

Malta: Country Fiche on Pension Projections (2016-2070)

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Economic Policy Department
Ministry for Finance

Introduction

This pension fiche provides a follow up of the original fiche submitted in May 2017. The fiche submitted in May 2017 incorporated only the pension reform laws enacted up to that date. This update shows the effect of the new set of demographic and macroeconomic assumptions of the Ageing Working Group.

The demographic old-age dependency ratio is projected to increase from 29.1% to 55.8% over the projection period, with the peak year being 2066. Compared to the 2015 Ageing Report, by end of the projection period, ageing is more intensive. The labour force projections show a substantial rise in the overall participation rates, particularly for women and older workers. Potential GDP as well average growth over the whole period is much higher than the previous round of projections. In the new round of projections the average potential GDP growth is 2.3 per cent whereas in the last report it hovered around 1.7 per cent. Potential GDP growth is projected to decline from 6.1% in 2016 to 1.1% in 2055 and thereby regains momentum by 0.5 pp. by end of 2070.

Compared with the projections in the 2015 Ageing Report, public pensions expenditure according to the baseline scenario is projected to rise less rapidly over the entire projection horizon. Over the period 2016-2032, public pension expenditure is expected to decline by 1.0 pp. of GDP. During the 2033-2060 period, the pension expenditure to GDP increases by 3.4 pp. of GDP, while over the last remaining years expenditure adds-up further by 0.4 pp. of GDP. Over the whole projection period, the increase amounts to 2.9 pp. of GDP. The increase reflects both faster ageing which puts an upward pressure on public spending as well as substantial improvements in macroeconomic assumptions.

The fiche is organised as follows: Part 1 provides an overview of the pension system in Malta, Part 2 provides an overview of the demographic and labour force projection results; Part 3 presents the pension projection results; while Part 4 describes the pension projection model.¹ Annex I provides the methodological annex, and Annex II provides a description of the contributory and non-contributory benefits in Malta.

¹ The assistance of the World Bank and the Ministry for the Family, Children's Rights and Social Solidarity is acknowledged.

Part 1: Overview of the Pension System in Malta

1.0 Description of the Social Security Scheme

The current pension scheme in Malta is based on the Social Security Act, Chapter 318 of the Laws of Malta. The Act provides for two basic schemes, the Contributory Scheme, and the Non-Contributory Scheme. In the Contributory Scheme, the basic requirement for entitlement is that specific contribution conditions are satisfied. In the Non-Contributory Scheme, the basic requirement is that the conditions of the means test are satisfied.

The Non-Contributory Scheme has made possible the allocation of more than one benefit at the same time, thus providing simultaneous coverage in those cases where more than one contingency is present. Through the process of targeting, this scheme has succeeded in the provision of additional assistance to certain specific categories such as, in the case of persons with a disability, in the case of single parents, as well as in the case of the family as a single unit.

The Contributory Scheme is universal since it practically covers all strata of the Maltese society. Within this scheme, employees, self-occupied and self-employed persons acquire social insurance rights through the payment of a weekly contribution as laid down by the Social Security Act. A description of the contributory and non-contributory benefits can be found in Annex 1.

Contributions are payable by all gainfully occupied persons between the age of 16 and their pension age.² The scheme allows for several types of contributions to extend coverage to all types of persons in employment. Employed persons pay Class One contributions, while the self-occupied pay Class Two contributions. Class One contributions imply that any person employed under a contract of service in Malta is in insurable employment and subject to the payment of these contributions. For each person, a tripartite contribution is payable: the employed person, the employer and the State each pay 10 per cent of the basic salary of the employee; with the contribution capped to the Maximum Pensionable Income as described in Section 1.1. The rate of Class Two contributions is equally shared by the State and self-occupied persons, whereby the self-occupied pays 15 per cent and the State pays 7.5 per cent of their annual income that is subject to the same ceiling that applies for employees.

The following categories of persons are statutorily exempt from the payment of a Class Two contribution:

- a) Persons in receipt of full-time education or training.
- b) Non-gainfully occupied married persons.

² Contributions are also payable by pensioners in gainful employment that retired after 5 of January 2008. Pensioners who retired earlier than this date are allowed to work without prejudicing their pension rights in the ages of 61 years to 65 years without paying social security contributions, subject to a ceiling on earnings equivalent to the national minimum wage. For this group, ceiling on earnings is removed at age of 65 years and no further contributions are due.

- c) Persons in receipt of a pension in respect of widowhood, invalidity or retirement or persons in receipt of a Parent's Pension.
- d) Persons in receipt of non-contributory Social Assistance or a Non-Contributory pension.

1.1 Overview of Key Pension Parameters

The projections take into account the legislated pension reforms, including measures to be phased in gradually. What follows is an outline of the main pension parameters of the contributory old-age pension also known as the two-thirds pension scheme. The House of Representatives formally adopted a series of parametric reforms in 2006 (Act No. XIX of 2006) and in 2016. Table 1 summarises the qualifying conditions for retiring, showing the statutory retirement age, earliest retirement age and the contributory period for full pension eligibility.

Table 1 – Qualifying condition for retiring

		2016	2020	2030	2040	2050	2060	2070
Qualifying condition for retiring with a full pension	Minimum requirements	Contributory period - men	35	35	40	41	41	41
		Retirement age - men	61	61	61	61	61	61
		Contributory period - women	35	35	40	41	41	41
		Retirement age - women	61	61	61	61	61	61
	Statutory retirement age - men		62	63	65	65	65	65
	Statutory retirement age - women		62	63	65	65	65	65
Qualifying condition for retirement WITHOUT a full pension	Early retirement age - men		61	61	61	61	61	61
	Early retirement age - women		61	61	61	61	61	61
	Penalty in case of earliest retirement age		:	:	:	:	:	:
	Bonus in case of late retirement		:	:	:	:	:	:
	Minimum contributory period - men		10	10	10	10	10	10
	Minimum contributory period - women		10	10	10	10	10	10
	Minimum residence period - men		0	0	0	0	0	0
	Minimum residence period - women		0	0	0	0	0	0

Source: Member State

* bonus for late retirement is paid only if the person qualifies for retiring with a full pension.

1.1.1 The definition of pension age

The 2006 reform included a gradual increase in the retirement age from 61 years for men and 60 years for women to 65 years by 2027. Pension age currently stands at 62 years. In the case of a person born during the calendar years 1952 to 1955, pension age shall be 62 years; for persons born during the period 1956 to 1958, pension age shall be 63 years; for persons born in the period 1959 to 1961, pension age shall be 64 years; and for persons born after 1962, pension age shall be 65 years.

The increase in pension age contributes to later retirement and, therefore, besides the macroeconomic effects, results into few new pensioners, lengthier years of service, and consequently raising the effective exit age.

1.1.2 Retirement before statutory pension age

The reforms legislated in 2016, as described below, introduced a stricter rule for persons born after 1968 to access the early exit option. This is intended to lengthen careers and defer early retirement.

A person who has attained the age of 61 years but has not yet attained pension age, can after attaining 61 years of age claim a pension in respect of retirement if such person is no longer gainfully occupied. The claimant must have a total of:

- (i) 1,820 (or 35 years) paid or credited contributions in the case of a person born between 1/1/1952 and 31/12/1961,
- (ii) 2,080 (or 40 years) paid or credited contributions in the case of a person born between 1/1/1962 and 31/12/1968,
- (iii) 2,132 (or 41 years) contributions for a person born on or after 1/1/1969
 - a. persons born in 1969 must have 31 years paid contributions
 - b. persons born in 1970 must have 32 years paid contributions
 - c. persons born in 1971 must have 33 years paid contributions
 - d. persons born in 1972 must have 34 years paid contributions
 - e. persons born in 1973 or later must have 35 years paid contributions

1.1.3 Pensionable income

In case of employees:³

- (i) born on or before the 31st December 1951, the pension is determined based on the yearly average of the basic wage during the best 3 years of the last 10 years
- (ii) born during the years 1952 to 1955, the pension is determined based on the yearly average of the basic wage during the best 3 years of the last 11 years
- (iii) born during the years 1956 to 1958, the pension is determined based on the yearly average of the basic wage during the best 3 years of the last 12 years
- (iv) born during the years 1959 to 1961, the pension is determined based on the yearly average of the basic wage during the best 3 years of the last 13 years

In case of self-employed/self-occupied persons:

- (i) born on or before the 31st December 1951, the pension is determined based on the yearly average of his net income on which the required contribution has been paid during the last 10 years
- (ii) born during the years 1952 to 1955, the pension is determined based on the yearly average of his net income on which the required contribution has been paid during the best 10 consecutive years of the last 11 years
- (iii) born during the years 1956 to 1958, the pension is determined based on the yearly average of his net income on which the required contribution has been paid during the best 10 consecutive years of the last 12 years
- (iv) born during the years 1959 to 1961, the pension is determined based on the yearly average of his net income on which the required contribution has been paid during the best 10 consecutive years of the last 13 years

By virtue of the 2006 reform, in the case of a person born on or after the 1 January 1962, the pension shall be determined by taking the yearly average of the basic wage/salary/net

³ The basic wage refers to the gross wage or salary that is payable to an employed person by or on behalf of his employer excluding any remuneration for overtime, any form of bonus, any extra allowances, any remuneration in kind and commissions.

income/net earnings as the case may be, during the best 10 calendar years within the last 40 years immediately preceding his retirement or invalidity. In determining pensionable income, past wages and incomes are updated with the cost of living adjustment (COLA) granted with respect to those years.⁴

1.1.4 The Maximum Pensionable Income

Prior to the 2006 reform, the maximum pensionable income was fixed by law and was revised in recent years in line with the cost of living adjustment (COLA). Following the reform, in the case of a person born on or before the 31 December 1961, whose retirement occurs on or after the 1 January 2007, the basic wage/salary/net income/net earnings and the resultant pensionable income, shall not exceed €16,207.78 increased by such sum as the Government may award as a cost of living increase. The following provisions stand: (i) for a person born on or before the 31 December 1951, the resultant pensionable income including any such cost of living increase shall not exceed the sum of €17,470.30; (ii) in the case of a person born during calendar years 1952 to 1961, the resultant pensionable income including any such cost of living increase shall not exceed the sum of €20,964.36.

In the case of a person born on or after the 1 January 1962 whose retirement occurs on or after the 1 January 2007, the resultant pensionable income shall not exceed:

- (i) €16,207.78 increased by such sum that the Government awards for the cost of living, in respect of the years 2007 to 2010;
- (ii) €16,207.78 increased on the 1 January of each year between 2011 and 2013 by one third of the difference between the sum referred to above and €20,964.36;
- (iii) €20,964.36 increased annually by 70 per cent of the percentage increase in the national average wage for the previous calendar year, plus 30 per cent of the inflation rate for that same year. This has applied as from the 1 January 2014.

This means that while pension expenditure for persons born before 1962 is contained by indexing the pension ceiling with the COLA, the more generous indexation for persons born after 1/1/1962 contributes to higher revenue from social contributions but also entitling pensioners to more a generous maximum pension, even if not fully indexed with average wage growth.

1.1.5 Pension formula

The pension formula for the two thirds pension is as follows:

$$\text{Contribution Average} * \frac{2}{3} * \text{Pensionable Income} - \text{Service Pension}$$

⁴ COLA is a flat rate increase in wages and pensions (the latter granted in full as from Budget for 2008) that reflects the indexation of the basic wage to the average Retail Price Index inflation of the last 12 months to September of that year.

where the Contribution Average was determined as the average of two averages with the first average being the average weekly contribution over the last 10 years prior to retirement (Avg_Cont_{10}) and second being the average weekly contribution paid during a maximum of 25 years falling prior the last ten years before the retirement of an insured person (Avg_Cont_{25}):

$$Contribution\ Average = \frac{(Avg\ Cont_{10} + Avg\ Cont_{25})/2}{50}$$

Prior to the 2006 reform, the contribution average consisted of Avg_Cont_{10} and Avg_Cont_{20} , with the latter being the average weekly contribution paid during a maximum of 20 years falling prior the last ten years before the retirement of an insured person.

The Social Security Act defines the ‘service pension’ as a pension or any allowance awarded to a person at any time before and after 1st of April 1978 that is payable by or on behalf of his employer with respect to past services in Malta or abroad. Over the years there were a number of changes made to the definition of service pension, however the principle introduced in 1978 remained in place as in the case where a person is in receipt of a service pension that exceeds two-thirds of his or her pensionable income then he or she is entitled to a flat-rate Retirement Pension (classified under ‘top-ups’). On the other hand, if the person’s service pension is less than two-thirds of pensionable income then the person is awarded an Increased Retirement Pension (classified under ‘2/3 retirement pension’) that is equivalent to the difference between the two-thirds of pensionable income and the service pension.

