



GEMMA
know, plan, act.

The PENSION SYSTEM in MALTA

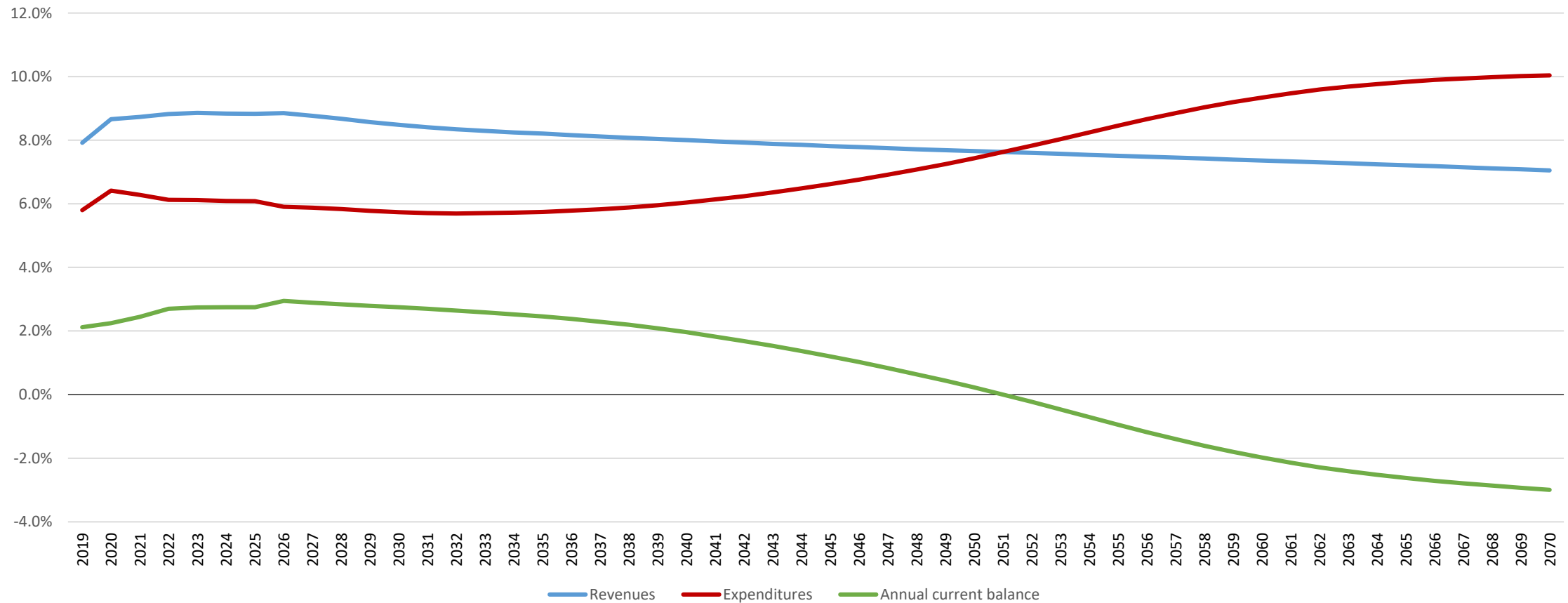
WHERE SHOULD WE BE HEADING?

26th February 2021

Pension Reform Journey



No Reform Baseline Model: Impact on the Pension System Deficit to GDP: 2020-2070



Projections of a No Reform Scenario

	2004 WORLD BANK STRATEGIC REVIEW	2010 STRATEGIC REVIEW	2015 STRATEGIC REVIEW	2020 STRATEGIC REVIEW
PROJECTION PERIOD	2050	2060	2060	2070
ADEQUACY	16.0%	46.0%	51.7%	55.0%
PENSION DEFICIT TO GDP	-4.0%	-5.8%	-4.8%	-3.0%

FIVE PRINCIPLES

on which the Pension System is to be based.

- 1) A clear definition of the objectives of the pension system.
- 2) An adequate and sustainable pension system sustained by a strong employment policy.
- 3) The state pension should constitute a solid foundation, but it should not be the only source of retirement income.
- 4) The pension system is rendered socially sustainable by providing for a fair balance between contributions and benefits across generations.
- 5) To remain adequate and sustainable, the pension system needs to evolve and effectively to respond to long term developments.

Principle 1

A clear definition of the objectives of the pension system

- 1) Minimum income standard for pensioners on a household basis providing a graduated benefit depending on the benefits, income and in-kind benefits, and services earned by the household: minimum budget approach which would be reviewed as part of the five year strategic review process.
- 2) MPI and the pension income of current pensioners should not be linked only to retail inflation but also to wage inflation: replace the current CA pension re-assessment.
- 3) Separate the poverty alleviation function from the contributory insurance system - a single rate pension coupled with a dependent pension top-up, with the latter being treated as a non-contributory benefit to be financed from general taxation.
- 4) The [retirement and financial](#) capability platform must be institutionalised and provided with a more substantive budget.

Principle 2

An adequate and sustainable pension system sustained by a strong employment policy

- 1) Women to leave the workforce to provide long-term care, still relevant and will increase as the demand for care for the elderly services will increase as the population ages. Need to develop a strategy to ensure that long-term care does not reduce female labour participation. The same vigour and resources devoted to boosting childcare need to now be devoted for long-term care
- 2) number of persons employed who are aged 55 to 63 has increased despite the possibility to exit the labour market at 61 years - momentum achieved in this regard is to be maintained; and improved upon if possible.
- 3) Participation in the labour market continues to be poor is that of persons aged 65 years and over. Incentive mechanisms to attract such persons to remain active are to be introduced
- 4) Up-skilling and re-skilling of older workers needs to be strengthened. This will require more flexible educational solutions, including training courses organised in close cooperation with employers

Principle 3

The state pension should constitute a solid foundation but it should not be the only source of retirement income.

- 1) Strong case to replicate overseas experiences where VORPS are designed to counter behavioural heuristic triggers, which should exclude persons in low income employment
- 2) Buying a property and saving for retirement should not be seen as conflicting objectives but rather as complementary goals
- 3) Persons should be enrolled in VORPS
- 4) Fiscally incentivised pathways introduced to attract persons to transition non-pension products to PPS on maturity
- 5) Fiscally incentivised pathways should be introduced to allow parents to invest for their children's retirement
- 6) Effectiveness of the new home equity release products regulation is to be monitored

Principle 4

The pension system is rendered socially sustainable by providing for a fair balance between contributions and benefits across generations

- 1) Principle presented in the 2015 review to establish a ratio of contribution years to expected benefit years should be maintained
- 2) Principle presented in the 2015 review that the change in contribution accumulation period is done within the framework of the 5 yearly strategic reviews should be maintained

Principle 5

To remain adequate and sustainable, the pension system needs to evolve and effectively to respond to long term developments

- Principle presented in the 2015 review -- that the pension system is to reflect emerging employment patterns and atypical employment be established at law
- Impact of family separation and divorce on pension entitlements too needs to be addressed
- Retain the five year review