GOVERNMENT OF MALTA
MINISTRY FOR SOCIAL POLICY
AND CHILDREN'S RIGHTS

Malta Pension Action Plan

Measures that have been implemented since 2021 or announced to be implemented till 2027

November 2022

Table of Contents

01. Introduction

Article 64B of the Social Security Act (SSA) establishes that the “Minister shall within intervals not exceeding the period of five years lay on the Table of the House a report reviewing the workings of Part V of [the Social Security] Act”. In 2017, the Minister for Social Justice and Solidarity, the Family, and Children’s Right (MSFC) appointed an inter-ministerial Pension Strategy Group (PSG) to prepare a Strategic Review (2020 SR) mandated by this Article of the SSA. The PSG presented its report to the Ministry and, subsequently, in late 2020, to Cabinet. The 2020 SR is supported by 13 research papers. The Terms of Reference presented to the PSG by the responsible Minister specifically excluded the presentation of recommendations related to the increase of the (a) statutory retirement age and (b) social security contributory rates.

The Cabinet directed that the 2020 SR is tabled at the House of Representatives – this was done on 16th December 2020. The 2020 SR is the third strategic review document tabled at the House of Representatives as mandated by Article 64B of the SSA. The other two strategic review documents were tabled at the House of Representatives in 2010 and 2015.

The Cabinet further directed that the PSG carries out a consultation process on the the 2020 SR with stakeholders – which consultation process was to be completed by 30th March 2021. The Cabinet instructed the PSG to present its final recommendations by the end of July 2021.

02. Consultation Process

The consultation process took place between 4th January and 30th March 2021. The PSG reviewed all consultation feedback received after 30th March 2021. Thirty stakeholders were directly invited by the PSG of which 19 were accepted, including the Malta Council for Economic and Social Development, and consultation took place by means of e-meetings (in certain instances more than one were held). Thirty-three written submissions were presented to the PSG.

Four principal points arising from the consultation need to be highlighted. First the feedback presented was generally positive with regard to the five policy drivers for further pension reform and with regard to the considerations presented within each policy driver. The policy drivers presented in the 2020 SR are:

(01) There is a need for a clear definition of the pension system.

(02) An adequate and / or sustainable pension should be linked to a strong employment policy.

(03) The pension income should not be the only source of retirement income.

(04) There must be a fair balance between contributions and benefits amongst generations.

(05). The approach to pension reform must be incremental and flexible, responsive to changing economic and societal behaviour.

Second, current pensioners and their representative bodies, argue, as they have done since the issuance of the White Paper in 2004, that the ‘positive’ reforms introduced with regard to ‘future pensioners’ (that is persons born on and after 1962) are to be applied for current pensioners. The PSG, as with similar reform task forces set up by different administrations since 2004, maintains the position that the 2007 reforms:

(01). Do not create an anomalous situation between 'future pensioners' and pensioners born on and before 1961 as the former cohort of persons experienced the full brunt of the reform measures; and

(02). The so-called positive reform measures introduced for future pensioners, such as the increase of the Maximum Pensionable Income ceilings, come at a cost to contributors. With regard to the ceiling increase example, persons earning a salary or income that is higher than the ceiling pay a higher contribution as the ceiling increases. The first increase to the ceiling was introduced in 2011.

The PSG further maintains, and re-emphasises, that future pensioners and current pensioners constitute two distinct groups that require separate and different measures of reform for an adequate pension replacement rate (that is the relationship between the average pension income and the average wage) to remain equally fair and adequate *across generations*.

Nevertheless, the PSG recognises the fact that a stubbornly low inflation rate throughout the Eurozone since 2010 and strong economic growth between 2013 and 2019 resulted in extraordinary wage increases that significantly widened the gap in the Maximum Pensionable Income of the two cohorts of pensioners. The PSG presents recommendations of how this gap between the two pensioner cohorts can be reduced within the framework of the existing pension structure.

Third, the scenario modelling of the 2020 base line no-reform option is based on population data presented by EUROPOP 2019. This is prepared by Eurostat. These projections, together with the macro-economic assumptions based on 2021 Ageing Working Group report of the Economic Committee Policy of ECOFIN (which incorporated the economic impact of the COVID-19 pandemic), show that over the period to 2070 the:

(01) Adequacy rate is estimated to reach 55.0%. This is the highest projection reached since the reform process in 2004.

(02) Pension system deficit to GDP is estimated to be 3.0%[1]. This is the lowest projection reached since the reform process in 2004.

That said, it is increasingly evident that it is difficult to make accurate long term pension spending forecasts for the Maltese economy, given the large migrant flows that it is characterised by. Table 1 shows that while spending was forecast to reach 15.9% of GDP by 2060 in the Ageing Report 2012, less than a decade later the forecast was revised down to just 10.1%. Moreover, it has been pointed out that this forecast assumes that most migrants coming to Malta will get pension entitlement when at present most are leaving the island well before they accrue pension rights. Assuming this continues would yield more conservative forecasts.[2]

Table 1: Forecasts of pension spending (different Ageing report vintages)

	2007	2015	2020	2040	2060
Ageing report 2009	7.2%	9.1%	9.3%	10.5%	13.4%
Ageing report 2012		10.5%	10.6%	11.4%	15.9%
Ageing report 2015			9.8%	9.7%	12.8%
Ageing report 2018			7.8%	7.3%	10.5%
Ageing report 2021			7.1%	6.6%	10.1%