Therefore, prior to the enactment of the reform, the full rate of the Two-Thirds Pension was equal to 2/3 of pensionable income for a claimant who has paid or been credited with a yearly average of 50 contributions over a period of thirty-years. Under the reform law, the yearly average of contributions for the purposes of awarding a Two-Thirds Pension shall be:

- (i) 40 years in the case of a person born between the 1st January 1962 and the 31st December 1968, or
- (ii) 41 years in the case of a person born on or after the 1st January 1969

1.1.6 The Guaranteed National Minimum Pension (GNMP)

A person born on or before the 31st December 1961 who is not entitled to a Service Pension shall be entitled to a contributory National Minimum Pension, which is equivalent to:

- (i) in the case of a married person whose spouse is not in receipt of a social security pension, four-fifths, and
- (ii) in the case of any other person, two-thirds

of the national minimum wage.

Following the enactment of the 2006 reform law, a person born on or after the 1st January 1962 who reaches pensionable age and who is not entitled to a Service Pension shall be entitled to a Guaranteed National Minimum Pension (GNMP) which shall be payable at a rate that is not less than 60 per cent of the National Median Income. This represents a higher rate than that awarded to pensioners at present. The exact rate shall be determined by the Minister in charge of the Department of Social Security with the concurrence of the Minister responsible for Finance. In any case, the rate of GNMP cannot be less than that declared for the preceding year.

The above amendment still necessitated the determination of an appropriate benchmark for the “National Median Income”. In this light, as part of the reforms in 2016, the Government established the value of the Guaranteed Minimum Level of Pension. With effect from the 1st January 2016, a person not in receipt of a Service Pension shall be entitled to the Guaranteed Minimum Level of Pension, which in 2016 stood at €140.00 per week, where the yearly contribution average of paid or credited contributions is not less than 50. Such minimum level is increased annually by COLA.

1.1.7 Crediting of contributions

Crediting of contributions is allowed during certain contingencies, mainly:

- i. A widow, where such widow is not gainfully occupied for any period during which she does not remarry.
- ii. An ex-member of the Malta Police Force or the Armed Forces of Malta who retires on a service pension on completion of the full service prior to reaching pension age, for any period during which he or she is not gainfully occupied and has not yet reached pension age.
- iii. A person who goes abroad as a volunteer worker on projects in the areas of human welfare and development and environmental protection for any period he or she is performing such volunteer work and has not yet reached pension age subject to statutory defined criteria.
- iv. A person who is entitled to sickness, injury, or unemployment benefits or to an Invalidity Pension.

Following the implementation of the 2006 pension reform, the categories of persons to whom credit of contributions is allowed has been extended to include persons born on or after the 1 January 1962, who have the legal care and custody of a child who is less than six years old, or ten years old in the case of a child suffering from a serious disability.

Prior to the 2016 reform the credits for child rearing could be claimed for a maximum period of 2 years in the case of a parent who has stopped working to take care of his/her child for parents born on or after 1st January 1962.

Under the reform law (Social Security Act, Article 16): the credits for child rearing are as follows:

Number of Children	First 3 children	Fourth child onwards*
Persons born between 1/1/1952 and 31/12/1961	Shall not exceed 312 credited contributions (6 years) in any period of 6 years. Thus, 104 credited contributions (2 years) per child.	52 credited contributions (1 year) per child
Persons born on 1/1/1962 or after	Shall not exceed 624 credited contributions (12 years) in any period of 12 years. Thus, 208 (4 years) credited contributions per child.	104 credited contributions (2 years) per child

* Shall only be awarded insofar as, prior to the pension age, such parent, resumes gainful occupation for a minimum period equivalent to that period for which such number of credits would have been awarded for the fourth child onwards.

This means that following the 2016 reform, child crediting is subject to capping equivalent to 12 years for persons born on or after 1st January 1962 and at 6 years for persons born between 1st January 1952 and 31st December 1961.

In 2016 there were also amendments in the Act with the introduction of credits for human capital development and lifelong learning, as outlined in the schedule below.

Level of Study*	Persons born between 1/1/1952 and 31/12/1961	Persons born on 1/1/1962 or after
Lifelong Learning	One month for each year	One month for each year
Level 5	Two months for each year	Two months for each year
Level 6	Three months for each year	Three months for each year
Level 7	Three months for each year	Six months for each year
Level 8	Six months for each year	One year for each year

* in accordance with the Mutual Recognition of Qualification Act (Cap. 451).

1.1.8 Pension Indexation

Persons born before the 1st January 1962 (including present retirees) have their pension updated based on the COLA as well as any increases in wages presently awarded through collective bargaining to the occupation or salary scale previously occupied by the person in retirement. Following the 2006 pension reform, persons born after the 1st January 1962 will have their pension updated annually by such a sum that corresponds to 70 per cent of the increase in the national average wage and 30 per cent of the inflation rate as published by National Statistics Office.

1.1.9 Incentivise later retirement

In addition, Government introduced an incentive mechanism (Legal Notice LN289/16) intended to incentivise later retirement and lengthening working lives. The scheme is open to workers in the private sector, who would have paid 35 years of social security contributions and are eligible to retire at 61 years of age. Those who continue working until 62 years will receive an increase of 5 per cent in their pension. The scale increases every year, whereby, a person who works until 63 years would receive an increase of 10.5 per cent. If a person defers retirement by 4 years and 5 years, to retire at 64 and 65, would receive an increase of 16.5 per cent and 23 per cent, respectively. In addition,

another amendment was affected to Article 64A whereby persons born on or after 1/1/1969, such as to access the early exit option, require 35 years of paid contributions with a maximum of 6 years of credits. Both measures are intended to lengthen careers and deter early retirement.

The two measures, i.e. the incentives to encourage later retirement and the linking of the contributory period to the period spent in retirement, are expected to contribute to the strengthening of the long-term sustainability of public finances. At the same time, the adequacy element was also safeguarded through the increase in the minimum pension, better crediting for child rearing (which is designed to mitigate against gaps in the contributory periods of particularly women arising due to family responsibilities and as policy instrument contributing positively toward fertility increases) and the introduction of credits for human capital development and lifelong learning, alongside other measures.

1.1.10 Regulating the award of the invalidity pensions

Apart from the pension reform described in Section 1.1, the Maltese Government also introduced changes to regime regulating the award of the invalidity pensions and the review procedure. The new regime was implemented over the course of 2007 after the necessary legislative and organisational changes were instituted.

These measures introduced a new medical review process for this benefit and amongst the measures involved one finds:

- (i) Change the application format – to include more medical data and further responsibility on the part of the claimant to prove his case. No invalidity pension is issued for life and each case is subject to regular reviews. All cases are reviewed every three to four years – where updated medical evidence is requested from the beneficiary.
- (ii) Change the current medical panel system – under the new system, the Department of Social Security will be recruiting medical practitioners through an Expression of Interest to act as a Medical Review Team. The Team's main function is to advise the Director (Social Security) on the medical aspects of Invalidity claims.
- (iii) Establish specific medical criteria for the award of benefits – this has been achieved by establishing "Impairment Tables" that provide the basic guidelines under which that Medical Review Team would decide on work-related impairment for Invalidity pension.
- (iv) Establish an independent systems audit – Establish a medical audit for benefit claims awarded and rejected on medical grounds, in order to establish whether such benefits have been awarded correctly.

Changes were also made to minimum period of sickness prior to payment of invalidity pension benefit which is now set at six months. However, this waiting period does not apply in the case of sudden severe or terminally-ill persons.

1.1.11 New Pensioners

Table 2a – Number of new pensioners (men) - year 2016

Age group	All	Old age	Survivor	Other (including minimum)
15 - 49	0.1	0.0	0.0	0.1
50 - 54	0.1	0.0	0.0	0.1
55 - 59	0.7	0.0	0.0	0.7
60 - 64	2.9	2.4	0.0	0.5
65 - 69	0.3	0.0	0.0	0.2
70 - 74	0.0	0.0	0.0	0.0

Source: Member State

Table 2b – Number of new pensioners (women) - year 2016

Age group	All	Old age	Survivor	Other (including minimum)
15 - 49	0.1	0.0	0.0	0.0
50 - 54	0.1	0.0	0.1	0.0
55 - 59	1.0	0.0	0.1	0.9
60 - 64	2.2	1.2	0.1	0.9
65 - 69	1.0	0.0	0.2	0.8
70 - 74	0.2	0.0	0.2	0.0

Source: Member State

Table 2c – Number of new pensioners (total) - year 2016

Age group	All	Old age	Survivor	Other (including minimum)
15 - 49	0.2	0.0	0.1	0.2
50 - 54	0.2	0.0	0.1	0.1
55 - 59	1.7	0.0	0.1	1.6
60 - 64	5.1	3.7	0.1	1.4
65 - 69	1.2	0.1	0.2	1.0
70 - 74	0.2	0.0	0.2	0.0

Source: Member State

1.2 Other reforms

Apart from the pension reforms described in Section 1.1, the Maltese Government also introduced changes to regime with the aim to improve adequacy as well as sustainability of pensions.

1.2.1 Linking contributory period with life expectancy

The Minister in charge of the Department of Social Security will, within intervals not exceeding five years, prepare a report, to be laid on the Table of the House of

Representatives, reviewing the workings regarding the Retirement Pensions together with recommendations for achieving further adequacy, sustainability and social solidarity in such manner that a stable proportion is kept between the contribution periods and the periods of time during which it is expected that the pension will be paid. This last report was submitted in 2015 with the next report due in 2020.

The report shall be discussed in the Social Affairs Committee or any other committee substituting the same. The Committee deals with all matters of social policy which may be referred to it by the House or by the Standing Committee on House Business. The report tabled by the Minister would serve to operationalise the link outlined in Article 64B and would be a clear statement of Government's policy. The report is necessary to measure the gains in life expectancy, as measured in the latest demographic projections, and thus, outline any necessary adjustments to the contributory period (as outlined in article 53), with a view to keep a stable proportion between the contribution periods and life expectancy at retirement.

The application of the principle of achieving a fair balance between the contributory period and the period spent in retirement across generations ensures that the contribution period for a full pension is now based on a stable ratio between years contributing and years drawing a pension.

1.2.2 Third Pillar and Voluntary Occupational Pensions

Government policy is also focused on diversifying retirement income and reducing dependency on state pensions. In 2015, the Government launched the Voluntary Third Pillar Pension Scheme, referred to as the Personal Retirement Scheme (LN 468 of 2014). This scheme is supplemented by another scheme, namely the Individual Savings Account (LN 469 of 2014). The qualifying personal retirement scheme must be registered under the Special Funds Regulation Act. Administrative statistics of the Inland Revenue Department show that there are in all 11 qualifying registered schemes and the number of qualifying individuals stood at 1,430 (or 0.8 per cent of total employment) in 2016.

In the Budget for 2017, the Government announced a measure intended to incentivise the take-up of voluntary occupational pensions. The Voluntary Occupational Pension Scheme Rules, which was introduced by virtue of Legal Notice 228 of 2017, provides tax credits to both employees and employers (including self-occupied persons) with the aim to incentivise an occupational pension system in Malta. The occupational retirement scheme is regulated by the Retirement Pensions Act or a long-term contract of insurance satisfying certain prescribed criteria.

1.2.3 Financial Literacy

The post consultation strategy on the National Strategy for Retirement Income and Financial Literacy is now completed. The strategy is now repositioned as Retirement and Financial Capability. This is a result of adding more focus on financial capability as an instrument of poverty prevention during lifecycles and retirement of vulnerable groups. The strategy was launched on 25th January 2017. An implementation vehicle, known as the Retirement and Financial Capability Working Group, constituted of Government and

private sector representatives, is set up and is chaired by the Ministry for the Family, Children's Rights and Social Solidarity.

1.2.4 Ministerial Powers and Responsibilities

The Minister, in concurrence with the Minister for Finance has the power to make and vary any regulations requiring persons who have not reached pension age and their employers as the case may be, to make contributions into Mandatory Second Pension Funds. Such regulations may provide for the rate of contribution payable, method and frequency of payment. Second Pension funds shall be governed by the Special Funds (Regulation) Act (Cap. 450). The Minister may, with the concurrence of the Minister responsible for Finance, provide for exemptions, deductions against chargeable income, or relief from income tax in respect of contributions made by any person to a Third Pension in line with the provisions of the Special Funds (Regulation) Act or the Retirement Pensions Act.

1.3 Reforms of the pension system included in the projections

The modelling work assumes a “no policy change” scenario and reflects as strictly as possible the pension rules, both current as well as those applying in future following the reform acts. The model also assumes full wage indexation for non-contributory age (minimum) pensions. This contrasts the current legislation which increases the age pension with COLA.

The projections exclude the impact of the linking of the contributory period to life expectancy as the AWG methodology is based on current legislation. The Maltese Government believes that the linking of the contributory period to life expectancy remains an important lynchpin in its strategy to ensure sustainable pensions and consequently considers the projections presented here as conservative in terms of their potential to generate lower increases in pensions expenditure over the long-term.

