.

- Governments need to install mechanisms to get people into a savings habit.

- Following the borrowing and spending binges of the past decade, Governments are conscious of the need to encourage a lifetime savings culture as poverty in old age is emerging as a very real threat.

- The risk that pensioners outlive their lifetime savings is becoming a stark reality.

4. The case for encouraging long term savings through voluntary provision

- Increases to the Retirement Age are unavoidable.

- Retirees may have to draw down on retirement savings to fund personal healthcare.

- Whether or not people can expect a comfortable retirement depends on the replacement ratio – the proportion of their life-time average earnings that their pension will pay out.

- The OECD reckons that the average worker in its member countries gets a state pension of 42% of his average earnings.

- European workers hope for a replacement ratio of around 70% but are likely to get only 35 – 55% depending on the country.

5. The case for privately funded pensions

- A mixture of PAYG and voluntary provision, spreads the cost of population ageing more fairly between generations.

- Making people save more by means of statutory measures is unpopular; encouraging people to save through fiscal incentives is usually welcomed.

- Privately funded pensions are more transparent and easier to understand.

- Funded pension systems contribute to economic growth. By accumulating individuals' savings they provide a source of long-term investment capital for industry.

- If properly incentivised and encouraged, voluntary provision increases the savings rate with the concomitant benefits to the economy.

- Privately funded pensions cushion the need to increase PAYG contributions which can create disincentives for work.

- Funded pensions provide a greater degree of certainty for those who save in them whereas state pension provision, exposed as it is to the fiscal constraints of population ageing, runs the risk of being cut back.

6. The Role of Insurance Companies

- Insurance companies have a long experience in managing the longevity risk and in asset liability management.

- Life insurance companies play a major role in occupational Second and Third Pension schemes and individual pensions across Europe.

- Life insurance companies offer a wide range of flexible "pre-retirement" and "at-retirement" products that provide the most disciplined means of saving for the long term.

- Life insurance companies use a range of methods for reducing market risk such as "life-styling", where assets are gradually switched from volatile assets to more stable ones near retirement. They also offer products, such as "income drawdown," which ensure that potential growth is maximised by only converting part of the fund into an income stream.

- Insurance products also pose a reduced risk to investors as they are subject to comprehensive regulation and supervision by public authorities. Compliance with statutory solvency margin and other prudential financial rules means lower risk and a higher level of protection for the consumer.

- Insurance companies provide flexible products that suit today's mobile workforce. They can provide portability and transferability. They can also provide cover against the risk of death, disability and sickness or meet the costs of long-term care. Moreover, as they are market driven, insurance companies continually seek to adapt their products to meet the changing needs of society.

- Insurance products can play a role in achieving the social policy objectives of national governments. The transfer of risks from the individual to a pool of insured individuals provides an inherent element of risk-sharing and "solidarity". The social policy role of insurance products can be enhanced by the design of fiscal incentives.

- The contributions received by insurance companies constitute a component of national saving.

- The investments effected by insurance companies constitute a component of national financial wealth.

- Benefits paid by insurance companies constitute a component of national disposable income.

- Insurance companies are subject to comprehensive regulation and supervision.

7. Recommendations to policymakers

- The State Retirement Age should be linked to life expectancy.

- Provide accurate and easily understood information on the actual value of pension benefits each individual can expect to receive from state provisions.

- Develop financial education and financial capability related to retirement provision so that individuals will be able to make an informed choice about whether, and how much to save in addition to the minimum state pension provision.

- Provide effective fiscal incentives (e.g. EET) to encouraging citizens to build voluntary lifetime savings.

- Ensure that consumer protection measures balance the need to protect consumers with the need to facilitate extra savings in Second or Third Pension.

- Remove all the disincentives for employers to start making provision for all employees (and not just for those who are aged 45 years and younger) since there is a considerable number of employers who are already inclined to consider group retirement schemes on a company-wide basis.

- Remove all regulations that discourage voluntary provision (e.g. Fringe Benefits Regulations) above the minimum provided by the State.

- Ensure a stable, rigorous and sustainable regulatory regime.

- Ensure that the main features of the Second and Third Pensions are consistent. One should not appear to be more fiscally advantageous than the other. e.g. same tax structure (EET).

- Create incentives to capture existing savings held in financial product that mature. Such savings can be reinvested in approved pension plans which qualify under a new fiscally advantageous regime.