Chapter 5
The pension system in Malta

Introduction

A pension system enables households to smoothen their consumption over their lifetime by permitting the transfer of income from the working age to the retirement age. It also offers insurance to cover the possibility that personal savings are outlived. As a result, governments typically play a significant role in the pension system, through the provision of state pensions, as well as legislation to regulate private pensions. The objective is to have a pension system which is **sustainable**, **adequate** and promotes **equality**.

A pension system which does not adequately address fiscal sustainability may lead to future strains on public finances. Fairness may also require a close relationship between the amount of social security contributions and pension entitlements. At the same time, it is desirable to have safeguards against individuals falling into poverty during old age. The existence of alternative pension options could also allow households to better tailor their pension commitments and entitlements to their individual preferences.

The assessment of a pension system hinges critically on the demographic projections and future economic growth projections, which in turn are based on economic models and assumptions. As such, periodic review and fine-tuning to the system is desirable and indeed necessary to reflect the most recent information available within the country.

This chapter provides a general overview of the pension system in Malta and its main features, in terms of the compulsory social contributions and the ensuing entitlements. It also provides a high-level comparison of Malta's pension system to that in other EU countries, to identify similarities and differences. This section concludes with some recommendations.

Pension reforms in Malta

Pension reform in Malta has been an evolutionary process. An important milestone was recorded in 2006 when the Government introduced a mechanism whereby a strategic review of the local pension system is to be tabled at the House of Representatives every five years. In this regard, a Pensions Strategy Group was set up to present policy recommendations, taking into consideration the current and future challenges of the pension system.[5] The main recommendations outlined in the last three reports by the Pensions Working Groups,

[5] The report prepared by the Pensions Strategy Group is discussed by the Social Affairs Committee of the House of Representatives. Over the years, members of the Pensions Working Group have changed.

respectively finalised in 2005, 2010 and 2015 are summarised in Box 5.1.[6] These reports have presented a thorough reassessment of pension design in Malta and put forward a host of recommendations which provided a strong basis for possible reform. The Government is not bound to accept such recommendations and indeed, over the years, whereas various recommendations have been implemented, others were not.

Box 5.1 Strategic reviews on the pension system in Malta (2005, 2010, 2015)

Main observations and recommendations of the 2005 Pensions Working Group:

- Maximum Pension Income: The Maximum Pension income was perceived as no longer adequate. Various ways of how this was to be changed were proposed.
- Pension indexation to wages: post-retirement pensions income should be automatically indexed to a mechanism that is constituted of 70% wages and 30% inflation.
- Increase in the statutory retirement age: A gradual increase in the statutory retirement age to 65 years was proposed, though there were concerns on the viability of such increment for manual workers.
- Changes to the accumulation and calculation parameters of the Two-Thirds Pension: departing from the final salary calculation to linking the calculation of the pension with the contributions paid over an individual's accumulation period.
- Private Pensions: The introduction of a Two-Tier Second Pillar Pension Scheme and a voluntary Third Pillar Pensions Scheme aimed at complimenting pension income.
- Channelling of Pensions Contributions to the Health Fund: The recommendation to channel part of the Two-Thirds Pensions contribution towards such fund needed to be reconsidered, despite acknowledging that health reform was necessary.

Main observations and recommendations of the 2010 Pensions Working Group:

- Age-longevity indexation: introducing an explicit link between retirement age and longevity though an indexation mechanism resulting in increases in retirement age whenever the longevity index rises.
- Notional Defined Contribution (NDC) Pension: appointing a working group to consider the possibility of transforming the Two-Third Pension into a NDC First Pension.
- Pension Pillars: recommended introducing the Third Pension framework as early as possible whilst introducing the mandatory introduction of the Second pillar which should be based on a national consensus.
- Regulated home equity release market: to examine the possibility of introducing Home Equity Release schemes for people who should they wish to, leverage their property investment into income during the retirement phase of their life cycle.
- Commission on Financial Literacy and Retirement Income: proposed that the Government establishes this Commission mandated to inculcate a culture of saving for retirement, to strengthen financial literacy and to disseminate within society information on how the State Pension works.

[6] Source: 2005 Report - https://socialsecurity.gov.mt/en/Pensions-Reform/Documents/2005-Pensions-Reform/frpensions.pdf; 2010 Report - http://family.gov.mt/financial-education/publications/Documents/Malta_Pensions_Strategic_Review_2010.pdf; 2015 Report - http://family.gov.mt/financial-education/publications/Documents/Pensions%20Report.pdf.

Main observations and recommendations of the 2015 Pensions Working Group:

- Incentivise the active participation of elderly: proposed the removal of the mandatory retirement age, removing the ceiling on payment of contributions beyond 65 years of age and provide economic incentives in terms of higher pensions for the extra years spent in the labour market.
- Does not reiterate the core recommendations in the 2010 report: considered it as risky to migrate to an NDC pensions architecture; rejected the introduction of an automatic indexation to longevity and did not recommend a second pillar of a mandatory nature.
- Guaranteed National Minimum Pension (GNMP): introducing it incrementally to all pensioners, with recommendations on how to do so. Recommended adjusting the minimum pension by the full Cost-of-Living Adjustment (COLA), also being in line with poverty threshold levels reflecting increases in wage growth and maintaining relativeness to other pensions and the maximum pension.
- Crediting contributions: recommend a series of reforms to strengthen the main supporting policies of fertility (demographics); interrupted career patterns (gender), life-long learning and retention in the labour market post retirement age and crediting higher education.
- Equity release schemes: The introduction of regulations with respect to home equity release schemes. The report provides proposals on the formalisation of such home equity market.

Types of pensions in Malta

The Maltese pension system is largely based on a Pay-As-You-Go system. The different types of pensions in Malta are outlined in Table 5.1.

Table 5.1 Pensions in Malta

Contributory retirement pension	Persons attaining their retirement age may be eligible to the contributory retirement pension, subject to satisfying a set of statutory conditions and contributory criteria during their working years. A two-thirds pension or a flat rate pension applies.
Contributory invalidity pension	This is granted to persons under retirement age who are no longer deemed as capable of performing full-time or part-time work. Applicants for this pension should have contributed at least 250 contributions and paid or been credited an average of 20 contributions per year from the age of 18 or 19 as the case may be, and who have been registering for work or been gainfully occupied over the previous year. With effect from 2018, applicants suffering from a terminally ill condition require a minimum of 50 contributions to qualify for the full rate. Different rates apply according to the yearly average of contributions paid and/or credited and the civil status of the claimant.