Part 2: Demographic and Labour Force Projections

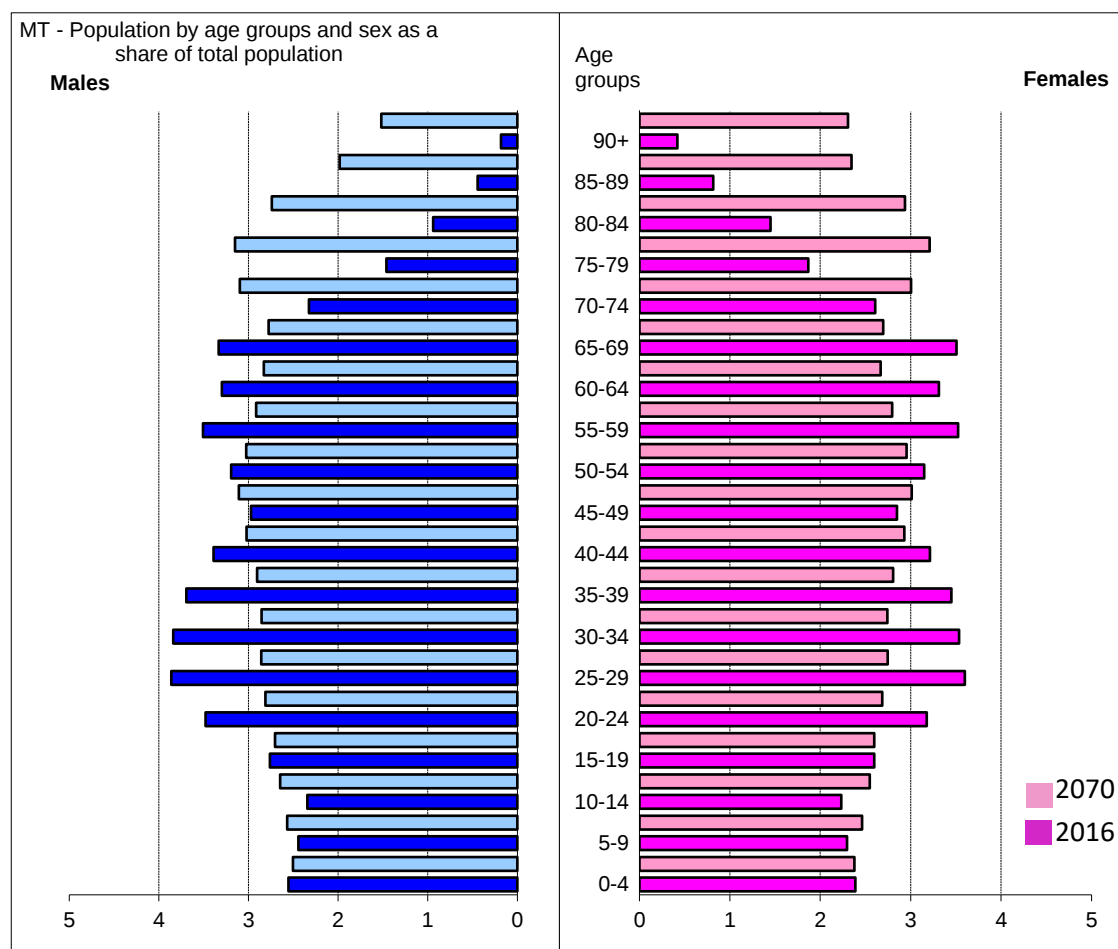
In projecting pensions, the demographic assumptions are the latest population projections by Eurostat (2017), while the macroeconomic assumptions are the commonly agreed methodology in the Economic Policy Committee.

2.1 Demographic development

Population projections indicate that total population in Malta is projected to rise from 437,658 in 2016 to around 521,000 in 2070. As shown in Chart 1, the age structure is projected to change significantly. While the share of the very young people (aged 0-14 years) in the total population is projected to hover around the 15 per cent share, the share of the people aged 65+ is projected to increase from 19.3 per cent to 27.9 per cent.

From an economic perspective, the most important change in demography concerns the working-age population (aged 20-64 years), which reflects the share of the population that will bear the financial ‘burden’ of the elderly. From a share of 61.0 per cent in 2016, this ratio is projected to subsequently fall to 46.2 per cent by 2070.

Chart 1 – Age pyramid comparison: 2016 vs 2070



Source: EUROSTAT and Commission Services

As indicated in Table 3, life expectancy at birth for men is assumed to rise by 6.8 years over 2016 to reach 86.8 years in 2070, whilst in the case of women it is expected to reach 90.6 years, an increase of 6.3 years over 2016. This implies that despite some convergence, female life expectancy in 2060 is projected to remain 4 years higher than that of males. Meanwhile, life expectancy at 65 years for males and females is projected to increase by 4.6 and 4.7 years, respectively over the whole period. The survivor rate for men aged over 65 years is projected to increase from 88.5 years in 2016 to 94.8 years in 2060, while that for women is projected to increase from 92.7 years in 2016 to 96.9 years in 2070. Following a similar upward trend, the survivor rate for men aged over 80 years, is projected to increase from 62.2 years in 2016 to 81.3 years in 2070, and that for women, is projected to increase from 76.1 years in 2016 to 89.4 years in 2070.

Another important variable in the evolution of the demography is net migration. As shown in Table 3, net migration inflows are projected to decline from 3,478 in 2016 to 1,015 in 2070. Net migration shall represent an important factor in determining developments in total population during the projection period as indicated by the ratio of net migration over population change, which is projected to increase from 0.7 per cent in 2013 to 2.5 per cent in 2060 and to decline to -5.5 per cent in 2070.

Table 3 – Main demographic variables evolution

	2016	2020	2030	2040	2050	2060	2070	Peak year*
Population (thousand)	437	455	490	506	513	519	521	2067
Population growth rate	1.1	1.0	0.5	0.2	0.1	0.1	0.0	2016
Old-age dependency ratio (pop65/pop15-64)	29.1	33.0	40.4	41.4	46.0	53.9	55.8	2066
Ageing of the aged (pop80+/pop65+)	22.0	23.3	32.2	39.4	36.8	37.2	43.6	2070
Men - Life expectancy at birth	80.0	80.5	82.0	83.4	84.7	85.8	86.8	2070
Men - Life expectancy at 65	19.3	19.6	20.6	21.5	22.3	23.1	23.9	2070
Women - Life expectancy at birth	84.3	84.8	86.1	87.4	88.5	89.6	90.6	2070
Women - Life expectancy at 65	22.2	22.5	23.5	24.4	25.3	26.1	26.9	2069
Men - Survivor rate at 65+	88.5	89.1	90.7	92.0	93.1	94.0	94.8	2070
Men - Survivor rate at 80+	62.2	63.7	68.1	72.0	75.5	78.6	81.3	2070
Women - Survivor rate at 65+	92.7	93.1	94.2	95.0	95.8	96.4	96.9	2070
Women - Survivor rate at 80+	76.1	77.2	80.4	83.2	85.6	87.7	89.4	2070
Net migration	3.5	3.2	2.6	2.0	1.4	1.3	1.0	2016
Net migration over population change	0.7	0.7	1.0	2.0	2.4	2.5	-5.5	2067

Source: EUROSTAT and Commission Services

The dynamics of the ageing process could be better appreciated by analysing the developments in the relative share of the elderly to the working-age population. These dependency ratios relate the number of individuals that are likely to be “dependent” on the support of others for their daily living – youths and the elderly – to the number of those individuals who can provide such support. Key indicators of age dependency presented in Table 3 are the old-age-dependency ratio (for persons aged 65 years and more) calculated relative to the number of individuals aged 15-64 years and the ageing of the aged ratio. The old-age dependency ratio (65+ year bracket as a percentage of the 15-64 year bracket) is projected to increase consistently from 29.1 per cent in 2016 to 55.8 per cent in 2070, an increase of 26.7 percentage points. Meanwhile, the ageing of the aged ratio, is projected to increase from 22.0 per cent in 2013 to 39.4 per cent in 2040, decline to 36.8 per cent by 2050 and increase to 43.6 per cent by 2070.

2.2 Labour force projections

Table 4 presents indicators related to the labour force projections for the age groups of 55-64 years and the 65-74 years. Labour force participation rate for the 55-64 age bracket is projected to reach a peak in 2070 at 70.1 per cent. Meanwhile, employment rate for workers aged 55-64 is projected to accelerate by 16.1 pp. of GDP to reach 61.7 per cent in 2030. In the subsequent years, the employment rate for the same age group is expected to increase gradually to an all-time high of 68.0 per cent in 2070.

Table 4 – Participation rate, employment rate and share of workers for the age groups 55-64 and 65-74

	2016	2020	2030	2040	2050	2060	2070	Peak year*
Labour force participation rate 55-64	45.6	44.4	61.7	67.7	69.8	68.6	70.1	2070
Employment rate for workers aged 55-64	44.3	43.0	59.7	65.7	67.7	66.7	68.0	2070
Share of workers aged 55-64 on the labour force 55-64	97.3	97.0	96.8	97.0	97.0	97.2	97.1	2016
Labour force participation rate 65-74	5.5	4.9	3.7	5.4	5.5	5.5	5.2	2017
Employment rate for workers aged 65-74	5.5	4.9	3.7	5.4	5.5	5.5	5.2	2017
Share of workers aged 65-74 on the labour force 65-74	100.0	100.0	100.0	100.0	100.0	100.0	100.0	2031
Median age of the labour force	37.0	37.0	40.0	42.0	41.0	40.0	40.0	2039

Source: Commission Services

Table 5a and Table 5b present indicators on the labour market entry age, exit age and expected duration of life spent at retirement by gender. The average effective exit age for men is assumed to increase from 62.5 years in 2017 to 64.0 years in 2070, while that for women is assumed to increase from 61.5 years in 2017 to 62.6 years in 2070. The increase in both the average effective exit age and the contributory period incorporates the effect of increases in the statutory retirement age by 2070, lengthening of the contributory period by 2034, and the incentives to defer retirement should result in more people with full contribution postponing retirement by 1 to 4 years.

Table 5a – Labour market entry age, exit age and expected duration of life spent at retirement, Men

	2017	2020	2030	2040	2050	2060	2070	Peak year
Average effective exit age (CSM) (II)	62.5	62.1	64.0	64.0	64.0	64.0	64.0	2033
Contributory period	40.0	40.5	41.3	41.4	41.4	41.5	41.4	2061
Duration of retirement	21.8	22.1	21.4	22.3	23.2	24.0	24.8	2070
Duration of retirement/contributory period	0.5	0.5	0.5	0.5	0.6	0.6	0.6	:
Percentage of adult life spent at retirement	32.9	33.4	31.8	32.7	33.5	34.3	35.0	2070
Early/late exit	2.9	1.3	0.8	0.9	0.8	0.7	0.9	2017

Source: Commission Services

Table 5b – Labour market entry age, exit age and expected duration of life spent at retirement, Women

	2017	2020	2030	2040	2050	2060	2070	Peak year
Average effective exit age (CSM) (II)	61.5	61.5	62.6	62.6	62.6	62.6	62.6	2028
Contributory period	27.1	28.0	30.3	31.8	33.3	34.8	36.2	2070
Duration of retirement	25.8	25.2	25.3	26.2	27.1	28.0	28.8	2070
Duration of retirement/contributory period	1.0	0.9	0.8	0.8	0.8	0.8	0.8	:
Percentage of adult life spent at retirement	37.3	36.7	36.2	37.0	37.8	38.5	39.2	2070
Early/late exit	3.4	1.2	2.4	1.9	1.8	1.4	2.1	2017

Source: Commission Services

Part 3: Pension Projections Results

The pension projection exercise covers contributory and non-contributory old-age pension paid under the social security scheme. The coverage of pension schemes includes also the expenditure on non-contributory old-age pension together with the share paid on the contributory and non-contributory bonus payment. At present private pensions play a rather minor role about pension provision for old-aged persons.

3.1 Extent of the coverage of the pension schemes in the projections

Table 6 shows the difference in the definition of pension expenditure available in Eurostat versus the pension schemes taken into consideration under the AWG.

Table 6 - Eurostat (ESSPROS) vs. Ageing Working Group definition of pension expenditure (% GDP)

	2007	2008	2009	2010	2011	2012	2013	2014
1 Eurostat total pension expenditure	8.6	8.7	9.2	9.4	9.1	9.2	8.8	8.3
2 Eurostat public pension expenditure	8.6	8.7	9.2	9.4	9.1	9.2	8.8	8.3
3 Public pension expenditure (AWG)	8.9	9.0	9.5	9.7	9.3	9.5	9.1	8.5
4 Difference (2) - (3)	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2
5 Expenditure categories not considered in the AWG definition, please specify:	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
5.1 Disability Pensions/Allowance	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
5.2 Orphans Allowance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5.3 Pensions under the MDDIMSLMSY Voluntary Early Retirement Schemes	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0
5.4 Injury Pension	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: [EUROSTAT and Member State](#)

When compared to ESSPROS, the AWG definition excludes the means tested disability pensions (including the disability child allowance, the disability pension and the severely disability pension), orphans allowance, early retirement schemes and injury pensions, which in the social security system are minor schemes and amount to around 0.3 per cent of GDP in 2014. The AWG definition is covering the contributory and the non-contributory bonus with the result that expenditure under the AWG definition is higher than under ESSPROS. ESSPROS figures do not include statutory bonuses, since bonuses are classified under a separate item.

