

The Pension Reform – the enacted changes to date

Pension retirement age

The retirement age at the time of the reform stood at 61 years for men and 60 years for women. The reform introduced equal retirement age for men and women at 61 years as from the 1st of January 2007. The retirement age is set to increase to 65 years of age for both men and women in a gradual manner as follows:

Born on or before 31/12/1951 - no change

Born between 1/1/1952 and 31/12/1955 – 62 years

Born between 1/1/1956 and 31/12/1958 – 63 years

Born between 1/1/1959 and 31/12/1961 – 64 years

Born on or after 1/1/1962 - 65 years.

Persons born on or after 1/1/1952 can opt to retire at age 61 as follows:

Born between 1/1/1952 and 31/12/1961 – if they have 1820 (35 years) paid and/or credited contributions

Born on or after 1/1/1962 – if they have 2080 (40 years) paid and/or credited contributions.

Persons opting to retire early and claiming their pension as explained above will not be allowed to work until they reach their statutory retirement age.

Pension contribution accumulation period

For current pensioners the pension contribution accumulation period for a Two-Thirds Pension is 30 years. Given the proposed increase in the retirement age to 65 years, this will be increased to 40 years. The implementation of this change will be introduced in a staggered manner and in proportion to how close one is to retirement.

Those born on or before 31/12/1951 will continue to need 30 years of contributions which include the last 10 calendar years prior to retirement. Persons born between 1/1/1952 and 31/12/1961 will need 35 years of contributions which also include the last 10 calendar years prior to retirement. Those born on or after 1/1/1962 will need a contribution accumulation period of 40 years which do not necessarily include the last 10 calendar years prior to retirement.

Calculation of the Pensionable Income

The Two-Thirds Pension for employed persons is currently calculated on the basis of the best three consecutive years out of the last ten years prior to retirement, while for the self-employed it is calculated on the average of the full last ten years. The base line for the calculation of the Two-Thirds Pension is being gradually increased to 40 years. The increase

in the way the Pensionable Income is calculated will be implemented as follows in proportion to how close one is to retirement:

- for employed persons born on or before 31/12/1951, the Pensionable Income will continue to be calculated on the basis of the best three consecutive years in the last decade of their working lives while for self-employed persons will continue to be calculated on the average of the full last ten years prior to retirement,
- for employed persons born from 1/1/1952 to 31/12/1955, the Pensionable Income will be calculated on the basis of the best three consecutive years in the last 11 years of their working lives while for self-employed persons will be calculated on the average of 10 consecutive years in the last 11 years prior to retirement,
- for employed persons born from 1/1/1956 to 31/12/1958, the Pensionable Income will be calculated on the basis of the best three consecutive years in the last 12 years of their working lives while for self-employed persons will be calculated on the average of 10 consecutive years in the last 12 years prior to retirement,
- for employed persons born from 1/1/1959 to 31/12/1961, the Pensionable Income will be calculated on the basis of the best three consecutive years in the last 13 years of their working lives while for self-employed persons will be calculated on the average of 10 consecutive years in the last 13 years prior to retirement,
- for younger workers (employed and self-employed persons born on or after 1/1/1962) the pension will be based on the best 10 years (not necessarily consecutive) (basic wage/salary for employed or net profit/net income in the case of self-occupied/ self-employed persons) of 40 years of their working lives.

The Maximum Pensionable Income

The Maximum Pensionable Income (MPI) of the Two-Thirds Pension at the time of the Pension Reform in 2006 stood at Lm6,958 (€16,208). In 2007 the MPI stood at Lm 7,049 (€16,420), in 2008 €16,601, in 2009 €16,813 and in 2010 €17,115.

In line with the changes introduced in the Pensions Reform, the MPI will go up as follows:

- Persons born on or before 31/12/1951 – will increase by Cost of Living increases until it reaches a cap of €17,470.
- Persons born between 1/1/1952 and 31/12/1961 – will increase by Cost of Living increases until it reaches a cap of €20,964.
- Born on or after 1/1/1962 - will increase in three equal instalments from 2011 to 2013 until it reaches €20,964. Thereafter, it will increase by a yearly amount based on 70% of the National Median Income and 30% on inflation.

Maximum contribution

In line with the Maximum Pensionable Income (MPI) changes explained above, the Maximum social security contribution payable will also increase from 2011 as follows:

Born on or before 31/12/1961

- Employed persons – €33.03 per week
- Self-Employed persons – €49.37 per week
- Subsequently the maximum contribution will every year increase by 10% of the Cost of Living Increase (for employed persons) and by 15% of the Cost of Living Increase (for self-employed persons) as is currently the case

Born on or after 1/1/1962

- Employed persons - €35.39 per week (2011)
- Self-Employed persons - €53.08 per week (2011)
- Employed persons - €37.85* per week (2012)
- Self-Employed persons - €56.78* per week (2012)
- Employed persons - €40.32* per week (2013)
- Self-Employed persons - €60.47* per week (2013)
- Subsequently the maximum contribution will every year increase by 10% of the MPI Increase (for employed persons) and by 15% of the MPI Increase (for self-employed persons) which will be calculated as explained above

* Provisional rates

Pension Indexation

The post retirement pensions' income ceiling for persons born on or after 1/1/1962 will be based on wage increases and inflationary changes as follows:

- 70% on the increase in the median national equivalised income and 30% on the change in inflation rate

The Pension reform of 2006 improved the minimum pension payable. The Government will continue to guarantee a national minimum pension under the new system. The national minimum pension for persons born on or after 1st of January 1962 will be linked to 60% of the national median equivalised income. However, if this is less than four-fifths of the minimum wage as it is presently (for married persons) or two-thirds of the minimum wage (for single persons) pensioners on a minimum pension will continue to get the latter.

Credited contributions for parenting periods

The Pension Reform also introduced the granting of credited contributions for parenting periods. As a matter of fact, from 1st January 2007 parents born on or after 1/1/1962 and who have or would stop working to care for their minor children, can benefit from these credited contributions, which for pension purposes are deemed as paid.

The maximum number of credited contributions one can benefit from is 104 (two years) for each child under 6 years of age. In the case of a disabled child, the maximum number of

credited contributions one can benefit from is 208 (four years) for each disabled child under 10 years.

These credited contributions are granted if the parent returns to work for at least the same period covered by these credited periods. If the parent works less than at least 2 years for each child (or 4 years in the case of a disabled child), then the maximum period of credited contributions he or she can benefit from will be equal to the period worked.

Adoptive parents can also benefit from this measure.