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

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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. These have been divided into five groups:

a) adequacy measures that are being implemented,
b) adequacy measures planned to be implemented,
c) sustainability measures that are being implemented,
d) sustainability measures that are planned to be implemented and
e) measures that address both sustainability and adequacy planned to be implemented.

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 planned to be implemented between 2021 and 2027

a) Adequacy measures that are being implemented

Measure No 1: Across the board pension increase

In addition to the cost-of-living increases, pensioners are to be awarded an increase of €21.50 weekly over the period to 2027. Up to 103,000 persons in receipt of retirement, widows, invalidity and non-contributory age pensions will benefit from this measure. This will raise annual pension spending by approximately €110 million by 2027. This measure is already being implemented, with a raise of €6.50 per week already awarded up to 2022. Pensioners may also benefit from other improvements in social security provision, including from an additional cost-of-living adjustment for those on low incomes.

Measure No 2: Increase in tax exemption cap for pensioners

Partly related to the preceding measure, and to maintain a principle introduced in previous budgets, the maximum pension income exempt from tax is to be raised so as pension increases would not be taxable up to equivalent of maximum pension plus bonuses. For pensioned married couples the applicable exemption is to be higher. This measure benefits all pensioners whose pension income exceeds the non-taxable threshold – and leads to tax savings of up to €744 for benefitting pensioners (in 2021 tax year).

Measure No 3: Higher social security pension for service pensioners

Public service pensioners are entitled to a service pension, besides the contributory pension, with the latter being reduced considering the former. However, the contributory pension is to be yearly adjusted through an annual waiver in the re-assessment of their social security pension. This benefits up to 8,500 service pensioners and should cost €9.5 million. The annual waiver has been adjusted up to 2022.

Measure No 4: Higher rates of Supplementary Assistance

The benefit and how it is awarded is being enhanced. Most of the 22,000 beneficiaries are pensioners with income in 2021 below €14,058 (couples) or €9,961 (singles). This measure should cost €8 million and has been implemented into 2 years: 2021 and 2022.

Measure No 5: Recognition of social security contributions paid by persons who early in their life dropped out of employment

Social security contributions paid by persons before the age of 19 are not considered in the assessment for a contributory retirement pension. As a result, claimants, mostly women, fall short of the minimum contribution average required to qualify for a pension. Through this measure contributions paid before 19 years of age are taken into account and if the required minimum is reached, the claimant becomes eligible to a minimum pension. This measure implemented in 2021 and 2022 will benefit circa 2000 persons beyond pensionable age, mostly women, and will cost €6 million.

Measure No 6: Increase in the Deficient Contributory Bonus

The annual bonus payable to persons with insufficient amounts of contributions to qualify for a pension, to be increased by €450 per annum. Up to 14,000 beneficiaries beyond pension age will benefit, at a cost of €6.5 million. A €200 per annum increase has already awarded in two parts in 2021 and 2022.

Measure No 7: Equivalence in Survivors' Pension

At present widows who do not have their own pension entitlement are awarded 5/6ths of the pension of their deceased spouse. A mechanism has been set in motion to gradually adjust widow's pensions over a number of years to bring them at par with the full pension entitlement of deceased spouses. Circa 13,000 persons are in receipt of a Widow's Pension, and the adjustment will cost €9 million. The first adjustment was made in 2022.

Measure No 8: Uniform rate of Cost of Living Bonus

The yearly cost-of-living adjustment is split in 2 parts: 2/3 is factored into weekly pension rates and the balance is cumulatively added as a yearly bonus, known as the cost of living bonus (CLBO). Over the years an anomaly has been created with persons who retired in 2008 or earlier drawing the highest CLBO rates and those who retired in subsequent years receiving lower rates. A new mechanism is being set up to achieve parity between all pensioners through gradual annual adjustments in the payable CLBO rates, with pensioners on the lower scales getting higher CLBO rates. This will benefit up to 54,000 persons granted a pension in 2009 or after and will cost €13.5 million. The first gradual adjustment has been made in 2022.

Measure No 9: Increase in the Senior Citizen Grant

The annual grant payable to older persons aged 75 or over and living in the community will increase by €200 for those aged 75 to 79 and €250 per annum for those aged 80 or over. Up to circa 50,000 older persons aged 75+ will benefit, with a cost of €11 million. A €50 annual increase was awarded to those aged 80+ in 2022.

Measure No 10: Helping atypical employees achieve better pension rates

Up to now, social security contributions of atypical employees who undertake multiple part-time jobs cover only one employment. As a result, on retirement these workers qualify for a lower pension than an employee who holds a full-time job. The anomaly is to be addressed by allowing the payment of contributions on more than one part-time job up to a maximum of 40 hours per week. There are at present 5,000 such employees. There is no immediate cost but increased revenue from higher contributions paid is expected depending on take up, but subsequent to retirement there will additional spending. This measure is in the process of being fully implemented as part of Budget 2022 measures.

