

65 Years Retirement Age: Impact on Manual Workers and other Demanding Jobs

**Supplementary Paper to the Final Report of the Pensions Working Group
Supplementary Paper No 02 (b)**

Prepared by the Technical Team to the Pensions Working Group

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Executive Summary

This report presents the findings of the reviews carried out on the participation of older workers in the labour force and on the impacts resulting from an increase in retirement age (to 65 years) on workers in manual and other demanding jobs. In accordance with the terms of reference, the report proposes a number of mitigation measures that may be adopted by Government to minimise any resulting negative impacts from increasing the retirement age to 65 years. The following is a synthesis of the findings.

Section 1 of the report outlines the terms of reference and the methodology adopted by the Project Team in undertaking this assignment.

Section 2 contains a general background on the subject of moving the retirement age to 65, the reasoning behind the need for its extension and the various measures available and the benefits gained by all stakeholders from the extension. It also highlights the differences in retirement ages across European countries with the scope of establishing a means retirement age. The increasing focus and pressure to abolish the retirement age completely is an interesting and growing shift. Most favour the triggering of First Pillar pensions through a fixed period of contribution rather than employee age, however this is not necessarily sustainable.

Section 3 of the report analyses the participation in the labour force in Malta. This section identifies the main traits and motions in the labour force attributing reasons developed over a research base. This section mainly deals with older workers and the trends relating to 'late years' employment, together with a review on manual and other demanding jobs.

Section 4 identifies the impacts of an increase in retirement age, which were categorised into 3: the macro-economic impacts, the impacts on employers and the impacts on workers. The following core documents were linked to this research:

- National Action Plan of Employment 2004;
- White Paper on Pensions;
- feedback received from the public consultation for the White Paper; and
- Social Impact Assessment of the changes proposed in the White Paper.

As a result of an increase in retirement age, a number of positive and negative impacts will affect the economy, the employers and the workers. Some examples of the impacts include the following:

- a positive impact on the economy as an increase in labour force participation ensures a more sustainable pensions system;
- a possible increase in older workers unemployment rates;
- employers will be faced with an increase in their costs but on the other hand employers will benefit from the experience and skills of the older workers; and
- workers will benefit from an increase in their disposable income.

The impact of increasing retirement age on workers in manual and other demanding jobs is analysed in more detail. While physical health does not necessarily decline with age, blue-collar workers tend to have a less healthy lifestyle. Employers tend to be predisposed on the training of older workers.

This goes against the studies that indicated that older workers self-develop their own particular training needs, rather than responding negatively to training. It is being recommended that training should be developed in a specific and well targeted manner. Research also indicates that workers who are no longer able to maintain their job may be reskilled to perform other jobs. The impact on employers of workers in manual and other demanding jobs was also analysed, as this option is more complex.

Section 5 of the report contains measures to mitigate the impact of the changes introduced by increasing the retirement age. This consists of a series of options, incentives and protective measures specifically applicable to Malta the majority cast around the pensions reform. This section also deals with measures to curb abuse, looking into elements essential to the re-development of the current system for establishing invalidity. The Project Team carried out a review of the situation in European countries with a particular focus on Spain, the country having intrinsic cultural similarities to Malta.

01. Introduction

Further to a request from the Pensions Working Group, the Pensions Technical Working Group is to carry out an assessment of the impact on Manual Workers and other Physical Demanding Jobs the increase in retirement age will stir up. The exercise will define policies and measures geared towards introducing the necessary protective measures for the additive burden carried on by employees whilst asserting any developments operate in line with EU policy.

01.1 Terms of Reference

The Terms of Reference established for this assignment were to:

- review the collective thinking in terms of retirement age in Malta, based upon the feedback available and the formal reports developed to date;
- review practices in the European environment seeking to create a mix of regimes (e.g. Mediterranean, Nordic Countries, UK & Ireland);
- review participation in the labour force in Malta, focusing on the participation of older workers and of workers in manual and other demanding jobs;
- determine the macro cost-benefit impact of an increase in retirement age on the economy, the employers and the workers;
- determine the main impacts of an increase in retirement age on workers and employers involved in manual and other demanding jobs;
- determine the mitigation measures that can be introduced by Government to minimise the negative impacts on workers in manual and other demanding jobs, if any, that may arise following an increase in retirement age;
- discuss such mitigation measures along with arguments in favour and against them; and
- develop a series of recommendations for adoption by the Government.

01.2 Methodology

In undertaking this assignment, the Project Team:

- reviewed the Pensions White Paper and all feedback received through the consultation process, relating to the increase in retirement age;
- made the use of statistics from the National Statistics Office, data provided by the Ministry for the Family and Social Solidarity and the Malta National Action Plan for Employment 2004;
- carried out a review of EU policy documents relating to the increase in retirement age and the measures and incentives necessary to support the social structures effectively;
- carried out a review of foreign articles and papers dealing with prolonged retirement age and its effects;
- carried out research to identify best practices in the area in other governments.

01.3 Acknowledgements

The preparation of this report was greatly facilitated by the co-operation offered by all the persons who contributed towards this report by providing the required data.

02. Retirement Age – Key and Lock to a Working Life

02.1 Background

The raising of the retirement age and increasing the number of contribution years has been long debated over, changing the social security system for today's workers. This debate has been awakened by the White Paper *Pensions: Adequate and Sustainable*, presented by the Pensions Working Group in November 2004. The report references the increase in retirement age through a compilation of former studies, a brief highlight of which is mentioned below.

Camilleri Report (1997)

- the pensionable age should mandatory be 64 for both women and men, going up by one year every two years.¹

Watson Wyatt Ltd (1998)

- the same pension age of 65 is to be adopted for both men and women.²

Interim Report by the NCWR (2001)

- the Retirement age is to be extended to 65 years for both men and women, and is to be achieved within a period of ten years.
- Entitlement to a full pension is to depend on a person satisfying the condition of 40 contribution years and of an average of 50 contributions per annum over the said period.³ **Pensions Reform Proposals, NCRW (2003)**
- Pensionable period should be extended to 35 years.
- Women retirement age should increase to 61 in 2004 and retirement age should increase to 65.⁴

The White Paper also notes that in November 2003 following discussions held with the Ministry of Finance, Government provided the following guidelines for the reform of the pension system⁵:

- A gradual increase in the retirement age from 61 to 65 years for both genders to be fully phased in by 2015.
- A gradual change in the minimum years of contribution required for the 2/3 pension to 35 years from 30 years to be phased in by 2015.

In the same period the NCRW commissioned the World Bank to carry out the appropriate econometric simulations to test the viability of the guidelines proposed by the Government. The econometric findings emerging from the simulations run by the World Bank were used as the base-line upon which the recommendations to the pensions system proposed by the PWG in the White Paper. The World Bank report also proposed that:

- the accumulation of 30 years contribution for the Two Thirds pension whilst the average length of service stands around 38 years may incentivise workers to seek invalidity benefits and disincentivise workers to remain within the pensions system⁶; and

¹ pg 49, Camilleri, R. March 1998. *Averting the pensions crisis: The case of Malta*.

² pg 12, Watson Wyatt Ltd. August 1998. *Pension provision in Malta*.

³ pg 1 – 16, Office of the Chairman of the National Commission for Welfare Reform. 19th June 2001. *Chapter 2, Working Document*.

⁴ National Commission for Welfare Reform. 11th October 2003. *Pensions reform proposals*.

⁵ 4.02, World Bank. March 2004. *The Maltese pensions system: An analysis of the current system and options for reform*.

⁶ 2.08 (ii), World Bank. March 2004. *The Maltese pensions system: An analysis of the current system and options for reform*.

- the removal of disincentives for workers to continue working beyond the minimum retirement age.

The World Bank in partnership with a Technical Team constituted of representatives from the NCWR and the MCESD developed a stronger proposal over and above the guidelines established by Government which included:

- a further rise in the retirement age beyond age 65 in line with future improvements in life;
- indexation for pensions post-retirement to inflation rather than the 80% inflation and the 20% wage growth contribution⁷;
- the pension is based on full lifetime career earnings⁸;
- the target pension for a full career is two-thirds of net wage rather than two-thirds of gross wage⁹; and
- defining a full career and therefore a full pension as a 45-year contribution period¹⁰.

The World Bank also considered the option that to “better protect benefits” in the long run:

“... workers older than 45 at the time of the reform (will) retain their old benefit structure. Under this option, the proposal (of the World Bank) will apply to all those at age 45 and under. However, there are small components of the proposal that will apply to those above the age of 45. The retirement age will be raised to 65 and will apply to those above the age of 45 & The indexation of pensions post retirement will be based on inflation right away and the ceiling on contributions and the maximum pension will begin to rise right away as well¹¹.”

Hence even though the various studies propose different solutions they all agree that the retirement age is to be increased and the contribution period on which a pension is calculated is to be lengthened.

This is further augmented in National Action Plan for Employment (NAPE) for 2005 that describes the broadening of the contribution base is an essential premise that the proposed pensions system must also address for the fiscal sustainability of the pensions system, in tandem with complementary activities undertaken by Government to induce economic growth and to ensure that a trained and adequate labour supply is in place. In this regard, the White Paper puts forward a series of recommendations:

02.2 Retirement Age

- The recommendation of the NCWR to increase the statutory retirement age to 65 years is a positive measure directed to broaden the contribution base as well as to enlarge the pool of labour supply (Decision of Principle 27).
- The statutory retirement age of 65 years will be for both men and women (Decisions Principle 28).

02.3 Contribution Base

- The contribution period for the accumulation of the Two-Thirds First Pillar pension should be according to **Table 01** (Decision Principle 33):

⁷ 4.05 (2), ibid

⁸ 4.05 (3), ibid

⁹ 4.05 (4), ibid

¹⁰ 4.05 (5), ibid

¹¹ 4.08(i), ibid

Table 01: Contribution Period as proposed in the White Paper

Years of Age as at 1st January 2007	Accumulation Period
46 years of age and over	No change from current accumulation period
40 years of age to 45 years of age	35 years
39 years of age and below	40 years

Malta's change in retirement age is however not exceptional. Recent research carried out by Mercer Human Resource Consulting indicates similar EU averages¹². Statutory retirement ages for women in Western Europe range from 60 in Austria, Greece (if service started before 1 January 2003), and the UK, to 66 in Ireland. While men in Italy can claim a state pension at age 62, the statutory retirement age for men in most other Western European countries is 65.

By contrast, the fast-developing Eastern European block compares to Malta both in economic development and in statutory retirement ages. The average state pension age for women is 58 years and 11 months compared to 63 years and 11 months in Western Europe. Meanwhile, Eastern European men are able to claim their state pension at 62 years and 3 months, whereas those in the West must wait until they are at least 64 years and 10 months, on average.

Eastern European countries with low statutory retirement ages include Slovenia, where women retire at 54 years and 8 months and men at 60 years and 6 months; Slovakia, where state pension age is 55 on average for women and 60 for men; and the Czech Republic where retirement ages are 59 for women and 62 for men.