Source: Ageing Reports (various editions)

Fourth, for the first time since the launch of the White Paper in 2004 there is a high degree of feedback in relation to retirement and taxation. The feedback is negative with regard to two matters. First, the reform relating to the taxation ceiling for active pensioners is

[1] Inclusive of the State Contribution

[2] Grech, Aaron G. (2022), Malta's long-term ageing expenditure forecasts – the impact of migration assumptions, Central Bank of Malta, https://www.centralbankmalta.org/site/Reports-Articles/2022/Ageing-Expenditure.pdf?revcount=1943

seen to be misguided and counterfactual to active ageing government policies and past recommendations by pension task forces to increase active employment of retirees. The consensus is that the outcome of this policy is one that inhibits retirees from opting for active employment versus leisure. Government has thus started to address this through gradual changes in the taxation regime to reward pensioners who continue working. Second, the incentives directed towards the nudging of voluntary take-up of personal and workplace pensions, although improved over time, remain significantly low if the government's aim is to secure a pervasive private pension retirement coverage through a voluntary framework alone.

03. Post Consultation Process

Due to the focus that Government placed on its pandemic exit strategy, in particular the process leading to the Budget for 2022, the recommendations submitted by the PSG were temporarily not actively pursued. However, the importance placed on these recommendations is evident from the fact that Government has this year included several of them in its programme till 2027. Yet, Government did enact other important measures in the post-pandemic period (mainly 2021 and 2022).

The next section of this Action Plan in fact outlines the different measures that the current administration has been enacting since 2021, or has announced it plans to enact, or will come into effect, by 2027.

The measures seek to address the policy drivers of the SR 2020 report, attempt to reduce current anomalies between pensioner cohorts and promote solidarity through sustainability and adequacy-oriented interventions, bearing in mind the realities and specificities of our country and our pension system.

04. Measures implemented or planned to be implemented by 2027

a) *Adequacy measures that have been implemented or planned to be implemented*

A number of adequacy measures have been implemented since 2021 or are planned for implementation up to 2027 including:

i. a yearly across the board pension increase for all pensioners;
ii. a yearly increase in tax exemption cap for pensioners;
iii. higher social security pensions for service pensioners;
iv. higher rates of Supplementary Assistance;
v. recognition of social security contributions paid by persons before age 18 who early in their life dropped out of employment;
vi. increase in the Deficient Contributory Bonus;
vii. gradual equivalence in Survivors' Pensions to be brought at par with late spouses' pensions;
viii. uniform rate of Cost of Living Bonus for all pensioners;
ix. further increases in the Senior Citizen Grant;
x. helping atypical employees achieve better pensions;
xi. introduction of pension safeguards for separated/divorced spouses and in the treatment of a personal pension plans and voluntary occupational retirement pension schemes;
xii. uniform guaranteed indexation system for all pensioners;
xiii. establishing a single indexation mechanism for increases to the Maximum Pensionable Income (MPI);
xiv. equivalence in flat rates of retirement and invalidity pensions, irrespective of civil status;
xv. measures to help balancing care for the elderly and employment as Malta's population ages

b) ***Sustainability measures that have been implemented or are planned to be implemented***

A number of sustainability measures are being implemented or are planned for implementation up to 2027 including:

i. increase in contributory period from 35 to 40 years as per 2007 reform;
ii. increase in retirement age to 64 in 2022 as per 2007 reform;
iii. increase in retirement age to 65 in 2026 as per 2007 reform;
iv. ensuring a fair balance between contributions and benefits across generations as per 2016 reform and gradual increase in contributory period from 40 to 42 years;
v. strengthening the management capacity for pension reform.

c) ***Measures that address both sustainability and adequacy planned to be implemented***

A number of measures which address both adequacy and sustainability have been implemented or or are planned for implementation up to 2027 including:

i. pension deferral system which rewards those who opt not to retire early and/or or defer pension claim;
ii. managing early exits from the labour market by strengthening further the pension deferral system;
iii. Increase in tax credit ceiling for private pensions for both employees and employers;
iv. further increases in tax credit ceiling for private pensions for both employees and employers;
v. doubling of tax credit for private pensions for the first 2 years from when one enrols into a private pension;
vi. introduction of rules for switching of child policy plans into private pension plans;
vii. strengthening of policies to support the employment of older workers;
viii. regulation of unofficial home equality release in the elderly care sector.

05.Conclusion

Over the period to 2027, the emphasis of pension policy in Malta will remain on enhancing pension adequacy with sustainability measures kicking in for those retiring after. This is in light of the fact that expenditure projections do not show any sustainability issues over the next decade. In particular, focus in the coming years will be on gender disparities in pension entitlement and the fact that many couples only have one pension. No further increases in the retirement age, other than those enacted through the 2007 reform, or increases in the social security contribution percentage rates are envisaged for the time being.

At the same time, it will remain crucial to ensure that the pension age increase to 65 translates into longer careers, particularly through diminishing early exit from the labour force. The initial indications are that labour market participation beyond age 61 has been better than expected, something which maybe reflects the labour shortages which could be resulting in employers being more generous towards older workers. However, it could also reflect the success of the deferral scheme, which at present covers ages 62 to 65.

Another priority will be to sustain the growth of additional income streams during retirement. With the rise in interest rates, financial investment may become more attractive, and this might increase the prospect of more pension saving. However, innovative ways to create more incentives, particularly for younger savers, will remain important.