Measure No 11: Pension safeguards for separated/divorced spouses

Government plans to introduce a measure aimed at protecting a spouses' right to an adequate contributory pension entitlement in the event of separation or divorce. It is particularly intended to cover older cohorts of women who late in life divorce or separate and fall short of an adequate contributory pension in their own right.

Legal amendments are in process to grant courts the power to order transfer of social security contributions paid during married life between spouses when ruling on separation cases. The cost of this measure is expected to be mild.

b) Adequacy measures planned to be implemented

Measure No 12: Treatment of a Personal Pension Plan and a Voluntary Occupational Retirement Pension Scheme on Divorce / Separation

The MFSA as the financial services regulator together with representatives of women and consumer rights', shall study and introduce regulatory measures similar to overseas jurisdictions of how a personal private pension or a voluntary occupational retirement pension scheme is to be administered in the event of separation or divorce and issue guidance notes on this matter to provide clarity to persons undergoing divorce or separation as well as to the courts in the event of disputes. Consideration will be given to the legal changes described in measure no 11.

Measure No 13: Annual Pension Increase for all pensioners

The Collective Agreement based pension re-assessment mechanism will be replaced with an indexation mechanism that as minimum results in an annual pension increase of a basic percentage (%) of a ratio of [70% Wage Growth: 30% Inflation Growth] or Full COLA whichever is the highest. Additional increases may be granted over and above as deemed necessary.

This will be a fairer system than the current one which is skewed in favour of pensioners whose employment on retirement was at an entity where workers' salaries are established through a collective agreement. It will also bring parity between pensioners born before 1962 and those born after. Thus uniform increases will be guaranteed for all pensioners, as is Government's intention through the pension increases it has granted since 2018.

This cost of this measure is reflected in Measure no 1.

Measure No 14: Establishing a Single Indexation Mechanism for Increases to the Maximum Pensionable Income (MPI)

A single indexation mechanism for increases to the MPI will be established which will result to identical annual increases to the MPI for those born before 1962 and those born after. This will remove the existing dichotomy between persons born in and before 1961, and those born in or after 1962. The cost of this measure is reflected in Measure no 1.

Measure No 15: Equivalence in flat rates of Retirement and Invalidity Pensions

There will be a gradual adjustment in the flat rates payable to contributory Retirement and Invalidity Pensioners to address the current difference in rates depending on civil status. All rates payable will be brought at par, leaving only the difference in rates depending on one's yearly contribution average during working career. This will affect circa 8,000 pensioners and will cost €4 million.

Measure No 16: Balancing Care for the Elderly and Employment as Malta's Population Ages

Based on the recognition that exit from the labour market to provide informal care to elderly family members is a decision imposed by an arising need:

01. Relationship for the qualification with employment will be retained but the current condition (to qualify for unlimited contribution credits one must have at least 20 contributions per year in the carer's contributory history) will be reduced to 15 contributions per year (established on the basis of the two-thirds pension threshold).

02. The current policy allowing for filling of gaps in contributory history currently limited to employees, self-employed persons and Invalidity Pension beneficiaries is to be extended to persons who qualify for a Carer's Allowance and the Increased Carer's Allowance with a view to allow such persons to fill gaps in contributions.

A minor indirect immediate cost (in terms of additional contribution credits granted) is envisaged but increased revenue is expected immediately through payment of missing contributions, depending on take up. A future cost in terms of higher pensions paid is expected but this will be far lower than the long-term cost of the person being cared for.

c) Sustainability measures that are being implemented

Measure No 17: Pension deferral

In 2016, a reform introduced pension deferral incentives to create a financial incentive to favour those who postpone retiring at the early exit age despite having a full contributory record. This measure has contributed to increase working careers. A recent study has indicated that once someone works to the statutory pension age, the likelihood of them working even beyond that age is improving with each subsequent cohort at a faster than expected rate and attributed this to the deferral scheme.[3] Up to now nearly 5,400 pensioners have benefitted from this financial incentive.

Measure No 18: Increase in contributory period

As per the 2007 reform the contributory period required to earn a full pension and/or to retire early will increase from 35 years to 40 years for those born between 1962 and 1968. This will affect persons who potentially could retire as from 2023 and will yield savings, while diminishing the possibility to access the early exit age.

Measure No 19: Increase in retirement age to 64 in 2022

As per the 2007 pension reform, the retirement age will rise to 64 in 2022. This will affect persons born from 1959 to 1961.

Measure No 20: Increase in retirement age to 65 in 2026

As per the 2007 pension reform, the retirement age will rise to 65 in 2026. This will affect persons born on or after 1962 and will terminate the gradual rise in pension age to 65.

A recent study[4] quantifies the change in labour market behaviour induced by the pension reforms enacted since 2007 as improving Government finances by €228 million in 2026. Of this, €98 million are pension expenditure savings, while the rest are additional government revenue induced by longer careers. Moreover, it must be emphasised that at a time of pronounced labour shortages, the 3% boost to the labour supply induced by the pension reforms may have an even more pronounced economic and fiscal impact than that directly attributed to it.