In this regard Mark Sullivan, a European Partner at Mercer, comments:

"There have been many changes to statutory retirement ages in the past few years as countries aim to reform their social security systems. Though Eastern European countries generally have lower state pension ages for both men and women, they look set to increase gradually in the future.

As many Eastern European countries have now joined the EU, there will be more pressure to bring statutory retirement ages into line with other member states. But they will have some catching up to do as retirement ages in Western Europe are continuing to creep upwards, too."

Table 02 by Mercer Consulting evaluates the statutory retirement ages across Europe. Malta has deliberately been added for comparison.

¹² Mercer Human Resource Consulting. 27 September 2004. *Retirement ages – lower in Eastern Europe*. [Internet] Available from: <http://www.mercerhr.com/summary.jhtml/dynamic/idContent/1155755>.

Table 02: Statutory Retirement Ages across Europe

Minimum statutory retirement ages in Europe			
Country	Male (M)	Female (F)	Comments
Western Europe			
Austria	65	60	6.4
Belgium	65	64	By 2009 will be 65 for M&F with 45 years' contributions
Denmark	65	65	4.3
Finland	65	65	4.3
France	65	65	Normal retirement age is 65, although retirement can be taken anytime between 60 and 65 after full contributory career
Germany	65	65	(By end of 2004) 65 for members with more than 35 years' contributions by end of 2001
Greece		60	Possible to retire with 37 years' mandatory insurance
If already in employment on 1/1/93	65		
If began employment post 1/1/93	65		
Ireland	66	66	If cease employment, payable from 65
Italy	62	62	
Luxembourg	65	65	
Malta	61	60	F increasing to 61 by 2006. (less reform proposals)
Netherlands	65	65	
Portugal	65	65	Permitted between 55 and 70 if enough years of contributions
Spain	65	65	In certain heavy industries (for example construction and manufacturing), full pensions are payable from age 55. Possible to receive full pension from 64 if employer hires unemployed person in counterpart
Sweden	65	65	
UK	65	60	Common SRA of 65 by 2020 over 10 years
Average	64.87 (or 64 years and 10 months)	63.88 (or 63 years and 11 months)	(Average calculated without Malta)
Eastern Europe			
Czech Republic	62	59	M and F increasing to 63 by 2013.
Estonia	65	60	
Hungary	62	62	Except F born in 1943 (58), 1944 (59), 1945 (60), 1946 (61)
Latvia	62	61	F 61.5 from 1/1/05 , 62 from 1/1/06
Lithuania	61-8/12	59-4/12	M increasing to 62 ½ by 2009, F increasing to 60 by 2009.
Poland	65	60	
Slovakia	60	55 (average)	M and F rising to 62 over the next 10 years.
Slovenia	60-6/12	54-8/12	M increasing to 63 by 2009. F increasing 61 by 2023
Average	62.27 (or 62 years and 3 months)	58.88 (or 58 years and 11 months)	

Early retirement, together with the fall in fertility and the rise in life expectancy are leading to an ageing population. An ageing population is associated with unsustainable social security systems. In OECD countries¹³ projections of the labour force growth indicate that the labour force growth will stop or even fall in the G7 countries. Such changes in the labour force growth mainly is the result of a decrease in fertility rates, together with an increase in the life expectancy.

Lower employment participation impacts the sustainability of pensions, resulting from fewer employees in relation to the number of persons reaching retirement age and thus getting a pension. This is further aggravated as people are living longer and consequently are receiving pensions for a longer number of years. Nevertheless - and in addition to the effect on the affordability of pensions - an ageing population will have dramatic effects on growth and living standards, as the world's most productive countries become its oldest. This increases the importance of increasing labour force participation and thus of increasing the retirement age.

02.4 Summary

For the purpose of this report the decision principles proposed by the White Paper on Pensions are being taken as set. This is assumed in the light of:

- all pensions studies carried out to date are all consistent in highlighting that Malta has a demographic challenge that will impact the financial sustainability of the pensions system;
- all studies emphasise on the need for the labour force to be enlarged;
- all studies are consistent in stating that the retirement age needs to be increased; and
- the basis for the increase in retirement age is furthered by the similarities in statutory retirements across Europe indicating White Paper's econometrically-developed baseline is set on the on correct and similar grounds.

The increase in the retirement age is often perceived as a difficult social measure that brings with it a number of impacts on individuals hence the next sections of the document will discuss:

- the Maltese labour force demographics, in terms of aging workforce, gender distribution and were possible – ratios of labour intensity
- the impacts instigated by a change in the statutory retirement age and contribution period on the local labour force – compared to the impacts in other similar jurisdictions;
- the possible measures of mitigation to leverage incentives or disincentives to join or retain an employee in the workforce, again basing the study on similar European countries and cultures.

¹³ OECD Secretariat. 10-11 March 2005. *Ageing populations: High time for Action*. London: Meeting of G8 Employment and Labour Ministers.

03. Participation in the Labour Force in Malta

The following employment targets were set for the EU Member States at the European Councils of Lisbon and Stockholm:

- overall employment rate to 67% by January 2005 and 70% by 2010;
- employment rate for women to 57% by January 2005 and 60% by 2010; and
- employment rate for those aged between 55 and 64 to 50% by 2010.

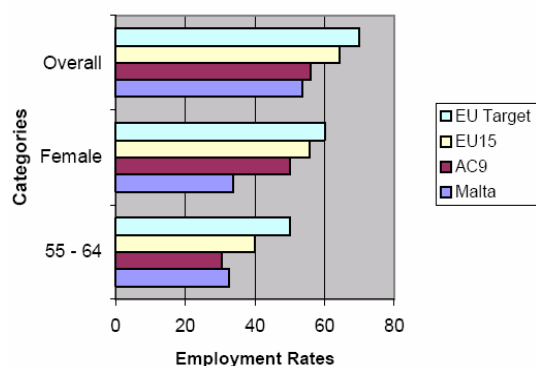
In addition to the 3 overarching objectives of the European Employment Strategy, the Commission made a number of common recommendations. As a result, Malta introduced or accelerated the following actions¹⁴:

- increasing adaptability of workers and enterprises;
- attracting more people to enter and remain on the labour market: making work a real option for all;
- investing more and more effectively in human capital and lifelong learning; and
- ensuring effective implementation of reform through better governance.

03.1 Employment Status for the 55-64 Age Cohort

The overall employment rate in Malta stood at 53.7% according to the NSO Labour Force Survey of December 2003. This is largely attributable to the gender difference in employment rates (which for the same period, were 73.3% for men, 33.7% for women) and to the low employment rate (32.6%) for those aged 55 to 64. **Figure 1** below captures the overall employment rates and the female and 55-64 age group employment rates for 2003 in relation to the 2010 EU targets and the EU15 averages for December 2002. Malta's overall employment rates for the 55-64 age group and also for the female group are lower than the EU15 averages and than the 2010 EU targets. Raising the employment rate, particularly that of women and older workers, is considered to be a priority to promote equality of opportunity, to secure economic growth and ensure the funding base for social security. The Employment and Training Corporation states that the employment forecasts portrayed above indicate that the EU targets are unlikely to be met by 2010¹⁵.

Figure 1: Employment rates



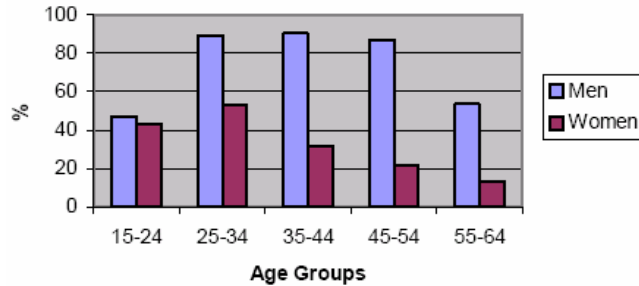
Source: National Action Plan for Employment 2004 (Malta), Employment and Training Corporation

¹⁴ Employment and Training Corporation. *National Action Plan for Employment 2004 (Malta)*. (28 September 2004). [Internet] Available from: www.etc.gov.mt.

¹⁵ Employment and Training Corporation. *National Action Plan for Employment 2004 (Malta)*. (28 September 2004). [Internet] Available from: www.etc.gov.mt.

When analysing the employment rates by age group (**Figure 2**), it can be concluded that the lowest employment rates for men are for the 15-24 age group and the 55-64 age group. On the other hand, the lowest employment rates for women are for the 55-64 age group and the 45-54 age group. This further indicates that the 55-64 age group have a lower employment rate when compared to younger age groups, except in the case of male employment rates where the 15-24 age group has the lowest employment rate.

Figure 2: Employment rates by age group



Source: National Action Plan for Employment 2004 (Malta), Employment and Training Corporation

This is further confirmed in **Table 03**, which indicates that the number of inactive persons aged 55-64 was very close to the number of inactive persons aged 15-24 in the fourth quarter of 2004. On the other hand, there seems to be a direct proportion between the ages and the number of inactive persons for the rest of the age groups. As the age groups get older, the number of inactive persons is larger. In fact, while the smallest group of inactive persons is the 25-34 age group that stood at 12,279 in the fourth quarter of 2004, the number of inactive persons aged between 55 and 64 years stood at 27,843 in the fourth quarter of 2004 and was the largest group. The same pattern can be observed between the second quarter of 2000 and the fourth quarter of 2004. Particular attention is to be given when interpreting such figures, as the 15-24 age group includes the students and the 55-64 age group includes those persons who have already retired.

Table 03: Total inactive classified by age group

	15-24	25-34	35-44	45-54	55-64	65+
2000q02	23,019	12,741	20,424	25,838	26,275	45,357
2000q04	23,846	13,775	19,590	26,253	28,244	47,288
2001q01	24,156	13,985	19,415	26,808	28,138	47,238
2001q02	21,629	13,432	19,294	27,316	28,533	47,049
2001q03	23,142	13,666	21,647	25,828	27,710	47,759
2001q04	23,519	14,244	20,806	26,453	27,335	47,687
2002q01	26,331	14,202	21,023	24,556	28,768	47,645
2002q02	23,705	12,924	19,656	25,893	27,916	47,652
2002q03	23,263	14,222	19,596	25,733	27,187	47,710
2002q04	25,334	14,092	18,930	26,061	27,441	47,886
2003q01	27,262	12,185	18,051	27,520	27,091	48,194
2003q02	24,058	12,865	19,724	26,881	27,157	48,121
2003q03	27,093	11,834	18,838	27,659	26,961	48,216
2003q04	26,776	12,431	18,238	28,934	26,795	47,802
2004q01	26,294	13,158	17,893	28,522	26,278	48,295
2004q02	26,997	13,340	19,846	27,460	27,666	48,470
2004q03	27,596	12,937	20,053	24,832	28,381	48,203
2004q04	27,369	12,279	20,300	26,091	27,843	47,981

Source: NSO online database (www.nso.gov.mt)

As shown in **Table 04** in the fourth quarter of 2004, the number of employed persons aged over 55 years stood at 13,986 out of which 11,458 (82%) were males and 2,528 (18%) were females. The percentage of employed females aged over 55 years, has been constantly very low between 2000 and 2004 when compared to the percentage of employed males aged over 55 years. This may indicate that 55+ females are more likely to be out of the labour market than males. The total number of persons aged over 55 years employed in the fourth quarter of 2004 indicates a 21% increase over the total number of persons employed in the second quarter of 2000.