Contributory Widows pension	A contributory widows pension is awarded, if the deceased spouse meets the relevant contribution conditions. A widow's pension or a survivor's pension is awarded to those persons whose spouse was already in receipt of a Retirement or Two-Thirds Pension. An Early Survivor's Pension is awarded to those persons whose spouse was still under retirement age. Such pension is received in full even if the widow is in full time employment. When a widow re-marries, a flat rate widow's pension would be due. Furthermore, a widow who reaches pension age and is eligible for a retirement pension in her own right and such pension is lower than the widow's pension rate, the widow's pension rate is increased by 1/6.
Non-contributory age pension	Persons who attain retirement age without having made the required number of contributions are entitled to a non-contributory pension, subject to satisfying a capital and resources means test. Specifically, capital resources should not exceed €23,300 or €14,000 in the case of a married couple or in other cases respectively.
Non-contributory assistance for the visually impaired	Persons holding a medical certificate from a registered Ophthalmologist certifying visual impairment are eligible to an Assistance for the Visually Impaired pension whereby the beneficiary's income from employment is exempted from the means test.
Non-contributory carer's assistance	This assistance is payable to a person under retirement age who proves that he is regularly taking care of a relative, all by himself / herself, on a full-time basis and is living in the same household as that of such relative, provided that the latter exceeds certain medical parameters. To be credited social security contributions, the carer must have paid at least 156 contributions and a yearly average of at least 20 contributions since the age of 18 to be credited social security contributions. A means test is applied based on whether the person is entitled to a carer's allowance or to an increased carer's allowance which is not means tested.
Non-contributory disability assistance	An assistance for disability may be given if the beneficiary falls under the category of increased severe disability assistance, severe disability assistance or disability assistance.

Senior citizen grant	A yearly payment, currently of €300, is made to persons aged 75 years or older and who are still living in their own residence or with their relatives in Malta or Gozo.
Contributory retirement grant	Persons who have reached retirement age but do not qualify for a contributory retirement pension are entitled to a grant, currently of €150, every year until they qualify for the senior citizens grant provided they have paid between 50 and 259 contributions. Those who have paid 260 or more contributions are currently awarded €250 instead of €150 per year. At the age of 75 and forth, the senior citizens grant applies upon eligibility.

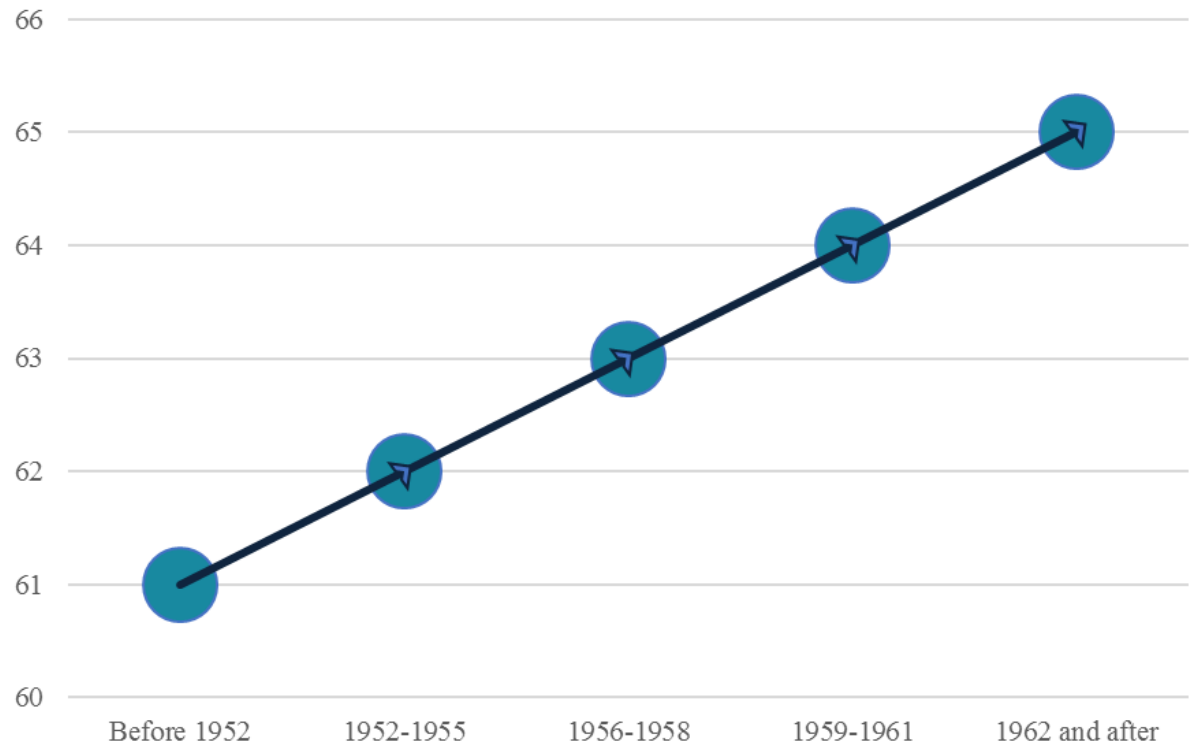
The retirement age

A main reform in Malta's pensions history was undertaken in 2006, when the statutory retirement age was raised. At that time, the statutory retirement age was set at 61 years for males and 60 years for females. Following the 2006 reform, the retirement age is being gradually raised to reach 65, for both males and females. This enables a gradual impact on government finances and a smoother transition to a retirement age which is more in line with the euro area average. The phased increase in retirement age was set so as to avoid significant discrepancies in pension benefits arising from variations in the date of birth due to being a day younger or a day older. The retirement age is calculated upon the year of birth of individuals (see Chart 5.1). Accordingly, the year of retirement was retained at 61 for those born in 1951 or before, and was increased step-wise to reach 65 for those born in 1962 or later. The current legislation specifies that from the year 2027 onwards, all cohorts that are to retire are subject to a statutory retirement age of 65.

The effective retirement age in 2018 is 62, and will increase to 63 in 2019, 64 in 2023 and 65 in 2027. However, a person who has attained the age of 61 years can currently opt for retirement as long as the person is not in any gainful occupation and has already paid or has been credited a certain number of contributions since reaching the eighteenth birthday as indicated in Table 5.2. The increase in the number of years of contributions from 40 to 41 was announced in the Budget for 2016 and enacted in the Social Security Act. This was done to stabilise the relation between the contributory periods and the periods of time during which it is expected that the individual shall be in receipt of a pension, due to the rising life expectancy.[7]

[7] The latest available statistics by the World Health Organisation (WHO) place the life expectancy at birth in Malta at 80 years for males and 84 years for females (based on 2015 data). Source: http://www.who.int/countries/mlt/en/.

