Executive Summary and Recommendations of the Final Report: Strategic Review – Outcome of the Consultation Process and Proposed Next Steps

2010 Pensions Working Group

14th March 2012

Executive Summary

The Pensions Working Group 2010 was tasked to consult with constituted bodies, stakeholders and the public on the Strategic Review report on the Adequacy, Sustainability and Social Solidarity of the Pension System tabled at the House of Representatives on 14th December 2010. The Group was mandated to assess and analyse such feedback and to submit a final report to Government for its consideration.

The consultation process was launched on 15th March 2011 at the Malta Council for Social and Economic Development and concluded at the end of August 2012. The feedback arising from the consultation process necessitated the Group to carry out further modelling on long term forecasts - which modelling required further support to the Group from the World Bank.

The salient feedback and critique from the consultation process related to:

A mechanistic approach to the macro-economic assumptions underpinning its modelling.
Importance of achieving a full active participation rate in the labour market as a solution to demographic challenges.
Issues relating to a mandatory Second Pension particularly to its timing and its impact on the economy; the competitivity of Malta's industry and enterprise; and the disposable impact of consumers.
Issues relating to the linking of the retirement age to a longevity index.
Issues relating to at-risk-of-poverty of pensioners.
Introduction of a Third Pension.
Issues relating to claims with regards to anomalies in the pension system affecting current pensioners.

The Group has listened and assessed the feedback presented - and, where it so believed necessary, it has amended the recommendations it presented in the Strategic Review or amplified on the rationale of why it still maintains a proposed policy approach.

Seeking to assess the adequacy, sustainability and social solidarity of a pension system requires modelling over the trajectory of a person's life time in the labour market: from the earliest day he or she takes up his or her first employment to the day that individual retires when he or she reaches the official retirement age - a period of, approximately, 50 years.

It is pertinent to underline that the long-term projections modelled by the Group are not forecasts. Projecting demographic and economic developments over the next 50 years is a difficult analytical task. The uncertainty surrounding such projections is high and the longer the projection period, the higher the degree of uncertainty. Thus, whilst the Group may, relatively speaking, have some strong insight about workers and pension beneficiaries for the next 20 years, substantial uncertainty remains, for example, with regards to migration flows, the health status of the elderly or the incidence of disability. Additionally, given the current juncture of financial and economic crisis, there is also considerable uncertainty concerning medium-term economic developments.

The projection results are strongly influenced by the underlying assumptions - a fact that Government has acknowledged and seeks to manage with the legislative trigger now embedded in the Social Security Act. This trigger mandates the holding of a Strategic Review every five years and thus enables for periodic calibration of the underpinning assumptions and thereby allowing for, to the extent possible, of realistic corrections from one review to the next.

In the carrying out of the Strategic Review, the Group took the considered decision to graft its modelling on the macro-economic assumptions framework for the Ageing Report 2009 that the Economic Policy Committee of ECOFIN through its Aging Working Group established on the basis of its methodological framework for EU Member States, including Malta.

This was not a decision that the Group reached lightly. It is also a decision that the Group has maintained for the basis of this post consultation report. In Chapter 02 of this report, the Group presents a detailed articulation of the implications of aging on the GDP and the underlying drivers.

Against the back drop of continued global financial and economic turmoil and a Europe beset by structured deficits and debt structures as well as hereto unimagined economic austerity measures; the application of macro-economic assumptions for pension projections that are not based on a robust methodology framework would, in the considered view of the Group, discredit Malta's pension reform programme - particularly when fiscal prudence measures by Member States with regards to the reigning-in of fiscal deficits and debts structures are under rigorous scrutiny, not only, by the International Monetary Fund and rating agencies but also at a time when Euro Zone Member States, including Malta, are entrenching the recently agreed to Fiscal Compact in their respective constitutions.

The Strategic Review, on the basis of the modelling framework applied, projected an Average Pension Replacement Rate of 45% for persons who will retire in 2060 - which, would result in a deficit of (5.8%) of the pension system balance to GDP.

The Strategic Review concluded that the 2007 pension reforms, whilst positive with regards to safeguarding the adequacy of the pension value for future pensioners and preventing the pension system from collapse, did not go far enough to meet a minimum level of adequacy in a sustainable manner.

The Strategic Review stated that the First Pension should, as a minimum, provide an Average Pension Replacement Rate of 50% - indeed, it should ideally peg the Average Pension Replacement Rate of future pensioners to that enjoyed by pensioners today - 54.7%.

This post consultation report maintains the position it posited in the Review that there continues to be a need for further phased reform that embraces a holistic multi-pillar policy approach – one that goes beyond parametric reforms to the First Pension.

During the consultation process a number of stakeholders underlined that Malta's solution to the pension system's structural demographic deficit lies in the mobilisation, through aggressive policies, of an optimal active labour participation. The Group **agrees** that an aggressive policy stance to achieve optimal labour participation is **one** of the policy instruments that Malta must leverage to buttress the arising pressures on the sustainability of Malta's pension system as a direct consequence of Malta's aging population.

The Group, however, **strongly cautions** that the prevailing view articulated by a number of stakeholders that this measure **in itself** will address the pension system's structural issues is **not correct**. Although the Group maintained the Aging Working Group macro-economic assumptions framework it has carried out a number of sensitivity analysis to gauge the behaviour of GDP under different conditions and how this would affect the sustainability of the pension system.

One of the sensitivity scenarios modelled was an accelerated approach towards reaching the active female employment rates in Sweden - amongst the highest in the EU. As the modelling shows,tThe adoption of this assumptions ***does*** result in a permanent improvement in the financial indicators: an improvement in the pension system balance of 1.5% of GDP by 2060; an increase in the number of female retirees by 15,000 by 2060; and an increase in the replacement rate for females by 0.5% by 2060.

Be that as it may, the average GDP growth under this scenario is estimated to increase **by 0.4% to 2.1%** over the period 2007 - 2060, under the assumptions outlined above. The pension system, with a **projected deficit of (4.3%) still, however, remains unsustainable.** This leads the Group to call for **realism** with regards to the overall impact of a high female active participation rate on the sustainability of the pension system as well as what represents a plausible rate of long-term potential GDP growth for Malta.

The Group, in agreement with constituted bodies, underlines that much more needs to be done in designing a policy framework that results in a higher level of participation of elderly persons. Although the removal of the cap on income vis-a-vis the pension earned as part of the 2007 reforms has had a positive impact with regards to an increased presence in the labour market with regards to persons who are older than 61 years of age, the fact remains that the low level of activity participation amongst elderly persons in Malta (61 - 64 years) is of considerable concern.

In this regard, the Group recommends that the Government should design and implement an active aging policy - and that one of the policy considerations that should be assessed in the design of such a strategy is the removal of the mandatory retirement age. Research overseas shows that the removal of the mandatory retirement age is one of the key reasons which results in the increased presence in the work force of elderly persons as it compels employers to adapt their working environment to provide more amenable working conditions for older employees, by, for example, providing flexible working and gradual (not early) retirement schemes.

