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**David Spiteri Gingell -Chairperson  
THE PENSIONS WORKING GROUP**



**i. Terms of Reference:**

- (i) To review all work carried out by successive administrations on pensions reform
- (ii) To review international trends on issues and solutions provided for pensions reform
- (iii) To identify the challenges facing the Nation to secure a pensions system which is both adequate and sustainable
- (iv) To review the current pensions system in terms of retirement pensions though excluding pensions falling within ad hoc occupational pensions systems such Service Pensions, Armed Forces of Malta, etc
- (v) To submit in terms of (iv) above proposals and recommendations for Government's consideration for a pensions system that will secure adequacy and sustainability for future generations
- (vi) To undertake appropriate modeling and simulations on the recommendations presented in (v)

**ii. Presented the Report to the Prime Minister on 5th November 2004**

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## The Need for Change

- i. Adequacy of pensions of future pensioners will be undermined
- ii. Changing demographics generating pressures on sustainability

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## The Underlying Principles of Change

- i. New pensions system and the Nation's fiscal strategies cannot be assessed independently of each other
- ii. Continued prevailing belief or perception that the provision of a pension is the sole responsibility of the State must be challenged
- iii. Pension schemes need to be as self contained and transparent as possible
- iv. Pensions reform is necessary irrespective of adequacy and sustainability to account for new norms and behaviours
- v. Individuals should have the individual choice to invest to attain a pension that is beyond the statutory entitlement

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## The Path to the proposed White Paper

- December 1997      MCED Reno Camilleri commissioned report
  - February 1998      Forum for a Better Economy 'Value 2000: Focusing Resources for Superior Competition'
  - August 1998      Watson Wyatt Ltd report
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- June 2001      NCWR Galdes report
  - October 2003      NCWR Schembri report
  - December 2003      Dalli Guidelines
  - March 2004      World Bank report