Chart 5.1 The retirement age according to year of birth



Source: Social Security Act Cap. [318]

Table 5.2 Number of contributions required for earlier retirement

Year of Birth	No of contributions	Equivalent in years
1952-1961	1820	35
1962-1968	2080	40
1969 and after	2132	41

Source: Social Security Act. [Cap318]

Contributions

The social security contributions payable depend upon the class of the contribution, the contributor's income and the year in which the person was born, as laid out in the Social Security Act. Class One contributions are applicable to those persons who are employed, while Class Two contributions are in respect of persons who are either self-employed or self-occupied.[8]

[8] The Social Security Act defines a self-employed person as "a person who has not yet passed his sixty-fifth birthday, is ordinarily resident in Malta, and is not an employed person nor a self-occupied person". The

In the case of an employed person, the social security contribution is shared between the employee, the employer and the government. A rate of 10 percent of the basic weekly wage (or the equivalent of the basic monthly salary) applies to the employee, the employer and the Government. On the other hand, a cap applies in the case of persons born on or before 31 December 1961 and whose basic weekly wage exceeds €349.36. The cap applicable in 2018 limits the contribution to €34.94 per week. For those born on or after a January 1962, when the weekly wage exceeds €455.78, the applicable cap is currently €45.58. The increase in the highest contribution rate payable with effect from January 2018 is related to a guaranteed maximum pensionable income of €23,701 for persons born in 1962 or after. Some further adjustments apply to persons undertaking full-time studies or who are under 18 years of age.

For Class Two persons, the social security contribution is equivalent to a rate of 15 percent of their net annual income, apart from those whose net earnings do not exceed €10,194 who pay fixed rates. A threshold of €52.40 per week is applied for those whose annual net income exceeds €18,167 and were born on 31 December 1961 or before. A weekly cap of €68.37 is applied for those with a net income exceeding €23,701 and born after 1961. The same conditions apply for self-occupied persons, except farmers and breeders for whom lower rates apply. For persons earning less than €10,194 per year, a fixed weekly contribution of €29.41 applies.[9]

A contribution can also be credited rather than paid. A credited contribution is defined by the Social Security Act as "a contribution which is not paid by a person but is nonetheless accredited 'ope legis' to him". The Budget law for 2016 introduced a system which credits human capital development and lifelong learning. For every year of study associated with lifelong learning, one month for every year is credited. The amount credited for human capital development varies across levels of studies (from level 5 to level 8) in accordance with the Mutual Recognition of Qualifications Act and whether the individual was born prior to or after 1962.[10] Child rearing credits have also been strengthened in the same Budget law.[11]

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definition of a self-occupied person as per the Social Security Act is: "a self-employed person who is engaged in any activity which earnings exceeding €910 are being derived".

[9] For self-occupied persons, a rate of 15% applies if the person is a part-time self-occupied woman or a full-time student under the age of 24, or a pensioner, and who is also self-occupied on a part-time basis, with an earning not exceeding €10,194. In the case of self-employed, who are single and not self-occupied, and earning between €1,005 and €8,734 must pay a weekly rate of €25.19.

[10] An MQF level 5 refers to an undergraduate diploma/certificate or a Vocational Education and training (VET) Higher Diploma of Foundation Degree. An MQF of level 6 refers to a Bachelor's Degree; level 7 is in terms of a Master's Degree, a Post-graduate Diploma or a Post-graduate Certificate; and MQF level 8 refers to a Doctoral Degree.

[11] More detailed information on contributions and credits can be obtained as per Social Security Act (Chapter 318. of the Laws of Malta) and on the Government social security website: www.socialsecurity.gov.mt.

Pension entitlements

Two types of entitlements are attributed to pensioners, either a flat rate or a two-thirds pension. Flat rate pensions are awarded to pensioners who are also entitled to a service pension and those who at their pension age, have a sufficiently low, or do not exceed a threshold of pensionable income.

On the other hand, defined benefit entitlements are based on the pensionable income. The pensionable income varies between cohorts born in 1961, or before, and after 1961. For those born prior to 1962, the pensionable income is based on the yearly average of the best three consecutive calendar years within the last ten to thirteen consecutive years (depending upon the year of birth), immediately preceding retirement or invalidity. More specifically, ten years are used in the case of those born until the last day of 1951, eleven years for those born between 1952 and 1955, twelve for those born between 1956 and 1958, and thirteen years for those born between 1959 to 1961.

For self-employed or self-occupied persons, the yearly average of the net income in the last ten years is calculated in terms of pensionable income. If born between 1952 and 1955, the yearly average is calculated on the best 10 years of the last eleven; if born between 1956 and 1958, out of the last twelve; and if born between 1959 and 1961 out of the last thirteen.

For persons born on 1 January 1962 and after, the yearly average of the basic wage or salary, or the net income or net earnings during the best ten calendar years, within the last forty calendar years immediately preceding retirement or invalidity, is used as the measure of the pensionable income.

However, there exists a cap which the pensionable income cannot exceed. For those born prior to 1951, the maximum pensionable income is currently €17,470.30. For those born between 1952 and 1961, there is a limit of €20,964.36 upon which the pension is calculated, after including cost of living increases. With effect from 1 January 2014, for those born after 1962, a maximum pensionable income of €20,964.36 applies, which is then annually adjusted by such sum as corresponds to seventy percent of the percentage increase in the average wage for the previous calendar year (as published by the National Statistics Office) plus thirty percent of the inflation rate as published by the same authority for the previous calendar year.

The full rate of the Two-Thirds Pension shall be two-thirds of the pensionable income of the insured person who has paid or been credited with a yearly average of fifty contributions over a period of 35 years for persons born between 1952 and 1961; 40 years for those born during 1962 and 1968; and 41 years for those born on or after 1 January 1969.

Whenever beneficiaries do not meet the required threshold of contributions (lower than an average of 50 per year), the rate of pension payable per week is adjusted according to set adjustment ratios. The pension is reduced to 0.89 of the full applicable pension minus any

increments granted, when the average contributions are between 40 and 50 for example. Rates of 0.69 and 0.49 apply to when average contributions are between 30 and 39, and between 20 and 29 respectively. The rates for a widow's pension are the same, but adjusted for a supplementary weekly pension allowance of €17.77. The guaranteed minimum level per week is also adjusted for the same contributory averages, but with adjustment factors of 0.94, 0.85 and 0.76 instead of 0.89, 0.69 and 0.49, respectively.

A National Minimum Pension also applies. The full rate of such pension is set at four-fifths of the National Minimum Wage in the case of a married person who is maintaining a spouse and at two-thirds of the National Minimum Wage in the case of any other person. Whenever the Government awards a cost-of-living increase in the rate of the National Minimum Wage payable to persons over 18 years of age, for any pension payable, that pension shall increase at an amount equivalent to two-thirds of the such cost-of-living increase, unless a higher increase is due.[12] In the case of a married person maintaining a spouse, this is adjusted by four-fifths of the increase.[13] The Social Security Act (Cap. 318) stipulates that the highest rate per week of a two-thirds pension is set at €234.25.

A flat rate applies to those also in receipt of a service pension. A service pension is a pension or other allowance given to an individual payable by, or on account of, his or her employer in terms of past services in the country or overseas. The rate depends on whether persons are paid a service pension by or on behalf of the Government of the United Kingdom or not, and on whether the person is maintaining a spouse or otherwise.[14]

Incentives for later retirement

Following the Budget for 2016, a system of incentives for retirement deferral has been adopted for those working in the private sector and who have paid at least 35 years of social security contributions and are eligible to retire between the age of 61 and 64. Table 5.3 shows the economic incentives in place when delaying retirement by one year, while Table 5.4 shows the incentives for delaying retirement by more than one year.

