Explaining the 2010 Pension Working Group Report and Recommendations

Questions & Answers

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01. What is the current retirement age in Malta and will it be increased in this reform?

In the Pension Reform of 2007, a gradual rise in the retirement age was introduced, as follows:

i. In the case of a person **born on or before the 31st December 1951, the pension age is to remain as is currently, that is 61 years of age for men and 60 years for women**;

ii. In the case of person **born during the calendar years 1952 to 1955, the retirement age was increased to 62 years of age for both men and women**;

iii. In the case of a person **born during the calendar years 1956 to 1958, the retirement age is that of 63 years of age for both men and women**;

iv. In the case of a person **born during the calendar years 1959 to 1961, the retirement age is that of 64 years of age for both men and women**;

v. In the case of a person **born on, or after the 1st January 1962, the retirement age is that of 65 years of age for both men and women**.

However, because projections show that people will continue to live for longer in the future, the 2010 Pensions Working Group is recommending that the retirement age be tied to a **Retirement Age – Longevity Index**, that would result in an increase in the official retirement age every time there is an official increase in the longevity index. The attractiveness of such an index is that increases in the official retirement age would be based on a rational and non controversial formula that can be explained and understood by society at large. Moreover, it secures a smooth and automatic process established within strictures that are both transparent and clear – and in doing so minimising potential political and social conflict.

02. I will be 61 next year and I am still in good health. Will I be able to continue working after this age and, if so, how will it affect my pension?

Given that the Maltese population is aging and decreasing, a higher level of active participation by those groups that can play a role in the labour market is encouraged, both for promoting economic growth as well as to secure the sustainability of pensions by increasing the contributory base of the First Pension. This also includes individuals over the retirement age who are in good health and wish to continue working. For this reason, following a change in legislation in 2008, **persons born on or before the 31st December 1951 and who are offered employment would no longer have to give up their right for the full pension even if they continue to work and earn income from gainful activity that exceeds the yearly average of the National Minimum Wage.** However, he or she will still continue to pay the full social security contribution, which will not be accredited to the person's personal pension.

This also applies to persons born on or after 1st January 1952 but with one important condition. Such condition stems from the fact that following the 2007 pension reform, persons born from 1952 onwards can opt to retire at age 61 rather than on their new statutory retirement age. However, if such persons opt for the early pension they would not be allowed to work until reaching their actual statutory retirement age (see also question 3).

The 2010 Pensions Working Group is upholding the reform introduced in 2007 in this regard. In addition, it is proposing that the Government takes on the role of a leader by encouraging the retaining of public employees after the pensionable age, setting the pace for private employers to do the same.

03. I am 55 years old and have a manual job. Lately, I have been finding this type of work physically challenging. Will early retirement affect my pension and, if so, how?

Although early retirement is generally discouraged, as indicated above the 2007 pension reform did allow for early opt-out from employment. This measure was introduced to enable persons who are employed in manual or stressful employment and / or where continued employment due to a mandatory increase in the retirement age would not be physically or mentally possible, to retire earlier.

A person who has reached the age of 61 years, but has not attained the applicable pension age is permitted to retire at 61 years of age with full pension entitlement on the condition that this person has accumulated, since his or her 18th birthday, a total of;

i. 2,080 paid or credited contributions if born on or after the 1st of January 1962; or

ii. 1,820 paid or credited contributions in the case of a person born during calendar years 1952 to 1961.

In order to ensure that early 'opt-out' is only used by those who genuinely cannot continue to work beyond 61 years of age, persons taking this route are prevented from carrying out any gainful activity following such retirement. After reaching 65 years of age, gainful activity will not affect the pensioner's entitlement, even if he or she retired early.

However, as indicated above, a person who decides to retire early without meeting the above conditions will not be eligible for the full pension and will receive a reduced pension instead.

This early retirement option, as well as its conditions, will remain unchanged in the 2010 Pension Reform White Paper.

04. I am 30 years old and in full-time employment. Will I get a State pension when I retire and will it be enough to maintain a decent standard of living?

The State or First Pension in Malta is based on a Pay As You Go (PAYG) pension system, which means that people employed today are paying for the pension of pensioners today, whilst the pension of the

person in active employment today is to be paid by persons who are yet to enter the labour market. For this reason, a PAYG pension system will only remain sustainable if the balance between pensioners - labour participants - persons who are yet to enter the labour market remains stable.