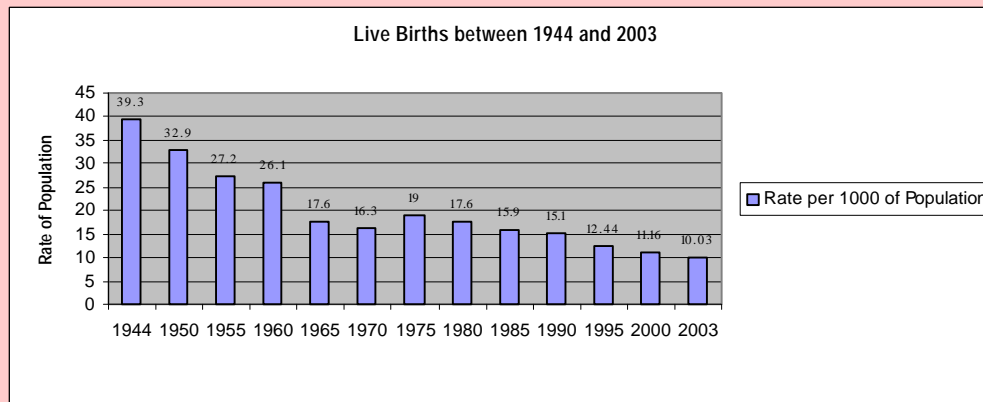
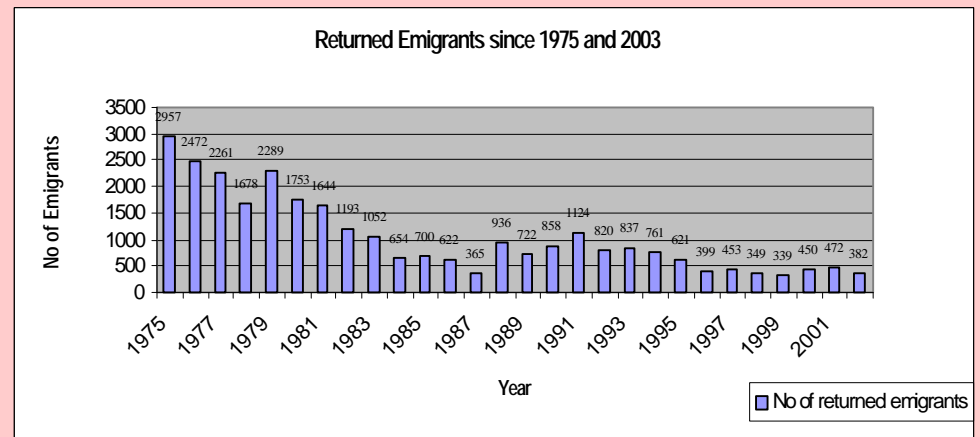
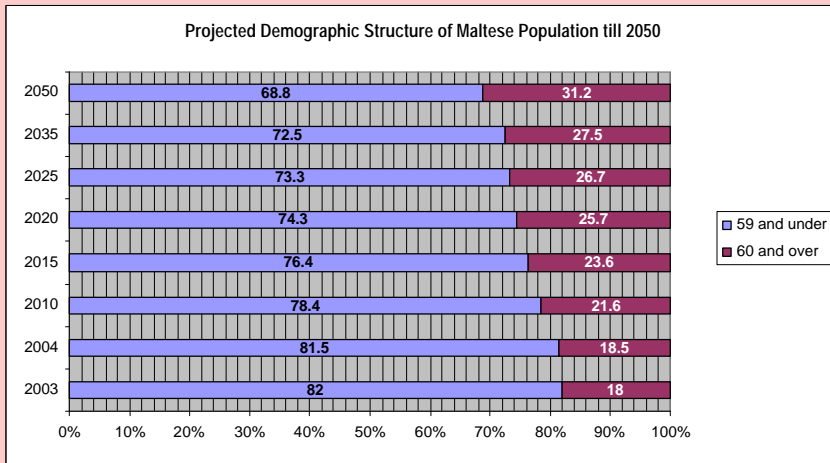
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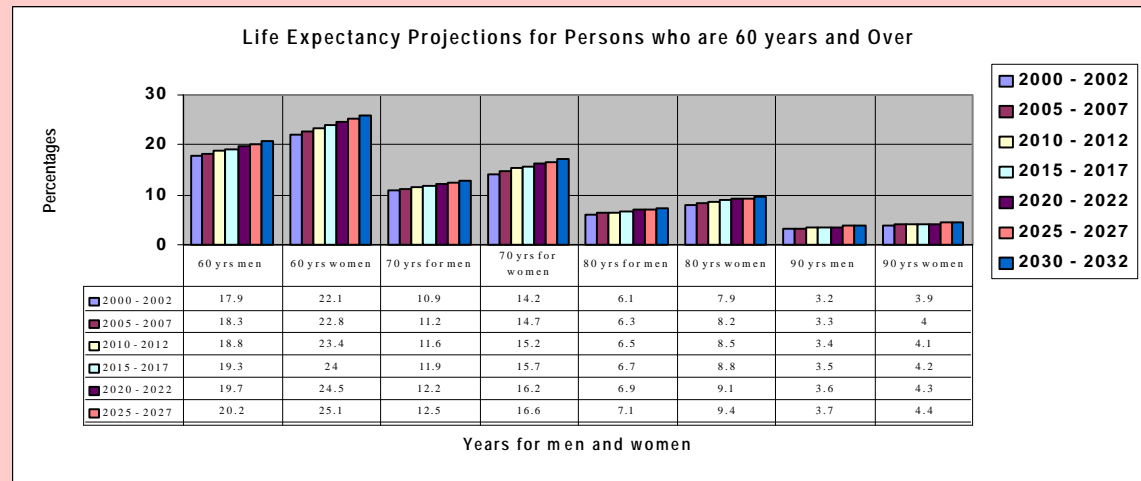
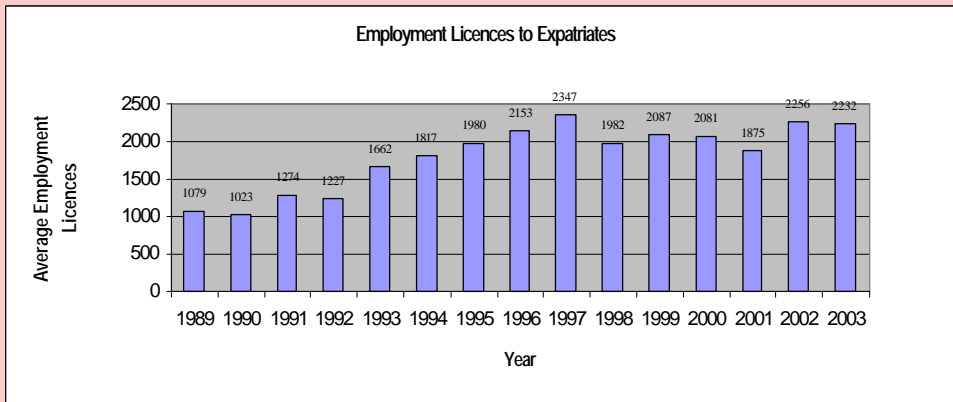
## The Challenges