This scheme encourages private sector workers to continue working. Benefits are computed in such a way as to capture actuarial neutrality, meaning that benefits are adjusted as a function of remaining life expectancy, and thus compounded increments occur for each year of further delay. Voluntary schemes rather than mandatory increases in retirement age have various

[12] This excludes injury pensions assessed at 89% or less and any National Minimum Pension Additional Allowance.
[13] This subject to an automatic increase of only one pension if that person is entitled to two or more pensions, or a pension being supplemented by Social Assistance. In the case of an Increased Carer's Allowance, Increased Severe Disability Allowance, Severe Disability Assistance and Assistance for the Visually Impaired, the full cost-of-living increase is applied. A two-thirds increase is applied in the case of Carer's Allowance and Disability Allowance.
[14] More detailed information on entitlements and eligibility can be obtained as per Chapter 318. Social Security Act of the Laws of Malta and on the government social security website: www.socialsecurity.gov.mt.

benefits particularly in being able to better suit households' individual preferences.[15] They also help in mitigating possible labour shortages which might occur.

Table 5.3 Incentives for delaying one year to retirement

Retirement age	Opt to work till age	% increase in pension rate	Entitlement at age
61	62	5.0	62
62	63	5.5	63
63	64	6.0	64
64	65	6.5	65

Source: L.N. 289 of 2016

Table 5.4 Incentives for delaying more than one year to retirement

Retirement age	Opt to work till age	% increase in pension rate	Entitlement at age
61	63	10.5	63
61	64	16.5	64
61	65	23.0	65
62	64	11.5	64
62	65	18.0	65
63	65	12.5	65

Source: L.N. 289 of 2016

The three pension pillars

Pensions are generally categorised into three pillars. Malta's system incorporates the first and third pillars. The World Bank describes the three main pension pillars as follows:

- A mandatory **first pillar** links contributions to varying degrees of earnings with the objective of replacing some portion of lifetime pre-retirement income. They are typically financed on a pay-as-you-go basis.

[15] The OECD publication, 'Pensions at a Glance 2017', provides a comprehensive analysis of such schemes on incentives towards later retirement and disincentives associated with early retirement. Available on: www.oecd.org/publications/oecd-pensions-at-a-glance-19991363.htm.

- A mandatory **second pillar** pension is typically an individual savings account, that is a defined contribution plan, with a wide set of design options including active or passive investment management, choice parameters for selecting investments and investment managers, and options for the withdrawal phase.

- A voluntary **third pillar** pension can take many forms, such as individual savings for retirement, disability or death; employer sponsored; defined benefit or defined contribution; and is essentially flexible and discretionary in nature. [16]

In an effort to further encourage private saving, in 2014 the Government introduced incentives to enhance the appeal of a third pillar pension scheme. The scheme provides the opportunity to save for a pension through private pension packages offered by financial institutions, including banks and life insurance companies. It is formally referred to as the Personal Retirement Scheme, which is supplemented by the option of an Individual Savings Account. The Personal Retirement Scheme is the provision of an annual tax credit, with benefits of up to €300 per family, which benefits shall not start earlier than age 50, or later than age 70.[17] The Individual Savings Account (ISA), provides families the option to open a tax-free savings account with up to €2,000 per year per couple invested in such accounts. Individuals can withdraw funds from such accounts any time, similar to a savings account.[18]

In 2017, incentives were also introduced to encourage voluntary occupational pension schemes by employees and employers. Under this system, funds are put aside in an expense account by the employer, which is tax free. Furthermore, tax credits apply to employers and employees opting for such schemes. Should an employee change job, and the future employer would not be willing to offer such schemes, then an option would exist to transfer the account into a third pillar. This scheme is still not considered as a second pillar as it is totally on a voluntary basis, rather than mandatory.

Comparison with the pension systems across the European Union

Over the last two decades, the intensity of pension reform has been particularly strong across Member States of the EU, mostly in terms of eligibility for pension. Following the financial

[16] The World Bank also portrays a non-contributory 'zero pillar', which fiscal condition permitting, deals explicitly with the poverty alleviation objective in order to provide all of the elderly with a minimal level of protection. It also describes a 'fourth' pillar as one which include access to informal support (such as family support), other formal social programs (such as health care and/or housing), and other individual financial and non-financial assets (such as home ownership and reverse mortgages where available). Source: http://siteresources.worldbank.org/INTPENSIONS/Resources/395443-1121194657824/PRPNoteConcept_Sept2008.pdf.

[17] More information can be obtained as per Subsidiary Legislation 123.163 on Personal Retirement Scheme Rules, available on: http://justiceservices.gov.mt/DownloadDocument.aspx?app=lom&itemid=12264&l=1.

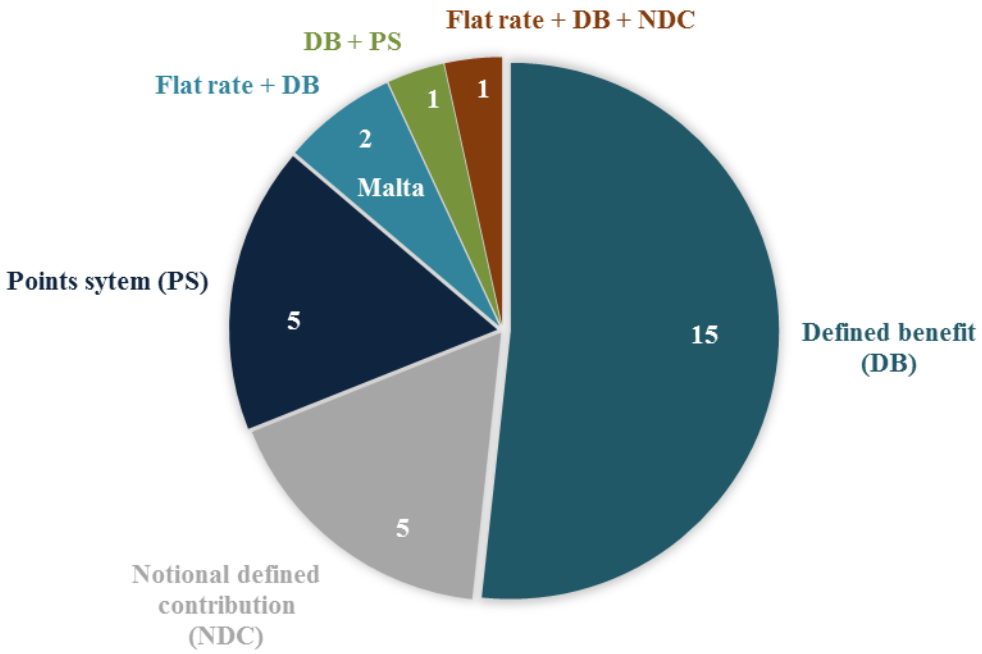
[18] More information can be obtained s per Subsidiary Legislation 123.164 on Individual Savings Account Rules, available on http://justiceservices.gov.mt/DownloadDocument.aspx?app=lom&itemid=12265&l=1.

crisis that hit most European countries, additional measures were enacted with the objective of enhancing the sustainability of the pension systems.