It is the considered view of the Group that amongst stakeholders, there is an understanding that the removal of a mandatory retirement age leads to the removal of an official retirement age which sets the conditions of when an individual can claim his or her full pension. This understanding is not correct. Indeed, countries that have removed the mandatory retirement age such as UK, US and Australia have State Pension Ages which establishes when the full retirement pension can be claimed. In the three countries mentioned the State Pension Age as it is set today is higher than the official retirement age of 65 years that Malta will reach in 2026 (with regards to the Switchers Group): in the US the State Pension Age is 66; whilst in Australia and the UK it has recently been respectively increased to reach 67 years of age by 2028.

Much has been stated with regards to the Group's recommendation in the Strategic Review that in the event that Malta maintains its current Defined Benefits PAYG pension system, serious consideration should be given to the grafting of a <u>longevity : official retirement age index</u>. The purpose of such an index is that of maintaining the period of retirement that is financed by the pension system (that is the difference between the official retirement age and when one is expected to pass away (longevity)) constant over the continuum of time given the expectation that longevity will continue to increase over the period under review.

The modelling carried out by the Group shows that a one year increase in the retirement age would result in a 1% positive impact of the pension system balance on the GDP - a result which is consistent with studies carried out in other jurisdictions.

Thus, in the event that the decision is to retain Malta's pension system on the existing Defined Benefit PAYG the Group, with no equivocation, underlines that a state of play that does not factor an increase in the official retirement age in the period leading to 2060 is **neither realistic nor credible**.

A First Pension system that comes closest to the removal of a statutory pension retirement age as a fundamental parameter to the sustainability of the pension system is the Notional Defined Contribution (NDC) PAYG pension system. The NDC PAYG pension system minimises the role of the 'normal retirement age' and it permits a more flexible choice between consumption (working longer) and leisure (retiring earlier) by rewarding the former through an increased pension return and penalising the latter through a reduced pension return below the pension value as set at the official retirement age.

In the Strategic Review, the Group proposed that the Government should mobilise the necessary expertise to carry out an assessment on whether a transition to a NDC PAYG pension system is a viable alternative for Malta given that most international institutions share a rather positive assessment on the future financial sustainability of such a pension system.

A transition to a NDC PAYG based pension system constitutes a major structural reform, and one that should not be entered into lightly - particularly given the arising legacy cost in the event of a transition from the existing to the new pension system platform. The Group, nevertheless, re-affirms its recommendation in this regard for a full study to be carried out.

In the Strategic Review, the Group had underlined the importance of complementing the PAYG pension with a mandatory Second Pension. The reasons of why this is necessary are clearly articulated in the Review as well as in this report. On this fundamental aspect of the reform there has been, in the view of the Group, a convergence of views vis-a-vis the importance of complementing the PAYG pension system with a funded pension. One particular issue is the form such a funded pension should take: should this be grafted onto the First Pension as an additional funded component as is the case, for example, in Sweden or should it be established as a distinct and complementary Second Pension in its own right.

Important as the debate on the form and structure of a mandatory Second Pension is, a far more important consideration is when is an appropriate time to introduce a mandatory Second Pension; what contributory rates will be mandated on employers and employees alike, and how will the transition be managed.

On this latter issue there is consensus amongst most stakeholders that a decision to implement a mandatory Second Pension must be taken in light of the prevailing economic and financial conditions: and a decision to introduce a mandatory Second Pension today would create considerable social and economic shocks.

The Group agrees that the introduction of a mandatory Second Pension will have impacts on the local economy and on the disposable income of households. Indeed, the Group sought to articulate these impacts in the Strategic Review. On the other hand, the Group, without equivocation, continues to be of the considered view that the longer it takes for a mandatory Second Pension to be introduced to complement the First Pension the longer it will take to secure a sustained and adequate pension for future pensioners.

Policy makers - including the Opposition and civil society - should recognise that a **decision taken in 2012** to implement a mandatory Second Pension **would not translate** in the implementation of a mandatory Second Pension **as from 1st January 2013**. It took Sweden between 1994 and 2000 to introduce the funded pension component grafted onto the NDC PAYG system. It has taken the UK nearly the same time in introducing NEST - the mandatory auto-enrolment Second Pension recently launched in 2011.

Given Malta's capacity constraints, knowledge on Second Pension design, the acquirement of the underlying ICT base and its integration with the First Pension to provide a unified and integrated view on a person's combined pension entitlement, the Group considers a 4 year period from the decision to introduce a mandatory Second Pension to the enrolment of the first fund members to be an optimistic time frame. A more realistic time frame is likely to be between 6 to 8 years. The consequences of continued deferment, therefore, will increase the degree of persons that will be rendered vulnerable over time.

The Group re-affirms its recommendation as presented in the Strategic Review that given the national import of such a decision and the challenges that its implementation creates to all stakeholders that the best way forward is for the Government to lead a process of national discussion that results in a bi-partisan and civil society agreement on the important modalities that surround the introduction, setting up and implementation of a mandatory Second Pension. Malta has strong examples of bi-partisan policy making that have resulted in economic and social success: the ICT and the financial services sectors respectively are such examples. The Group sees no reason why such successful bi-partisan policy making cannot be replicated in this important strategic area.

The Group fails to understand why to date - quasi eight years since the launch of the pension reform White Paper - Malta is yet to introduce a Third Pension that is supported by a strong fiscal incentive framework. The enactment of the Retirement Pensions Act in August 2011 together with the recommendations presented in this report provide the Government, in the Group's opinion, with the momentum to introduce such an appropriate framework in the coming months. The argument that a Third Pension should follow the introduction of a mandatory Second Pension does not, in the view of the Group, hold. Given the complexities surrounding the design and implementation of a mandatory

Second Pension, as well as the time required from decision to enrolment of first fund members, a sequential approach will prove detrimental to current generations particularly those in the Switchers Group who are today aged 38 years and over.

The Group argues, strongly, that clever design of a Third Pension should be such that would allow investors to migrate seamlessly into a mandatory Second Pension, as and when introduced. Additionally, the Group argues that a Third Pension should be complemented by an attractive fiscal incentive regime that is both directed to attract persons to invest in a Third Pension as well as to embrace persons who today have already invested in traditional insurance and financial instruments to roll-over, upon maturity, the surrender value of such instruments into a Third Pension. It is to be noted that according to the financial services sector the total maturity value of such instruments between 2012 and 2020 approximates over €400m.