- Population Aging and Pensions
- Birth Rates
- Life Expectancy
- Population Aging and Health Expenditure
- Employment Participation
- Changing Gender Roles
- Economic Performance and Wealth
- Adequacy
- Financial Sustainability
- Education and Life Long Learning
- Savings

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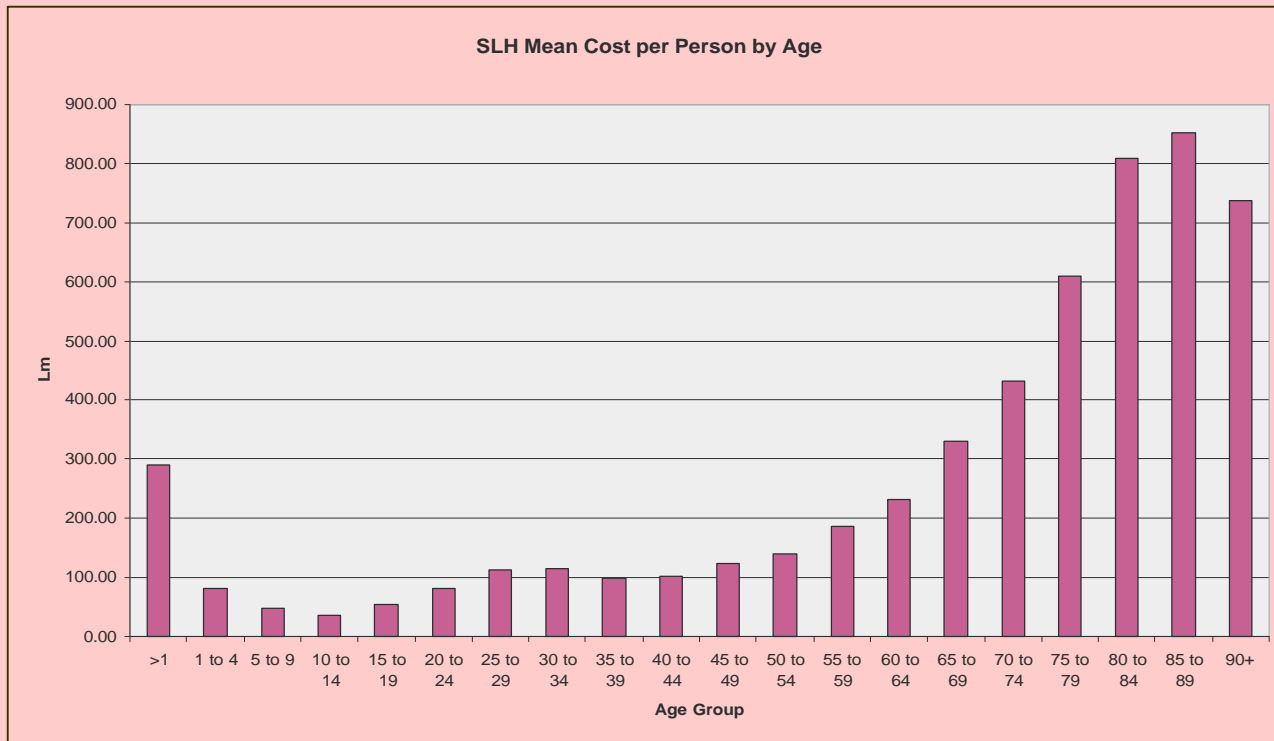