3.2 Overview of Projection Results

Pension expenditure is composed as follows:

- Old age pensions – earnings related
 - 2/3 retirement pension (TTP)
 - National Minimum Pension (NMP)
 - Increased National Minimum Pension (INMP)
 - Decreased National Minimum Pension (DNMP)
- Old age pensions – minimum pensions (non-contributory)
 - Non-Contributory Age Pension (AP)
- Old age pensions – flat component

- share of contributory bonus payment for earnings related and non-contributory minimum pensions Old age pensions
- Disability – earnings related
 - Decreased National Invalidity Pension (DNIP)
 - National Minimum Invalidity Pension (NMIP)
 - share of contributory bonus payment
- Survivors – earnings related
 - Early Survivors Pension (ESRP)
 - National Minimum Widows' Pension (NMWP)
 - Survivors Pension (SRP)
 - share of contributory bonus payment
- Other pensions – earnings related
 - Invalidity Pension (IP)
 - Increased Invalidity Pension (IIP)
 - Increased Retirement pension (IRP)
 - Retirement Pension (RP)
 - Widows Pension (WP)
 - Service Pensions (Treasury Pension)
 - share of contributory bonus payment

Table 7 shows the projected gross pension spending and contributions as a percentage of GDP. Over the projection period, pension expenditure is projected to decrease from 8.0 per cent of GDP in 2016 to 7.1 per cent in 2030, and thereby increasing to 10.9 per cent in 2070. Meanwhile, revenue from contributions is expected to decrease from 8.1 per cent to 6.3 per cent over the projection period.

Table 7 - Projected gross and net pension spending and contributions (% of GDP)

Expenditure	2016	2020	2030	2040	2050	2060	2070	Peak year*
Gross public pension expenditure	8.0	7.8	7.1	7.3	8.7	10.5	10.9	2067
Private occupational pensions	:	:	:	:	:	:	:	:
Private individual pensions	:	:	:	:	:	:	:	:
<i>Mandatory private</i>	:	:	:	:	:	:	:	:
<i>Non-mandatory private</i>	:	:	:	:	:	:	:	:
Gross total pension expenditure	8.0	7.8	7.1	7.3	8.7	10.5	10.9	2067
Net public pension expenditure	:	:	:	:	:	:	:	:
Net total pension expenditure	:	:	:	:	:	:	:	:
Contributions	2016	2020	2030	2040	2050	2060	2070	Peak year*
Public pension contributions	8.1	7.0	6.9	6.7	6.6	6.5	6.3	2016
Total pension contributions	8.1	7.0	6.9	6.7	6.6	6.5	6.3	2016

Source: Commission Services

Table 8 - Projected gross public pension spending by scheme (% of GDP)

Pension scheme	2016	2020	2030	2040	2050	2060	2070	Peak year *
Total public pensions	8.0	7.8	7.1	7.3	8.7	10.5	10.9	2067
of which								
Old age and early pensions:	5.0	5.1	5.0	5.6	7.0	8.8	9.3	2069
<i>Flat component</i>	0.3	0.2	0.2	0.1	0.1	0.1	0.1	2016
<i>Earnings related</i>	4.5	4.6	4.6	5.2	6.6	8.4	8.9	2069
<i>Minimum pensions (non-contributory) i.e. minimum income guarantee for people above 65</i>	0.2	0.3	0.3	0.3	0.3	0.3	0.3	2065
Disability pensions	0.23	0.21	0.20	0.21	0.21	0.19	0.20	2016
Survivor pensions	1.36	1.28	1.11	1.09	1.07	1.02	0.93	2016
Other pensions	1.45	1.26	0.71	0.48	0.40	0.42	0.44	2017

Source: Commission Services

The expected increase in pension expenditure over the entire period is primarily attributable to an increase in expenditure on old-age pensions (earnings-related) that increases from 4.7 per cent of GDP in 2016 to 9.0 per cent in 2060. However, up to 2030, expenditure on old age pensions is expected to remain constrained due to higher pension age and indexation of the maximum pensionable income with the COLA. Thereafter, the increase in old-age pension expenditure is driven by the ageing process, in reflection of the projected demographic developments. At the same time, one notes that the parametric changes introduced in the pension reform – more dynamic indexation of the ceiling on pensionable income and the statutory changes to indexation for old-age pensions – also contribute to raise expenditure. On the other hand, the increase in the pension age, the increase in the contribution period for full pension eligibility, the changes to the benefit formula, and the incentives to defer retirement contribute to lower the projected increase in pension expenditure. The incentives to defer retirement result in more people postponing retirement by 1 to 4 years. At the same time, the lengthening of the contributory period translates into a lower accrual rate because of longer required length of service to qualify for the full pension benefit rate. The effect of extending child credits and introduction of human capital credits are minimal over the projection period, albeit translating into higher incremental replacement rate for both men and women.

The average old-age earnings related pension dynamics capture a transition effect, with persons born before 1962 having a more constrained indexation rule than persons born in and after 1962. The higher average pension growth than average wage reflects this change. Towards the outer years of the projection period, the transition is more or less complete and in this regard average pension increases at a rate that is slower than average wages because indexation of pension is less than 100 per cent of wage growth.

Expenditure on disability pensions and old-age (non-contributory) pensions are projected to stay relatively constant at 0.2 per cent and 0.3 per cent of GDP while expenditure on survivors' pensions is projected to decrease from 1.4 per cent of GDP to 0.9 per cent of GDP by 2070. This decline reflects faster average economic growth, particularly in the first half of the projection period, which has an accumulating effect on the denominator of the ratio. Furthermore, most claimants of survivor pension are females and therefore less survivors will be expected once females will have an old-age pension in own right.

Expenditure on other pensions is projected to decrease from 1.5 per cent of GDP to 0.4 per cent of GDP over the whole period. The decreasing contributions of other pensions (includes top-ups and treasury pensions) reflect a combination of factors. The 'top-up'

pension covers benefits currently payable to persons in receipt of service pensions which includes former servicemen in receipt of overseas pensions. This expenditure category is projected to decrease in importance over time in line with the life expectancy of the recipients of this pension. Similarly, the Treasury Pension is projected to decrease in importance over time given that it has been closed to new Government employees since 1979. Those who qualify for a Treasury Pension are:

- a. all government employees who started service with government before 15th January 1979 (closed system);
- b. Police, AFM personnel, Correctional Facilities officials and members of the Civil Protection;
- c. Widows of public officers who held a pensionable post and who contributed to the widows pension scheme; and
- d. Members of Parliament, Members of the Judiciary and the Attorney General.

Public officers as per (a) above are eligible to receive a service pension only if they were employed with government before 15th January 1979 and the service rendered was continuous; implying that new intakes from part (a) has been closed for almost 40 years. The number of new male and female pensioners as per scheme (a) in 2017 is 133 and 29 persons, respectively. The service pension as per (b)-(d) is still an open system and the number of beneficiaries are rather insignificant. In 2016, the ratio of uniformed pensions to total pensions stood at 0.2%.

In the base year, service pension and expenditure stands at 1.0% of GDP. For the reasons mentioned above, expenditure will decline to 0.4% of GDP by 2070, reflecting the outstanding parts as per (b)-(e).

3.3 Description of main driving forces behind the projection results and their implications for main items from a pension questionnaire

A deeper insight into the drivers of these results may be obtained by looking at the results of the decomposition of pension expenditure between 2013 and 2070 into the dependency ratio, coverage ratio, the benefit ratio, employment rate and labour intensity. Table 8a shows the developments in these factors behind the change in public pension expenditures during the projection period using pension data.

Table 9a - Factors behind the change in public pension expenditures between 2013 and 2070 (in percentage points of GDP) - pensions

	2016-20	2020-30	2030-40	2040-50	2050-60	2060-70	2016-70	Average annual change
Public pensions to GDP	-0.2	-0.8	0.3	1.3	1.8	0.4	2.9	0.053
Dependency ratio effect	1.0	1.7	0.2	0.8	1.6	0.4	5.7	10.6%
Coverage ratio effect	-0.4	-0.8	0.2	0.1	0.0	0.3	-0.6	-0.6%
Coverage ratio old-age*	-0.1	-0.3	0.1	0.1	0.3	0.4	0.5	2.9%
Coverage ratio early-age*	-0.3	-1.8	0.1	0.3	0.9	-0.6	-1.4	-5.0%
Cohort effect*	-1.2	-1.5	0.7	-0.5	-2.3	-0.5	-5.2	-10.9%
Benefit ratio effect	-0.5	-1.0	0.0	0.4	0.2	-0.2	-1.1	-2.5%
Labour Market/Labour intensity effect	-0.2	-0.6	-0.1	0.0	-0.1	0.0	-1.0	-2.1%
Employment ratio effect	-0.3	-0.6	-0.1	0.0	0.0	-0.1	-1.1	-2.4%
Labour intensity effect	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2%
Career shift effect	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1%
Residual	-0.1	-0.1	0.0	0.0	0.0	0.0	-0.2	-0.1%

Source: Commission Services

* Sub components of the coverage ratio effect do not add up necessarily.

Table 9b - Factors behind the change in public pension expenditures between 2013 and 2070 (in percentage points of GDP) - pensioners

	2016-20	2020-30	2030-40	2040-50	2050-60	2060-70	2016-70	Average annual change
Public pensions to GDP	-0.2	-0.8	0.3	1.3	1.8	0.4	2.9	0.053
Dependency ratio effect	1.0	1.7	0.2	0.8	1.6	0.4	5.7	10.3%
Coverage ratio effect	-0.2	-0.3	0.5	0.3	0.0	0.2	0.6	1.2%
Coverage ratio old-age*	0.1	0.4	0.4	0.3	0.3	0.4	2.0	3.6%
Coverage ratio early-age*	0.1	-2.0	0.5	0.4	0.8	-0.6	-0.8	-1.5%
Cohort effect*	-1.2	-1.5	0.7	-0.5	-2.3	-0.5	-5.2	-10.4%
Benefit ratio effect	-0.7	-1.5	-0.4	0.3	0.2	-0.2	-2.3	-4.3%
Labour Market/Labour intensity effect	-0.2	-0.6	-0.1	0.0	-0.1	0.0	-1.0	-1.8%
Employment ratio effect	-0.3	-0.6	-0.1	0.0	0.0	-0.1	-1.1	-2.0%
Labour intensity effect	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2%
Career shift effect	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
Residual	-0.1	-0.2	0.0	0.0	0.0	0.0	-0.2	-0.1%

Source: Commission Services

* Sub components of the coverage ratio effect do not add up necessarily.

As shown in Table 9a, over the period 2013-2070, pension expenditure as a percentage of GDP increases by 2.9 pp. of GDP. Taking into consideration the entire projection horizon, this increase is entirely driven by the developments in the dependency ratio. The largest countereffect stems from the employment effect, followed by the labour market intensity effect.

Table 10 shows the replacement rate at retirement, the benefit ratio and the coverage of the public pension scheme in Malta. The public scheme benefit ratio is expected to reach 47.6 per cent by 2020 and decrease to 37.7 per cent by 2040 and reach 39.3 per cent by 2070. Similarly, the replacement rate at retirement is expected to decline by 2.1 pp. between 2020 and 2070, to reach 45.5 per cent by 2070. In 2070, the maximum pensionable income will stand at 95 per cent of the average wage at retirement. It also follows that in the longer-term a greater share of new pensioners is likely to receive the maximum pension because average wage growth exceeds maximum pensionable income. Therefore, the modest decrease in the replacement rate at retirement reflects both effects.

Meanwhile, the total coverage for old-age earnings is projected to increase consistently from 67.3 per cent in 2016 to 80.1 per cent in 2070.

Table 10 - Replacement rate at retirement (RR) and coverage by pension scheme (in %)

	2016	2020	2030	2040	2050	2060	2070
Public scheme (BR)	49%	48%	39%	38%	39%	40%	39%
Public scheme (RR)	:	48%	46%	45%	45%	45%	45%
Coverage	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Public scheme old-age earnings related (BR)	43%	43%	39%	39%	41%	41%	41%
Public scheme old-age earnings related (RR)	:	51%	50%	49%	48%	48%	47%
Coverage	67.3	68.0	69.1	70.5	74.2	78.3	80.1
Private occupational scheme (BR)	:	:	:	:	:	:	:
Private occupational scheme (RR)	:	:	:	:	:	:	:
Coverage	:	:	:	:	:	:	:
Private individual scheme (BR)	:	:	:	:	:	:	:
Private individual scheme (RR)	:	:	:	:	:	:	:
Coverage	:	:	:	:	:	:	:
Total (BR)	49%	48%	39%	38%	39%	40%	39%
Total (RR)	:	48%	46%	45%	45%	45%	45%

Source: Commission Services

Table 11 provides an insight into the impact of demographic factors on the financial sustainability of public pension schemes. The number of pensioners is projected to rise by around 89,000 persons over the projection period, in reflection of increases in the number of old-age pensioners. The number of persons in employment is projected to rise from around 194,865 in 2016 to around 232,201 in 2040. Subsequently it decreases in line with the ageing process of the Maltese population as the number of new entrants in the labour market is not enough to compensate for the number of persons entering retirement. As a result, the system dependency ratio is projected to increase from 44.0 per cent in 2016 to 80.3 per cent in 2070.