However, this is not the case. Since people today are living longer, the period over which a pension is paid out once a person retires from employment is getting longer. Meanwhile, the birth rate in Malta continues to fall steadily. These trends indicate that Malta's population is not only aging, but also decreasing. Indeed, whilst in 2009 there were 4 persons in employment for every person in retirement, in 2060 this will fall to 1.5 persons in employment for every person in retirement. **For this reason, if things remain the same, the State pension will neither be adequate nor sustainable**.

In fact, whilst pensioners today on average receive a pension which is approximately 50% of the average wage, those in 2060 will receive a pension which on average is only 45% of the average wage. Hence, although people will still be eligible for the State pension in the future, the widening gap between the income enjoyed whilst in employment and the pension received will have a significant negative impact on a person's quality of life in retirement.

05. What is the contribution period for eligibility for the full two-thirds pension?

The full rate of the 2/3^{rds} pension is equal to 2/3rds of the pensionable income of a person who, following his or her 18th birthday (or 19th birthday if born before 4th April 1958) has paid or been credited with a yearly average of 50 social security contributions over a period of:

i. **30 years** in the case of a person **born on or before the 31st December 1951**;

ii. **35 years** for a person **born during the calendar years 1952 to 1961** or;

iii. **40 years** in the case for a person **born on or after the 1st January 1962**.

In the case of a person born on or before the 31st December 1961, the contribution average calculation as indicated above would continue to be carried out under the current system. This means that for each person two periods of contribution averages will be considered:

- The last 10 complete calendar years prior to a person's retirement;
- Any other 20 or 25 contribution years, as applicable in the case, starting from the first day of the contribution years in which a person reaches the age of 18 (or 19 if born before 4th April 1958) and ending on the last day of the complete calendar years prior to the beginning of the last 10 calendar years prior to retirement.
- The average of the two average periods as indicated above, determines the pension ratio.

For persons born on or after the 1st January 1962, the contribution average assessment will be carried out on one period which will be made up of the best 40 years from the first day of the contribution years in which the person reaches the age of 18 years of age and ending on the last complete contribution years prior to retirement.

06. What will my pensionable income be when I retire?

In the pension reform of 2007, the following changes were made with regards to pensionable income of current and future retirees;

i. In the case of a **person born on or before the 31st of December 1951**, the calculation of the pensionable income was not changed and remains as follows;

- *For employed persons*: the average of the best 3 consecutive calendar years out of the last 10 calendar years basic wages before retirement.

- *For self-employed or self-occupied individuals*: the pensionable income is assessed as the average of the last 10 calendar years' net income / net earnings of the self-employed / self-occupied respectively before retirement.

ii. In the case of a **person born during the calendar years 1952 to 1955**, the calculation of the pension income is as follows;

- *For employed persons*: the pensionable income is assessed as the average of the best 3 consecutive calendar years out of the last 11 calendar years' basic wages before retirement.

- *For self-employed or self-occupied individuals*: the pensionable income is assessed as the average of the best 10 calendar years' net income / net earnings of the self-employed / self-occupied respectively during the last 11 calendar years prior to retirement.

iii. In the case of a **person born during the calendar years 1956 to 1958**, the calculation of the pensionable income will become;

- *For employed individuals*: the pensionable income is assessed as the average of the best 3 consecutive years out of the last 12 calendar years' basic wages.

- *For self-employed or self-occupied persons*: the pensionable income is assessed as the average of the best 10 calendar years' net income / net earnings of the self-employed / self-occupied respectively during the last 12 calendar years prior to retirement.

iv. In the case of a **person born during the calendar years 1959 to 1961**, the calculation of the pensionable income is:

- *For employed persons*: the pensionable income is assessed as the average of the best 3 consecutive calendar years out of the last 13 calendar years' basic wages.

- *For self-employed or self-occupied persons*: the pensionable income is assessed as the average of the best 10 calendar years' net income /net earnings of the self-employed / self-occupied respectively during the last thirteen calendar years prior to retirement.

v. In the case of a **person born on or after the 1st January 1962,** there no distinction between employed, self-employed or self-occupied with respect to the calculation of a pensionable income. For this group, the pensionable income is the yearly average of the basic wage / salary / net income / net earnings during the best 10 calendar years during 40 years of insurance.

As can be noted, under the current First Pension system, contribution paid is calculated on an individual's basic wage only. Other job allowances such as shift, transport, bonuses, overtime et al are currently excluded from the calculation of a pension. Hence, in the event that a person's salary package is made up of, for example, 65% basic wage and 35% additional income, upon retirement the First Pension is calculated only on 2/3rd of the 65% of the total wage package. This could result in a greater shock to the pensioner with regards to his or her quality of life upon retirement. **For this reason, the 2010 Pension Working Group is recommending changing the contributory base from basic wage to a person's full earnings**.