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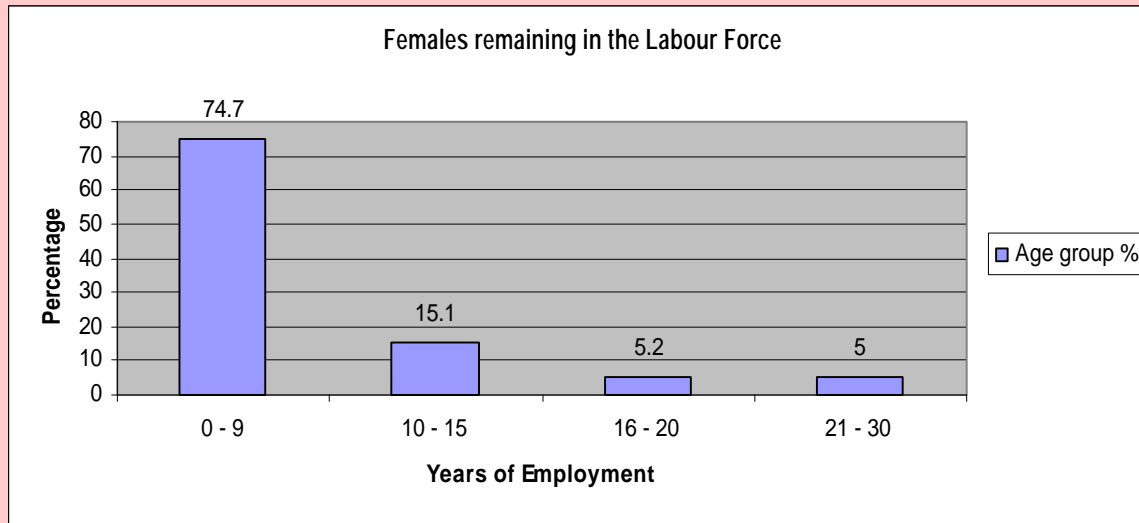


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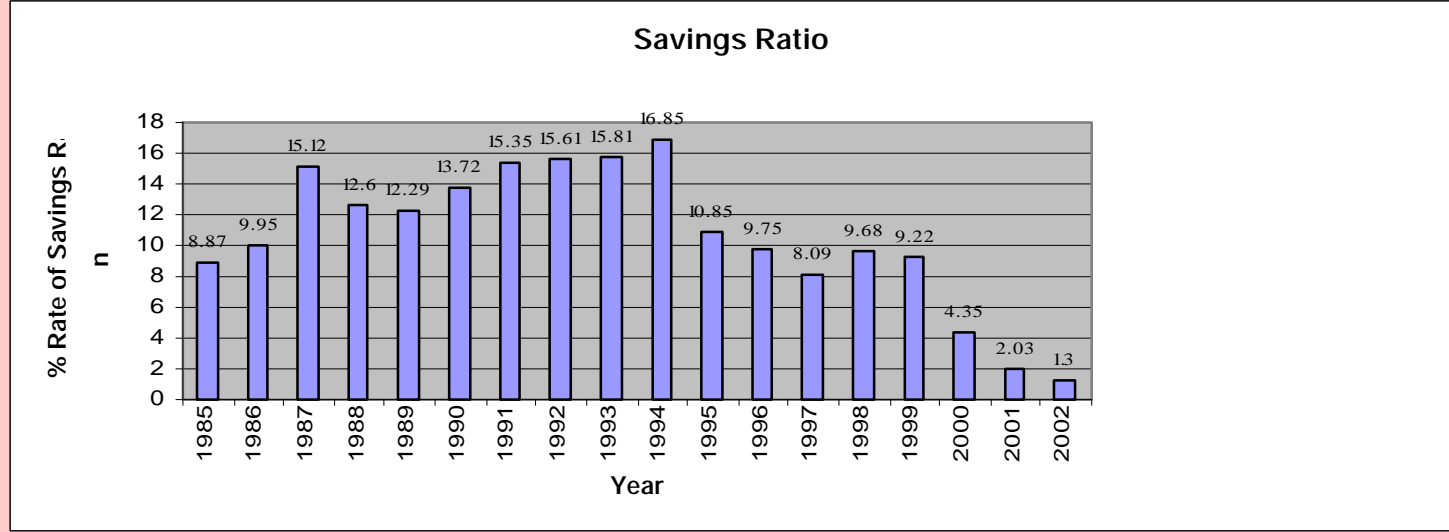