Table 11 – System Dependency Ratio and Old-age Dependency Ratio

	2016	2020	2030	2040	2050	2060	2070
Number of pensioners (thousand) (I)	85.7	95.7	114.7	131.0	148.2	166.6	174.7
Employment (thousand) (II)	194.9	203.8	221.5	232.2	229.8	219.5	217.4
Pension System Dependency Ratio (SDR) (I)/(II)	44.0	47.0	51.8	56.4	64.5	75.9	80.3
Number of people aged 65+ (thousand) (III)	84.5	96.3	119.7	127.1	138.8	155.2	159.3
Working age population 15 - 64 (thousand) (IV)	289.9	292.1	295.9	306.9	301.6	287.8	285.7
Old-age Dependency Ratio (ODR) (III)/(IV)	29.1	33.0	40.4	41.4	46.0	53.9	55.8
System efficiency (SDR/ODR)	1.5	1.4	1.3	1.4	1.4	1.4	1.4

Source: Commission Services

Table 12a shows the ratio of the pensioners to the inactive population, while Table 12b shows the ratio of the pensioners to total population by age category. Tables 13a and 13b show the same ratio but for females. The decline in the coverage ratio for the 60+ age group in 2020 reflects increases in the pension age. The pensioners to inactive population ratio increase mainly due to more females receiving an old age pension, reflecting substantial declines in the inactive population as well as increase in the load. This reflects the higher employment rates, particularly for females. Indeed, the ratio for both genders tend to converge.

Table 12a – Pensioners (public schemes) to inactive population ratio by age group (%)

	2016	2020	2030	2040	2050	2060	2070
Age group -54	2.4	2.9	3.9	5.1	5.2	4.8	5.1
Age group 55-59	22.1	23.0	29.4	38.3	46.9	49.9	45.0
Age group 60-64	70.4	61.4	60.1	69.8	74.6	76.9	76.9
Age group 65-69	73.2	78.5	84.4	91.0	96.4	101.3	104.5
Age group 70-74	76.9	73.8	80.9	85.4	89.6	93.4	96.9
Age group 75+	89.1	88.7	87.1	91.9	95.8	97.7	100.8

Source: Commission Services

Table 12b – Pensioners (public schemes) to population ratio by age group (%)

	2016	2020	2030	2040	2050	2060	2070
Age group -54	1.0	1.1	1.5	1.9	1.9	1.9	2.0
Age group 55-59	8.5	8.3	7.7	7.4	7.9	8.4	7.5
Age group 60-64	50.3	45.4	31.3	32.2	32.7	34.0	33.6
Age group 65-69	67.7	72.8	78.7	83.3	87.9	92.2	95.2
Age group 70-74	74.8	72.0	80.3	83.9	88.0	91.6	95.2
Age group 75+	89.1	88.7	87.1	91.9	95.8	97.7	100.8

Source: Commission Services

Table 13a – Female pensioners (public schemes) to inactive population ratio by age group (%)

	2016	2020	2030	2040	2050	2060	2070
Age group -54	1.8	2.1	2.5	2.9	2.9	2.7	2.9
Age group 55-59	12.4	13.3	18.4	26.5	31.1	30.8	28.0
Age group 60-64	45.7	41.6	37.9	48.3	55.0	58.8	58.9
Age group 65-69	53.1	61.6	72.3	83.6	94.2	104.1	110.7
Age group 70-74	59.5	60.8	73.5	80.6	88.4	95.9	103.4
Age group 75+	82.3	82.6	85.6	94.6	101.4	105.2	111.1

Source: Commission Services

Table 13b – female pensioners (public schemes) to population ratio by age group (%)

	2016	2020	2030	2040	2050	2060	2070
Age group -54	0.9	0.9	1.1	1.2	1.2	1.1	1.2
Age group 55-59	7.9	7.7	7.2	6.8	6.5	6.4	5.8
Age group 60-64	38.1	35.7	24.8	26.4	27.6	29.7	29.4
Age group 65-69	51.9	59.4	70.3	79.5	88.7	97.8	104.0
Age group 70-74	59.5	60.6	73.4	80.5	88.2	95.8	103.2
Age group 75+	82.3	82.6	85.6	94.6	101.4	105.2	111.1

Source: Commission Services

Tables 14a-14c focus on new public pension expenditure data, which is the product of the average contributory period, average pensionable earnings, average accrual rates, and the number of new pensions.

The number of new pensioners is projected to increase from around 3,700 in 2020 to around 4,400 in 2070. The total average contributory period is expected increase from 35.5 years in 2020 to 38.6 years in 2070. The increase in the average contributory period primarily reflects a mix of policy reforms, including a rise in the pension age, widening of the contributory period to attain a full-pension rate as well as the retainment of females in the labour market.

At the same time, the lengthening of the contributory period translates into a lower accrual rate because of longer required length of service to qualify for the full pension benefit rate.

Furthermore, it is pertinent to underline that in the case of Malta the new pension expenditure for new pensioners does not depend on the average wage at retirement but on the pensionable income – discussed in detail in Section 1.⁵ The total new pension expenditure in 2016, as calculated on the basis of the drivers of the decomposition, is estimated to be slightly higher than the actual new pension expenditure being produced by the Model. This divergence is attributed to the fact that the critical variable to be used in calculating new pensions is pensionable income and not average pensionable wage at retirement.

Table 14a - Projected and disaggregated new public pension expenditure (old-age and early earnings-related pensions) - Total

New pension	2016	2020	2030	2040	2050	2060	2070
I. Projected new pension expenditure (millions EUR)	:	36.9	53.1	97.1	160.9	232.1	278.6
II. Average contributory period	:	35.5	36.5	36.9	37.3	37.9	38.6
III. Monthly average pensionable earnings	:	1.3	2.3	3.4	4.7	6.5	9.0
IV. Average accrual rates (%)	:	2.0	1.7	1.7	1.7	1.7	1.7
V. Sustainability/Adjustment factor	:	:	:	:	:	:	:
VI. Number of new pensions ('000)	:	3.7	3.4	4.3	5.0	5.2	4.4
VII. Average number of months paid the first year	:	12.0	12.0	12.0	12.0	12.0	12.0
Monthly average pensionable earnings / Monthly economy-wide average wage	:	0.7	0.8	0.8	0.8	0.8	0.7

Source: Commission Services

⁵ In determining pensionable income, past wages and incomes are valorised with the COLA granted with respect to those years.

Table 14b - Projected and disaggregated new public pension expenditure (old-age and early earnings-related pensions) - Male

New pension	2016	2020	2030	2040	2050	2060	2070
I Projected new pension expenditure (millions EUR)	:	28.7	38.7	67.0	103.8	137.7	158.3
II. Average contributory period	:	40.5	41.3	41.4	41.4	41.5	41.4
III. Monthly average pensionable earnings	:	1.4	2.5	3.6	5.1	7.0	9.7
IV. Average accrual rates (%)	:	1.9	1.7	1.6	1.6	1.6	1.6
V. Sustainability/Adjustment factor	:	:	:	:	:	:	:
VI. Number of new pensions ('000)	:	2.2	1.9	2.3	2.5	2.4	2.0
VII Average number of months paid the first year	:	12.0	12.0	12.0	12.0	12.0	12.0
Monthly average pensionable earnings / Monthly economy-wide average wage	:	0.8	0.9	0.9	0.8	0.8	0.8

Source: Commission Services

Table 14c - Projected and disaggregated new public pension expenditure (old-age and early earnings-related pensions) - Female

New pension	2016	2020	2030	2040	2050	2060	2070
I Projected new pension expenditure (millions EUR)	:	11.8	19.2	38.9	72.3	117.4	148.3
II. Average contributory period	:	28.0	30.3	31.8	33.3	34.8	36.2
III. Monthly average pensionable earnings	:	1.2	2.1	3.1	4.3	6.0	8.4
IV. Average accrual rates (%)	:	2.0	1.7	1.7	1.7	1.7	1.7
V. Sustainability/Adjustment factor	:	:	:	:	:	:	:
VI. Number of new pensions ('000)	:	1.5	1.5	2.0	2.5	2.8	2.4
VII Average number of months paid the first year	:	12.0	12.0	12.0	12.0	12.0	12.0
Monthly average pensionable earnings / Monthly economy-wide average wage	:	0.7	0.7	0.7	0.7	0.7	0.7

Source: Commission Services

3.4 Financing of the Pension System

Table 15 presents the revenue from contribution, the number of contributors in the public scheme, total employment and related ratios. A typology of the financing of the system is provided in Section 1. Table 16 shows that the increase in the number of contributors is in line with total employment.

Table 15 – Financing of the system

	Public employees	Private employees	Self-employed
Contribution base	€8,737 - €17,933 for persons born up to 31/12/1961 €8,737 - €22,138 for persons born from 1/1/1962	€8,737 - €17,933 for persons born up to 31/12/1961 €8,737 - €22,138 for persons born from 1/1/1962	€9,961 - €17,933 for persons born up to 31/12/1961 €9,961 - €22,138 for persons born from 1/1/1962
Contribution rate/contribution			
Employer	10.0%	10.0%	15.0%
Employee	10.0%	10.0%	
State	10%	10%	7.5%
Other revenues	-	-	-
Maximum contribution	€1,793 for persons born up to 31/12/1961 €2,214 for persons born from 1/1/1962	€1,793 for persons born up to 31/12/1961 €2,214 for persons born from 1/1/1962	€2,690 for persons born up to 31/12/1961 €3,321 for persons born from 1/1/1962
Minimum contribution	€874 for persons born up to 31/12/1961 €874 for persons born from 1/1/1962	€874 for persons born up to 31/12/1961 €874 for persons born from 1/1/1962	€1,494 for persons born up to 31/12/1961 €1,494 for persons born from 1/1/1962

Source: Commission Services

Table 16 – Revenue from contribution (million), number of contributors in the public scheme (in 1000), total employment (in 1000) and related ratios (%)

	2016	2020	2030	2040	2050	2060	2070
Public contribution	804.4	890.5	1520.8	2301.6	3184.0	4255.0	5837.9
Employer contribution	268.1	296.8	506.6	766.7	1060.8	1417.8	1945.5
Employee contribution	268.1	296.8	506.6	766.7	1060.8	1417.8	1945.5
State contribution	268.1	296.8	507.7	768.2	1062.4	1419.3	1946.8
Other revenues	:	:	:	:	:	:	:
Number of contributors (I)	194.9	205.0	224.4	236.0	234.2	224.2	221.4
Employment (II)	194.9	203.8	221.5	232.2	229.8	219.5	217.4
Ratio of (I)/(II)	1.0	1.0	1.0	1.0	1.0	1.0	1.0

Source: Commission Services

3.5 Sensitivity Analysis

Table 17 shows the impact of different shocks on public pension expenditure as a percentage of GDP.

Population related sensitivity tests:

- **High life expectancy:** this scenario models an increase in life expectancy at birth, with the demographic effects being realised in the outer years. As a result, expenditure in 2070 is 0.5 pp. higher than in the baseline. This increase reflects that the fact that longevity results in a higher outlay on public pensions in line with a priori expectations.
- **Higher/Lower migration:** in this scenario expenditure on public pensions in 2070 is projected to decrease/increase by -0.8/+0.7 pp. of GDP over the baseline. This increase reflects the outcome of more/less contributors - that results in a higher/lower expenditure outlay – which is outweighed by the increase/decrease in the rate of GDP growth owing a higher/lower labour input relative to baseline.

Labour force related

- **Higher total employment rate and Higher older workers employment rate:** the scenarios modelling ‘higher employment rate’ (+2 pp.) and ‘higher employment rate of older workers’ (+10 pp.) result in a decrease in pension expenditure in 2070 of 0.3 pp. and 0.6 pp. respectively. This result is the net effect of higher pension expenditure in line with the increase in the number of contributors and higher GDP, with the increase in the latter resulting in a marginal decline in pension expenditure relative to the baseline case.
- **Higher/Lower total employment rate:** the scenarios modelling ‘higher employment rate’ (-2 pp.) results in similar results to the baseline scenario as there are both declines in pensions and GDP, and lower coverage.

Productivity related

- **Higher/Lower total factor productivity:** The higher total factor productivity scenario results a higher outlay on pensions in reflection of indexation of benefit formula parameters to wages but also higher GDP with the latter effect outweighing the former, such that by end of 2070 pension expenditure to GDP falls by 0.7 pp. of GDP. In the scenario for a lower total factor productivity,

public expenditure on pensions in 2070 is projected to record an increase of 0.9 pp. over the baseline case.

- **Lower TFP (risk scenario):** in this scenario pension expenditure in 2070 is projected to be 0.5 pp. higher than under the baseline scenario.

Policy scenario: linking retirement age to increases in life expectancy: with this sensitivity test pension expenditure in 2070 is projected to be 1.2 p.p. lower than under the baseline case.