Table 04: Employed persons aged 55+ grouped by gender

Year	Employed persons aged 55+				
	Males	% of Total	Females	% of Total	Total
2000q02	9,914	85	1,683	15	11,597
2000q04	10,249	85	1,871	15	12,120
2001q01	10,388	83	2,151	17	12,539
2001q02	10,326	82	2,199	18	12,525
2001q03	10,470	82	2,292	18	12,762
2001q04	10,765	81	2,477	19	13,242
2002q01	10,347	85	1,829	15	12,176
2002q02	10,708	80	2,616	20	13,324
2002q03	10,513	79	2,839	21	13,352
2002q04	11,318	83	2,398	17	13,716
2003q01	11,267	83	2,373	17	13,640
2003q02	10,880	78	3,155	22	14,035
2003q03	11,040	79	3,021	21	14,061
2003q04	11,526	76	3,541	24	15,067
2004q01	11,627	78	3,360	22	14,987
2004q02	11,027	82	2,478	18	13,505
2004q03	10,913	83	2,173	17	13,086
2004q04	11,458	82	2,528	18	13,986

Source: NSO online database (www.nso.gov.mt)

Table 05 analyses into further detail the number of persons aged 55 years and over that were employed in the fourth quarter of 2004. There were 13,986 employed persons aged 55 years and over, which consisted of 10,255 males and 2,389 females in the 55-64 age cohort and 1,203 males and 139 females in the 65+ age cohort (refer to). Therefore, between October and December 2004 there were 1,342 persons aged over 65 years still in employed in spite of the 60 and 61 years retirement ages present at the time of analysis.

Table 05: Age distribution of total employed persons in October-December 2004 (main occupation)

Age group	Sex				Total	
	Males		Females			
	No	%	No	%	No	%
15-24	15,450	15.0	12,530	27.6	27,980	18.9
25-34	24,132	23.4	13,861	30.6	37,993	25.7
35-44	26,389	25.7	7,968	17.6	34,357	23.2
45-54	25,372	24.7	8,414	18.6	33,786	22.8
55-64	10,255	10.0	2,389	5.3	12,644	8.5
65+	1,203 ^u	1.2	139 ^d	0.3	1,342 ^u	0.9
Total	102,801	100.0	45,301	100.0	148,102	100.0

Source: Labour Force Survey 2004, NSO

03.2 Average Exit Age and Invalidation Pensions

The average exit age indicates that the employees are exiting the workforce at a very young age. There are exceptions - a number of persons who keep working beyond the retirement age. **Table 06** indicates the average exit age from the workforce for the past 4 years, which ranges between 53.2 years for the females exiting the labour force in 2004 and 58.6 years for the males exiting the workforce in 2002.

Table 06: Average exit age from the labour force

Year	Sex		Total
	Males	Females	
	Mean		
2001	53.4	55.1	53.7
2002	58.6	55.1	58.0
2003	58.3	56.5	57.9
2004	58.2	53.2	57.2

Source: News Release 73/2005, NSO

Table 07 indicates the number of beneficiaries receiving an Invalidation Pension for the last 10 years. Between 1995 and 2004 the number of beneficiaries increased from 4,859 to 8,490 a 74.7% increase. One reason that can be attributed for a young average exit age from the labour force is such increase in the number of beneficiaries receiving an Invalidation Pension.

Table 07: Invalidation beneficiaries for the last 10 years

Year	Number of Persons
1995	4859
1996	5216
1997	5331
1998	5779
1999	6255
2000	6106
2001	6701
2002	7601
2003	8493
2004	8490

Source: Department of Social Security, MFSS

Indeed, the data on the age of persons receiving the different types of Invalidation Pensions at end of May 2005 [Table 08] indicates clearly that the number of persons receiving an Invalidation Pension is directly proportional with age up to 60 years of age. Moreover, between ages 26 and 41 the total number of females is constantly higher than the number of males receiving an Invalidation Pension. The total number of males receiving an Invalidation Pensions is more than three times as much as the number of females. Such behaviour is expected considering the higher participation rates of males in the labour force. Table 08 presents 4 types of Invalidation Pensions:

- o Invalidation Pension (IP) and Increased Invalidation Pension (IIP) - beneficiary in receipt also of a service, treasury/early retirement pension;
- o National Minimum Invalidation Pension (NMIP) - beneficiaries without any other pension; and
- o Decreased Invalidation Pension (DNIP) - beneficiary in receipt also of a very small service pension.

Table 08: Age of those Persons receiving Invalidation Pensions

Female						Male						Male and Female Total
Age	IP	IIP	NMIP	DNIP	TOTAL	Age	IP	IIP	NMIP	DNIP	TOTAL	
26			3		3	26			1		1	4
27			4		4	27					0	4
28			3		3	28			2		2	5
29			8		8	29			4		4	12
30			4		4	30			3		3	7
31			13		13	31			2		2	15
32			13		13	32			5		5	18
33			30		30	33	2		5		7	37
34	1		24		25	34			7		7	32
35	2		20		22	35			13		13	35
36	1		11		12	36			10		10	22
37	2		14		16	37			9		9	25
38	2		20		22	38			14		14	36
39	2		20		22	39	2	1	10		13	35
40	1		19		20	40			16		16	36
41	1		34		35	41	3		24		27	62
42	1		31		32	42	3		30		33	65
43			20		20	43	2		47		49	69
44			40		40	44	1		34	1	36	75
45			44		44	45	3	1	56		60	104
46	5		51		56	46	4	2	72	1	79	134
47	2	1	66		69	47	4	2	107		113	182
48	7		53		60	48	9	4	115		128	188
49	2		56	2	60	49	9	1	111		121	181
50	6		81		87	50	18	2	129		149	236
51	2		67		69	51	23	2	160		185	254
52	11		73		84	52	31	3	179		213	297
53	12		99		111	53	50	8	230		288	399
54	12		105		117	54	63	20	246	3	332	446
55	13		105		118	55	90	16	316	1	423	540
56	25		127		152	56	116	21	345	3	485	634

Female						Male						Male and Female Total
Age	IP	IIP	NMIP	DNIP	TOTAL	Age	IP	IIP	NMIP	DNIP	TOTAL	
57	24	3	132	2	161	57	170	22	419	3	614	772
58	32		148		180	58	194	28	475	1	698	877
59	29	1	139		169	59	235	24	504	1	764	932
60	28		118		146	60	226	24	526	1	777	922
61+	8	43	68	1	120	61	149	31	417	3	600	717
						62+	38	105	291	4	438	434
	231	48	1863	5	2147		1445	317	4934	22	6718	8865

Source: Department of Social Security, MFSS (May 2005)

Table 09 presents information on the medical condition of the beneficiaries of Invalidation Pensions that were seen in this year between January and May 2005. It is interesting to note, that the most common condition for receiving Invalidation Pensions is the psychiatric condition equivalent to nearly 60% of the total number of beneficiaries receiving an invalidity pension. This means that this year there were more persons suffering from a psychiatric condition rather than from a physical condition, who were no longer able to participate in the labour market. Psychiatric conditions may be more relevant to demanding and stressful jobs rather than to manual jobs.

Table 09: Medical condition of the beneficiaries of invalidity pensions

Medical Condition	No. of beneficiaries
CANCER - ALL TYPES	3
CARDIOVASCULAR AND/OR RESPIRATORY FUNCTION	18
GASTROINTESTINAL: STOMACH AND DUODENUM	1
HEARING: ASSIGNMENT AND IMPAIRMENT RATING	1
INTERMITTENT IMPAIRMENT-EXPLANATION	1
LIVER AND BILIARY TRACT	1
LOWER LIMB	17
LOWER URINARY TRACT	1
MISCELLANEOUS EAR, NOSE AND THROAT	1
MISCELLANEOUS (EG. MALIGNANCY, HYPERTENSION, HIV INFECTION)	4
MUSCOLO-SKELETAL FUNCTION: CERVICAL SPINE	6
MUSCOLO-SKELETAL FUNCTION: NORMAL RANGE OF JOINT MOVEMENT	9
MUSCOLO-SKELETAL FUNCTION: THORACE-LUMBAR SPINE	1
MISCELLANEOUS VISUAL	4
NEUROLOGICAL FUNCTION: COGNITION	2
NEUROLOGICAL FUNCTION: COMPREHENSION	1
OTHER MUSCOLO-SKELETAL	8
OTHER OCULAR	6
PSYCHIATRIC	275
RESPIRATORY FUNCTION: PHYSIOLOGICAL	1
RENAL	4
UNKNOWN (<i>Not registered by staff</i>)	91
UPPER LIMB	2
VISUAL ACUITY	1
Total:	459

Source: Department of Social Security, MFSS (January to May 2005)

03.3 Part-time versus Full-time Participation

Table 10 and **Table 11** make it evident that during October to December 2004:

- males in the 55-64 age cohort preferred full-time participation rather than part-time participation in the labour force;
- those males over 65 years of age preferred part-time employment more than full-time employment.

On the other hand, the percentage of females over 65 years of age in part-time employment is low when compared to other age cohorts although females over 65 years of age preferred part-time employment rather than full-time employment like males. The percentage of females aged between 25-54 years in part-time employment is higher than other ages. The reason behind this trend can be attributed to family responsibilities, as females may be more able to maintain part-time employment rather than full-time employment after having children.

Table 10: Age distribution of full-time employed persons in October-December 2004

Age group	Sex				Total	
	Males		Females			
	No	%	No	%	No	%
15-24	13,493	13.6	10,660	29.7	24,153	17.9
25-34	23,820	24.1	11,560	32.2	35,380	26.2
35-44	25,904	26.2	5,331	14.8	31,235	23.2
45-54	25,134	25.4	6,419	17.9	31,553	23.4
55-64	10,096	10.2	1,879	5.2	11,975	8.9
65+	453 ^u	0.5	55 ^u	0.2	508 ^u	0.4
Total	98,900	100.0	35,904	100.0	134,804	100.0

Source: Labour Force Survey 2004, NSO

Table 11: Age distribution of part-time employed persons in October-December 2004¹

Age group	Sex				Total	
	Males		Females			
	No	%	No	%	No	%
15-24	1,957	50.2	1,870	19.9	3,827	28.8
25-34	312 ^u	8.0	2,301	24.5	2,613	19.6
35-44	485 ^u	12.4	2,637	28.1	3,122	23.5
45-54	238 ^u	6.1	1,995	21.2	2,233	16.8
55-64	159 ^u	4.1	510 ^u	5.4	669 ^u	5.0
65+	750 ^u	19.2	84 ^u	0.9	834 ^u	6.3
Total	3,901	100.0	9,397	100.0	13,298	100.0

¹ Please note that the figures in this table include also full-time employees with reduced hours together with part-time employees.