The European Commission classifies pensions systems as defined benefit schemes (DB), notional defined contribution schemes (NDC) or a points system (PS).[19] Simple DB plans are those which pay an average accrual rate for each year of service calculated upon average re-valued earnings. In NDC schemes, the financing inflow over the contribution period is given by wages multiplied by the contribution rate, with increments according to the interest rate. On retirement, the accumulated notional capital is divided by a notional annuity factor. In a PS system, the pension benefit depends on the value of points gained at the time of retirement, determined by earning per cost of a pension point.

Most countries within the European Union (15) have a defined benefit scheme in place, five operate a NDC scheme whilst another five operate a PS system (see Chart 5.2). The other countries have mixed schemes. Malta is classified as one of the latter countries, whereby the pension system offers either a flat rate scheme or a defined-benefit scheme. The flat rate basically applies to those on a low income or those also on a service pension, while the DB system refers to the two-thirds pension system in Malta.

Chart 5.2 Earnings-related state pension schemes across countries in the EU



Source: 'The 2018 Ageing Report: Underlying Assumptions & Projection Methodologies'

The minimum pension, as defined by the European Commission, is means-tested and includes social allowance/assistance. This is comparable to many countries in the EU (see Table 5.5).

[19] Source: 'The 2018 Ageing Report: Underlying Assumptions & Projection Methodologies', page 104, available on: https://ec.europa.eu/info/sites/info/files/economy-finance/ip065_en.pdf.

Table 5.5 Properties of public and private pension schemes across EU countries

		Public pensions[3]					Private pension scheme		
Country	Pension scheme	Minimum Pension[4]	Old-age pensions	Early retirement pensions	Disability pensions	Survivors' pensions	Occupational pension scheme	Mandatory private individual	Voluntary private individual
BE	DB	MT - SA	ER	ER	ER priv FR self-emp	ER	M* priv V* self-emp	X	Yes*
BG	DB	MT - SA	ER	ER	ER	ER	V*	Yes*	Yes*
CZ	DB	X	ER	ER	ER	ER	X	X	Yes*
DK	DB	FR & MT suppl.	FR & MT suppl.	V	FR	FR	Quasi M	X	Yes*
DE	PS	MT - SA*	ER	ER	ER	ER	V*	X	Yes*
EE	DB	MT - SA	ER	ER	ER	ER	M*	Yes*	Yes*
IE	Flat rate + DB	MT - FR & SA	FR	FR - MT	FR - MT	FR - MT	M pub V* priv	X	Yes*
EL[1]	Flat rate + DB + NDC	MT - FR	FR - ER	FR - ER	FR - ER	FR - ER	X	X	Yes*
ES	DB	MT	ER	ER	ER	ER	V	X	Yes
FR[2]	DB + PS	MT - SA	ER	ER	ER	ER	V*	X	Yes*
HR	PS	ER	ER	ER	ER	ER	M*	X	Yes*
IT	NDC	MT - SA	ER	ER	ER	ER	V*	X	Yes*
CY	PS	MT & ER	ER	ER	ER	ER	M* - pub V* - priv	X	X
LV	NDC	FR - SA	ER	ER	ER	ER	X	Yes*	Yes*
LT[6]	DB	SA	ER	ER	ER	ER	X	Quasi M	Yes*
LU	DB	MT - SA*	ER	ER	ER	ER	V*	X	Yes*
HU	DB	MT - SA	ER	ER	ER	ER	V*	X	Yes*
MT	Flat rate + DB	MT - SA	FR & ER	X	FR & ER	FR & ER	V*	X	Yes*
NL	DB	SA	FR	X	ER	FR	M	X	Yes*
AT	DB	MT - SA	ER	ER	ER	ER	V*	X	Yes*
PL	NDC	ER	ER	ER	ER	ER	V*	Yes*	Yes*
PT	DB	MT - SA[5]	ER	ER	ER	ER	M	X	Yes*
RO	PS	SA	ER	ER	ER	ER	X	Yes*	Yes
SI	DB	MT - SA*	ER	ER	ER	ER	V*	X	Yes*
SK	PS	MT - SA	ER	ER	ER	ER	X	X	Yes*
FI	DB	MT	ER	ER	ER	ER	V*	X	Yes*
SE	NDC	MT	ER	ER	ER	ER	Quasi M	Yes*	Yes
UK	DB	FR & MT - SA	ER - V	X	ER*	ER	V*	X	Yes*
NO	NDC	FR	ER	X	ER	ER	M*	X	Yes*

(1) The public supplementary pension fund is NDC since 2015.
(2) Point system refers to the ARRCO and AGIRC pension schemes
(3) Public pension expenditure include all public expenditure on pension and equivalent cash benefits granted for a long period, see Annex 2 for details on the coverage of the projections of public pension expenditure.
(4) Minimum pension corresponds to Minimum pension and other social allowances for older people not included elsewhere.
(5) Include all pensions of the non-earning related scheme such as old-age, disability and survivors pensions and the social supplement (equal to the difference between the guaranteed minimum amount and pension benefits calculated according to the rules) granted to the earning-related pensioners.
(6) The current DB system will be replaecd by a DB+PS system in 2018.
DB: Defined benefit system.
NDC: Notional defined contribution scheme.
PS: Point system.
MT - Mean-tested
FR - Flat rate
ER - Earnings related
SA - Social allowance/assistance
V - Voluntary
M - Mandatory
X - Does not exist
* Not covered in the projection

Source: Reproduced from 'The 2018 Ageing Report: Underlying Assumptions & Projection Methodologies'

The old-age pension of nearly all EU countries is earnings-related. Malta is one of the few countries who apart from the earnings-related old-age pension has a flat-rate scheme in place. The same can be said for the disability and survivors' pensions. From Table 5.5, one can note that Malta is marked as not having an early retirement pension. Despite there being the option

of retiring at a prior age of 61 years to the statutory age, this does not in itself qualify as a diversified pension plan to the state pension scheme.

In terms of national private pension schemes, Malta's occupational pension scheme is on a voluntary basis. Nearly half of the countries in the EU operate such schemes on a voluntary basis, whilst others have mandatory private pension schemes in place, quasi-mandatory, a mix of both or do not offer occupational pensions at all. On the other hand, voluntary private individual schemes are available in all countries across the EU except for Cyprus.

Pensionable earnings reference (pensionable income) is mainly calculated upon the full career of the beneficiary, for 19 out of 29 EU Member States (see Table 5.6). The rest of the countries adopt different kinds of pensionable earnings references. For example, in Malta earnings are related to the best ten years, or best three out of a number of years preceding retirement, according to the year of birth of the individual. As in all the countries in the EU, general valorisation variable(s) and general indexation variable(s) are applied to pensionable earnings.