07. What is the current ceiling of the Maximum Pensionable Income?

The 2007 Pension Reform brought about the following changes to the Maximum Pensionable Income (MPI) ceiling, on which the 2/3rd First Pension is calculated:

i. If a **person is born on or before the 31st of December 1951**:
- €16,420 (2007) which increases by the Cost of Living awarded up to a maximum of €17,470.

ii. If a **person is born during calendar years 1952 and 1961**:
- €16,424 (2007) which increases by the Cost of Living up to a maximum of €20,964.36.

iii. If a **person is born on or after the 31st December 1961**:
- €16,207.78 (2007) which increases by the Cost of Living up to 2010.

- Between 2011 up to 2014, the MPI will increase in 3 equal tranches up to €20,964.36, as follows:

  2011: €18,400
  2012: €19,682
  2013: €20,964.36

- As from 2014, the MPI will be indexed to a mechanism that is made up of 70% wages and 30% inflation.

08. Will the minimum pension be maintained?

The minimum pension will be maintained and adjusted every year to guarantee a minimum decent standard of living to prevent social exclusion. In fact, effective from the 1st January 2011, changes were introduced to the National Minimum Pension, which stood at 4/5ths of the National Minimum Wage for a married couple and 2/3rds of the National Minimum Wage for any other person.

A person **born on or after the 1st January 1962** shall in no case receive a social security pension (inclusive of any service pension where applicable) that is less than the rate of the Guaranteed National Minimum Pension (GNMP). For retirees, widows and invalids, the GNMP rate will be equivalent to 60% of the National Median Equivalised Income. In any case, the rate of the GNMP can never be less than that declared for the preceding years.

09. Will my spouse be entitled for my State pension if I pass away?

Currently, if the male spouse of the household passes away, his widow will no longer be eligible for the full pension value, but rather to 5/6ths of the said pension. The 2010 Pensions Working considers this to be gender discriminatory, as it does not recognise the economic value of the individual (traditionally the female) in their role as a home carer and the ongoing support provided to the working spouse (usually the husband) during the period in which the latter paid the appropriate pension contributions as required by law. In addition, it also increases the risk of poverty for older females. For this reason, the 2010 Pensions Working Group is proposing that a survivor (in most cases female) is provided with the full retirement pension upon the death of the working or pensioned spouse.

Furthermore, it is also recommending that the Government considers amending the Social Security Act to allow a widow who is aged 22 years and over and has no dependent children when her spouse dies prior to retirement age, to work and earn income from gainful activity that exceeds the yearly average of the National Minimum Wage without giving up her right to a widow's pension. The current requirement of tying the receipt and value of the widow's pension to income earned from employment up to the national minimum wage acts as a barrier for a surviving female spouse to enter the labour market.

10. I have just had a baby and plan to stop working for a couple of years to take care of my child. Will this affect my pension entitlement and how?

With Malta having the lowest female employment rate in the EU at 37.4%, there is a strong commitment to increase women's active participation in paid employment, both to promote the nation's economic growth as well as secure more gender equality between the sexes. Furthermore, increasing women's participation in paid employment supports the sustainability of the pension system by means of increasing the contributory base of the First Pension. At the same time, however, this should not be done at the expense of further decreasing the fertility rate, which is already of concern given the country's decreasing and aging population.

Since statistics show a strong link between child bearing and active participation of females in the labour force (65.6% for childless females vs. 31.4% for women with children), there is the need to direct incentives towards encouraging mothers (who traditionally take career breaks for child rearing) to remain working, whilst still having children.

The 2010 Pensions Working Group is aware that, whilst the introduction of the Child Rearing Credit measure (2 years for every child or 4 years for child with disability) was a positive pro-natal incentive, its desired effect with regards to females who have to interrupt their career for child rearing was neutralised by the increase in the contributory period which made it even harder for women to achieve the full contribution period.

For this reason, the Group is proposing that the existing **Child Rearing Credit** is amended as follows:-

i. A **first child** under 6 years of age or 10 years if the child suffers from a serious disability, **a credit of 2 or 6 years,** as the case may be, subject to the condition that the **beneficiary returns to employment for a period of 2 years**;

ii. A **second child** under 6 years of age or 10 years if the child suffers from a serious disability, **a credit of 3 years or 8 years**, as the case may be, subject to the condition that the **beneficiary returns to employment for a period of 3 years**;

iii. A **third or further child** under 6 years of age or 10 years, if the child suffers from a serious disability, **a credit of 5 years or 10 years**, as the case may be, subject to the condition that the **beneficiary returns to employment for a period of 5 years**.