Source: Labour Force Survey 2004, NSO

03.4 Employed Persons and Deaths by Occupation

In line with the scope of this assignment it is appropriate to classify the total number of employed persons by occupation. **Table 12** categorises the number of employed persons for the years 2003 and 2004 by occupation. The most common occupation for years 2003 and 2004, on average, was that of service workers and shop and sales workers followed by the technicians and associate professionals group and the craft and related trades workers group which were similar to each other. This implies that the craft and related trades workers group¹⁶ is one of the most common professions.

Table 12: Total employed classified by occupation

Occupation	Number of Employed Persons							
	2003q01	2003q02	2003q03	2003q04	2004q01	2004q02	2004q03	2004q04
Armed Forces	1310	1845	1100	1368	1756	2045	1779	1641
Legislators; senior officials and managers	14050	14240	13584	13784	14265	13193	12851	12867
Professionals	14202	14610	15044	14771	15645	14918	15688	16566
Technicians and associate professionals	20784	20134	21196	20698	20391	20272	21293	20810
Clerks	15942	16560	16730	17086	17821	16629	16225	16112
Service workers and shop and sales workers	22268	21808	22461	22876	23203	22162	22767	21991
Skilled agricultural and fishery workers	2542	2813	2198	2489	3255	2723	2265	2014
Craft and related trades workers	20992	21370	20584	19612	20136	20686	20763	21406
Plant and machine operators and assemblers	16126	16398	15656	15791	14855	15683	15985	15791
Elementary occupations	20582	19040	18049	18567	17328	17733	19066	18904

Source: NSO online database (www.nso.gov.mt)

Table 13 represents a comparative perspective of the same period in 2004 and 2005. The respective percentages of employees in crafts and related trades overall are 14% in Jan-March 2005 and 13.5% for the same period in 2004. In **Table 13** the average gross salaries for each occupation type are also presented. The average gross salary of the employees in crafts and related trades is not the lowest however it is very low when compared with higher salaries.

Table 13: Total number of employed persons in January-March 2004 and 2005

Occupation	Total number and percentage of employed persons in Jan-March 2004 and 2005 and their average gross salary					
	2004q01	%	Lm	2005q01	%	Lm
Armed Forces	1756	1.2	4800.97	1441	1.0	5229.32
Legislators; senior officials and managers	14265	9.6	7844.93	13481	9.0	9103.26
Professionals	15645	10.5	6793.38	16350	10.9	6732.52
Technicians and associate professionals	20391	13.7	5533.50	21333	14.2	5619.39
Clerks	17821	12.0	4698.24	17601	11.8	4691.81
Service workers and shop and sales workers	23203	15.6	4284.87	22490	15.0	4453.16
Skilled agricultural and fishery workers	3255	2.2	3691.13	1753	1.2	4492.64
Craft and related trades workers	20136	13.5	4838.99	21100	14.1	4902.23
Plant and machine operators and assemblers	14855	10.0	4386.49	15595	10.4	4284.36
Elementary occupations	17328	11.7	3959.80	18592	12.4	4035.40

Source: Data provided by NSO

¹⁶ Includes miners, stone cutters, carvers, building frame, building finishers, metal moulders, welders, sheet-metal workers, structural-metal repair and other related trade workers although not the largest group of occupations

Most of the workers falling under the group of craft and related trades workers can be considered as manual jobs as such jobs involve physical exertion and on average constitute 14% of all the occupations. This category, used for the Labour Force Survey, can include other workers types that are not considered as manual workers. Moreover, there may exist other groups of occupation, which include manual or other demanding jobs such as elementary occupations, which includes mining and construction labourers. An attempt has been made to determine the exact percentage of workers in manual and other demanding jobs. The lack of specific statistical information on manual workers and workers in other demanding jobs and divergences on the definition given made it difficult to determine numbers qualitatively.

NSO in the *Demographic Review 2003* analysed also the deaths in the year 2003 by age groups, sex and occupation. **Table 14** analyses the deaths of Maltese and foreign residents aged 15-64 in 2003 by occupation. The high amount of Non Gainfully Occupied/Occupation Unknown persons emerges a risk when establishing a relationship between the type of occupation and the number of deaths when compared to the remainder of the occupations presented in **Table 14**. The number of deaths in the elementary occupations and craft and related trade workers group seems high when compared to other groups of occupations. Such behaviour is expected as these groups are among the largest groups of occupations. It should be noted that the 112 males and 147 females not gainfully occupied there are 68 males and 20 females retired persons.

Table 14: Deaths by occupation

Occupation	15-44		45-64	
	M	F	M	F
Legislators, Senior Officials and Managers	-	-	4	-
Professionals	2	-	15	7
Technicals and Associate Professionals	3	1	17	3
Clerks	2	1	8	2
Service Workers and Shop and Market Sales Workers	1	1	9	-
Skilled Agricultural and Fishery Workers	-	-	3	-
Craft and Related Trade Workers	5	-	20	
Plant and Machine Operators and Assemblers	5	-	3	2
Elementary Occupations	12	1	18	3
Armed Forces	-	-	-	-
Not Gainfully Occupied	15	26	112	147
Occupation Unknown	29	11	61	12
Total	74	41	270	176

Source: Demographic Review 2003, NSO

03.5 National Action Plan for Employment

The Employment and Training Corporation (ETC) is involved in the drafting and submission of the National Action Plan (NAP) for Employment. A key component of the Lisbon Strategy, which was set out by the European Council with the aim of making EU the most dynamic and competitive economy, is the European Employment Strategy. The National Action Plan is an important policy document of national significance to be submitted every year to the European Commission, portraying the current labour market situation, significant developments and the mapping of Malta's way forward towards the Lisbon Targets through the adoption of the European Employment Strategy (EES). Malta submitted its first National Action Plan to reach the guidelines of the European Employment Strategy on the 1st October 2004. The NAP (p.6) states that:

Another reason for the latter [low rate of older workers] is the fact that pensionable age in Malta is currently 61 for men and 60 for women. Furthermore, a rise in the uptake of invalidity benefits over past years, as well as the temporary use of early retirement provisions for purposes of

restructuring, have somewhat lowered the employment rate of older workers. However, it is government policy to encourage active ageing and particularly the retention of employment for as long as possible. In this respect, pension reform plans are at an advanced stage, and should provide inter alia for the raising of the pensionable age for both men and women. Potential abuse is being controlled with respect to access to invalidity benefits, and early retirement schemes are utilised only as a transitional measure in the restructuring of the public sector.

In relation to work related stress the NAP (p. 7) points out that

although industrial accidents have decreased considerably in recent years, there remains scope for further improvement of health and safety awareness and measures, as well as for a reduction in the uptake of sick leave. Closer study of workplace stress is required. A priority sector for these improvements is the construction industry. A healthy work environment is also considered necessary to promote access to, and retention of, employment by older workers and persons with disability.

The ETC have re-aligned their employment and training services to conform to the targets in the NAP. When adult jobseekers register as unemployed (p. 15),

within a fortnight of registration, registrants will be required to attend the one-day seminar in jobsearch skills. Profiling and referral to Guidance will occur after only one month of unemployment (in view of the fact that adult unemployed have far longer unemployment spells than youth). Adult jobseekers will not be allowed to register for occupations for which they are not qualified, and will be invited to sit for a trade test where necessary. After the lapse of three months of registration, adult jobseekers will attend a two-week job motivation course and advanced jobsearch skills, with an emphasis on multiskilling. Personal Action Plans will be drawn up following this course. A Personal Advisor will be appointed to those who have failed to comply with any of the above steps. After the lapse of the ninth month of registration, jobseekers will be referred to short competence based courses, or placed on either the Employment Training Placement Scheme or the Training and Employment Exposure Scheme. Both involve training, work placements and differing degrees of wage subsidy.

04. Impacts of the Retirement Age on the Workforce

A review of foreign jurisdictions together with other available literature was carried out to determine the impacts that will result following an increase in retirement age, particularly focusing on those people employed in manual and other demanding jobs. The research leads the Project Team to conclude that in most countries (including Britain, France, Australia, and USA) the trend is to increase retirement age beyond the present 65 years or to remove the mandatory retirement age imposed on employees, in order to enable them to work beyond 65 years. As a result, there is a lack of studies on the effects of increasing retirement age to 65 years on workers in manual and other demanding jobs. It is to be noted that cultural differences also make some studies irrelevant to the Maltese context.

A distinction is to be made between the macro impacts resulting from an increase in retirement age, and the impacts of an increase in retirement age on workers in manual and other demanding jobs. The terms of reference for this report were to identify the impacts that an increase in retirement is likely to have on manual jobs and other demanding jobs, thus it is felt that this section of the report should start by summarising the impacts resulting from an increase in retirement age. The section will later expand on the impacts on manual and other demanding jobs as per the terms of reference.

04.1 Impacts of an Increase in Retirement Age

Table 15 summarises the main impacts resulting from an increase in retirement age, determined by the research that was carried out. The impacts were divided into 3 categories macro-economic impacts, impacts on employers and impacts on workers and while the positive impacts were marked with the following symbol \uparrow , the negative impacts were marked with the following symbol \downarrow . A full list of the main sources of information used in **Table 15** can be found in **Appendix I**.

Although the impacts presented in **Table 15** may affect the retirement decision, the retirement decision is generally affected by a combination of elements. The decision between remaining in the labour market and retiring is generally determined by the market incentives, such as the person's expected wage and job opportunities and the pension benefits from public and private pensions schemes¹⁷. Individual circumstances such as health and wealth are also determinants of the retirement decision. Studies carried out by the OECD¹⁸ on the incidence of early exit identified 6 factors as determinants of the retirement decision:

- health;
- mandatory retirement rules;
- earnings rules;
- non-pension alternatives to labour income;
- actuarial fairness of pension schemes; and
- social norms.

¹⁷ Human Resources and Skills Development Canada (HRSDC). 2001. *Income Security Programs - Evaluation of Public and Private Financial Incentives for Retirement*. [Internet] Available from: <http://www11.hrsdc.gc.ca/en/cs/sp/hrsdc/edd/reports/2001-002606/page05.shtml>.

¹⁸ OECD. *Incentives and disincentives to early and late retirement* (Working Paper). [Internet] Available from: <http://www.oecd.org/dataoecd/22/5/2428694.pdf>.