Table 5.6 Pensionable earnings reference in the EU

Pensionable earnings reference	Number of Countries
Full career	**19**
Full career with a limit of years	**1**
Years of residence	**2**
Flat rate	**1**
Best Years / Best consecutive years	**3** (including Malta)
Wages	**1**
A number of years preceding retirement	**1**
Years of insurance contributions	**1**

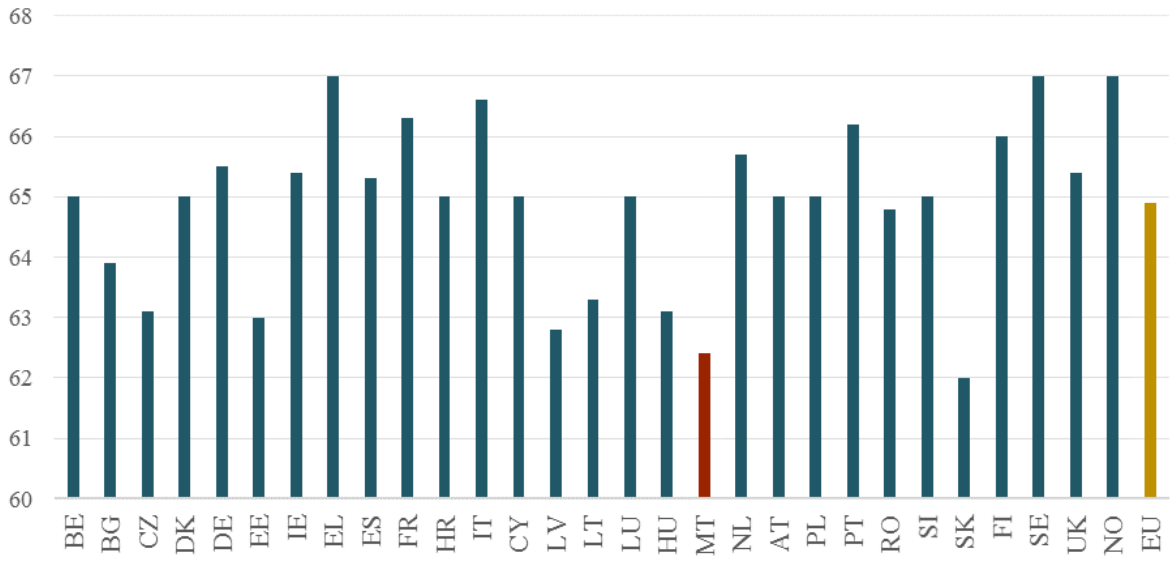
Source: The 2018 Ageing Report: Underlying Assumptions & Projection Methodologies

Malta applies the cost of living as a general valorisation variable and prices and wages as a general indexation variable. Most countries also use prices and wages for both valorisation / indexation variables. Contribution rates on the other hand, vary by country, and are not always uniform for employees, the self-employed and employers.[20]

[20] A detailed summary of the contribution rates per country in 'The 2018 Ageing Report: Underlying Assumptions & Projection Methodologies', Annex 2 page 149, available on: https://ec.europa.eu/info/sites/info/files/economy-finance/ip065_en.pdf.

The European Commission estimated that the average retirement age for males and females in Malta in 2016 was 62.4 years. (see Chart 5.3). It is the second lowest average retirement age in the EU amongst males. The average EU retirement age for males in 2016 was 64.9 years.[21] However, the retirement age in Malta is set to gradually increase to 65 by 2027, and will thus converge closer to the EU average, which is projected to increase to 66.1 in 2030. The latter also reflects the fact that certain countries have opted to link their retirement age to increased life expectancy.

Chart 5.3 Male retirement age across Europe



Source: The 2018 Ageing Report: Underlying Assumptions & Projection Methodologies

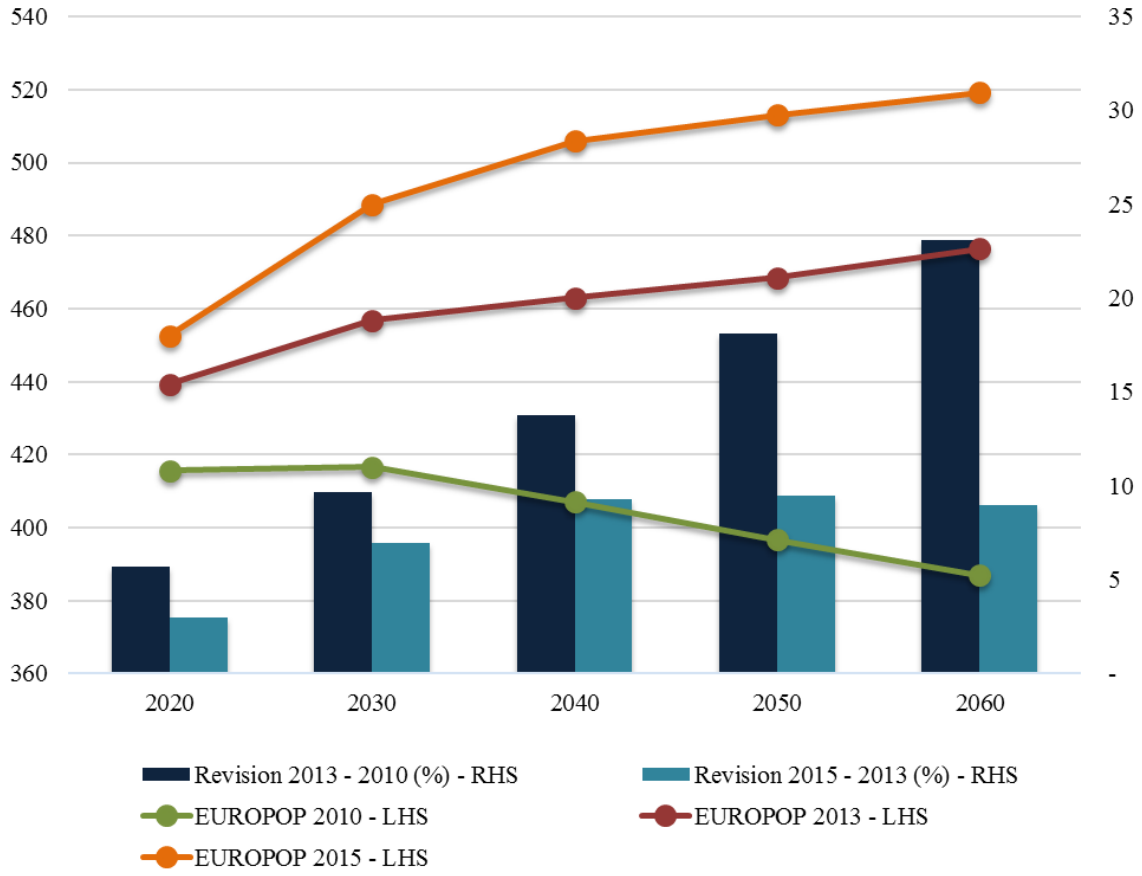
For certain countries in the EU, the retirement age for women is lower than that for males, and thus, if an overall average is employed, this would push the EU's average retirement age downwards. The average female retirement age in the EU stood at 63.8 in 2016. With respect to the early retirement age, in Malta this stands at 61 years, similar to the EU's average of 61.8 years.