The PWG 2010 presents its final work in this post consultation report. The following are the final recommendations of the Group as compared to its original recommendations in the Strategic Review:

Strategic Review	Post Consultation Recommendation
Recommendation 01: Whilst the 2010 Pensions Working Group is recognisant of the fact that maintaining the macro-economic assumptions adopted by Aging Working Group with regards to Malta for the period 2010-2060 leads to results that are far more negative than would otherwise be the case if a more positive macro-economic framework had to be applied given the fact that there is no local methodological basis upon which an alternative macro-economic framework can be designed the Group retains the Aging Working Group macro-economic framework for its modelling.	Re-affirms Recommendation 01. The developments in these macro-economic indicators over the past decade call for a cautious approach to be adopted with regards to the plausible assumptions upon which the baseline projections for long-term pension expenditure is to be modelled given that: (a) Modelling that assumes a higher GDP rate as a result of more optimistic active employment rates; migrant rates; labour productivity; total factor productivity et al will deliver a far more optimistic behaviour of the pension system over a 50 year period than that stimulated by the AWG macro-economic framework upon which the PWG 2010 based its modelling in the Strategic Review. Nevertheless the adoption of such assumptions are not expected to, as the sensitivity analysis carried out in this report shows, change the assessment regarding the financial sustainability of the pension system. The adoption of a more positive macro-economic assumptions framework, therefore, which is not supported by a strong and robust methodological framework that explains and demonstrates the validity of why more positive assumptions are selected may discredit Malta's pensions reform programme - and its cascading impact on other macro-economic sectors - in the eyes of the European Commission, International Monetary Fund and rating agencies. (b) The supporting macro-economic assumptions framework cannot be independent of the continued impact of the economic and financial uncertainty on the EU generally and more specifically on Malta as a Euro Zone Member State specifically. Economic and political developments in the EU are increasingly showing the need for fundamental structural reforms for the Euro Zone - which reforms are increasingly likely to lead in the fiscal consolidation of national budget and debt management at an EU Zone coordinated level as well as the entrenchment of the Fiscal Compact in Malta's constitution.

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<td>Recommendation 02: The 2010 Pensions Working Group recognises that assumptions over a 50 year period are tenuous at best thus recommends that the Government should not consider to rectify today the projection outcomes as they appear in 2060 but should continue to adopt a calibrated reform of the pensions system over a five year period as is now mandated by the Social Security Act and in doing so adopt incremental measures that will have a long term impact towards the adequacy, sustainability and solidarity of the pension system.</td>
<td>Re-affirms Recommendation 02.</td>
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<td>Recommendation 03: The 2010 Pensions Working Group strongly emphasises that the proposed incremental approach to pension reform should not be interpreted to mean that no reform is required or that there is no urgency in the need for continued reform: key decisions need to be considered and taken and timeframes set for a number of overarching reforms that go beyond the parametric changes to the First Pension introduced in 2007.</td>
<td>Re-affirms Recommendation 03.</td>
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<td>Recommendation 04: Whilst the introduction of the Child Rearing Credit measure was a positive pro-natal policy design measure within the First Pension system, its desired effect with regards to women who have to interrupt their career due to child rearing was neutralised by the increase in the contributory period which rendered it even harder for a female to achieve the full contribution period. To compensate for this neutralising effect the 2010 Pensions Working Group proposes that the Government should consider amending the Child Rearing Credit and calibrating it on the basis of a pro-natal bias with the said amendment to take effect retro-actively as at 1st January 2011: (i) A first child under six (6) years of age or ten (10) years if the child suffers from a serious disability a credit of two (2) years or six (6) years as the case may be subject to the condition that the beneficiary returns to employment for a period of two</td>
<td>Reaffirms Recommendation 04.

On the basis of arising empirical data the Government should in subsequent Strategic Reviews assess the extent of the success of this policy measure vis-a-vis the goals set for it - to incentivise increased fertility as well as to secure an increased return to the labour market for parents who decide to raise a family - and should, thereafter, calibrate the child rearing credit mechanism as appropriate – which mechanism is proposed as follows with regards to persons in the Switchers Group:

<table>
<tr><th>Child</th><th>Credit</th><th>Condition</th></tr>
<tr><td>1st under six years</td><td>2 years</td><td>Return to employment for a period of 2 years</td></tr>
<tr><td>2nd under six years</td><td>Additional 3 years</td><td>Returns to employment for a period of 3 years (including 2 years for the first child)</td></tr>
<tr><td>3rd under six years</td><td>Additional 5 years</td><td>Return to employment for a period of 5 years (including years for 1st and 2nd child)</td></tr>
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(2) years; (ii) A second child under six (6) years of age or ten (10) years if the child suffers from a serious disability a credit of three (3) years or eight (8) years as the case may be subject to the condition that the beneficiary returns to employment for a period of three (3) years; (iii) A third or further child under six (6) years of age or ten (10) years if the child suffers from a serious disability a credit of five (5) years or ten (10) years as the case may be subject to the condition that the beneficiary returns to employment for a period of five (5) years.

In the event of a child who suffers from a serious disability the child rearing credit mechanism is proposed as follows:

Child	Credit	Condition
1st child with serious disability under 10 years of age	6 years	Return to employment for a period of 2 years
2nd child with serious disability under 10 years of age	8 years	Return to employment for a period of 3 years (including 2 years for 1st child)
3rd child with serious disability under 10 years of age	10 years	Return to employment for a period of 5 years (including years for 1st and 2nd child)

The PWG 2010 further proposes that this recommendation is introduced with effect from 2012.

Recommendation 05: The 2010 Pensions Working Group, with the benefit of hindsight, is also recognisant that the Child Rearing Credit as introduced in the 2007 reform negatively affected parents classified within the transitional cohort and therefore recommends that parents within this age cohort are provided backdated to 1st January 2007 with: (i) a one (1) year pension credit for each child born under six years of age; or (ii) A two (2) year pension credit for each child born suffering from a serious disability under the age of ten subject to the condition that the parent will return to work for an equivalent time period.

Re-affirms Recommendation 05 and adds that the principle should be applied to the child rearing credit mechanism as newly proposed in Recommendation 04.

The PWG 2010 further proposes that this recommendation is introduced with effect from 2012.

Recommendation 06: Whilst recent data seems to show that the decline of the fertility rate has plateaued this does not provide for the demographic revitalisation required to counter Malta's aging and shrinking population – and in doing so minimising the demographic risks to the PAYG First Pension – and the Government should consider appointing a Task Force to present to it at the earliest possible recommendations on a holistic pro-natal policy framework that balances the responsibility of a raising a family with the aspiration to remain an active participant in the labour market.

Whilst the PWG 2010 **re-affirms recommendation 06** it proposes that a Task Force, constituted of a multi-disciplinary group of experts from within and outside of Government is established by not later than April 2012 to present a report on a holistic pro-natal policy framework to the Minister for Justice, Dialogue and the Family as well as to the Standing Committee of the House of Representatives on Family Affairs by not later than October 2012.

The PWG 2010 further recommends that the Terms of Reference for this Task Force should include, but not be limited, to the following:

To identify the main social and economic challenges to Malta arising from the changes to the local population profile in the next 30 years.

In the light of (a) above, to highlight those policy areas or programmes which will require further study in the pursuit of a comprehensive pro-natal policy framework.