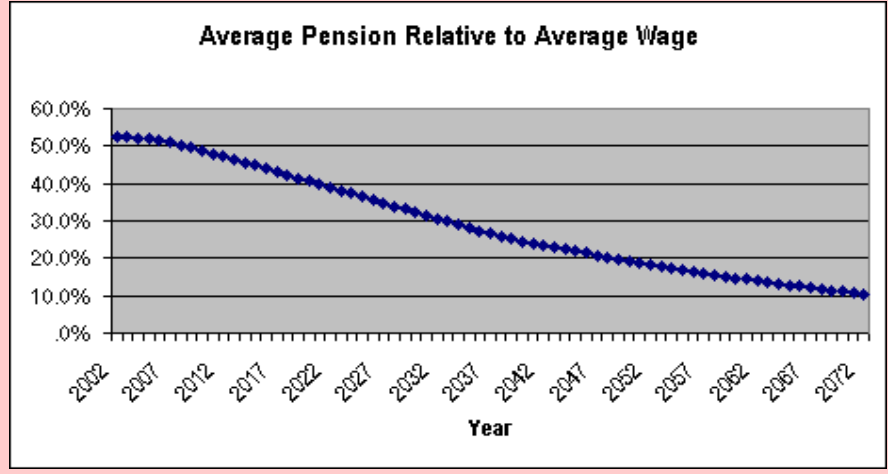
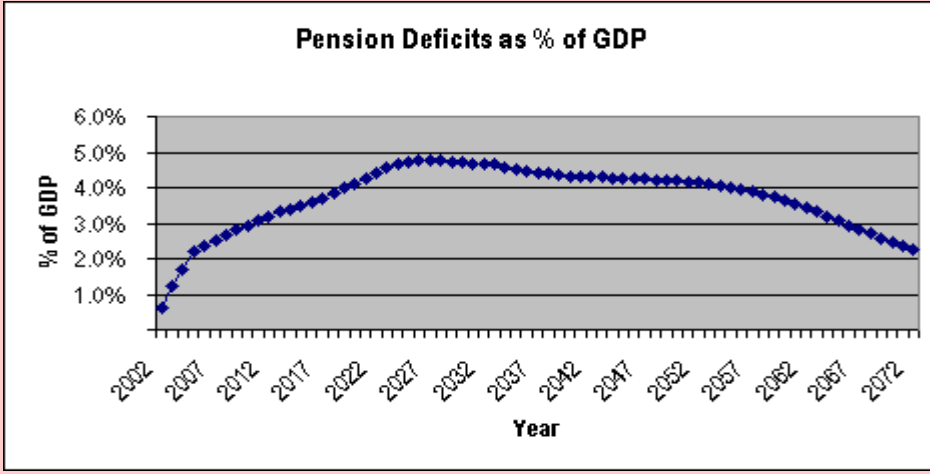
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## Employer and Self-Employed Persons / Employee Contributions Against Total Benefits Paid