Demographic Projections

The sustainability of a pension system is partly contingent on demographic developments, as the latter influences the amount of eligible persons, as well as the number of years over which disbursements are due. The instability in the forecasts for Malta's population, as part of the various EUROPOP projection vintages, thus adds an element of risk (see Chart 5.4).[22]

[21] The EU average is based on the arithmetic average of each Member State.
[22] EUROPOP projections refer to population projections published by the Eurostat.

Chart 5.4 Vintages of EUROPOP projections (000s)[23]



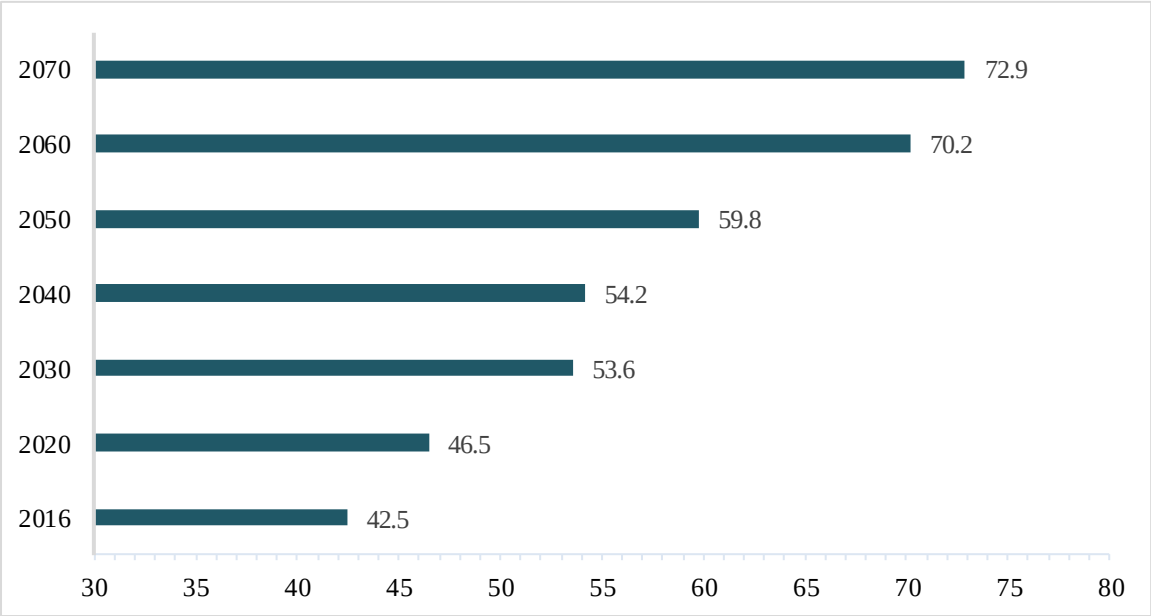
Source: Eurostat

According to the latest projections, on the basis of the policy currently in force, the economic old-age dependency ratio for Malta is expected to nearly double, increasing by 30.0 percentage points from 42.5% in 2016 to 72.9% by 2070 (see Chart 5.5).[24] The economic old-age dependency ratio represents the inactive population aged 65 and over as a percentage of the employed population between the age of 15 and 64. Unless adequately addressed, this may pose problems to the sustainability of the pension system, particularly given that Malta's system is heavily based on the Pay-As-You-Go arrangement.

With respect to Malta's retirement age, this is currently mandated to gradually rise to 65 and remain fixed at that level. In contrast, the retirement age in certain EU countries is set to increase further over the long-term (see Chart 5.6). Both the median and average age increase over successive 20 year periods.[25] The average European retirement age is projected to increase to around 66 in 2030, and is then expected to stabilise at around 67 in 2050 and at slightly more in 2070.

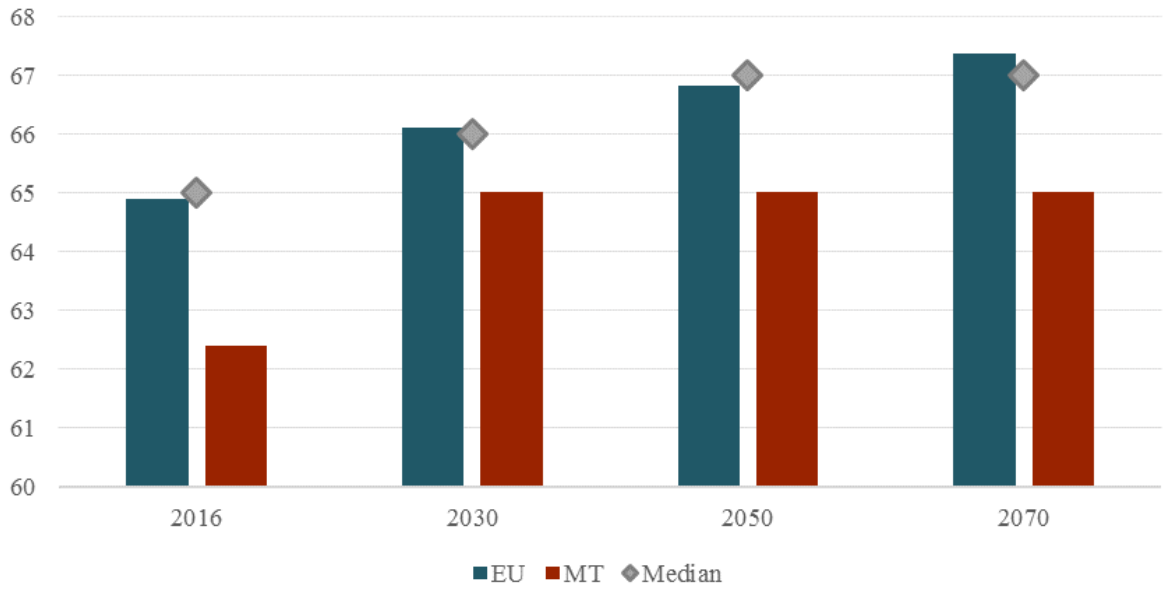
[23] The left-hand side axis represents the absolute population size in thousands whilst the right-hand side axis represents the percentage change in term of revisions to the previous population forecast.
[24] Source: 'The 2018 Ageing Report: Underlying Assumptions & Projection Methodologies', available on: https://ec.europa.eu/info/publications/economy-finance/2018-ageing-report-underlying-assumptions-and-projection-methodologies_en.
[25] The median represents that country having the middle value.