	To recommend practical measures which may be taken in the short and medium term in order to pursue the principal objectives of a pro-natal policy framework. To recommend a suitable mechanism and to map out a time-table for developing and implementing a comprehensive pro-natal policy framework for Malta. The PWG 2010 further recommends that the proposed Pensions Strategy Unit is represented on this Task Force.
Recommendation 07: The 2010 Pensions Working Group is of the considered opinion that the new medical assessment process for social benefits has had a positive impact and future measures should be directed to strengthen it.	R**e-affirms** recommendation 07.
Recommendation 08: The 2010 Pensions Working Group recommends that the Government should, as a further phase of the reform of the invalidity and disability pension system, give serious consideration to transform the paradigm from one that bases invalidity as a result of a condition of the said disability to one that determines the degree of the invalidity to the person's ability to function; together with the holistic underlying support (re-skilling, psychological support, etc) required to achieve such a paradigm shift.	The PWG 2010 recommends that the Department of Social Security should continue to build on the positive work it has carried out with regards to orienting an individual's ability on his or her strengths rather than a person's limitations and that this principle is also extended with regards to the disability pension. The PWG 2010 adds that with regards to the extension of the principle to the disability pension, the existing Inter-Ministerial Committee concludes its work by October 2012.
Recommendation 09: The 2010 Pensions Working Group recommends that, should the Government consider a reform as proposed in Recommendation 08, the pension awarded should change to one which reflects the degree of the functional incapacity whilst allowing a person to continue to participate in the labour market to earn income as appropriate.	R**e-affirms** recommendation 09.
Recommendation 10: The 2010 Pensions Working Group recommends that the Government should continue to strengthen community care support infrastructure for the sick, disabled and elderly persons so as to alleviate the pressure on individuals, particularly females, from the responsibility of care and, consequently, enables them to take on paid employment.	**Recommends** that an Inter-Ministerial Working Group is set up constituted of the Ministry for Health, Elderly and the Community, the Ministry for Finance, Economy and Investment and the Ministry for Justice, Dialogue and the Family to carry out a study directed to assess whether the pension system may be leveraged as a vehicle to offset the economic impact related to aging through the introduction of contributions to persons who take care of elderly or long term sick persons. The PWG 2010 underlines that the assessment to determine whether such a policy instrument is to be grafted onto the pension system

	should be based on a comprehensive review that determines the economic implications of aging as well as the appropriate balance of policy measures required to recognise care to the elderly by family members as an economic activity in its own right. The PWG 2010 further recommends that the Inter-Ministerial Working Group should be set up in April 2012 and mandated to deliver its report by October 2012. The Pensions Strategy Unit, upon its set-up, is to be represented on the afore mentioned Inter-Ministerial Working Group.
Recommendation 11: The 2010 Pensions Working Group recommends that the Government should consider seeking ways to render childcare facilities in Malta more affordable as well as work with Local Councils so that such programmes are introduced on a locality level to increase accessibility.	**Recommends** that the Government should set up a Working Group under the permanent Inter-Ministerial Working Committee on Active Female Participation Policy Design and Review (note Recommendation 16) that is constituted of the Ministry for Finance, Economy and Investment, the Ministry of Education, Youth and Employment, and the Ministry for Justice, Dialogue and the Family as well as representatives of civil society to assess the current framework with regards to the provision of childcare support services as well as supporting incentives to determine whether current policies are meeting the objectives set or whether calibration is required to increase the tempo for the realisation of the primary objectives - mainly, resulting in an increased number of female parents remaining active in the labour market. The PWG 2010 further recommends that the Working Group should be set up in April 2012 and mandated to deliver its report by October 2012. The Pensions Strategy Unit, upon its set-up, is to be represented on the said Inter-Ministerial Working Group.
Recommendation 12: The 2010 Pensions Working Group recommends that Government should study the concern raised by the constituted bodies representing women with regards to the increased need for Before and After School Care Programmes as the absence of such a support mechanism is seen as an obstacle to increased female participation in the labour market.	**Recommends** that the Government should set up a Working Group under the permanent Inter-Ministerial Working Committee on Active Female Participation Policy Design and Review (note Recommendation 16) that is constituted of the Ministry of Education, Youth and Employment and the Ministry for Justice, Dialogue and the Family as well as representatives of civil society to assess the current framework with regards to the provision of Before and After school childcare support services to determine whether current policies are meeting the objectives set or whether calibration as appropriate. The PWG 2010 further recommends that the Working Group should be set up in April 2012 and mandated to deliver its report by October 2012. The Pensions Strategy Unit, upon its set-up, is to be represented on the said Inter-Ministerial Working Group.
Recommendation 13: The 2010 Pensions Working Group, whilst acknowledging that Government has been at the forefront leading by example with regards the introduction of flexi-time and tele-working the efforts in this regard, should be complemented by the professional development of public and private sector	**Recommends** that the Government should set up a Working Group under the permanent Inter-Ministerial Working Committee on Active Female Participation Policy Design and Review (note Recommendation 16) that is constituted of the Ministry of Education, Youth and Employment and the Ministry for Justice, Dialogue and the Family as well as representatives of employers and employees to further inculcate the introduction and uptake of family friendly measures within Government and the private sector; identify barriers limiting up-take; identify support measures such as the professional development of public and private sector management and

management with regards to the application and promulgation of such new work practices.	employees with regards to the application and promulgation of new work practices such as flexi-time and tele-working, et al. The PWG 2010 further recommends that the Working Group should be set up in April 2012 and mandated to deliver its report by October 2012. The Pensions Strategy Unit, upon its set-up, is to be represented on the said Inter-Ministerial Working Group.
Recommendation 14: The 2010 Pensions Working Group recommends that measures are introduced to incentivise females (and males) to join the formal economy and decrease participation in the black market economy, both to boost the economic growth of the country, as well as to secure adequate pensions for all in the future.	**Whilst recognising** the intrinsic value of the recommendations proposed by civil society groups representing women with regards to measures that would be sufficiently attractive to lure them away from the informal market and into the formal economy the PWG 2010 cautions that it is its considered view that the measures as proposed are not implementable as they would create unsustainable financial pressures on the pensions system. The PWG 2010 recommends that the Government should set up a Working Group under the permanent Inter-Ministerial Working Committee on Active Female Participation Policy Design and Review (note Recommendation 16) that is constituted of the Ministry of Education, Youth and Employment, the Ministry for Finance, Economy and Investment, the Ministry for Justice, Dialogue and the Family to design and assess measures and / or recommendations directed to incentivise females (and males) to join the formal economy and decrease participation in the informal economy on the basis that such measures are affordable and sustainable. The PWG 2010 further recommends that the Working Group should be set up in April 2012 and mandated to deliver its report by October 2012. The Pensions Strategy Unit, upon its set-up, is to be represented on the said Inter-Ministerial Working Group.
Recommendation 15: The 2010 Pensions Working Group proposes that a national educational campaign is created which is aimed particularly at males / fathers to raise awareness on a more egalitarian family and social model, as well as encourage the social partners to promote more equal sharing of family and / or caring responsibilities. In addition, the egalitarian family and social model should be instilled early on in childhood through the inclusion of this subject in the school curriculum.	**Reaffirms Recommendation 15** and underlines that such campaigns should not be one-offs but rather sustained and on continuous basis until such time that an egalitarian family and social model is truly inculcated in the fabric of Malta's society. The competent authorities should, as they have done to date, seek to secure EU financing to fund such initiatives.
Recommendation 16: The 2010 Pensions Working Group proposes that the Government should consider introducing on-going assessment of policy measures introduced to increase female participation in the labour market, so as to gauge their	**Reaffirms Recommendation 16** and underlines that the Government should set up a permanent Inter-Ministerial Committee tasked with the responsibility to ensure a joined-up policy design, development and review approach directed to build and nurture existing as well as future measures that would increase active female participation in the labour market.