Table 17 - Public and total pension expenditures under different scenarios (deviation from the baseline)

	2016	2020	2030	2040	2050	2060	2070
Public Pension Expenditure							
Baseline	8.0	7.8	7.1	7.3	8.7	10.5	10.9
Higher life expectancy (2 extra years)	0.0	-0.1	0.0	0.0	0.1	0.3	0.5
Higher Total Factor Productivity Growth (+0.4 pp.)	0.0	0.0	0.1	-0.1	-0.3	-0.6	-0.7
Lower Total Factor Productivity Growth (-0.4 pp.)	0.0	0.0	0.0	0.1	0.4	0.7	0.9
Higher emp. rate (+2 pp.)	0.0	-0.1	-0.2	-0.2	-0.3	-0.3	-0.3
Lower emp. rate (-2 pp.)	0.0	0.0	0.1	0.0	0.0	-0.1	0.0
Higher emp. of older workers (+10 pp.)	0.0	-0.1	-0.4	-0.5	-0.6	-0.7	-0.6
Higher migration (+33%)	0.0	-0.2	-0.3	-0.5	-0.8	-0.9	-0.8
Lower migration (-33%)	0.0	0.1	0.2	0.3	0.5	0.7	0.7
Lower fertility	0.0	0.0	0.0	0.2	0.5	1.1	1.8
Risk scenario	0.0	0.0	0.1	0.2	0.3	0.4	0.5
Policy scenario: linking retirement age to increases in life expectancy	0.0	-0.1	-0.1	-0.4	-0.8	-1.2	-1.2
Total Pension Expenditure							
Baseline	8.0	7.8	7.1	7.3	8.7	10.5	10.9
Higher life expectancy (2 extra years)	0.0	-0.1	0.0	0.0	0.1	0.3	0.5
Higher Total Factor Productivity Growth (+0.4 pp.)	0.0	0.0	0.1	-0.1	-0.3	-0.6	-0.7
Lower Total Factor Productivity Growth (-0.4 pp.)	0.0	0.0	0.0	0.1	0.4	0.7	0.9
Higher emp. rate (+2 pp.)	0.0	-0.1	-0.2	-0.2	-0.3	-0.3	-0.3
Lower emp. rate (-2 pp.)	0.0	0.0	0.1	0.0	0.0	-0.1	0.0
Higher emp. of older workers (+10 pp.)	0.0	-0.1	-0.4	-0.5	-0.6	-0.7	-0.6
Higher migration (+33%)	0.0	-0.2	-0.3	-0.5	-0.8	-0.9	-0.8
Lower migration (-33%)	0.0	0.1	0.2	0.3	0.5	0.7	0.7
Lower fertility	0.0	0.0	0.0	0.2	0.5	1.1	1.8
Risk scenario	0.0	0.0	0.1	0.2	0.3	0.4	0.5
Policy scenario: linking retirement age to increases in life expectancy	0.0	-0.1	-0.1	-0.4	-0.8	-1.2	-1.2

Source: Commission Services

3.6 Description of the changes in comparison with the 2006, 2009, 2012 and 2015 projections

Table 18 compares the decomposition of the main drivers in the pension expenditure ratio over the period 2013-2070 with previous projections.

Table 18 - Average annual change in public pension expenditure to GDP during the projection period under the 2001, 2006, 2009 and 2012 projection exercises

	Public pensions to GDP	Dependency ratio	Coverage ratio	Employment effect	Benefit ratio	Labour intensity	Residual (incl. Interaction effect)
2006 *	-0.48	7.29	-1.01	-1.19	-4.97	:	-0.60
2009 **	6.18	11.32	-3.15	-0.66	-0.54	:	-0.78
2012 ***	5.51	11.35	-2.57	-1.52	-1.05	0.07	-0.78
2015****	3.35	7.57	-1.99	-1.51	-0.45	0.09	-0.36
2018*****	2.86	5.71	-0.60	-1.09	-1.10	0.11	-0.17

* 2004-2050; ** 2007-2060; *** 2010-2060; **** 2013-2060; *****2016-2070

Source: Commission Services

- The benefit ratio had a strong negative effect on expenditure in the 2006 projection, where this effect has remained negative but it has declined in its impact particularly in 2009 and 2015. This development reflects the impact of the expenditure-increasing aspect of the reform. In addition, the COLA indexation for persons born before 1962 and the partial wage indexation in case of persons born after 1962 explains the negative effect of the benefit ratio. Importantly, the modelling assumptions are identical to AR2015, but more positive macro assumptions accentuate this effect.
- The dependency ratio has a lower impact on pension expenditure in the 2017 exercise in comparison to the 2009 and 2012 exercise, which may be attributable to the difference in demographic assumptions.
- The employment effect has a smaller impact to that of the 2012 and 2015 projections and higher than under the 2009 exercise.
- The contribution of the coverage ratio is less strong in 2018 relative to the 2009, 2012 and 2015 scenarios, a development that is likely to reflect the adopted macroeconomic assumptions and the impact of the pensions reform which is expected to lower the number of pensioners particularly because of the increase in pension age.
- Labour intensity had a low positive impact of around 0.11 pp. in public pension expenditure to GDP which is slightly higher than under the 2015 scenario.

Table 19 shows the decomposition of the difference between 2015 and the new public pension projection as a percentage of GDP. As indicated in this table the change in assumptions is the only factor that is explaining the difference between 2015 and the new public pension projections.

Table 19 - Decomposition of the difference between 2012 and the new public pension projection (% of GDP)

	2016	2020	2030	2040	2050	2060	2070
Ageing report 2015	9.6	9.8	9.6	9.7	11.0	12.7	:
<i>Change in assumptions</i>	-1.6	-2.0	-2.5	-2.4	-2.3	-2.5	:
<i>Improvement in the coverage or in the modelling</i>	:	:	:	:	:	:	:
<i>Change in the interpretation of constant policy</i>	:	:	:	:	:	:	:
<i>Policy related changes</i>	:	:	:	:	:	:	:
New projection	8.0	7.8	7.1	7.3	8.7	10.2	10.9

Source: Member State

Part 4: Description of the pension projection model and its base data

4.1 Institutional context

The model used in projecting pension expenditure was the World Bank's Pension Reform Options Simulation Toolkit (PROST 15), being the same model used in the projection- of pension expenditure for the previous AWG budgetary projections exercise. Staff from the Economic Policy Department within the Ministry for Finance (MFIN) were licensed to use PROST 15 in order to model the development of the current pension system and analyse various options for the pension reform.

The pension projections baseline was prepared by the World Bank with the assistance of expertise from the MFIN and the Ministry for the Family, Children's Rights and Social Solidarity (MFCS). The results obtained were subject to a process of internal review by pension experts within Government.

4.2 Assumptions and methodologies applied

The PROST input files were updated in order to incorporate the Ageing Working Group assumptions. The following is a list of the main assumptions that have been taken on board in our PROST calculations.

Demographic Assumptions:

- Population (ESSPOP 2016)
- Fertility Rate by age (ESSPOP 2016)
- Mortality Rate by age and gender (ESSPOP 2016)
- Net Migration by age and gender (ESSPOP 2016)

Macroeconomic Assumptions:

- Real GDP (growth rate)
- Labour Productivity (growth rate per hour)
- Inflation rate
- Participation rate by age and gender
- Unemployment rate by age and gender

4.3 Data used to run the model

Modelling in PROST is based on the main input sheet which includes general assumptions pertaining to the economy and various parameters of the pension system. Inputs are further subdivided into sheets related to Population, the Labour market, and Pensions. For this exercise data was collected from national sources, including the National Statistics Office, the Inland Revenue Department, and the Social Security Department within the MFSS.

The base year used in the model is 2013. While some input variables require assumptions for the projection interval others are generated in the various output sheets of PROST. The main inputs variables set in the *General* sheet include:

- GDP in Nominal terms in the base year

- The contribution ceiling (for employee and government contributions)
- Wage and pension cumulative income distributions for base year
- Demographic trends – sex ratio at birth, mortality rate multiplier for disabled and for old age pensioners
- Macroeconomic growth trends for real GDP, the inflation rate, the real interest rate, Government bond rate and the discount rate
- The retirement age by sex
- Revenue sources mainly from contributions of employees, employers and Government
- Pension indexation assumptions, minimum and maximum pension indexation, minimum wage indexation and contribution ceiling indexation
- Benefit formula parameters: required years of service for basic replacement rate, the maximum replacement rate, etc.

The *Population* worksheet in PROST includes inputs for the following main variables:

- Maltese population by age and by sex for the base year;
- The age specific fertility rate for the base year and any projections or theories about the way fertility rates are most likely to behave over the simulation horizon (as per Eurostat projections);
- Probability of dying (males and females): age specific probability of dying for males/females in the base year as well as over the projection period in line with Eurostat projections assumptions regarding life-expectancy;
- Net migration (males and females): age specific net immigration in each age group. Data in the base year as well as for the projection period in line with Eurostat projections.

The *Labour* worksheet in PROST includes inputs for the following main variables:

- Labour force participation (males and females): data are entered for the base year and for the projection period in line with AWG assumptions;
- Unemployment rate (males and females): data for each age group by gender are entered for the base year and for the projection period in line with AWG assumptions;
- Earnings profile for males and females in terms of minimum wage: this reflects the average gross wage of individuals relative to the minimum wage.
- Pension profile in terms of the minimum pension: this represents the initial distribution of pensions across pensioners of different ages.

The *Pensions* worksheet in PROST includes inputs for the following main variables

- Contributors (males and females): data is entered for each age cohort for the base year.
- Specific pensions category: data is entered for the number of pensioners receiving 2/3 pensions, number of invalids and survivors for the base year.
- Assumptions for the length of service at retirement;
- The evolution of the number of pensioners as a stock of population over the projection period.

4.4 Reforms incorporated in the model

The modelling work reflected as far as possible to the rules spelled out by the legislation thus covering the reforms enacted in 2006 and in 2014.

4.5 General description of the model

4.5.1 Overview

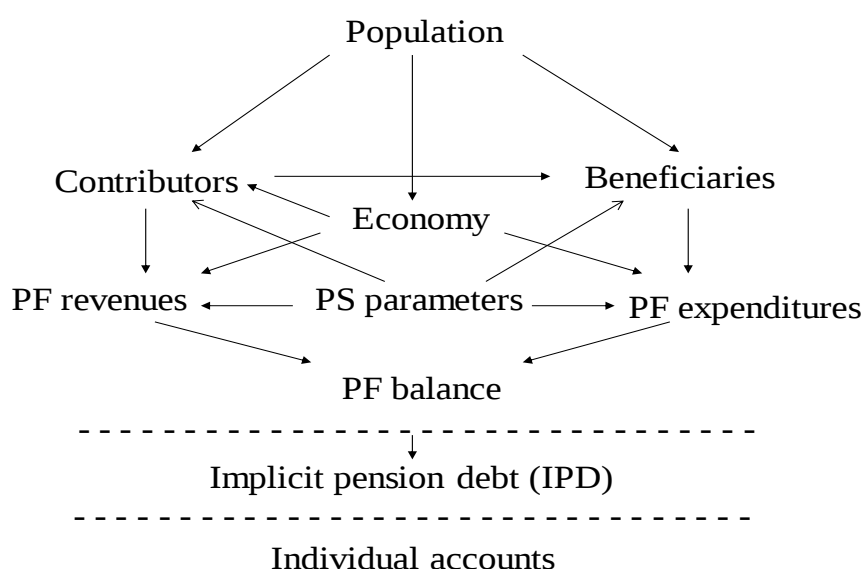
PROST projects pension contributions, entitlements, system revenues, and system expenditure over the long term. It is designed to promote informed policymaking, bridging the gap between quantitative and qualitative analysis of pension regimes. It is a flexible, computer-based toolkit, easily adapted to a wide range of countries' circumstances.

PROST is designed to answer the following kinds of question:

- How much will the pension system cost in the future? Is it viable and sustainable?
- What kind of benefits can people expect to receive in the future?
- Is the pension system equitable? Does it provide a decent retirement income to different categories of people?
- How large are the government's implicit pension liabilities?
- How would broadening coverage, changing eligibility, changing benefits, or adjusting contribution rates affect the system? How will costs, expenditures and liabilities change under various reforms?

The model takes country specific data provided by the user. It generates population projections, which, combined with economic assumptions, are used to forecast future numbers of contributors and beneficiaries. These in turn generate flows of revenues and expenditures. The model then projects fiscal balances, taking account of any partial pre-funding of liabilities.

In the most simplified way the general calculation scheme can be summarized on the below Figure.



PROST follows single age/gender cohorts over time and generates population projections, which, combined with labour market assumptions, are used to forecast future numbers of contributors and beneficiaries. These in turn generate flows of revenues and expenditure. The model then projects fiscal balances and calculates the implicit pension

debt. The required contribution rates and affordable replacement rates for zero pension fund balance in each year of the simulation period are also calculated. Finally, PROST produces outputs related to individuals – what an individual would contribute to the system and what he/she obtain under PAYG DB and multipillar schemes. This allows both intra- and intergenerational analysis.