Table 15: Summary of Impacts of an Increase in Retirement Age

Macro-Economic Impacts	
The labour force participation will increase more than the projected labour force growth, as employees have to keep working for an additional number of years.	J
Employees will have to retire later, thus the pension payouts/expenditure is delayed.	J
An increase in retirement age is not only necessary to ensure the sustainability of pensions and social security systems, but also to maintain the standard of living across the world, as the wealthier countries will become the poorest when the baby boomers retire.	J
Statistics indicate that older workers have high rates of unemployment, which may be aggravated, as the unemployment of old workers is less humiliating than the unemployment of young workers. Moreover, when employed older workers are often underemployed, as the employment does not match their skills levels.	L
Impacts on Employers	
Employers who employ older people can benefit from the skills of such workers, who also have a lot of experience.	J
Employing older workers rather than younger workers, gives employers the chance of more flexibility, particularly in periods of uncertain future, as older workers will only stay for a few years when compared to younger workers.	J
On the other hand, employers who already employ older workers, and would like to change their staff will be restricted with an increase in retirement age.	L
Hiring older workers may increase the cost of employers because of higher employee benefits especially health costs.	L
Employers will have to pay the social security contributions of current employees for an additional number of years.	L
Employers feel that they should not be the solution for the pensions problem.	L
Employers feel that older workers are less productive than younger ones and the reduction of natural attrition could be detrimental to the company performance. This could lead employers to remain fixed at their current head count, when in actual fact, in need of the dynamism provided by the younger workforce.	L
An increase in retirement age may open a minefield of litigation as employees feel that they have been discarded or that they have suffered a decrease in salary because of age discrimination and not for other valid reasons.	L
The employers may have to change their present values and HR policies in order to integrate older workers in their organisation. Employers may have to offer more flexible forms of employment in order to enable older workers to maintain their participation in the labour force, even if not on a full-time basis.	L
Impacts on Workers	
The workers will benefit from an increase in their disposable income prior to and during retirement, which may lead to a better quality of life. The increase in disposable income will result because: <ul style="list-style-type: none"> ○ if the retirement age is increased to 65 years for both men and women, the workers will retire later than the present retirement age and thus will benefit from higher monthly annuity payments as the interests are accumulated for an additional number of years; ○ the lower income workers are given the opportunity to work for a longer period and make up for their lack of financial resources; and ○ the decrease in income associated with retirement is delayed. 	J
As the baby boomer generation starts retiring, the employers will need more employees. This will encourage employers to retain and hire older workers, at least in the first 30 years of this century.	J
Those workers who view their work as a source of satisfaction, socialisation and attach other positive benefits to their work, have an automatically a longer period of enjoyment of such work-related benefits.	J
If the increase in retirement age is not phased in, persons born just a few days apart may get different pensions.	L
Employees who have poor health, but do not qualify for a disability pension will find it difficult to get a job.	L
Employees who are made redundant by their employees, may feel discouraged to apply for jobs because they think the will be discriminated against because of their age.	L
An increase in retirement age, increases the impact of work-related stress, demands and pressures on the individual's physical and mental health. European Agency for Safety and Health at Work studies ¹⁹ estimate that the cost of stress at work and the related mental health problems could amount to 3% to 4% of the Gross National Product in the 15 EU members (pre-2004).	L
There must be an equating value between working longer and taxation. Feedback received from the Pensions consultation phase argues that there is currently, little relation between the two de-incentivising employees from working longer. Increasing retirement, without dealing with taxation could result in early retirements.	L

¹⁹ European Agency for Safety and Health at Work. (2002). *Working on Stress*. [Internet] Available from: http://agency.osha.eu.int/publications/magazine/5/en/MAGAZINE5_EN.PDF.

04.2 Impacts on Workers in Manual and Demanding Jobs

Prior determining the specific impacts on the workers in manual and other demanding jobs, it must be stated that following an increase in retirement age such workers will be positively and negatively impacted in the same way as other workers as indicated in **Table 15**. The impact may sometimes vary in intensity between one job and another. One example of this could be related to manual workers that are more likely to be low-income earners. In this case the opportunity to work for a longer period and make up for the low-income earners' lack of financial resources may apply more to manual workers than to other workers who have higher wages.

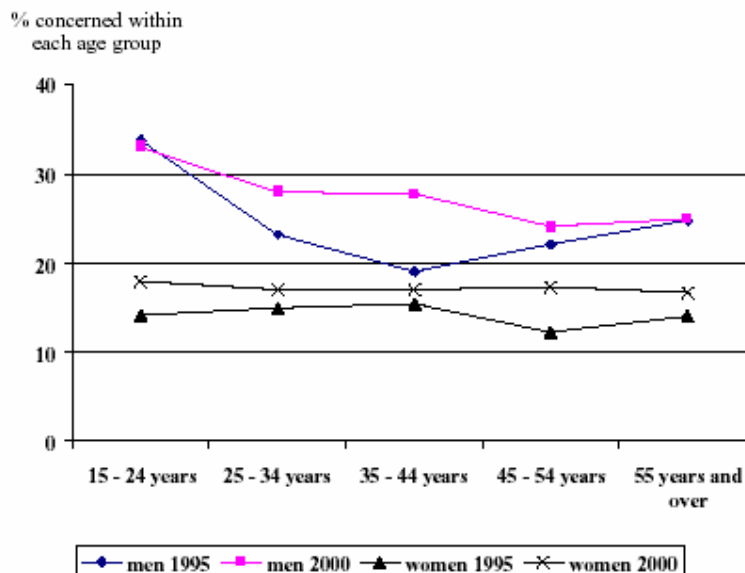
04.2.1 Physical Demands at Work

An extension of the retirement age might result in too heavy a burden in terms of physical strain, on the manual worker. The increase in the retirement age may lead individuals in this category, who are not able to work for these additional years, to leave the workforce and seek social assistance, unemployment benefits or invalidity pension thus restricting their social right to leave the workforce in a dignified manner.

“Physically heavy work is most common among blue-collar workers. According to the Swedish work Environment Authority, 50% of women and 46% of men in blue-collar jobs in the 50-65 age group believe that the physical work demands should be changed to enable them to work up to retirement age.”²⁰

In the European Union (EU 15), between 1995 and 2000, the frequency of exposure to physical demands at work increased mostly for the 35-44 years age group²¹. One of the reasons that may be attributed for such increase is that younger age groups now have higher levels of training. As a result, more physical heavy work is carried out by workers in the intermediate age group (35-44 years). Although the percentage of older workers that carry or move heavy loads for at least half of their working time is lower than the intermediate age group, the opportunity for older workers to be protected from heavy work is becoming scarce (refer to **Figure 3**).

Figure 3: Proportion of employees in each age group stating that they carry or move heavy loads for at least half of their working time (1995 – 2000)



Source: Age and Working Conditions in the EU, Eurofound

²⁰ Eurofound. 2004. *Creating better working conditions for older workers*. [Internet] Available from: <http://www.eurofound.eu.int/ewco/2004/05/SE0405NU04.htm>.

²¹ Eurofound. 2003. *Age and working conditions in the European Union*. [Internet] Available from: www.eurofound.eu.int.

Older workers suffer more from osteoarticular problems as they are exposed to physical stress. 50% of the employees who carry heavy loads and are under the age of 25 (men or women) who suffer from back problems attribute these to their work. 75% between the ages of 45 and 54 for men and close to 80% above the age of 50 for women attribute their back problems to their work²².

The results of a study carried out by the Organisation for Applied Scientific Research (TNO) in the Netherlands indicates that there is a gap between opinions and reality regarding the health and employability of older workers²³. While the people's perception is that physical health declines with age, facts show that the majority of older employees enjoy good physical and mental health and work very well until the age of 65-70 years. There are 5 reasons that may be attributed to the minimal impact on employability:

- older employees apply various methods to compensate for decline (e.g. reading glasses and well-developed working strategies);
- many people are healthy until old age;
- health depends on many more factors other than age, such as lifestyle, job tenure and physical demands;
- in most jobs, declining health has no impact on job performance; and
- many jobs and work environments can be adjusted for emerging disabilities.

These findings are however, applicable to the whole workforce. In fact, it was also noted that among employees in blue-collar jobs, age and subjective health are more strongly related than they are among employees in white-collar jobs. This does not necessarily mean that blue-collar workers become less healthy at a faster rate but that blue-collar workers have a less healthy lifestyle. This increases the importance of paying particular attention to older employees in blue-collar jobs.

It was felt that increasing the number of years in service for workers in physically strenuous jobs poses a problem, alongside other European countries already following this social policy. In this regard the Austrian Institute of Economic Research carried out a study on the situation in the construction industry²⁴. The study revealed that the construction sector:

- has the highest rate of accident risk;
- suffers from a high number of sick leave days; and
- has a high invalidity rate among its workers.

04.2.2 Reskilling/Training of Older Workers

The economy is increasingly becoming service-driven making it easier for older workers to perform their jobs. However, those still in manual jobs and in other demanding jobs may find it difficult to maintain their current job for a longer number of years. Moreover, the pace of change is a very rapid one, which may make it more difficult for older workers to keep up. Therefore, manual workers and other workers in other demanding jobs may need to be retrained to do a different job to maintain their participation in the labour force.

Reskilling may be difficult at an advanced age, especially if the new job is very different than the former one. European surveys also pointed out that the older they get, the more workers have the impression that their work does not enable them "to learn new things" (refer to **Figure 4**) and task rotation between colleagues reduces significantly after the age of 45²⁵.

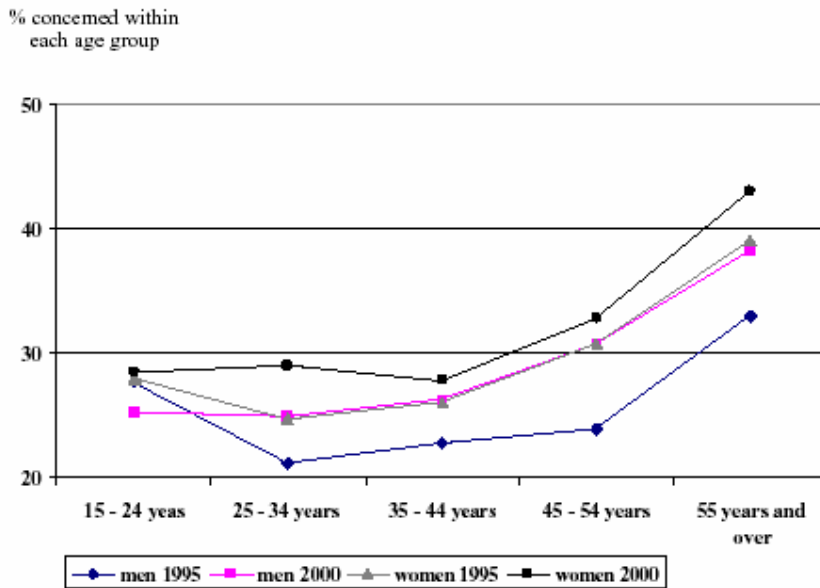
²² Eurofound. 2003. *Age and working conditions in the European Union*. [Internet] Available from: www.eurofound.eu.int.