The Group is aware that the Child Rearing Credit as introduced in the 2007 reform could negatively affect parents classified within the transitional cohort (i.e. persons born between 1952 and 1961) and is therefore recommending that parents within this group are provided backdated to 1st January 2007 with;

i. A 1 year pension credit for each child born under six years of age, subject to the condition that the parent will return or have returned to work for an equivalent time period.

ii. A 2 year pension credit for each child born suffering from a serious disability under the age of ten, subject to the condition that the parent will return or have returned to work for an equivalent time period.

In addition, the 2010 Pensions Working Group is proposing various measures to further enable women to remain in paid employment and, hence, retain their eligibility for a full pension. These include;

- Strengthening community care support for the sick, disabled and elderly persons so as to ease the pressure on individuals, particularly females, from the responsibility of care and, thus, enables them to take on paid employment;

- Making childcare facilities more affordable and working with Local Councils so that such programmes are introduced on a locality level to increase accessibility;

- Introduce Before and After School Care Programmes for young children;

- Encouraging take up of new working practices such as flexi-time, tele-working et al by the private sector;

It is important to add that although the focus has been primarily on females, these measures would also extend to males and other guardians e.g. adoptive parents.

11. I have two part-time jobs which together add up to 40 hours a week of work. Am I entitled to the full State pension?

The current pension system does not support atypical employment such as part-time work, temporary work et al. A person who is employed part-time in more than one job only pays one national contribution on the job which provides the highest income. This means that an individual who decides to assume an atypical career path will never be in a position to receive a full pension upon retirement.

The 2010 Pensions Working Group considers the current law in this regard as outdated as it does not reflect emerging employment trends. For this reason, it is recommending that the Government considers reforming 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, irrespective of the number of employers the person is employed with.

12. I am an undergraduate student at university but plan to continue my studies at a post-graduate level in the future. What will happen if I do not manage to accumulate the mandatory 40 years contributory period due to my study breaks?

The 2010 Pensions Working Group is aware that the pension reform of 2007 may negatively impact persons, who due to continued further tertiary education, would not be in a position to accumulate the full 40 years contributory period. However, the Group maintains the position taken in 2007 that such 'missed' contributions should not be credited by the First Pension system given that students in higher education receive stipends that are paid by society and thus they have an obligation to meet towards society as well as that statistics show that persons with tertiary and higher education earn far more than persons without education.

In this context, the 2010 Pensions Working Group is recommending that the Government considers amending the Social Security Act to allow persons who have a gap of up to five years (to cover a period of continued study of a Masters programme which normally is one year of full-time study) and a doctoral programme (which normally is four years of full-time study) in their contributory history as a result of following higher education to be provided with the opportunity 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.

13. What is being proposed in relation to pensions and disability?

A higher rate of active employment participation should be encouraged in all groups in society. For this reason, the 2010 Pensions Working Group is recommending that the Government should aim to retain people who suffer from a disability in the labour market by reforming the invalidity framework from one that targets the condition of the disability to one that targets the degree of dysfunction arising from the said condition. Thus, for example, a person who suffers a leg disability may no longer be in a position to

continue in this or her current job particularly if that job requires a high degree of mobility. However, this individual can, and should be re-trained to take on a new job which requires little, if any, mobility. A disability therefore should not necessarily be an impediment to active participation in employment if the appropriate support structures that provide therapy, re-skilling, psychological support et al are in place.

Should such a reform be introduced, the nature of both the current Invalidity and Non-Contributory disability pension should be changed into one where the pension provided to the individual reflects the **degree** of the incapacity, whilst allowing the said person to continue to work without having his or her income capped to against any income earned. A reform of the invalidity process would therefore incentivise persons who qualify for a functional based disability pension to continue working whilst receiving a pension that represents the degree of functionality lost.

14. Lately I have been hearing a lot about 1st, 2nd and 3rd pillar pensions in the media. What is the difference between the three systems?

The **1st pillar pension**, in Malta's case, refers to the two-thirds State Pension which is based on a PAYG pension system which, as previously discussed, means that a person in active employment today is paying (through National Insurance contributions) for the pension of a pensioner today and the pension of the person in active employment today is to be paid by a person who is yet to enter the labour market.