level of success, identify lessons to be learnt, etc as a means to inform future policy making, introduce calibration where necessary and improve future scheme.	The PWG 2010 adds that the proposed Inter-Ministerial Committee should be constituted of the Ministry of Education, Youth and Employment, the Ministry for Finance, Economy and Investment, the Ministry for Justice, Dialogue and the Family (or representatives of entities within the said ministry portfolios) as well representatives from civil society. The proposed Inter-Ministerial Committee should be tasked to set-up Working Groups under its direction to present to Government by October 2012 the studies proposed in Recommendations 11, 12, 13 and 14 of this report. The Pensions Strategy Unit, upon its set-up, is to be represented on the said Inter-Ministerial Committee.
Recommendation 17: The 2010 Pensions Working Group recommends that the Government should consider assuming an active affirmative policy to retain beyond the official retirement age employees who can add value and, therefore, acts as the trail blazer in this regard.	**Reaffirms Recommendation 17** and adds that the Government should establish an Inter-Ministerial Committee constituted of the Ministry of Health, Elderly and Community Care, the Ministry of Education, Youth and Employment, the Ministry for Finance, Economy and Investment, the Ministry for Justice, Dialogue and the Family to undertake a holistic review that would lead to the design of an active aging strategy and policy framework. The PWG 2010 recommends that the terms of reference should include, but not be limited, to the following: Review and assessment with regards to the abolition of the mandatory retirement age. Flexibilisation of working hours by supporting legislative measures that are beneficial to both employers and employees. Flexibilisation of employment and industrial relations legislation to encourage employers to create new jobs and recruit older workers without the fear of penalties associated with dismissals for this category of workers. Introduction of protective measures concerning older workers with regards to payment of wages. Activation of measures targeting older workers through short term subsidies paid to employers. Provision of equal access of older workers to re-skilling, up-skilling and other forms of training measures. Inculcation of a culture the promotes, recognises and facilitates active aging Penalisation of early retirement to disincentive persons from retiring once they reach the 40 year contributory period and apply the opt-out clause: currently, the only disincentive in place is that such persons will be prevented from entering the labour market before 65 years of age. Rewarding prolonged employment by means of measures such as reducing the National Insurance contribution paid, the income tax rate, or a higher pension value for every additional year worked above the official retirement age, et

	al.
	The PWG 2010 further recommends that the Working Group should be set up in April 2012 and mandated to deliver its report by October 2012. Once the proposed PSU within the DSS is set-up the PWG 2010 recommends that this is represented on said mentioned Inter-Ministerial Working Group.
Recommendation 18: The 2010 Pensions Working Group recommends that the Government should consider to reform in 2011 the provisions in the Social Security Act relating to part-time work to ensure that the full contributory entitlement is paid by both a person and an employer in the event that a person works a 40 hour week on an atypical basis – that is, irrespective of the number of employers the person is engaged with.	**Reaffirms Recommendation 18** and underlines that the proposed Pensions Strategy Unit is tasked to carry out an in-depth assessment with regards to the pension system and part-time employment to determine the extent that the pension system will leave such persons at a greater at-risk-of-poverty and to submit appropriate recommendations to safeguard against such a risk. The PWG 2010 further recommends that the Pensions Strategy Unit should be mandated to deliver its report by October 2012.
Recommendation 19: The 2010 Pensions Working Group whilst noting that Malta should continue to invest heavily in education to build its indigenous human capital recommends that the Government should consider a targeted immigration and residency policy to narrow skills deficits and inadequate labour supply that is or may constrain the economy from growing further and where short run solutions on the labour domestic market are unlikely to give the desired results – and in doing so increasing the contributory base of the First Pension.	**Reaffirms Recommendation 19**. Additionally, the PWG 2010 agrees with recommendations presented to it during the consultation process that such a measure should be supported by a national skills audit that links into Malta's enterprise and economic vision to determine the skills base that Malta requires to continue to grow economically. The results of such a national skills audit would constitute the base line of thrusts toward which higher education would be directed to build the appropriate indigenous human capital as well as the basis upon which EU or third country human capital would be invited to Malta in order to bolster skills gaps in the immediate, and short to medium term. It is proposed that responsibility for the design and launch of a national skills framework should rest with the Employment and Training Corporation working closely with key agencies such as Malta Enterprise, Finance Malta, Malta Tourism Authority, University of Malta, Malta College for Arts, Science and Technology, etc. The framework for a national skills audit should be supported by a permanent capacity that will ensure the appropriate critical mass to sustain periodic survey reviews over time. In this regard, the PWG 2010 recommends that the Government should task the Employment and Training Corporation to present to Cabinet by not later than May 2012 a strategic document setting out the methodology and process to be applied for the undertaking of such a national skills audit, how this would tie in with other complementary initiatives such as the Programme for the International Assessment of Adult Competencies, et al..
Recommendation 20: The 2010 Pensions Working Group recommends that the Government should consider	**Reaffirms Recommendation 20**. The desire to maintain the retirement age fixed at 65 years of age whilst a person's period in retirement increases as the longevity of the Maltese population is

linking the official retirement age of the First Pension system to a retirement age - longevity index.	expected to increase between 2012 and 2060 is not realistic. As shown in this report a policy to abolish a mandatory retirement age is not the same as a policy to establish a State Pension Age which determines when a person is able to draw down his or her pension. It is the considered opinion of the PWG 2010 that the fairest way forward is to graft on the current or a reformed PAYG First Pension a mechanism that indexes longevity with the official retirement age.
Recommendation 21: The 2010 Pensions Working Group recommends that the Government should consider indexing the 61 years of age opt out rule to a retirement age – longevity index grafted onto the First Pension system so that the disincentive period increases in equal relativity to increases in the official retirement age.	**Re-affirms Recommendation 21.** The mechanism that allows a person to opt-out from the pension system at the age of 61 years on a full pension entitlement (assuming that the full contributory history is paid) is to remain relative to increases to the official retirement age as longevity increases - otherwise this will constitute an undesirable exit route from the labour market.
New Recommendation A	The PWG 2010 is of the considered opinion that article 66(1)(a) of the Social Security Act which establishes the right for an individual to claim for a non-contributory Old Age Pension, subject to meeting the relevant entitlement criteria, on the attainment of the age of 60 years constitutes a 'back-door' exit for persons who wish to opt out of the active labour market. Given the importance of ensuring that persons remain active in the labour market to the extent possible, unless due to circumstances beyond their control for which safety nets are provided through both the Contributory National Insurance Scheme as well as non-contributory benefits, the PWG 2010 recommends that the Old Age Pension should be re-defined to mean 65 years of age: (a) saving the provisions of paragraph (e) hereof, in the case of a person born on or before the 31st December 1951, pension age shall be sixty-one years. (b) years 1952 to 1955, pension age shall be sixty-two years. (c) in the case of a person born during the calendar years 1956 to 1958, pension age shall be sixty-three years. (d) in the case of a person born during the calendar years 1959 to 1961, pension age shall be sixty-four years. (e) in the case of a woman born on or before the 31st December 1951, pension age shall be sixty years.
New Recommendation B	The PWG 2010 recognises that increased longevity does not necessarily result in healthy longevity. The PWG 2010 is of the considered opinion that if a decision is reached to graft a longevity : official retirement age index mechanism ot the First Pension then the design of such a mechanism must be sensitive to age induced debilitating conditions or diseases.