²³ Eurofound. 2005. *Health and employability of older workers*. [Internet] Available from: <http://www.eurofound.eu.int/ewco/2005/04/NL0504NU02.htm>.

²⁴ Eurofound. 2005. *Health risks of physically strenuous work*. [Internet] Available from: <http://www.eurofound.eu.int/ewco/2005/03/AT0503NU03.htm>.

²⁵ Eurofound. 2003. *Age and working conditions in the European Union*. [Internet] Available from: www.eurofound.eu.int.

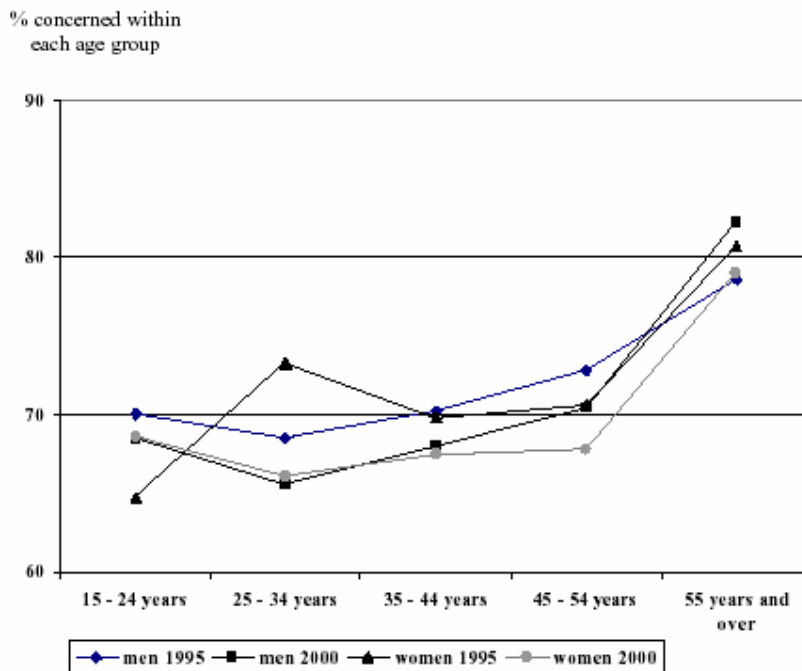
Figure 4: Proportion of employees of all ages declaring that their work does not enable them to learn new things (1995-2000)



Source: Age and Working Conditions in the EU, Eurofound

Inversely **Figure 5** shows the number of workers (men and women) aged 35-54 years claiming they have not had training in the last 12 months, being rarer in 2000 than in 1995. The same cannot be said for the workers aged 55 years and over. The proportion of workers (men and women) claiming that they have not had training in the last 12 months is higher in 2000 than in 1995

Figure 5: Proportion of employees of all ages who say they have not had training in the last 12 months (1995-2000)



The Portuguese Ministry for Social Security and Labour has conducted a survey of over 3,000 Portuguese companies as part of a study with the aim of contributing to the debate on active ageing, which is currently taking place in Portugal²⁶. Companies were asked for their perceptions on age and training. As shown in **Table 16** most of the companies agreed with the discriminatory phrases. This implies that companies hold discriminatory views in relation to the training of older workers.

Table 16: Degree of agreement with discriminatory phrases towards older workers

Phrase	Agree	Neutral	Disagree
It is always preferable to invest in the professional training of younger workers.	50.7	27.0	22.3
Older workers are less motivated to learn new things.	45.5	32.1	22.4
The older trainees have greater difficulties in learning	42.5	39.3	18.2
It is harder for older people to make use of the acquired knowledge.	39.7	39.4	20.9
It is a waste to provide training to individuals who will only work for a few more years.	9.6	31.4	59.1

Similar views that may be present in the Maltese companies reduce the opportunities of reskilling for older workers in manual and other demanding jobs. An employment paper developed by the International Labour Office²⁷ states that although workers above 45 years get special job counselling and labour market training, workers above 45 years have lower re-employment rates (25%) than workers below 40 years (53%).

Employers tend to believe that older workers lack the capability of training or are less flexible. However, findings of industrial gerontological and occupational psychology research²⁸ criticise the common belief that older workers are less flexible than younger workers. Older workers need a different training approach which takes into consideration their particular characteristics. One reason for the different training approaches is that “fluid” cognitive abilities (including short term memory and attention) are negatively related to age and “crystalised” cognitive abilities (relating to verbal, acquired or specialised skills) are positively related to age. Therefore, training programmes for older people should:

- involve learning by doing;
- build upon existing concepts and structures;
- appear directly applicable; and
- be suitably paced.

In relation to the argument that “It is a waste to provide training to individuals who will only work for a few more years”, a study conducted by OECD in 1993 indicated that older workers have the longest tenures and it is only amongst the very oldest age group, that the proportion for staying on for at least five years tails off (refer to **Table 17**). Trends demonstrate that younger workers change jobs more frequently than older workers, as younger workers move from one job to another until they settle. Moreover it is more likely that all employees, young and old, need some kind of training in order to keep abreast of the new innovations. This could be attributed to the rapid changes in the fields of technology.

²⁶ Eurofound. 2004. *Company practices regarding older workers*. [Internet] Available from: <http://www.eurofound.eu.int/ewco/2004/12/PT0412NU02.htm>.

²⁷ International Labour Office. 2003. *Employment paper 2003/50: Employment promotion policies for older workers in the EU accession countries, the Russian Federation and Ukraine*. [Internet] Available from: <http://www.ilo.org/public/english/employment/strat/download/ep50.pdf>.

²⁸ OECD. *Incentives and disincentives to early and late retirement* (Working Paper). [Internet] Available from: <http://www.oecd.org/dataoecd/22/5/2428694.pdf>.

Table 17: Proportion (%) of each age group staying with the same employer at least 5 years

	USA	Finland	France	Germany	Netherlands	Spain	Japan
20-24	23	28	43	46	47	31	69
25-29	29	35	54	39	23	48	72
30-34	31	38	49	39	29	54	65
35-39	32	40	56	62	33	56	69
40-44	32	42	51	43	37	51	70
45-49	43	42	60	51	35	45	66
50-54		37	42	65		49	65
55-59		28	25	33		36	36
effective retirement age	62.8	60.9	59.9	60.8	60.8	62.5	64.8
full state pension age	65	65	60	65	65	65	60

note: for USA, eight years

source: own calculations from OECD, 1993, Tables 4.3 and 4.4; effective retirement age from Bovenburg and van der Linden, 1997, Table 6.6.

04.2.3 Change in Lifestyle and Culture

Increasing the retirement age means a postponement of the activities that are usually associated with retirement including:

- the enjoyment of hobbies;
- the availability of free time to pass with family members; and
- the active role in the family life such as by helping in the care of grandchildren who have both parents working.

As a result of the increase in retirement age and also of the increase in the contribution period people would have reduced leisure opportunities, as they do not have another option except that of working to pay the necessary contributions. This brings about a change in lifestyle together with a change in culture as the grandparents are no longer available to support their children in employment and thus their children have to find other alternatives for support (e.g. the use of childcare services for grandchildren).

Those with strenuous (such as manual labourers) or stressful jobs may find it difficult to maintain their job for a longer number of years, should there be an increase in retirement age. Therefore, such employees may have to be retrained or redeployed bringing about a change in their lifestyle.

04.2.4 Life Expectancy

Statistics²⁹ indicate that blue-collar workers do not live as long as white-collar workers. Thus, an increase in retirement age could have blue-collar workers even less likely to enjoy their pension. Moreover, blue-collar workers tend to be poorer and consequently an increase in the retirement age will have a larger impact on blue-collar workers and low-income workers. In Switzerland, occupations in physically strenuous work sectors, such as occupations in the construction industry, forestry and wood-processing industry, there is a clearly higher mortality rate compared with the average. Architects, engineers, doctors and teachers show a mortality rate far below the average.

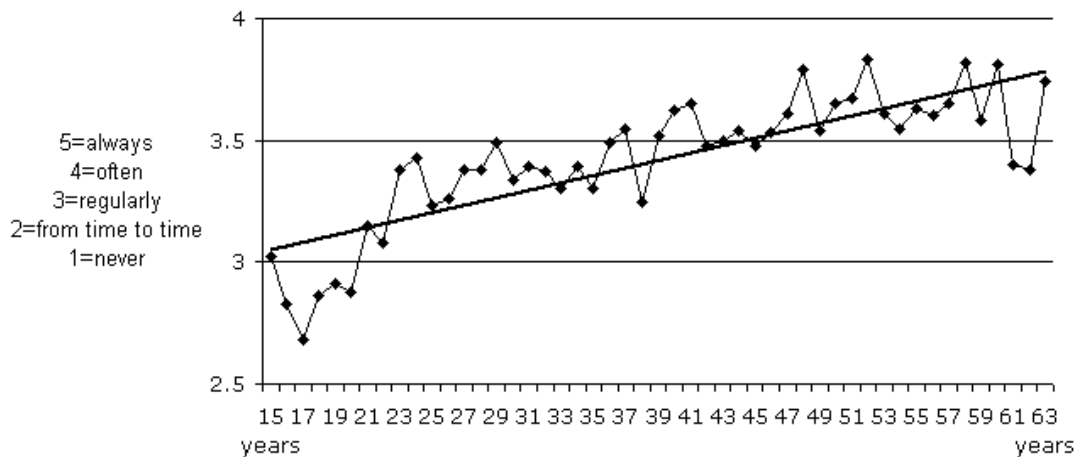
²⁹ Economist's View. 2005. *The costs and benefits of raising the retirement age*. [Internet] Available from: <http://economistsview.blogspot.com/2005/05/costs-and-benefits-of-raising.html>.

04.3 Impacts on Employers in Manual and Demanding Jobs

The increase in retirement age would lead employers in manual and other demanding industries to be impacted in the same way as other employers in lighter working conditions. This is indicated in **Table 15**, though the intensity of the impacts can vary between some employers and others - employers of manual and other demanding jobs may be required to provide better suiting occupational conditions than other employers. This may include more flexible arrangements in terms of working hours and patterns by those who opt to work beyond the statutory retirement age, as it is more probable that workers in manual and other demanding jobs would not wish to maintain the same level of activity.

The TNO Work Situation Survey 2002 as indicated in **Figure 6** shows that, although older workers in the Netherlands report more health problems than their younger colleagues, they are seen to be more motivated and absorbed in their work³⁰. As employees grow older, their satisfaction with the work situation increases until the age of 45-50 years. Motivation alone may not be useful for the workers' employers. Therefore, employees were also asked to rate their employability as 'better', 'at the same level' or 'at a lower level' when compared to that of their colleagues. The highest level of employability was reported by those of 45 years of age. The degree of employability decreases slightly for older people, but remains at a relatively high level. It is to be noted, that this study focuses on a Northern European culture that could differ from Malta's Mediterranean culture. In this regard, the trend demonstrated in **Figure 6** could differ from what is actually felt in Malta.