	1998	1999	2000	2001	2002	2003
Class I Contributions	81,058,000	85,731,000	95,103,639	107,268,046	108,400,970	125,644,558
Class II Contributions	9,400,000	10,471,000	12,956,316	12,124,576	12,388,651	
Contributory Benefits	(129,387,097)	(136,230,636)	(141,693,149)	(149,301,451)	(154,620,554)	(161,697,055)
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Deficit	(38,929,097)	(40,028,636)	(33,633,194)	(29,911,829)	(33,830,933)	(36,052,497)

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## Instruments available for the Reform of the Pensions System

- i. No Change
- ii. Increase in taxation or Social Security Contributions
- iii. Increase in savings: voluntary or mandatory
- iv. Changing the formula of the PAYG System
- v. Rising the statutory retirement age
- vi. Increase labour force
- vii. Hybrid of above

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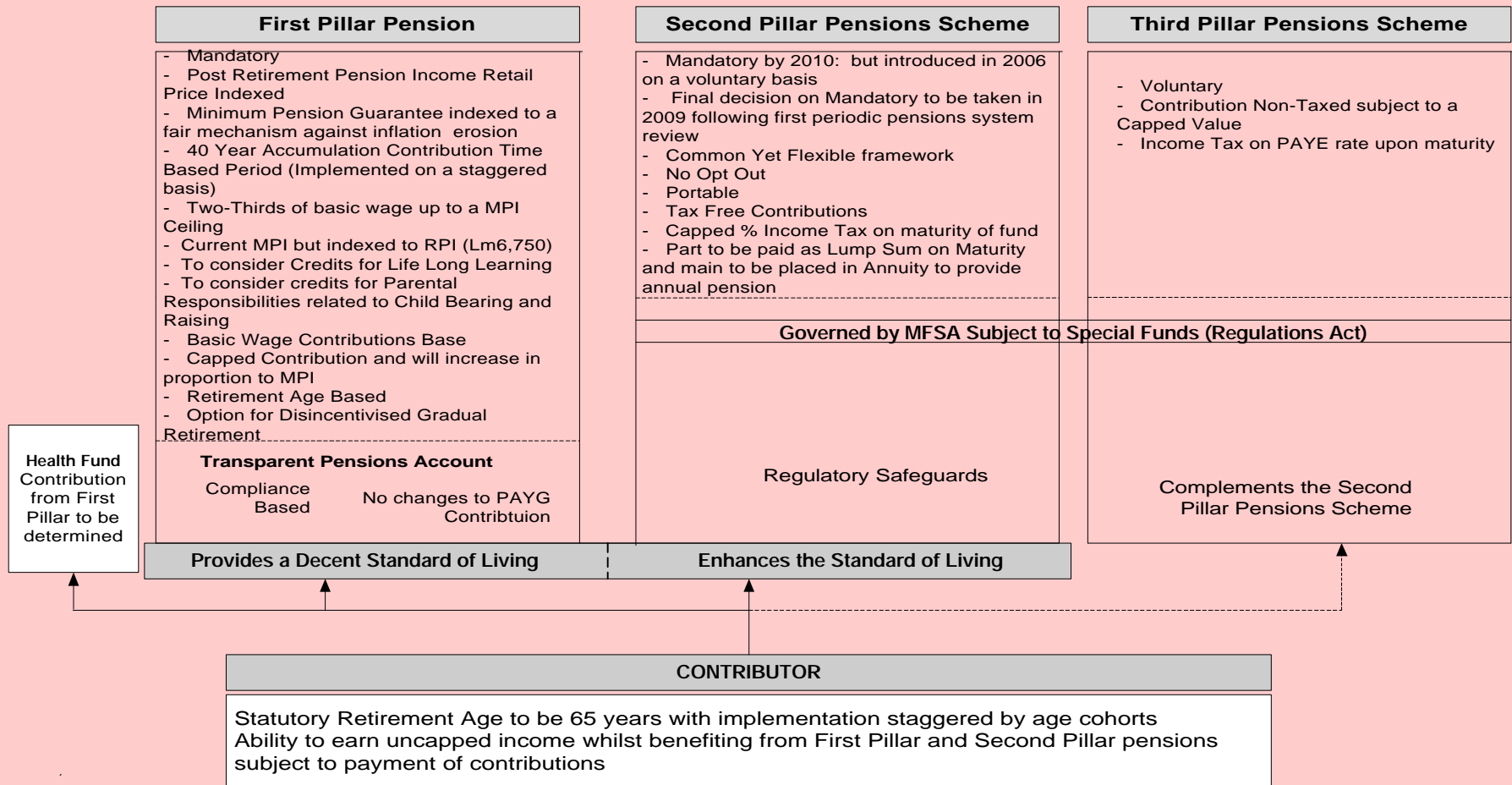
## The Proposed Pensions System: Establishing a Conceptual Framework

- Retains PAYG (First Pillar) – Directed to Guarantee a decent standard of living
- Introduces the Principle of Self-Help (Second Pillar) – Directed to enhance one's standard of living
- Introduces the Principle of Choice (Third Pillar) – Directed to complement one's pension income

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# The New Pensions System





## The New Pensions System: Impact on Employers

- Directed to increase women participation and retention in the labour market
- Directed to retain experience and hard earned intellectual capital in the labour force
- Directed to signal importance of national direct action to attain a knowledge based economy
- Avoids radical solutions and seeks staggered and phased implementation to minimise economic and social convulsions
- Maintains current First Pillar Class I and Class II contributions

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## The New Pensions System: Impact on Employers

- Recognises changes in work norms and behaviour and seeks changes to Part-Time regime to facilitate atypical employment and bring such workers into the formal economy
- Removes the difference of the calculation period between employees and the self employed
- Recognises that the Second Pillar Pensions Scheme will have an impact on consumption and cost of production and proposes initial introduction on a voluntary basis

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## The New Pensions System: Impact on Employers

- Voluntary introduction of a Second Pillar Pensions Scheme is subject to strategic choice by:
  - individual: save to day to have better consumption pattern in retirement
  - employer: model employer
- Recognises that the Second Pillar Pensions Scheme will impact disposable income and mitigates this by the introduction of a conversion scheme for endowment policies and tax incentives for savings

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## The New Pensions System: Impact on Employers

- Securing adequacy by channelling of disposable income today to savings into Second Pillar Pension Scheme means deferral of expenditure from 'today' to the 'future': critically important to the macro economy in view of an aging population
- Securing sustainability by retaining deficit of the pensions system to 2% of GDP allows Government to channel funds to productive investment and the resulting multiplier impact on the economy as against the servicing of structural costs

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## Contact Details

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