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[3] Grech, Aaron G. (2022) The impact of COVID-19 on longer careers – An initial assessment for Malta, Central Bank of Malta, https://www.centralbankmalta.org/site/Publications/Economic%20Research/2022/The-impact-of-COVID-on-longer-careers.pdf?revcount=6196

[4] Ibid.

Measure No 21: Ensuring a Fair Balance between Contributions and Benefits across Generations

As per the 2016 reform the contributory period required to earn a full pension and/or to retire early will increase from 40 years to 41 years for those born between 1969 and 1975. This will affect persons who potentially could retire as from 2030 and will yield further savings, while diminishing further the possibility to access the early exit age.

As per same reform, for one to earn the right to retire early, out of the mentioned 41 years:

31 years have to be paid contributions for those born in 1969;

32 years have to be paid contributions for those born in 1970;

33 years have to be paid contributions for those born in 1971;

34 years have to be paid contributions for those born in 1972;

35 years have to be paid contributions for those born in 1973 or after.

Measure No 22: Increase in tax credit ceiling for private pensions

The ceiling on which tax credits are awarded on contributions to private pensions has increased from €2,000 to €3,000. Persons who have or will invest in a private pension and contribute at least €3,000 per annum will now benefit of a tax credit of up to €750.

This measure is aimed at increasing the number of private pension investors hence improving adequacy replacement rate of prospective pensioners while alleviating pressures on the state pension.

This measure was implemented in 2021.

d) Sustainability measures that are planned to be implemented

Measure No 23: Ensuring a Fair Balance between Contributions and Benefits across Generations (ii)

To retain the relationship of a fair balance between contributions and benefits across generations (a) the target ratio is to be set at 1.97; and (b) contributory period is increased to 42 years for those born in 1976 or after.

This proposed increase is in line with 2016 reform and legally enacted principle of maintaining balance between contributory periods and period one is expected to draw retired pension based on life expectancy.

Measure No 24: Strengthening the Management Capacity for Pension Reform

A permanent technical team is constituted within the context of the continuum of the five year strategic review mechanism responsible for the regular annual assessment of the implementation of measures suggested in strategic reviews together with the drawing up of technical papers on pension issues presented for public discussion such at the MCESD and the Social Affairs Parliamentary Committee. The Unit with the help of the Economic Policy Division shall also carry out projection modelling to achieve a better understanding of the impacts of Malta's aging population, informal care and its resultant impacts on both the labour market and pension system behaviour.

e) Measures that address both Sustainability and Adequacy measures planned to be implemented

Measure No 25: Managing Early Exits from the Labour Market

To encourage persons to desist from opting for the early retirement pathway the current top-up incentive mechanism will be increased by 1.5pp and hence amended from a negative actuarially neutral rate to a positively incentivised actuarially neutral rate as follows: - retirement (with sufficient contributions to do so) at 62 years - 6.5% (from 5%) ; at 63 yrs - 7.0% (from 5.5%); at 64 yrs - 7.5% (from 6%); at 65 yrs - 8.0% (from 6.5%)

Measure No 26: Increase in tax credit ceiling for private pensions

The ceiling on which tax credits are awarded on contributions to private pensions will increase further from the current €3,000 for both employees and employers. Persons who have or will invest in a private pension and contribute at least the enhanced amount per annum will start benefitting from a tax credit higher than the current €750.

This measure is aimed at increasing the number of private pension investors hence improving adequacy replacement rate of prospective pensioners while alleviating pressures on the state pension.

Measure No 27: Doubling of tax credit for private pensions

The applicable tax credit is to be doubled for the first 2 years from when one enrols into a private pension. This is intended to increase the take up of the scheme particularly among younger savers. This measure is also aimed at increasing the number of private pension investors

Measure No 28: Switching of child policy plans into private pension plans

After consultation with the financial industry, existing or new financial instruments will be created so that private pension plans can be set up also for children.

This measure is planned to be implemented between 2024 and 2027.

Measure No 29: Policies to Support the Employment of Older Workers

Given Malta's ageing demographics, a national discussion will be made on the best active aging labour retention framework that Malta requires and measures such as the following will be implemented:

01. A national campaign on attitudes and perceptions of employers towards older workers.

02. A scheme that refunds cost of workplace training or at MCAST and other vocational institutes for the up-skilling or re-skilling of older workers.

03. A scheme, potentially under the Micro invest programme, to enable employers to buffer the cost (up to a maximum limit) for the workplace to conform to the needs of older works.

04. A scheme that offers tax credits for the first three years of employment of older persons aged 55 years and over who are inactive. The refund would be tapered, with a full refund in the first year, falling to zero after the third year of employment.

Measure No 30: Regulating Unofficial Home Equality Release in the Elderly Care Sector

The necessary legislative measures to regulate the unofficial home equity release market will be introduced for providers of care for the elderly facilities that results in the trading off of residential care and in exchange for residential property

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.