The **2nd pillar pension** or Mandatory Second Pension refers to a mechanism that allows a person and usually his employer to invest outside of the traditional pension system i.e. State pension, to complement the pension income that one will earn upon retirement. In this system, pension savings are invested and the individual (employee) receives a return on the investment made, which depends on the performance of the market.

The **3rd pillar pension** is similar to the 2nd pillar pension, however, unlike the latter it is introduced on a voluntary and not a mandatory basis and does not involve employers i.e. an individual (employee or not) can decide whether or not to take up further pension schemes, what investments to make et al.

15. Will the 2nd pension be introduced in Malta and how will it operate?

Given, that household saving rates are decreasing and its negative impact on the lifestyle of persons when they retire as well as demographic changes, the 2010 Pensions Working Group is recommending that Government introduces a Mandatory Second Pension to complement the State Pension, in order to secure sustainability and adequacy in the nation's pension system. One of the primary goals for the introduction of a Mandatory Second Pension is to induce an individual to raise his or her saving capacity over and above that which he or she undertakes on a voluntary basis so as to secure a better quality of life upon retirement.

Two frameworks of 2nd pillar pensions can be considered:

i. **Occupational Retirement Pension Framework** – in this system an employer establishes a pension fund to which employees will become members of;

ii. **Mandatory Second Pension Framework established under the Social Security Act** – in this system, similar to the one used in Sweden, the Government will be responsible for designing a series of funds on market sectors governed by investment principles and guidelines designed specifically for the management of funds within a Mandatory Second Pensions framework. The Government could then issue a public tender for the identification of private sector pension providers to manage the funds.

16. Will there be any risks for those investing in a 2nd pillar pension schemes and what is being proposed to protect future pensioners against these risks?

A number of concerns are associated with 2nd pillar pensions, as follows:

- **Risks present in the market**: e.g. following the recent economic collapse, the dramatic fall in the value of the pension funds meant that persons who reached retirement age who had a high equity investment lost a considerable part of their individual pension fund which in turn affected the pension annuity they had planned to receive during retirement.

- **Costs of administration:** administration costs by financial services providers can decrease the value of return of retirement investments for the individual.

- **Uncertainties in the national and global economy:** introduction of a 2nd pillar pension will further impact employers (higher contribution costs), employees (less disposable income) as well as the Government in a reduction of taxes collected.

- **Lack of education in financial management –** research has shown that most individuals, even those with higher educational backgrounds are unable to take the right decision in designing their pension investment. In addition, the variety of pension plans in existence confronts individuals with the challenge to choose investment strategies that most suits his or her situation and risk preferences.

To protect against these risks, the 2010 Pensions Working Group is recommending that:

i. The Government, together with the Malta Financial Services Authority carries out a review on the mechanism to be introduced to ensure that the most optimal administrative cost structure for the Mandatory Second Pension. These include;

    - Introducing a fee capping structure or;

    - Establishing the Department of Inland Revenue to act as a 'clearing house' by collecting the contributions from the employers and thereafter channels this revenue to the appropriate pension Provider and acts as the channel between daily changes in investment profiles made by a contributor to their pension fund and the forwarding of such changes to the pension providers. This will result in lower administration costs for the payee.

ii. The Government, as well as the representatives of employees and employers, utilises the time before the implementation of 2nd pillar to prepare both employees and employers for this change as best as possible;

iii. The Government introduces a Default Fund in the event of a Mandatory Second Pension under the Social Security Act to protect against the risk of bad financial decisions taken by contributors in an open market. Such an option manages the savings for those workers who do not choose a particular fund – either because they do not feel competent in making such an important decision or are afraid to make such a decision. The Default Fund's investment strategy is to achieve a higher long-run rate of return than the average for the other private sector funds offered at an overall risk level that is the lowest possible compatible with the average rate of return.

17. Will the 3rd pension be introduced in Malta and how will it operate?

Since, a 2nd pension mechanism can take years to develop and implement, the 2010 Pensions Working Group is recommending that Government should consider introducing the Third Pension framework at the earliest possible in order to provide the appropriate vehicle for persons to save for their pension voluntary should they wish to do so, whilst building a culture for saving for one's retirement. The Group also proposes that the Government considers introducing a fiscal incentive regime to encourage individuals to take up Third Pension schemes on an Exempt, Exempt, Taxable basis, as follows;-

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.

In addition, 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 to prevent people from having to pay an addition saving contribution once the Mandatory Second Pension is introduced.