Chart 5.5 Projected economic old-age dependency ratio in Malta



Source: European Commission – The 2018 Ageing Report

Chart 5.6 Projected retirement age in Malta and the EU



Source: European Commission - The 2018 Ageing Report

The forecasts relating to age-related expenditure in the latest Update of Stability Programme, show the increasing long-term pressure on public finances stemming from age-related expenditure (see Table 5.7).[26]

These are set to increase from around 22.6% of GDP in 2013 to around 29.2% of GDP in 2060. This is a main reason why achieving pension sustainability is important. A similar scenario was projected in the previous vintage of forecasts, whereby age-related expenditure was forecasted

[26] The forecasts for the long-term sustainability of public finances in the USP are based on EUROPOP 2013.

at 22.1% of GDP in 2020, rising gradually to 30.1% in 2060.[27] Pension expenditure, which includes the Two-Thirds pension expenditure, is according to the latest Stability Programme, set to rise from 9.6% to 12.8% of GDP over the long-term. Old-age and early pensions are expected to nearly double their share of GDP in 2060 when compared to 2013, whilst other pensions which include the disability and survivors' pensions are set to decline over the long-term.

Table 5.7 Long-term projections of age-related expenditure (% of GDP)

	2013	2020	2030	2040	2050	2060
Age-related expenditure	22.6	23.0	24.3	25.1	26.6	29.2
amongst which:						
Pension expenditure	9.6	9.8	9.7	9.7	11.0	12.8
Old-age and early pensions	5.3	5.8	6.1	6.7	8.3	10.3
Other pensions (disability, survivors, etc)	4.0	3.7	3.2	2.7	2.3	2.0

Source: Update of Stability Programme 2017-2020

To assess long-term fiscal sustainability of public finances, the European Commission uses the S2 indicator. This indicator shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path, taking into account costs of ageing. Malta is classified as a medium risk country in this Report.[28] The main driver of such risk is the contribution of total cost of ageing to long-term sustainability risks. According to the European Commission, such contribution is considered as very significant for Malta as it stands at 4.6 pp of GDP, exceeding the reference rate of 2.0 pp of GDP, under a no-policy-change scenario. This results in one of the highest cost-of-ageing contributions towards the S2 indicator amongst European countries, which is to an extent compensated by the country's initial budgetary position (see Chart 5.8).

More specifically, 2.0 pp of the projected contribution of the total cost of ageing are attributed to pension expenditure, 1.4 pp to healthcare costs, 0.9 pp to long-term care and 0.4 pp to other expenditure. Being the main contributor towards long-term risk, the need for continuous review of the pension structure to minimise the effects of ageing on pension expenditure is necessary.

[27] The previous vintage of forecasts was based on EUROPOP 2010.
[28] Source: Debt Sustainability Monitor 2017. Available on: https://ec.europa.eu/info/sites/info/files/economy-finance/ip071_en.pdf.

Chart 5.7 Comparison of S2 indicator across Europe[29]

Source: The National Council of Public Finance (CNFP) - Luxembourg

Conclusion

Changing demographics and expected future economic conditions impact the sustainability of a pension system. Flexibility and periodic review are thus vital to ensure that the system can cope with the expected future outlays, while at the same time ensuring adequate safeguards against poverty.

The MFAC considers positively that the Government is obliged to lay on the Table of the House of Representatives, within intervals not exceeding five years, a report reviewing the state of play of the pension system and giving recommendations for possible strategic reforms in the system. An overriding objective of such reviews has been to strike the right balance between contributions and benefits across generations while keeping a stable proportion of contributory periods and life expectancy in retirement. Such reviews will need to be updated regularly with the most recent population forecasts and the most recent pension expenditure projections available. Such regular updating of forecasts will enhance the robustness and credibility of the periodic assessment of the sustainability of the pension system in Malta. This will also help the authorities carry out the necessary adjustments to the pension system, if and whenever needed, to ensure the sustainability, adequacy and equity of pension provisioning.

As was clearly highlighted in the 2015 Report by the Pensions Strategy Group, the State pension under the first pillar cannot remain the sole source of retirement income particularly

[29] This chart was reproduced from 'Assessment of Long-Term Fiscal Sustainability' – October 2017, published by the National Fiscal Council of Public Finance of Luxembourg. A Summary of the publication is available on: http://www.cnfp.lu/en/actualites/2017/sustainabilite_2017.html.

for future generations. It will need to be supplemented by additional alternative sources. The MFAC accordingly strongly supports the introduction of new instruments and innovative voluntary schemes to broaden the income base of persons reaching retirement age and to diversify the sources of retirement income. Recent measures which provided economic incentives for delayed retirement and the introduction of further incentives to augment the appeal of third-pillar pensions, were an important step in this direction.

Equally important have been measures to boost the adoption of voluntary occupational pensions through tax incentives as well as efforts to facilitate higher financial literacy to promote a stronger saving culture and to manage savings more wisely. With a high proportion of the elderly population being property rich but often with liquidity constraints, it will also be important to introduce new institutional arrangements that will encourage equity release to supplement pensions. Moreover, the recent reform implemented in 2016-2017 in the first pillar pension is a further measure to enhance the long-term sustainability of the system. The Council encourages a thorough ex-post assessment of these measures to gauge their effectiveness and also to serve as a benchmark for possible future policies of a similar nature. It will be essential to continue the momentum of introducing further incentives to diversify retirement incomes.

The regular review of an adequate minimum pension, as well as the maintenance of an appropriate stable relationship between the minimum pension and the national average wage level, could provide further safeguards to protect against individuals falling into poverty. At the same time, a stable level of entitlements, which are adjusted according to valorisation and indexation variables, will help to reduce contributor's uncertainty about future income adequacy and would allow for smoother lifetime consumption/saving planning.

The next pensions review, due in 2020, will be an interesting exercise to assess whether sufficient progress has been made in this respect, or whether more aggressive strategies might be necessary, factoring in the demographic and economic growth projections available at that time. The next review will also need to re-appraise the extent of pension adequacy, and in particular, whether the various poverty alleviation measures which have been implemented in recent years and which may be enacted by the time of the review, compounded with the possibility of home-equity release, will have adequately catered for pension adequacy, or whether more significant revisions will be necessary.

Finally, the MFAC notes that the rapid growth in the working age population in recent years, underpinned by the strong inflow of foreign workers and the hike in the female participation rate, has boosted social security contributions, thereby contributing positively to the sustainability of the welfare system. Still, it is not obvious that such high rates of growth in the active population can be sustained over long periods.

On the basis of the 2018 Ageing Report by the European Commission, the old age dependency ratio is projected to almost double by 2070. It will thus be important that the next pensions review analyses in depth these population projections, to ensure that estimates are as robust as possible, both in terms of forecast numbers and age profile, as these variables are critical for

the sustainability of a pension system. Moreover, it will be important to encourage further take-up of the funded pensions pillars (occupational and personal pensions) to complement the mandatory pay-as-you-go first pillar. The appropriate design of the multi-pillar system is crucial to ensure that these three pillars are mutually reinforcing in such a manner to ensure the long-term sustainability of the system and to provide the necessary safety net to guarantee poverty prevention of the dependent population bracket.