Recommendation 22: The 2010 Pensions Working Group recommends that the Government in 2012 should consider replacing the Survivor's Pension by the eligible full pension to be provided to the surviving female spouse on the grounds that this is gender discriminatory given that the surviving female spouse too would have contributed to the said pension through her role as a home carer during her lifetime.	**Whilst reaffirming** the principles underpinning Recommendation 22 the PWG 2010 recommends that this measure is introduced incrementally with the regards to the Transitional and Exempt Groups respectively and fully with regards to the Switchers Group in order to phase the financial implications related to the implementation of this measure.
Recommendation 23: The 2010 Pensions Working Group recommends that the Government in 2011 should consider amending the Social Security Act to allow a widow with dependent children over 21 years to work and earn income from gainful activity that exceeds the yearly average of the National Minimum Wage without forfeiting her right to a widow's pension in order to incentivise her to remain active in or re-enter the labour market.	**Reaffirms Recommendation 23.**
Recommendation 24: The 2010 Pensions Working Group recommends that the Government in 2011 should consider amending the Social Security Act to allow persons who have a gap of up to five years in their contributory history as a result of following higher education are to be provided with the opportunity to fill those gaps on the condition that the contributory rate paid is the maximum contribution rate due on the date the application to fill in the gap is made.	**Reaffirms Recommendation 24.**
New Recommendation C:	The PWG 2010 **recommends** that given the enactment of the divorce legislation and the forthcoming tabling of a cohabilitation Bill the DSS should draft and seek enactment of appropriate legal provisions that would safeguard the interests and protect the pension rights of the divorcing spouses and cohabitating partners.
Recommendation 25: A Notional Defined Contribution First Pension system has in built features that allows it to self-adjust vis-a-vis its financial sustainability and longevity; as well as awarding higher replacement rates for persons who remain active in the labour market. The 2010 Pension Working Group is of the	**Re-affirms Recommendation 25** and adds that a transition to a Notional Defined Contribution Pay As You Go pension system constitutes a major structural reform and one that needs in depth expertise study before reaching a way forward vis-à-vis its potential application as a reform instrument to render the First Pension on a more sustainable basis. The PWG 2010 recommends that the Pensions Strategy Unit should lead this review and should be supported by the appropriate expertise in NDC design, transition and implementation engaged

considered opinion that the Minister of Pensions should consider appointing a Working Group to assess by 2013 the: (i) possibility of transforming the Two-Third Pension into a Notional Defined Contribution First Pension, (ii) short to long term impact of such a reform on the adequacy, sustainability and solidarity of the pension system, (iii) ability to migrate from a Two-Thirds Pension to Normal Defined Contribution First Pension; and (iv) implementation issues that would have to be addressed.	from supra-national institutions as well as EU countries which have under gone such a reform. The PWG 2010 recommends that this study should be initiated in June 2012 with a target completion date of October 2013.
Recommendation 26: The 2010 Pensions Working Group recommends that the Government should consider introducing a Mandatory Second Pension directed at persons who are aged 45 years and younger at the time when it is introduced.	**Re-affirms Recommendation 26** and adds that a realistic target year of implementation from when a decision is reached to when the first enrolment of members takes place is expected to be at worst 8 years. This means, therefore, that should a bi-partisan decision be reached in 2012 with regards to the implementation of a mandatory Second Pension, the PWG 2010 is of the considered opinion that first enrolment of members is unlikely to take place before 2020.
Recommendation 27: The 2010 Pensions Working Group recommends that the Government should consider inviting the Opposition and relevant representatives of both employers and employees to participate in the design and implementation of a Mandatory Second Pension. Strategic and important decisions have to be taken with regards to matters such as the size of contributions; the sources of financing for these contributions and the phasing in of the framework, et al. To the extent possible the introduction of a Mandatory Second Pension should be based on a national consensus.	**Re-affirms Recommendation 27** and adds that the Government should, by not later than July 2012, establish a National Commission for the Design of a Mandatory Second Pension that would be constituted of representatives of key stake holders and chaired by the Minister for Justice, Dialogue and the Family. The purpose of the National Commission would be that of attaining consensus on the introduction of a mandatory Second Pension, its design elements, contributions to be paid by employers and employees, and critical modalities such as phasing, incremental implementation et al. It is further recommended that the National Commission should be tasked to complete its work by the end of 2012. Additionally, the National Commission should be supported by the Pensions Strategy Unit.
Recommendation 28: The introduction of a Mandatory Second Pension will not happen overnight and the 2010 Pensions Working Group recommends that this time is maximised by Government and the representatives of employees and employers so that both employees and employers are prepared as best as possible for the introduction of a Mandatory Second Pension.	**Re-affirms Recommendation 28,** and adds that the National Commission, as part of its Terms of Reference, should articulate supporting measures that are to be introduced during the period from when a decision is taken with regards to the implementation of a mandatory Second Pension and period leading to its introduction that would help employers and employees take the necessary steps that would allow them to buffer impacts arising from the implementation of a mandatory Second Pension.

Recommendation 29: The 2010 Pensions Working Group is of the considered opinion that whilst the person prudent principle and the qualitative and quantitative investment criteria established in the IORP Directive suffice with regards to a voluntary ORP scheme or a Third Pension where a conscious decision to voluntarily invest in such an instrument is made, they do not suffice in providing the necessary level of protection for a Mandatory Second Pension framework where an individual is *forced* to save in such a scheme.	**Re-affirms Recommendation 29.**
Recommendation 30: The 2010 Pensions Working Group recommends that the introduction of a Mandatory Second Pension should be supported by a Default Fund framework based on a lifecycle investment strategy in which people who fail or are unwilling to make an investment choice are de facto enrolled in and that the Government should consider inviting, under the direction of ministerial policy orientation, the Malta Financial Services Authority to present recommendations on the most appropriate framework for the design and grafting of such a Default Fund onto the Mandatory Second Pension Framework.	**Recommends** that the afore proposed Terms of Reference for the National Commission should include matters relating to the design of the default option including, but not limited, to the following: - Design of the default fund option. - Design of formal mechanisms of how a person is informed of the default fund option. - Design of investment principles, the risk profile, life cycle principles with regards to a default fund option. - The number of default fund options and membership enrolment. - Mechanisms relating to the automatic enrolment in a default fund of persons who do not want or are unable to make an investment choice decision. - Governance of the default fund option. - Monitoring of the default fund performance. The PWG 2010 recommends that the Malta Financial Services Authority will work with the Pensions Strategy Unit in providing the necessary support to the proposed National Commission.
Recommendation 31: The 2010 Pensions Working Group recommends that Ministry for Pensions and the Malta Financial Services Authority should carry out a review by the earliest possible on the mechanism that Malta is to introduce to ensure that the most optimal administrative cost structure for the Mandatory Second Pension is introduced as otherwise the real danger exists that pension returns would be significantly eroded. Such a review would evaluate, amongst others the: (i) introduction of a fee capping structure; or (ii)	**Recommends** that the afore proposed Terms of Reference for the National Commission would include matters relating to the design of the appropriate fee structure for a mandatory Second Pension and the default fund option including, but not limited, to the following: - Introduction of a simple and non complex fee structure. - Introduction of a transparent fee structure. - Consideration of reducing or capping marketing costs within a mandatory Second Pension fee structure. - Design of a framework that ensures that a person’s right to exercise his or her choice to transfer from one pension provider to another is not restricted by high transfer and / or exit fees. - Consideration of introducing a fee capping structure.