The PROST program produces five output modules:

1. *Population projections*: including life tables, population pyramids, population dependency ratios *etc.*
2. *Demographic structure*: labour force and employment, numbers of contributors and beneficiaries, demographic structure of the pension system, and system dependency ratio.
3. *Finances of Monopillar PAYG*: macroeconomic trends, projections of wages, pension benefits for the existing and new pensioners, pension scheme balance and the implicit pension debt. The financial flows module also calculates the adjustments—to benefit levels or contribution rates—that would ‘balance’ the system, *i.e.* bring revenues and expenditures into line.
4. *Finances of Multipillar System*: this module looks at the effect of a shift to a ‘multipillar’ regime, incorporating both a pay-as-you-go, notional pay-as-you-go, and a funded, defined contribution scheme or exclusively one or the other. Again, it measures the impact both on the public finances and on individual’s pension entitlements, including measurements of transition costs. The total pension benefit and the value of each of the pillars are provided separately. It also compares benefit projections and financial standing under the monopillar pay-as-you-go and multipillar scenarios.
5. *Individual accounts*: the model works out contributions and benefits for six different example individuals, specified by age, sex, age of labour market entry, retirement age, earnings profile, mortality *etc.*

4.5.2 Main equations

When using PROST, the user needs to specify a time- and age-frame. The simulation horizon is defined by two time points: the base year (2013) and the end year (2060). PROST processes data in terms of single-year age cohorts. The starting age is 0 (infants younger than 1 year old) and the maximum age is usually set in the interval between 75 and 100 years. This time and age frame can be changed to accommodate the data availability.

4.6. Additional features of the projection model

This section presents an outline of some of the main relationships in PROST15. This material was extracted from an unpublished PROST manual named ‘Calculus for PROST15’, property of the World Bank.

- *Number of different persons modelled per generation*

PROST groups the population into three age-related categories: young (YP), working (WP), and old (OP). To show how it is modelled on PROST, let a_r be the retirement age. Then

$$YP(t, g) = \sum_{a=0}^{14} P(a, t, g), \quad WP(t, g) = \sum_{a=15}^{a_r} P(a, t, g), \quad OP(t, g) = \sum_{a=a_r}^{a_{\max}} P(a, t, g)$$

The total population and the ratio of males to females in the total population will respectively be

$$TP(t, g) = YP(t, g) + WP(t, g) + OP(t, g), \quad MF\%(t) = \frac{TP(t, 1)}{TP(t, 2)}$$

For each category, PROST calculates their annual growth rates,

$$YG\%(t) = \left(\frac{YP(t, 3)}{YP(t-1, 3)} - 1 \right), \quad WG\%(t) = \left(\frac{WP(t, 3)}{WP(t-1, 3)} - 1 \right)$$

$$OG\%(t) = \left(\frac{OP(t, 3)}{OP(t-1, 3)} - 1 \right), \quad TG\%(t) = \left(\frac{TP(t, 3)}{TP(t-1, 3)} - 1 \right)$$

as well as their share in the total population

$$YS\%(t) = \frac{YP(t, 3)}{TP(t, 3)}, \quad WS\%(t) = \frac{WP(t, 3)}{TP(t, 3)}, \quad OS\%(t) = \frac{OP(t, 3)}{TP(t, 3)}$$

Here, OS%(t) is often used as an indicator of population aging for the whole society. In PROST, the young and old population dependency rates, defined as how many young and old individuals every 100 people of working age need to support, are calculated as

$$SY(t) = 100 \cdot \frac{YP(t, 3)}{WP(t, 3)}, \quad SO(t) = 100 \cdot \frac{OP(t, 3)}{WP(t, 3)}, \quad ST(t) = SY(t) + SO(t)$$

where ST(t) is the total population dependency rate. The old-age support ratio, defined as on how many working age persons a 100 old-age person depends, is calculated as

$$OD(t) = \frac{WP(t, 3)}{OP(t, 3)}$$

- *Replacement Rate of New Retirees*

The replacement rate for income groups other than the minimum wage worker (REPL%(a,t,g,1)) is calculated as follows:

$$REPL\%(a, t > 1, g, i) = (WAGE_GR_C(a, t, g, i) - WAGE_GR_C(a, t, g, 1)) \cdot \frac{REPL\%(a, t, g, i = aver) - REPL\%(a, t, g, 1)}{WAGE_C(a, t, g) - WAGE_GR_C(a, t, g, 1)} + REPL\%(a, t, g, 1)$$

where

WAGE_GR_C(a,t,g,i) is the average insured wage for contributor groups

WAGE_C is the average insured wage for contributor groups.

- *Average length of service*

In PROST the ‘Pension’ worksheet in the Input module, contains data specific to the pension system. In particular, this worksheet contains age-specific distributions on old age pensioners, disability pensioners and contributors for the base year along with some assumptions about how these are expected to behave over time. One of the projection parameters in this sheet is the ‘average length of service’ for the new retiree for each age and gender cohort. Individuals who retire at older ages often have the same or fewer years of service than those who retire younger due to factors such as extended periods out of the labour force and later entry to the labour force.

Accordingly, in the ‘Demographic’ worksheet of the Output module, deriving the ‘average accrued length of service’ matrix involves several intermediate steps. The first step is to figure out the number of covered individuals who will eventually retire or are retired, i.e. the eventual retirees. These are derived backwards, starting with the oldest cohort. Next, PROST calculates what per cent of these eventual retirees have already retired at each point in time. This ratio is equal to 100% for the oldest cohort. Then a retirement pattern is derived, that describes what per cent of eventual retirees retire at each age. Finally, the average accrual of length of service per year can be derived from the retirement pattern and length of service at retirement. It is assumed for simplicity that covered individuals accrue their length of service linearly throughout their career, starting from the youngest working age and ending a year before retirement. The derivation is again done backwards, starting with the oldest cohort. The result of this derivation is the matrix of average accrued length of service, which implies that the total length of service accrued by cohort has to equal the total length of service claimed by the cohort at the time of the retirement.

$$LOS_AV(a,t,g) = LOS_R(a,t,g) * (a - a_{work} + 1)$$

where

LOS_AV(a,t,g) is the average accrued length of service,

LOS_R(a,t,g) is the length of service at retirement, and

- *The calculation of survivorship pension*

Benefits for survivors are calculated in a different way. Total pension payments for survivors in different age groups TP_SUR(a, t, g) are determined in PROST by weighting the indexed pension payments for the survivors in the previous year and a percentage of the pension payment for new old age pensioners. The weight of new average pension is calculated as the inverse of the average duration of survivorship benefit. This method is used to take account of both the stock as a percentage of old age pensions and flow of the survivor pensions from the previous year. Thereafter, the average replacement rate is calculated.

$$wt = (1 / D_s)$$

$$TP_SUR(t) = (rsuold\%(t) * R_OLD(t) * AW_EC_U(t) * wt * TSU(t)) \\ + (TP_SUR(t-1) * INDEX_P(t) * (1 - wt))$$

$$R_SUR\%(t) = TP_SUR(t) / (TSU(t) * AW_EC_U(t))$$

The calculation of total payments to disabled PAYM_D(t,g) is identical to that of old age pensions. Total payments for survivors and orphans are derived from average

replacement rates for these categories $R_SUR\%(t)$ and $r_orp\%(t)$. This also allows to calculate total pension payments $PAYM_T(t)$:

$$\begin{aligned} PAYM_S(t, g) &= AW_EC_U(t, 3) \cdot R_SUR\%(t) \cdot TSU(t, g) \\ PAYM_OR(t) &= AW_EC_U(t, 3) \cdot r_orp\%(t) \cdot TOR(t, 3) \\ PAYM_T(t) &= PAYM_O(t, 3) + PAYM_D(t, 3) + \\ &\quad PAYM_S(t, 3) + PAYM_OR(t, 3) \end{aligned}$$

- *The modelling of the retirement age and its evolution over the projection period*

Retirement age increase is one of the pension reforms modelled in PROST15 in line with Malta's pension reform. Changes in the retirement age have an impact on other parameters modelled in PROST15, including: the number of new old age pensioners (NP), new disabled (ND), employed population (EM), contributors (NC), existing pensioners (EP), existing disabled (ED), average years of service at retirement (los_rt) and others.

PROST15 deals with this modelling by primarily calculating how many people of those who would have retired under the initial retirement age law will now be denied that possibility and what their average length of service is:

$$\left[\begin{aligned} DENIED(a, t, g) &= NP_{old}(a, t, g) + DENIED(a-1, t-1, g) \cdot [1 - m\%(a-1, t-1, g)] \\ LOS_D(a, t, g) &= \frac{\left(\begin{aligned} &los_rt(a, t, g) \cdot NP_{old}(a, t, g) + \\ &[LOS_D(a-1, t-1, g) + 1] \cdot shift_contr\% \cdot \\ &DENIED(a-1, t-1, g) \cdot [1 - m\%(a-1, t-1, g)] \end{aligned} \right)}{DENIED(a, t, g)} \end{aligned} \right], \\ \text{if } ret_age(t_{base_year}, g) \leq a < ret_age(t, g) \end{aligned}$$

$$DENIED(a, t, g) = 0, \quad \text{if } a = ret_age(t, g)$$

Subsequently, PROST15 will figure out what will those who were denied retirement be doing that year: become employed, will continue contributing to the pension system, will claim temporary disability or retire early (probably taking a reduced pension). Relevant matrixes will be adjusted by PROST to reflect these possibilities, using parameters specified by the user.

$$\begin{aligned}
EM_{new}(a, t, g) &= EM_{old}(a, t, g) + DENIED(a, t, g) \cdot shift_empl\% \\
NC_{new}(a, t, g) &= NC_{old}(a, t, g) + DENIED(a, t, g) \cdot shift_contr\% \\
GC_{new}(a, t, g) &= NC_{new}(a - 1, t - 1, g) \cdot m\%(a - 1, t - 1, g) \\
EP_{new}(a, t, g) &= EP_{old}(a, t, g) - DENIED(a, t, g) \cdot [1 - shift_ret\%] \\
NP_{new}(a, t, g) &= \left(\frac{EP_{new}(a, t, g) - EP_{new}(a - 1, t - 1, g) \cdot [1 - m\%(a - 1, t - 1, g)]}{m_m_o\%(t - 1, g)} \right) \\
DP_{new}(a, t, g) &= EP_{new}(a - 1, t - 1, g) \cdot m\%(a - 1, t - 1, g) \cdot m_m_o\%(t - 1, g) \\
ED_{new}(a, t, g) &= ED_{old}(a, t, g) + DENIED(a, t, g) \cdot shift_dis\% \\
ND_{new}(a, t, g) &= \left(\frac{ED_{new}(a, t, g) - ED_{new}(a - 1, t - 1, g) \cdot [1 - m\%(a - 1, t - 1, g)]}{m_m_d\%(t - 1, g)} \right)
\end{aligned}$$

As a final step, PROST adjusts the average length of service at retirement:

$$los_rt(a, t, g) = \frac{\left(los_rt(a, t, g) \cdot NP_{old}(a, t, g) + LOS_D(a - 1, t - 1, g) \cdot shift_contr\% \cdot DENIED(a - 1, t - 1, g) \cdot [1 - m\%(a - 1, t - 1, g)] \right)}{NP_{new}(a, t, g)},$$

if $a = ret_age(t, g)$

where:

$Ret_age(t, g)$	Statutory retirement age
$Shift_empl\%$	Shift to employment when ret. age is increased
$shift_contr\%$	Shift to contributors when ret. age is increased
$shift_ret\%$	Shift to early retirement when ret. age is increased
$shift_dis\%$	Shift to disability when ret. age is increased
$Los_rt(a, t, g)$	Length of service at retirement
$EM(a, t, g)$	Employed
$NC(a, t, g)$	Nominal contributors
$CD(a, t, g)$	Contributors that died
$EP(a, t, g)$	Existing pensioners
$NP(a, t, g)$	New pensioners
$OD(a, t, g)$	Dead pensioners
$ED(a, t, g)$	Existing disabled
$ND(a, t, g)$	Newly disabled

- *Projecting the number of Contributors*

The projection of contributors in PROST takes into consideration information by single year of age and gender regarding the income distribution stemming from administrative data, initial wage in terms of the minimum wage and aggregate information regarding participation rates, labour market position and productivity in terms of the minimum wage worker, amongst other variables. In our case, contributors are modelled as a percentage of the stock of employment, therefore trends in employment are directly reflected in the number of contributors.

PROST has only two restrictions on the contributor data. First, numbers of contributors cannot exceed population numbers for each of the cohorts. Secondly, it is assumed that

every contributor eventually retires or dies. Since the oldest person that can retire is aged a_{max} , there can be no contributors older than age $a_{max}-1$. Therefore, the contributor numbers are simply set to be 0 for the oldest cohort. Nominal contributors account for all those to whom pension rights are accruing that particular year. Not all of those people actually do contribute to the system. Some may be exempt and thus, to get the number of effective contributors PROST uses the following formula:

$$EC(a,t,g) = NC(a,t,g) * [1 - ee\%(a,t,g)]$$

where EC is the effective contributors

NC is the nominal contributors in the base year

ee% is the exemption rate

a is an index for age

t is an index for year

g is an index for gender

- *Pension payments for existing old age pensioner*

In order to derive the finances of the pension system, the demographic structure of the pension system is combined with financial assumptions from the input sheets 'General' and 'Pension'. Primarily, PROST constructs a likely current picture of wage distribution of existing contributors given the marginal distributions and respective profile from the PROST input files. It is assumed that the per cent of age and gender specific contributor population in each income group remains stable with time. However, the income brackets applied to each of these contributor groups will be allowed to change independently.