Figure 6: Motivation levels by age



Source: TNO Work & Employment Survey 2002

04.4 Review of the Legislative Reform in Spain

This Section reviews the reforms carried out in the Spanish social security legislation, reforming both pensions and employment. The Project Team chose to focus on Spain as the country has:

- intrinsic cultural similarities to Malta;
- a pensions system that focus on the impact of the increase of the statutory retirement age; and
- the country being in a similar transitory phase from 61 to 65.

³⁰ Eurofound. 2004. *Older workers more motivated in their work*. [Internet] Available from: <http://www.eurofound.eu.int/ewco/2004/05/NL0405NU04.htm>.

Reforms in Spanish legislation were introduced in 2002 with the aim of making the age of retirement age more flexible, while facilitating a gradual and progressive retirement by providing³¹:

- **partial retirement:** it is, for example, possible to receive a partial pension from the age of 60 whilst continuing to work part-time. The amount of the part pension is calculated by applying the rate of the reduction of working hours to the amount of pension which the individual would normally received given his contributions history at the time of retirement; and
- **early retirement:** the employee has access to early retirement even if the employee has not reached the statutory retirement age (65). The employee in question must have reached the age of 61 and be able to show a minimum of 30 years' contributions and that the termination of their last employment was not attributable to them, to become eligible for early retirement. The pension is reduced by applying certain reduction coefficients based on the number of years or fractions of years until the individual reaches normal pensionable age at the time of retirement.

In the case of those employees, over 65, who have an incapacity caused by an occupational risk, the law offers the possibility of access to the **permanent incapacity pension**.

Another type of pension that is offered is the **temporary incapacity benefit**. If the recipient fails to attend the medical examinations prescribed by the medical services of the Provisional Offices of the National Social Security Institute, and does not provide a justifiable reason, the pension is terminated. In the event of the termination of an employment relationship where the individual in question is suffering temporary incapacity, the individual will continue to receive a temporary incapacity benefit that is equivalent to the sum received as an unemployment benefit. Therefore, the employee will receive a contributory benefit that is equivalent to the sum received as a benefit.

The **unemployment protection system** was also reformed together with an improvement in employment. To achieve the reform's objectives a number of benefits/opportunities were provided including the following.

- When a person starts receiving unemployment benefit, the government is committed to provide active assistance. The employment service identifies the unemployed person's best route for finding a job given his/her professional skills and aptitude for work.
- Recipients wishing to work in other areas with greater employment opportunities are entitled to financial support to assist with travel.
- Job seekers over 52 years of age who are in receipt of a cash unemployment benefit are able to voluntarily combine part of this benefit with paid work. As a result, the employees increase their contributions history and thus benefit from a better pension.
- Job seekers who want to use the remaining benefit to which they are entitled to enter a partnership or become members or partners in co-operatives, can have this sum capitalised and paid out in a lump sum to provide the contribution required for partnership.
- Unemployed workers have the possibility of combining unemployment benefit with work, in order to be able to fill in for employees in small businesses on training courses.
- A contributory unemployment benefit has been set up for seasonal agricultural workers from the whole of Spain and the new regulations introduced across the board govern the unemployment protection of seasonal agricultural workers with immediate effect. Members and partners in co-operatives are covered by this measure.

Measures involving bonuses or reductions in social contributions, particularly with regard to employers' contributions for non-occupation risks, were implemented. The following groups benefit from **employment promotion programmes**:

- unemployed workers belonging to certain categories who are registered in the corresponding Employment Office and hired with indefinite contracts;

³¹ Director General for Economic Affairs and Social Security - Ministry for Social Security, Spain. *The Pension System in Spain*. [Internet] Available from: http://www.urban.org/PublicationImages/900478/900478_eu_event_spain.pdf

- unemployed workers hired with indefinite contracts by self-employed workers affiliated to the Special Scheme for Self-employed Workers (at least since 1 January, 2002);
- unemployed workers suffering social exclusion hired with temporary or indefinite contracts by non profit organisations and enterprises;
- unemployed workers hired by cooperatives or labour societies, provided the contracts are indefinite and the employer has opted for a Social Security scheme for employed workers;
- persons who have suffered violence from a family member of his/her household provided such condition is certified by the competent institution;
- workers whose temporary contracts or contracts for a definite period are transformed into indefinite contracts, as well as workers whose contracts for training, change of personnel or for replacement on account of early retirement are transformed into indefinite contracts, irrespective of the date when they were concluded; and
- workers over 60 years of age who have worked for the same employer for at least 5 years and whose indefinite contracts are maintained.

There are also other cases than benefit from reductions in contributions such as the following:

- workers employed on a temporary basis to replace workers on sick leave as a result of a situation of risk during pregnancy or maternity;
- employed disable workers; and employees who have credited 35 years of contributions and continue to work after 65 years of age.

04.5 Conclusion

Increasing the retirement age impacts the workers of manual jobs and other demanding jobs in a different and possibly more intense way. It may be harder for workers in manual and other demanding jobs to maintain their employment for the additional number of years. Studies also indicate that this category of workers have a less healthy lifestyle and do not live as long as white-collar workers.

The intensity of the impacts emerging from the increase in retirement age depends also on a number of other factors including the:

- increase in life expectancy (particularly the life expectancy of those in manual and other demanding jobs);
- ratio of retirement years to working years;
- number of employees actually in manual and demanding jobs;
- improvements in health (studies in foreign countries have shown that we are healthier at older ages than people in the past³²); and
- advances in technology related to productivity.

On the other hand, an increase in the retirement age may lead employers to benefit from the experience of older workers. Employers may have to introduce more flexible arrangements in order to enable manual workers and workers in other demanding jobs to maintain their employment for an increased number of years.

³² Gebhardtshauer, R. (1998). *Hearing on the future of social security for this generation and the next: Increasing the retirement age testimony*. [Internet] Available from: http://www.actuary.org/pdf/socialsecurity/ss_future.pdf.

05. Issues and Recommendations

This Section of the report identifies the major negative issues and risks that may result from an increase in retirement age, discussed in **Section 4** of this report, and proposes a number of mitigation measures that may be implemented by government to limit the potential negative implications.

05.1 Issues related to an Increase in Retirement Age

Following in this sub-section are the major negative issues identified in **Section 4** of the report.

05.1.1 Negative Impacts on Workers

Issue 01

An increase in unemployment rates of older workers in manual and other demanding jobs may result. The increase in unemployment rates may be attributed to two reasons:

- it is more difficult for those in manual and other demanding jobs to maintain their employment for an additional number of years; and
- the unemployment of old workers is less badly perceived than the unemployment of young workers by the general public.

Additionally, blue-collar workers are likely to have a less healthy lifestyle. A clear example is found in the construction sector, that has a higher rate of accident risk. As a result, blue-collar workers may have to opt out of the workforce or seek an alternative employment. This move implies that workers will have to register as unemployed until alternative employment is found.

Issue 02

Individuals unable to work for the additional number of years may be constrained to leave the workforce and seek social assistance, unemployment benefits or invalidity pension. Such individuals are not be allowed to leave the workforce in a dignified manner and may experience a decrease in their disposable income resulting from not actively participating in the workforce. Being inactive has an impact on the pension received upon reaching the retirement age, as the individuals who are incapable of maintaining their job up to the retirement age will find it more difficult to pay the required contributions and thus will not be entitled to the full pension.

Issue 03

White-collar workers live longer than Blue-collar workers. It is more likely that those in manual and other demanding jobs lead an unhealthy lifestyle and it is more likely that their work sectors have higher accident risks. Those in manual and other demanding jobs may have a lower life expectancy as a result of the latter mentioned two reasons. Therefore, an increase in retirement age will have a greater impact on blue-collar workers and other workers with similar life histories as they have less time to enjoy their pension payouts and to enjoy the activities associated with retirement.

Issue 04

Employees in manual and other demanding jobs, may experience a change in their lifestyle, as the activities associated with retirement have to be postponed. In addition, individuals unable to maintain their job for the additional number of years may have to undergo reskilling for a new job. Whilst some persons find it easy to accept a change in their lifestyle, other persons particularly those nearing retirement age may find it difficult to accept a change in their lifestyle.

Issue 05

Culture may hinder the employment of older workers in manual and other demanding jobs. Employers may prefer to employ or train young workers rather than old workers, as reskilling may be difficult at an advanced stage. Even when retrained unemployed old workers find it more difficult to rejoin the labour market than young workers. Unless there is a change in culture and age discrimination is minimised, individuals willing to work for an additional number of years may find it difficult to remain in the labour force.

05.1.2 Negative Impacts on Employers

Issue 06

Employers of workers in manual and other demanding jobs may experience an increase in their costs as the employers may have to:

- pay the contributions of their workers for an additional number of years;
- face higher employee benefits particularly health costs as blue-collar workers have a less healthy lifestyle;
- offer alternatives to full-time employment to facilitate the participation in the labour force for older workers that are not able to maintain their full-time employment³³;
- retrain their current workers who are not able to maintain their current tasks up till retirement age to be able to assign them with new tasks; and
- the retention of employees also implies that employer headcounts become stationary - not allowing employers to improve productivity by introducing younger staff. In long term, this could lead to lack of competitiveness on both a local and international basis.

The measures that are implemented in the sectors of demanding jobs may not be adequate for the sectors of manual jobs. On the other hand, by retaining older workers employers may save from costs related to recruitment and training of new employees.

Issue 07

Employers of workers in manual and other demanding jobs may be faced with older workers that are not able to maintain their productivity and discard the non-productive employees to employ younger ones who are more energetic, particularly small and medium enterprises. As a result, employers may have to go through legal proceedings, as employees may feel that they have been discarded through age discrimination rather than other valid reasons³⁴.

05.2 Mitigation Strategies: Alternatives to an Increase in Retirement Age

Instead of increasing the retirement age to 65 years for all workers in the workforce, it is recommended that Government adopts one or a hybrid of the following options, while taking into consideration the characteristics of the Maltese labour market, economic implications and culture:

³³ Following are some examples of costs in offering more flexible arrangements:

- costs to employ and retrain other employees to replace those on reduced hours;
- costs of a time recording mechanism that may be necessary for the introduction of flexitime and reduced hours; and
- costs for information and communications technology required for teleworking.

³⁴ Subsidiary Legislation 452.95 on *Equal Treatment in Employment Regulations* in article 5(2) states that non-discriminatory differences of treatment on the ground of age may include:

- the setting of special conditions on access to employment and vocational training, including dismissal and remuneration conditions, for young people, older workers and persons with caring responsibilities in order to promote their vocational integration or ensure their protection;
- the fixing of minimum conditions of age, professional experience or seniority in service for access to employment or to certain advantages linked to employment; and
- the fixing of maximum age for recruitment which is based on the training requirements of the post in question or the need for a reasonable period of employment before retirement.