establishment of the Department of Inland Revenue to act as a clearing house.	- Consideration of establishing the Department of Inland Revenue or any other entity as a clearing house.
Recommendation 32: The 2010 Pensions Working Group recommends that Government should consider introducing the Third Pension framework as early as possible in 2011 in order to provide the appropriate vehicle for persons to save for their pension voluntary should they wish to do so.	**Recommends** that a Third Pension is introduced on the following principles: (i) Locks savings for retirement until, at the earliest, the person's official retirement date.*[1] (ii) The person may decide to defer his or her claim to the pension fund income until after his or her retirement date in order to have the flexibility and the opportunity to valorise his or her pension fund in the most suitable economic and financial conditions. (iii) A person may be able to drawn down a **maximum** of 30% of the pension fund as a lump sum.* (iv) A person will retain as a **minimum** 70% of the pension fund for the provision of a monthly annuity or annual / monthly programmed income draw-down or other forms of income generated from alternative investments as governed by the appropriate regulatory framework.* (v) In the event a person dies before his or her retirement age or the valorisation of his or her pension fund the beneficiaries of the said person will receive the said investment. (vi) In the event that the income from a Third Pension is not in the form of an annuity the transfer to the estate of the deceased of the remaining investment in the case of death following the drawdown of the pension income from the Third Pension.
Recommendation 33: Given that a Third Pension framework will be introduced prior to a Mandatory Second Pension the 2010 Pensions Working Group considers it to be of strategic importance that a Third Pillar framework is designed in such a way to facilitate persons who invest in it to be able to migrate into the Mandatory Second Pension as otherwise people may decide against investing in a Third Pension if they fear that they would have to pay an addition saving contribution once the Mandatory Second Pension is introduced.	**Re-affirms Recommendation 33.**
Recommendation 34: The 2010 Pensions Working Group recommends that given that Malta is yet to establish instruments for saving for one's retirement let alone building a culture for saving for one's	**Re-affirms Recommendation 34.**

[1] (*) Denotes that the matter was discussed between the PWG 2010 and the Malta Financial Services Authority and agreed to in principle

retirement there is merit that in the building of such a culture the Government may wish to consider putting together a tax incentives framework to spur people to invest in a Third Pension.	
New Recommendation D	As shown in the final report, the PWG 2010 considers persons who are today aged 38 years and over to be a 'vulnerable' group compared to current and future pensioners as these persons are either negatively caught in the 2007 reform transition process or will not be afforded the opportunity to invest in a mandatory Second Pension for reasons articulated – a state of play which will respectively result in a lower Average Pension Replacement Rate as compared to current and future pensioners. The PWG 2010, therefore, **recommends** that the Government considers introducing an ad hoc tax incentive scheme directed at persons who are today 38 years and over in order to spur them to invest in **existing** pension retirement schemes or other financial services instruments that are already present in the market as a means to neutralise negative impacts arising from a lower Average Pension Replacement Rate as compared to current and future pensioners.
Recommendation 35: The 2010 Pensions Working Group recommends that the Government should consider introducing a fiscal instrument directed to incentivise persons to invest in savings for their retirement through a Third Pension that is designed on the following basis that the: (i) fiscal instrument is in the form of a tax deduction; (ii) contribution is tax exempt; (iii) maturity value is tax exempt; (iv) annuity or income received is taxable.	Recommends that a tax incentive framework is introduced with regards to the Third Pension proposed in Recommendation 32 on the following principles: (i) No tax is to be paid on the contributions paid on a Third Pension.* (ii) No tax is to be paid on the maturity of the surrender value of a Third Pension.* (iii) No tax is to be paid on the maximum 30% part of the pension surrender value that a person can take as a lump sum.* (iv) A 15% maximum tax is paid on the 70% part of the pension surrender value that a person will receive as a monthly annuity or programmed drop-down income or any other form of income.* The PWG 2010 recommends that the Government considers implementing an Exempt - Exempt - Taxable framework for a Third Pension by 2013.
Recommendation 36: The 2010 Pensions Working Group recommends that the Government should consider reviewing the Income Tax Act with regards to provisions related to private pensions and to harmonise such provisions with other appropriate related legislation.	**Re-affirms** appropriate legislation is harmonised to ensure that they reflect contemporary tax principles that relate to pension funds.

Recommendation 37: The 2010 Pensions Working Group is of the considered opinion that an opportunity exists to fast track the introduction of pension savings accounts by incentivising the conversion of existing financial products on maturity into locked pensions savings and recommends that the Government should consider working with appropriate stakeholder to devise a way forward in this regard by 2012.	The PWG 2010 **recommends** that a scheme is introduced that will enable a person who today holds a financial or insurance services instrument such as a unit-linked policy, or a profit-linked policy or a life endowment policy to convert such a policy into a Third Pension subject to the following conditions: (i) Locks up to a minimum of 70% of the surrender value of the existing financial services instrument upon maturity into a Third Pension.* (ii) The 70% of the surrender value locked into a Third Pension will be tax free whilst the investor will pay 15% tax on the maximum of 30% of the maturity value taken as a lump sum. (iii) The minimum 70% of the surrender value now rolled over into a Third Pension is locked in the Third Pension until the person's official date of retirement or until such date thereafter that a person may decide to defer his or her claim to the pension fund income in order to have the flexibility and the opportunity to valorise his or her pension fund in suitable economic and financial conditions. (iv) The newly set-up Third Pension upon the official retirement date or as when thereafter claimed will result in a monthly annuity or annual / monthly programmed income draw down or other forms of income generated from alternative investments as governed by the appropriate regulatory framework.* (v) In the event that a person dies before his or her retirement age or the valorisation of his or her pension fund thereafter, the beneficiaries of the said person will receive the said investment. (vi) In the event that the income received from a Third Pension is not in the form of an annuity the transfer to the estate of the deceased of the remaining investment in the case of death following the drawdown of the income from the Third Pension. (vii) A 15% maximum tax is paid on the 70% part of the pension surrender value that a person will receive as a monthly annuity or income.* The PWG 2010 recommends that the Government should consider implementing by 2013 the proposed scheme directed to incentivise persons who have invested in financial and insurance services products into a Third Pension.
Recommendation 38: The 2010 Pensions Working Group recommends that the Ministry for Pensions and the Malta Financial Services Authority should consider studying the introduction of a regulated home equity release market directed to allow a person to boost his or her retirement income without the need to sell his or her property during his and his spouse's lifetime.	**Recommends** that the MFSA is tasked to introduce a regulatory framework for the provision of home equity release products by December 2013 in order to ensure good governance and provide protection to vulnerable groups.
Recommendation 39: The	**Recommends** that the Government works with banks and financial