18. Given that I will have the opportunity to invest in a 2nd pillar and 3rd pillar pension schemes, does this mean that I can opt out of the two-thirds pension?

The Group recommends that individuals continue to contribution to the State pension, as this is the main mechanism that ensures solidarity between workers and pensioners and between the well-to-do and those on the fringes of society. The two-thirds pension must continue to reinforce this principle, which is the basis of the social safety net so as to ensure that no one faces social exclusion in old age.

19. I am already subscribed to a private life insurance policy. Can I convert this into a pension product once the 2nd or 3rd pillar is introduced?

In light of the considerably large number of individuals who have voluntarily invested in private financial services products which are subject to an annual premium, the 2010 Pensions Working Group is proposing that these are provided the option to decide whether they wish to lock such products into an individual private pension scheme upon their maturity.

The introduction of such a scheme could be based on the following principles:

i. that a person decides whether to take the full surrender value of his or her financial services product or whether he or she locks proceeds for a private pension plan and subsequently rolls over the plan on maturity until he or she reaches retirement age, where-in the surrender value is directed towards a private pension plan;

ii. that a person has the option to withdraw as a lump sum up to a maximum of 25% of the proceeds upon retirement age and the person locks the remaining 75% within a private pension plan;

iii. that in the event that, at a later stage, the Government introduces a Mandatory Second Pension the annual premium paid on the financial product would constitute all or part of the mandatory contribution set;

iv. that in the event of the death of the individual, the next of kin would have the option to:
   - to liquidise the scheme in the event that such death occurs during the period of rolling over the financial instrument; or
   - to continue to receive the pension in the event that it is locked within a private pension scheme.

To encourage uptake, the 2010 Pensions Working Group also proposes that this scheme is supported by fiscal incentives, such as income tax deductions et al.

20. What are Home Equity Schemes and how do they relate to pensions?

The 2005 Census showed that home ownership in Malta stood at 75.2% in 2005. Meanwhile, however, household savings seem to be steadily on the decrease. These trends could indicate that mortgages are being used as a form of substitute savings by households and the payment of the mortgage constitutes a considerable part of a household's disposable income. This could also mean that a considerable number of households might find it difficult to use their remaining disposable income after paying the mortgage to voluntarily invest in a private pension to boost their income during their retirement. Hence a situation could arise where people, upon their retirement will end up with a fully owned home but limited liquid savings.

In response to this trend, some countries have introduced 3rd pillar financial services products known as equity release instruments which allow home owners to release some of the equity (i.e. value) from their property as a retirement income. There are two main types of equity release plans:

i. **Home Reversion Schemes**

A home reversion plan is an arrangement between a plan provider and home owner in which a plan provider buys all or part of a qualifying interest in property at a discount, in return for a lump sum payment or a regular income, whilst the home owner retains the right to continue living in the property until death or moving to another property. Under this agreement, the home owner would no longer remain the owner of part or all of the property that is sold. The lump sum generated from the sale of the property depends on the age of the owners, life expectancy data and / or the value of the property. In the case where either the home owner or the joint home owners move to a nursing home or dies, the plan will terminate and the property is sold.

ii. **Life-time Mortgages / Mortgages-Backed Equity Release Plans**

With a lifetime mortgage, the home owner takes out a mortgage loan secured on the property. The loan can be used to fund an annuity and provide regular income or a lump sum payment. The amount of the loan provided is based on the age of the owners, their life expectancy and the value of the property. Ownership remains with the home owner and the loan including interest is repaid when the property is sold either on the event of the home owner's death or if the home owner moves into long-term care. However, some of these plans provide the option that the home owner pays interest on the loan and only the principal amount is paid when the property is sold. Lifetime mortgages can be paid off at any time but charges may apply.

The 2010 Pensions Working Group is recommending the introduction of a regulated equity release framework as a further option to a person who has reached retirement to allow him or her to boost his or her retirement income without the need to sell his property during his or her and his or her spouse's lifetime. It should be noted, however, that property should not be seen as a substitute source for retirement income to 2nd and 3rd pillar pensions – but rather as a complement to them.

21. Are any schemes being proposed that allow me to start saving for my children's pension?

The 2010 Pensions Working Group is recommending that the Government should consider reforming 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.

In addition, the Group is proposing that, in order to incentivise an accelerated accumulation of the capital within a Child Pension Account, the Government should consider studying the impact of a fiscal incentive scheme that would provide a tax deduction for contributions to a certain limit made by the parents or direct relatives of the child into the said Pensions Account.