- partial/gradual/phased retirement;
- early retirement; and
- retirement based on contributions and not age.

Statistics indicate that life expectancy increases directly proportional with time. However, an increase in life expectancy does not necessarily mean an increase in the healthy years of life. People may be living longer but the level of health prior to the last few years of life may not be adequate. Therefore when determining which option is to be chosen, particularly in the case of manual workers and other workers in demanding jobs, what should be taken into consideration is what has been termed as “active-life expectancy³⁵” rather than just life expectancy. Active-life expectancy can be defined as “the average number of years a person could expect to live free of chronic functional impairment”.

Recommendation 01

It is recommended that Government takes into consideration the “active-life expectancy” rather than just life expectancy when developing policies related to the retirement age. Additionally, an adequate ratio of retirement ages to working years is to be maintained throughout the short, medium and long-term, as opposed to the practice of the last years whereby while the retirement age was maintained at the same level the life expectancy kept increasing.

Moreover, young persons entering the labour market for the first time and other persons that are unemployed may perceive the increase in retirement age as leading to an increase in unemployment rates as older workers in the labour market block potential places of employment. However, such persons may not realise that while the increase in retirement age extends the workforce - if a decrease in birth rates persists - it would lead to a decrease in the number of persons available to work. As the baby boomers retire they will make space in the labour market for other workers and thus the availability of jobs is further increased.

A brief explanation of the gradual retirement, early retirement and contributions-based retirement options that are available for Government are explained further on. The models discussed have been compared and weighted, benchmarking the outcome with those suggested by the OECD³⁶.

05.2.1 Partial/Gradual/Phased Retirement

Manual workers and workers of demanding jobs who have not reached the statutory retirement (65) - but who are not able to work up to age 65 years due to valid reasons associated with their employment - are offered the possibility of partly retire and partly work. This will ensure a smoother transition between work and retirement and will alleviate the burden on employees who cannot maintain their full time employment.

In order to be eligible a worker must have 61 years of age and must have paid 30 years contributions. Eligible workers will receive a partial pension from age 61 years but will continue to work on a part-time basis. The total of the partial pension and of the part-time wage should not go over the wage of an employee doing the same job on a full-time basis. The partial pension is calculated in such a way that the same total pension benefits are received over lifetime, but in smaller amounts to take into account the longer period the beneficiary will be receiving them.

Advantages

- Minimises the theoretical “pension shock” by offering the possibility of gradually retiring, while at the same time workers can pass more time with their family or engage themselves in activities that do not have to do with work.
- People stay longer in the workforce than if they offered early retirement or retirement based on contributions, positively impacting the sustainability of the social security system and the economy of the country.

³⁵ Saletan, W. February 2005. *The new 65*. [Internet] Available from: <http://slate.msn.com/id/2113883>.

³⁶ OECD. *Incentives and disincentives to early and late retirement* (Working Paper). [Internet] Available from: <http://www.oecd.org/dataoecd/22/5/2428694.pdf>.

- Minimises the negative impacts of an increase in retirement age on workers of manual and other demanding jobs who are not able to participate in the labour market due to the nature of their job, as work is adjusted according on the worker's decline in capabilities and physical fitness.
- Might open up employment opportunities for others both young and old, particularly those who would like to work on a part-time basis. It is to be noted that as the baby boomers retire, employment opportunities would already be increasing.
- Older workers will still participate in the labour market although not a full-time basis and thus their experience will not be lost and the transition to future generations is facilitated.

Disadvantages

- It is not feasible to offer part-time work to all occupations. Part-time work is limited to certain industries and occupations.
- Employers may find it more difficult to organise and co-ordinate part-time work.
- The take up of gradual retirement may be very low in those countries where early retirement or contribution-based retirement is also available³⁷.

05.2.2 Early Retirement

Manual workers and workers of demanding jobs - who have not reached the statutory retirement (65) but who claim that they are not able to work up to age 65 years, not even on a part-time basis due to valid reasons associated with their employment - are offered the possibility of early retirement.

The worker must have 61 years of age and must have paid 30 years contributions to be eligible to early retirement. Those opting for an early retirement will not receive a pension before reaching the statutory retirement age and will have their a percentage of their pension reduced for each month before the full retirement age, to act as a disincentive to leave completely the labour market.

Advantages

- Eliminates the negative impacts of an increase in retirement age on workers in manual and other demanding jobs who are not able to participate in the labour market due to the nature of their job, as they are able to retire at an earlier age.
- Might open up employment opportunities for others both young and old. It is to be noted that as the baby boomers retire, employment opportunities would already be increasing.

Disadvantages

- Workers, as opposed to the possibility of opting for a gradual retirement, have to go through a rapid transition from work to retirement.
- Some may prefer early retirement as opposed to gradual retirement and thus exit the labour force at a younger age, negatively impacting the sustainability and adequacy of the pensions system.
- When older workers will no longer participate in the labour market, their experience will be lost and the transition to future generations may be missing.

³⁷ In France in 1993 the new entrants to the partial early pension numbered only 9,000 compared to 58,000 for the full early pension.

05.2.3 Retirement based on Contributions

Another option available to Government is that of granting eligibility to a pension on the basis of the number of contributions paid and not according to the age of the individual. This would entail for example removing the 61/ 65 retirement age and introducing an entitlement based on the number of contributions paid, such as for example upon completion of 30 years contributions. In other words, manual workers and workers in demanding job will not retire according to their age but upon paying the minimum required number of contributions. This option will alleviate the burden on those employees who are not able to work for an additional number of years, however, it disincentivises labour participation and thus will go against ensuring a sustainable pensions system.

Advantages

- Eliminates the negative impacts of an increase in retirement age on workers in manual and other demanding jobs who are not able to participate in the labour market due to the nature of their job, as they are giving the option of retiring at an earlier age.
- Might open up employment opportunities for others both young and old. It is to be noted that as the baby boomers retire, employment opportunities would already be increasing.

Disadvantages

- Workers have to go through a rapid transition from work to retirement, as opposed to the opting for a gradual retirement,
- People may prefer retiring upon contributing for the required amount of years as opposed to gradual retirement and thus exit the labour force at a younger age, negatively impacting the sustainability of the pensions system.
- When older workers exit the labour market their experience is lost and the transition to future generations may be missing.

Recommendation 02

Based on what have been discussed above in this report and on the feedback received during the public consultation process regarding the White Paper:

- it is believed that the best option for Government is to introduce the possibility of gradual retirement to workers in manual and other demanding jobs who are not able to retain their full-time job up to the statutory retirement age.
- early retirement is to be offered to manual workers and to workers in other demanding jobs who cannot participate in the labour market not even on a part-time basis.
- it must be noted that the validity of the option presented to Government should be strengthened through the statistical modelling required determine its sustainability.

Considerations

Gradual retirement will enable workers who cannot participate on a full-time basis to participate in the labour market.

Early retirement will alleviate the burden on those workers who cannot participate in the labour market not even on a part-time basis.

A strong enforcement regime and resultant administrative capacity is required to ensure that the gradual and early retirement schemes are regulated effectively and to curb abuse of the schemes.

05.3 Multi-pillar Pension System

The World Bank, in a recent document³⁸, stated that based on its extensive experience in pension reforms, the Bank perceives that there are a number of advantages associated with a multi-pillar pension system. The Bank suggests a new multi-pillar pension system, whereby it extends the traditional 3-pillar system with another 2 pillars:

- a non-contributory or “zero pillar” with the aim of providing a minimal level of protection to deal with the poverty objective; and
- a fourth pillar consisting of informal intra-family or intergenerational sources of both financial and non financial support to the elderly, including access to health care and housing to include the broader context of social policy.

Third pillar is important to low- to middle-income countries while the zero pillar is mostly applicable to low-income countries. The fourth pillar is an important pillar and consists of informal support, formal social programmes (e.g. health care) and other individual financial and non-financial assets (e.g. home ownership). Each country has its own particular needs and thus the number and type of pillars necessary to be introduced may vary between one country and another. Limitations related to the economic, institutional, financial and political environment of a country determine what is feasible in each specific country.

Recommendation 03

For the purpose of this report it is assumed that the decision of the White Paper on Pensions to introduce a 3-pillar system is being taken as set. In the light of this it is recommended that following the implementation of the 3-pillar system, the impact of such system on manual workers and other workers in demanding jobs is taken into consideration and assessed in the periodic structured review, which is to be carried out in **2009**.

The results of this review may need to consider the introduction of the zero pillar or the fourth pillar or both pillars. Consideration is to be given to the early and gradual retirement schemes if Government introduces such schemes.

05.4 Other Mitigation Strategies

The Project Team is of the opinion that in conjunction with the major operational changes in the pension system that may be adopted by Government as mitigation measures, such as gradual retirement, early retirement and the extension of the 3-pillar system, which have been discussed above, there are other mitigation measures that are to be adopted on a more specific and micro level categorised into 4 levels:

- societal;
- individual;
- organisational; and
- governmental.

Societal

- Government together with other non-governmental entities should consider the launch of a focused, ongoing educational campaign which should highlight:
 - the need for increasing retirement age;
 - the experience of other countries;

³⁸ Holzmann, R. & Hinz, R. 2005. *Old age income support in the 21st century: An international perspective on pension systems and reform*. World Bank. [Internet] Available from: <http://www1.worldbank.org/sp/incomesupport.asp>.

- mitigation measures that are taken to limit the negative impacts; and
- ways of how to lead a more healthy lifestyle.

Individual

- Individuals in manual jobs and other demanding jobs, who perceive that they will not be able to maintain their current job until they reach retirement age, should be encouraged to invest in their own employability. This can be achieved by promoting the life-long learning concept from the very early years in the education system, and possibly through educational campaigns/policies that encourage older workers to participate in training initiatives currently being taken by various entities. On their part workers have to do their utmost to improve their employability and respond positively to training initiatives.
- A healthy lifestyle that blends education, leisure and work in retirement is to be encouraged through the pensions reform and through related legislation. Individuals in manual jobs and in other demanding jobs who are more likely to lead unhealthy lifestyles, are encouraged to plan from before hand their pre-retirement and retirement periods.

Organisational

- Employers should adjust the human resources policies and programmes towards a more age-sensitive human resources management. These policies will introduce recruitment of new older workers and to enable current older workers to continue working and to accommodate their needs. Government should consider the provision of assistance (fiscal incentives, financial assistance, consultancy and advice) to those employers who elect to implement human resources measures that promote the employment of older workers.
- Employers of workers in manual and other demanding jobs, who want to benefit from the experience and skills of older workers are encourages to make use of technical aids such as lifting devices to facilitate tasks requiring a high level of muscular strength. The changes in operational procedures can be incorporated with an integrated health management, a set of practices to keep workers healthy.
- