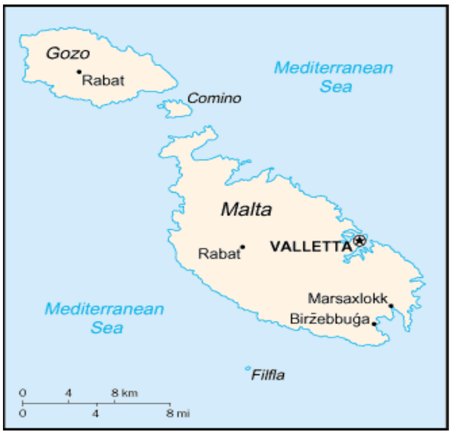
# MALTA




## DEMOGRAPHICS AND MACROECONOMICS

| | |
|---|---|
| Nominal GDP (millions Maltese Lira) | *5,634* |
| GDP per capita (USD) | *20,254* |
| Population (thousands) | *407* |
| Labour force (thousands) | *171* |
| Employment rate | *93.94* |
| Population over 65 (%) | *14.05* |
| Dependency ratio[1] | *33.4* |

Data from 2007 or latest available year.
1. Ratio of over 65-year-olds to the labour force.
Source: OECD

## COUNTRY PENSION DESIGN

### *STRUCTURE OF THE PENSION SYSTEM*

**Public pensions**

- Mandatory earning-related pension scheme provides old-age pensions, survivors' benefits and invalidity pensions. The scheme is supported by means tested (non-contributory) welfare progamme.
- Most widespread form of retirement provision is earing-related Two-thirds pension, providing a pension equivalent to two-thirds of the insured person's pensionable income.
- Minimum pension guarantee represents around 50% of the average wage.

**Private pensions: occupational/personal (mandatory/voluntary)**

- Complementary occupation and personal pension schemes are not yet functioning.
- Legislative framework for introduction of complementary funded pension schemes has been already established, enabling regulations are currently under elaboration.

## MALTA: PENSION SYSTEM'S KEY CHARACTERISTICS

### PUBLIC PENSION

In Malta, the state pension provision consists of mandatory earning related pension scheme, financed on pay as you go basis, which provides old-age pensions, survivor's benefits and invalidity pensions. The scheme is supported by means-tested (non-contributory) welfare progamme. The main type of retirement regime is a 'Two-thirds pension'.

Entire population is covered under either contributory or non-contributory pension schemes.

*Contributory scheme*: *Two-thirds pension*

Contributions

There are two classes of contributions: class one paid by employed persons and class two paid by self-employed. Maximum earning amount to be used for pension calculation was 16,601 Euros in 2008; however this cap is set to be progressively increased in the future as a result of 2006 pension reforms.

Under the class one system: the rate payable by employees and employers represents 10 percent of the basic weekly wage matched by the State contributions equivalent to 50 per cent of the total amount paid by both employee and employer. Contributions are payable by all persons between age 16 and 65. Persons over 65 years are not liable to pay contributions even they are employed.

Under the class two system, a self-employed worker pays a contribution based on their total net income, with a maximum rate of 15%. Persons, neither employed nor "gainfully occupied" are liable to a class two contributions

Benefits

In order to qualify for the 'Two-thirds pension', a person should have been employed for at least 10 years prior to retirement, have paid required contribution rate and have paid or been credited with an average of at least 15 (out of possible 52) national insurance contributions each year over the established contribution period (depending the age of contributors). Contributions may be credited to a person under certain circumstances, such as during sickness, unemployment, widowhood and invalidity.

The Two-thirds pension targets to provide a pension equivalent to two-thirds of the average earnings of insured persons, however due to eligibility conditions and pensionable earnings cap, this objective is rarely attainted in reality.

The benefit formula is currently based on the average income of the best 3 of the last 10 last years prior to retirement in the case of employees and on the average net income of the last 10 years for self-employed. Amendments to the calculation of the pensionable income will be introduced as a result of recent reform measures. In order to qualify for a full pension, a person should have paid (or has been credited) contributions over 30 years. The contribution period required to qualify for a full pension will be gradually increased to 40 years as a result of the reforms. In case an insured person receipts occupational service pension, the social security benefits are abated by the original amount of such service pension.

Retirement benefits are currently paid starting from age 61 for men and 60 – for women; however under the new legislative provisions the statutory retirement age will be gradually increased in the future to age 65 (depending on the age of individuals).

The scheme also provides a minimum pension guarantee. The current minimum pension gurantee is 80% of the Minimum Wage in the case of a married person or 66% in the case of any other person. The minimum pension is indexed to a formula which is composite of 70 per cent of wage and 30 per cent of inflation.[1]

The retirement benefits are only provided in the form of 4-weekly payments.

The share of total pension expenditure in GDP (at current prices) increased from 7.3 per cent in 1995 to 9.3 per cent in 2005[2].

*Non contributory (means-tested) scheme*:

The non contributory scheme provides pension and allowances to Maltese citizens aged more than 60 who satisfy eligibility conditions of residency and financial means test. The means test is calculated based on the capital assets and income of the household members.

In addition, to the general regime, there are pension schemes applicable to Malta Government employees [who had joined the service prior to 15 January 1979, which are under the administration of the Treasury Department and are governed by 'ad hoc' legislation] and special schemes for employees of the Policy Force, the Armed Forces of Malta and the Correctional Services. The Government employees' schemes are no longer applicable to the new entrants to the public service and are considered as closed.

The Ministry for Social Policy provides general supervision of social insurance programmes, while the Department of Social Security administrates the programme.

## OCCUPATIONAL/ PERSONAL VOLUNTARY

Occupational pension schemes and personal pension provisions are still in a very nascent stage of development in Malta. Although the overall legislative framework for their establishment has been set up under existing pension legislation [Special Funds regulations and the amendments/changes introduced to the Social Security Act during 2006 reforms], the enabling private pension regulations are yet to be elaborated by the competent authorities. At present there are no such schemes operating in Malta.

The mandatory occupational private pension schemes are expected to be introduced by 2010, as a part of on-going Government reform of the current pension system, with an objective to ensure more adequate replacement incomes in the future. Implementation of the voluntary private pension system is expected to provide for additional sustainable incentives for individuals to contribute for retirement.

Under the current project in relation to occupational pensions, employees would be able to select a pension fund which assets will be completely separated from those of employer. Contributions, which initially should be set at 2 per cent for employer and employee (each contributing 1 per cent) and 1 per cent for self-employed, will be progressively increased up to 5 per cent by 2020. Pension contributions would be tax deductible for the employer, tax free for employees and taxed at a fixed percentage at maturity; other tax incentives to apply to both mandatory and voluntary pension schemes are currently under

[1] The current minimum pension gurantee is 80% of the Minimum Wage in the case of a married person or 66% in the case of any other person. The concept of a Guarnateed National Minimum Pension equivalent to 60 % of the Median Income is due to come into force around 2013.

[2] National report on strategies for social protection and social inclusion, 2008-2009, Malta

consideration. Accumulations in pension funds would be portable and could not be liquidated. Upon retirement, a part of accumulations could be paid as a lump sum (approximately 20 per cent) while the majority of funds should be converted to purchase an annuity.

Both occupational and voluntary private pension arrangements will be regulated and supervised by the Maltese Financial Services Authority (MFSA), operating under Special Funds Act.

### MARKET INFORMATION

N/A

### POTENTIAL REFORM

Following an extensive national consultation and discussion period, the Maltese Government has implemented in 2006 a vast reform programme to improve the financial sustainability and adequacy of the pensions system. The Government has opted for the phased implementation of the reform, giving the priority first to overhaul the parameters of the public pension scheme. New regulations governing the operation of private pension schemes are due to be presented shortly.

The key reform measures include a gradual increase in the statutory retirement age to 65 for both men and women, depending on their age (equalization to 61 years was enacted in 2007 for both men and women); progressive increase in contribution period for qualifying of a full two-thirds pension (from 30 years to 40 years); gradual change in method for calculation of two-thirds pension to achieve more equivalence; gradual rise of the pensionable income ceiling (to be established at 20,965 Euros as of 2013[3]; thereafter it will increase on the basis of a formula composite of 30 per cent of inflation and 70 per cent of wages). The reforms also legislated the established a minimum pension guarantee pledged to 60 per cent of the median income; amended “contributions’ credit system” by introducing credits for children and elderly care and included provisions encouraging work beyond the new statutory retirement age (to curb early exit from the labour market).

Same reforms also set out the legal parameters to prepare for the introduction of compulsory occupational and voluntary personal private pensions. The mandatory occupational pension schemes are expected to be introduced by 2010 allowing for an increase in future replacement rates as from 2030 onwards.

## REFERENCE INFORMATION

### KEY LEGISLATION

1948: Old Age Pension Act provided for payment of pension to persons over the age of 60 years based on financial means test. In succeeding years, the Act was amended to include other categories of persons liable to receive non-contributory pension benefits.

1956: The National Assistance Act established the provision of social and medical assistance to certain categories of population.

1956: National Insurance Act introduced mandatory contributory social insurance programme providing a wide range of benefits, allowances and pensions coverage to employees. The scope of the programme was subsequently extended in 1965 to include self-employed and non-employed persons.

[3] Idem footnote 3

1979: The social insurance programme was amended to introduce an earnings-related pension schemes (national Two-third pension) for employed and self-employed persons.

1987: Social Security Act consolidated earlier legislation governing the provision of social insurance benefits, pensions, allowances and various forms of social assistance and also incorporated non-contributory schemes.

2002: Special Funds (Regulation) Act was enacted containing provisions for establishment, registration and operation of supplementary occupational pension schemes.

2002: The Malta Financial Services Authority (MFSA) was established taking over supervisory functions previously carried out by the Central Bank of Malta, the Malta Stock Exchange and the Malta Financial Services Centre. The MFSA is the single regulator and supervisor for financial services.

2006: A number of amendments have been introduced to the Social Security Act; Act XIX of 2006 paved the way for a reform of the public pension system in Malta and set out the legal parameters allowing for introduction of occupational and personal private pensions.

### KEY REGULATORY AND SUPERVISORY AUTHORITIES

Malta Financial Services Authority (MFSA): http://www.mfsa.com.mt/

Ministry for Social Policy: http://www.msp.gov.mt/

Department of Social Security of the Ministry for Social Policy

Ministry of Finance: http://finance.gov.mt/