The income distribution of old age pensioners is created in a similar way to the income distribution of contributors. PROST starts by creating 3-dimensional income distribution matrix of existing old age pensioners $DISTR_P\%(a,1,g)$. Accordingly, after removing all possible data inconsistencies, minimum pension $MIN_PEN(t)$ and maximum pension $MAX_PEN(t)$ are calculated to be:

$$MIN_PEN(1) = bracket_p(1)$$

$$MAX_PEN(1) = bracket_p(i_{max})$$

$$MIN_PEN(t>1) = (Min_PEN(t-1) * [1+infl\%(t-1) * p_min_i\%(t)] * [1+WG_N\%(t-1) * p_min_w\%(t)])$$

$$MAX_PEN(t>1) = (MAX_PEN(t-1) * [1+infl\%(t-1) * p_max_i\%(t)] * [1+WG_N\%(t-1) * p_max_w\%(t)])$$

where,

$bracket_p(i)$ are the pension brackets from pension income distribution ;

$p_min_i\%(t)$ is the indexation of minimum pension to inflation

$p_min_w\%(t)$ is the indexation of minimum pension to nominal wage growth

$p_max_i\%(t)$ is the indexation of maximum pension to inflation

$p_max_w\%(t)$ is the indexation of maximum pension to nominal wage growth

$WG_N\%(t)$ is the nominal insured wage growth of effective contributors

i is the index for the wage/pension income level

Then, the average old age pension paid to existing old age pensioners in the base year is:

$$STREAM_O(a, t = 1, g, i = aver, 1) = \left(bracket_p(1) \cdot DISTR_P\%(a, 1, g) + \sum_{i>1} \left(\frac{bracket_p(i) + bracket_p(i-1)}{2} \cdot DISTR_P\%(a, ig,) \right) \right)$$

where $DISTR_P\%(a, 1, g)$ is the pension distribution by income group.

- *Replacement Rate for Survivors*

Total pension payments for survivors is obtained by weighting the indexed pension payments made to survivors in the previous year and a percentage of the pension payments made to new old age pensioners. The weight of the new average pensions (wt) is the inverse of the average duration of survivorship benefit (D_s).

$$TP_SUR(t) = (r_suold\%(t) * R_OLD(t) * AW_EC_U(t) * wt * TSU(t)) + (TP_SUR(t-1) * INDEX_P(t) * (1 - wt))$$

where

$rsuold\%(t)$ is the replacement rate of survivors as a percentage of the replacement rate of old age pensioners

$R_OLD(t)$ is replacement rate of old age pensioners in terms of the economy wide unconstrained wage

$AW_EC_U(t)$ is unconstrained average wage

$TSU(t)$ is the total number of survivors

$INDEX_P(t)$ is the pension indexation coefficient.

Then the average replacement rate for survivors is:

$$R_SUR(t) = TP_SUR(t) / (TSU(t) * AW_EC_U(t))$$

Annex 1: Methodological Annex

Economy- wide average wage at retirement

Table A1 shows the economy wide average wage at retirement evolution.

Table A1 – Economy wide average wage at retirement evolution (in thousands euro)

	2016	2020	2030	2040	2050	2060	2070
Gross wage (current prices - billions €)	2.9	3.6	6.3	9.7	13.7	18.7	26.3
Economy - wide average wage (current prices - 1000 €)	:	14.6	27.5	40.0	55.8	77.4	107.2

Source: Member State

It is to be noted that in the baseline questionnaire figures for the 2016-2070 period reflect the Average Wage of Contributors as projected by the model, in line with productivity assumptions.

Pensions vs. Pensioners

The total number of pensioners presented for the pension projection exercise is the aggregation of five categories of pensioners - old age, survivors, invalids, top-ups, treasury pensions and the non-contributory old-age pension. The model used in the projection – World Bank’s PROST - reserves a different modelling treatment for these different categories of pensions, detail about which is provided in Part 4 of the Fiche. For aggregation purposes, we use the prevalence criteria. Hence the pensioner is attributed to the scheme from which the beneficiary is receiving the highest pension.

Pension taxation

No data is provided for pension taxation.

Disability pension

In the projections for the baseline scenario, the disability pension contributes to 0.2 pp. of GDP. Full wage indexation was assumed. The Maltese Government introduced changes to regime regulating the award of the invalidity pensions and the review procedure. The new regime was implemented over the course of 2007 after the necessary legislative and organisational changes were instituted.

These measures introduced a new medical review process for this benefit and amongst the measures involved one finds:

- (i) Change the application format – to include more medical data and further responsibility on the part of the claimant to prove his case. No invalidity pension is issued for life and each case is subject to regular reviews.

All cases are reviewed every three to four years – where updated medical evidence is requested from the beneficiary.

- (ii) Change the current medical panel system – under the new system, the Department of Social Security will be recruiting medical practitioners through an Expression of Interest to act as a Medical Review Team. The Team’s main function is to advise the Director (Social Security) on the medical aspects of Invalidity claims.
- (iii) Establish specific medical criteria for the award of benefits – this has been achieved by establishing “Impairment Tables” that provide the basic guidelines under which that Medical Review Team would decide on work-related impairment for Invalidity pension.
- (iv) Establish an independent systems audit – Establish a medical audit for benefit claims awarded and rejected on medical grounds, in order to establish whether such benefits have been awarded correctly.
- (v) Changes were also made to minimum period of sickness prior to payment of invalidity pension benefit which is now set at three months. However, this waiting period does not apply in the case of sudden severe or terminally-ill persons.

Table A2 shows the disability rates by age groups.

Table A2a – Disability rates by age groups (%), Total

	2016	2020	2030	2040	2050	2060	2070
Age group -54	0.4	0.4	0.4	0.4	0.5	0.5	0.4
Age group 55-59	5.1	5.1	5.1	5.1	5.2	5.1	5.1
Age group 60-64	2.4	2.3	2.4	2.4	2.4	2.4	2.4
Age group 65-69	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Age group 70-74	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Age group 75+	0.2	0.2	0.3	0.2	0.2	0.2	0.3

Source: Member State

Table A2b – Disability rates by age groups (%), Women

	2016	2020	2030	2040	2050	2060	2070
Age group -54	0.3	0.3	0.4	0.4	0.4	0.3	0.4
Age group 55-59	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Age group 60-64	1.6	1.6	1.6	1.6	1.6	1.5	1.6
Age group 65-69	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Age group 70-74	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Age group 75+	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Source: Member State

Table A2c – Disability rates by age groups (%), Men

	2016	2020	2030	2040	2050	2060	2070
Age group -54	0.5	0.4	0.5	0.5	0.5	0.5	0.5
Age group 55-59	7.1	7.2	7.1	7.1	7.2	7.2	7.1
Age group 60-64	3.2	3.1	3.2	3.1	3.2	2.9	3.1
Age group 65-69	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Age group 70-74	0.6	0.7	0.7	0.7	0.7	0.7	0.7
Age group 75+	0.3	0.5	0.5	0.5	0.5	0.5	0.5

Source: Member State

Survivor pensions

In the pension expenditure projections for the baseline scenario, survivors' pension contributes positively to overall increase in expenditure as result of the ageing process as well as its indexation that is similar to old-age pensions.

The number of male survivors is negligible over the whole period.

Benefits for survivors are calculated in a different way. Total pension payments for survivors in different age groups $TP_SUR(a, t, g)$ are determined in PROST by weighting the indexed pension payments for the survivors in the previous year and a percentage of the pension payment for new old age pensioners. The weight of new average pension is calculated as the inverse of the average duration of survivorship benefit. This method is used to take account of both the stock as a percentage of old age pensions and flow of the survivor pensions from the previous year. Thereafter, the average replacement rate is calculated. More details on the calculation of survivorship pension explained in Part 4 of the Fiche.

Non-earnings related minimum pension

Non-contributory age (minimum) pensions are fully indexed with wages.

Alternative pension spending decomposition

TableA3 and Table A4 present the factors behind the change in public pension expenditures between 2013 and 2060 for pensions and pensioners.

Table A3 - Factors behind the change in public pension expenditures between 2013 and 2070 (in percentage points of GDP) - pensions

	2016-20	2020-30	2030-40	2040-50	2050-60	2060-70	2016-70
Public pensions to GDP	-0.2	-0.8	0.3	1.3	1.8	0.4	2.9
Dependency ratio effect	1.0	2.1	0.4	1.2	2.3	0.6	7.6
Coverage ratio effect	-0.9	-0.6	0.3	0.1	0.0	0.2	-1.0
<i>Coverage ratio old-age*</i>	-0.7	0.0	0.2	0.2	0.2	0.3	0.2
<i>Coverage ratio early-age*</i>	-0.6	-2.2	0.1	0.2	0.5	-0.4	-2.5
<i>Cohort effect*</i>	-1.2	-1.2	0.6	-0.4	-1.3	-0.2	-3.8
Benefit ratio effect	0.1	-1.2	-0.1	0.3	0.2	-0.1	-0.8
Labour Market/Labour intensity effect	-0.2	-0.6	-0.1	0.0	0.0	0.0	-0.9
<i>Employment ratio effect</i>	-0.3	-0.6	-0.1	0.0	0.0	0.0	-1.1
<i>Labour intensity effect</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.1
<i>Career shift effect</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual	-0.1	-0.6	-0.1	-0.3	-0.6	-0.2	-2.0

Source: Commission Services

Table A4 - Factors behind the change in public pension expenditures between 2013 and 2070 (in percentage points of GDP) - pensioners

	2016-20	2020-30	2030-40	2040-50	2050-60	2060-70	2016-70
Public pensions to GDP	-0.2	-0.8	0.3	1.3	1.8	0.4	2.9
Dependency ratio effect	1.0	2.1	0.4	1.2	2.3	0.6	7.6
Coverage ratio effect	-0.2	-0.3	0.6	0.3	0.0	0.2	0.6
<i>Coverage ratio old-age*</i>	-0.7	0.4	0.5	0.3	0.3	0.3	1.2
<i>Coverage ratio early-age*</i>	-0.5	-1.9	0.4	0.4	0.6	-0.4	-1.4
<i>Cohort effect*</i>	-1.2	-1.2	0.6	-0.4	-1.3	-0.2	-3.8
Benefit ratio effect	-0.7	-1.4	-0.3	0.2	0.1	-0.1	-2.1
Labour Market/Labour intensity effect	-0.2	-0.6	-0.1	0.0	0.0	0.0	-0.9
<i>Employment ratio effect</i>	-0.3	-0.6	-0.1	0.0	0.0	0.0	-1.1
<i>Labour intensity effect</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.1
<i>Career shift effect</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual	-0.1	-0.7	-0.3	-0.4	-0.6	-0.2	-2.2

Source: Commission Services

Annex II: Description of contributory and non-contributory benefits

Contributory Schemes

Two-Thirds Pension is a pension related to earnings, payable to persons who have retired after January 1979. This scheme provides for a pension equivalent to two-thirds of the insured person's pensionable income. Maximum and minimum rates are applicable.

National Minimum Pension / Increased National Minimum Pension is payable to a person who is not in receipt of a Service Pension from an employer. The rates applicable are four-fifths of the National Minimum Wage in the case of a married man maintaining his wife and two-thirds of the National Minimum Wage in the case of any other person.

Decreased National Minimum Pension is payable to a person who receives a Service Pension and a Retirement Pension or Increased Retirement Pension. If both pensions are less than the National Minimum Pension, such a person will be entitled to a National Minimum Pension reduced by the same Service Pension.

Invalidity Pension is payable to persons deemed permanently incapable for suitable full-time or regular part-time employment. There are various rates according to different conditions.

Early Survivors' Pension is payable to a widow/er whose husband/wife would have been entitled to a pension had he/she reached retiring age at the time of his/her death.

Widows' Pension/National Minimum Widows Pension/Pensions of Widows with Children is payable to widows, irrespective of age, who are not gainfully occupied, who are occupied but earning less than the national minimum wage, or who are carrying out gainful activities but have the care and custody of children under 16 years of age. Rates may vary according to conditions outlined in the Social Security Act (Social Security Act, Part IV, and subsequent amendments). Any reference to a widow also means a widower.

Treasury Pension is payable to (a) all government employees who started service with government before 15th January 1979 (closed system); (b) police, AFM personnel, Correctional Facilities officials and members of the Civil Protection; (c) widows of public officers who held a pensionable post and who contributed to the widows pension scheme; and (d) members of Parliament, members of the judiciary and the Attorney General.

Non-Contributory Schemes

Old Age Pension is payable to citizens of Malta over 60 years of age, provided that their income does exceed an established level.