2010 Pensions Working Group recommends that the Government should consider to reform the Children's Allowance benefits scheme so that a parent on a voluntary basis may request the Department of Social Security to open a Child Pension Account from which there will no withdrawal, will become the child's property at the age of 18, the balance will automatically be transferred to a pension scheme of the owner's choice.	institutions so that the latter introduce a Child Pension Account or variants thereof with favourable interest rates.
Recommendation 40: The 2010 Pensions Working Group recommends that, in order to incentivise an accelerated accumulation of the capital within a Child Pension Account, the Government should consider studying the impact of a fiscal incentive scheme that would provide a tax deduction for contributions to a certain limit made by the parents or direct relatives of the child into the said Pensions Account.	**Re-affirms Recommendation 40** and adds that the Government should consider implementing an incentive framework to accelerate the accumulation of capital in such Child Pension Accounts in the 2013 National budget.
Recommendation 41: The 2010 Pensions Working Group recommends that the Government should task the National Statistics Office, the Ministry for Pensions and the Malta Financial Service Authority to carry out a specifically designed survey that will provide a baseline and acts as the starting point for assessing adult financial literacy in Malta.	**Re-affirms Recommendation 41** and adds that the Permanent Task Force on Financial Literacy should issue the proposed survey by July 2012.
Recommendation 42: The 2010 Pensions Working Group recommends that that the Government should consider establishing in 2011 a Permanent Task Force on Financial Literacy that is assigned the terms of reference to design and implement a financial literacy strategy.	**Re-affirms Recommendation 42** and adds that: (i) The proposed Terms of Reference should be extended to empower the proposed Task Force to explain and communicate to the public at large a basic understanding of how the current pension system works and how decisions taken today impact the future pension value. (ii) The Permanent Task Force on Financial Literacy should be set up by May 2012.
Recommendation 43: The 2010 Pensions Working Group recommends that the newly established Task Force, if the Recommendation 32 is adopted by Government, should enter into discussions with the Directorate for Education Services to establish within the education curriculum the fundamental basics of financial	The implementation of this Recommendation is underway.

management and literacy and to amend the Curriculum of Personal and Social Development subject at both the primary and secondary level of education to include modules on financial literacy.	
Recommendation 44: The 2010 Pensions Working Group recommends that the newly established Task Force, if the Recommendation is adopted by Government, should enter into discussions with: (i) the Employment and Training Corporation to introduce financial literacy training programmes for persons in employment; and (ii) appropriate constituted bodies to assist employers to introduce seminars on financial literacy to their staff.	**Re-affirms Recommendation 44.**
Recommendation 45: The New Pensions Working Group recommends that the Government should consider strengthening the Department of Social Security by setting up of a Strategic Pensions Unit that would act as a resourced and sustained vehicle that ensures continued organised review and calibration of the Malta's pensions system	**Re-affirms recommendation 45** and adds that the Pensions Strategy Unit should be formally established within the Department of Social Security with immediate effect and that a call for applications for the appointment of a Director issued no later than April 2012.
New Recommendation E:	**Re-affirms recommendation 26 of Supplementary Paper Number 6** that the Maximum Pensionable Income and indexation mechanism and the Guaranteed National Minimum Pension are measures directed to balance impacts on the Switchers' Group as part of the holistic 2007 parametric reforms directed towards persons who are aged 45 years and younger as at 1st January 2007 and these do not create an anomalous situation with regards to current pensioners given that they were not affected by such reforms – which reforms are directed to secure a Average Pension Replacement Rate of 54.7% enjoyed by current pensioners.
New Recommendation F:	That replacing the current wage\COLA indexation mechanism for current pensioners by the indexation mechanism designed for the Switchers Group is, in the form presented by the representatives of current pensioners, not implementable as it would render the pension system unsustainable.
New Recommendation G:	Extending the Guaranteed National Minimum Pension designed for the Switchers Group to current pensioners is, in the form presented by the representatives of current pensioners, not implementable as it would render the pension system unsustainable.
New Recommendation H:	The Government should continue with its current policy with regards to service pension by phasing out them out through the extension of similar budget instruments applied to date.

New Recommendation I:	The policy instrument to replace the Collective Agreement by an indexation mechanism proposed as a potential solution by the PWG 2010 in the Supplementary Paper, No 6 to the Strategic Review with regards to resolving the anomaly arising from Section 59(3) of the Social Security Act is not feasible as it is not financially sustainable.
New Recommendation J:	That Government assigns Pensions Strategy Unit to study the introduction of a at-risk-of-poverty protection mechanism that would be based on the following principles (i) is a budgetary instrument; (ii) is means tested; (iii) is calculated on the basis of a holistic methodology that accounts for a pensioner and / or the pensioner household income on the basis of designated income and non-income support measures which is subsequently reconciled against an equivalised poverty index benchmark; and (iv) in the event that there exists an at-risk-of-poverty gap, then a non-contributory payment that reflects the size of the said gap is made to the pensioner – which non-contributory payment can be annually or over a designated term re-assessed subsequent to which it is increased or decreased accordingly. The PSU should be tasked to conclude the study by October 2012.

The PWG 2010 recommends the following next steps:

			2012										2013											
	Rec		M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
Review of Post Consultation Report by MJDF																								
Review of Post Consultation Report by Cabinet																								
Publication of Post Consultation Report by Government																								
Presentation to MCESD and general public of Accepted Principles of Reform by Government																								
Consultation on Principles of Reform																								
Establish Pensions Strategy Unit within the Department of Social Security	45																							
Issue call for applications for Director of Pensions Strategy Unit	45																							
Appoint Working Group on Pro-natal Policy Framework	06																							
Conclude review of new disability pension framework	08																							
Appoint Inter-Ministerial Task Working Group on Pensions and Care for the Elderly	10																							

Appoint a Working Group to assess current childcare services support	11																							
Appoint Working Group to assess Before and After school support	12																							
Appoint Working Group to review and assess Family Friendly measures	13																							
Appoint Working Group to review and recommend measures to incentivise females to join the formal economy	14																							
Appoint Inter-Ministerial Working Committee on Active Female Participation Policy Design and Review	16																							
Appoint Permanent Inter-Ministerial Working Committee on Active Aging Strategy	17																							
Pensions Strategy Unit to assess atypical employment and incidence to at- risk-at-poverty	18																							
Employment and Training Corporation present a strategic document for the undertaking of a national skills audit	19																							
Presentation of amendments to the Social Security Act with regards to pensions and divorce and cohabitation	C																							

Initiate an in-depth study on Notional Defined Contribution application in Malta as a measure to reform the First Pension	25																							
Establish a National Commission for the Design of a Mandatory Second Pension	27																							
Introduce a Third Pension	32																							
Introduce a tax incentive on current fiscal measures with regards to identified vulnerable group	D																							
Introduce an EET tax incentive framework for a Third Pension	35																							
Introduces a tax incentive for current policy holders to roll over financial instruments upon maturity into a Third Pension	37																							
MFSA introduces a regulatory framework for home equity release products	38																							
Implement an incentive framework to accelerate accumulation of capital in a Child Pension Account	40																							
Appoint a Permanent Task Force on Financial Literacy	42																							
Permanent Task Force on Financial Literacy to complete first national	41																							

literacy survey																								
Pension Strategy Unit presents studies with regards to a non contributory at-risk-of-poverty protection mechanism for current pensioners	I																							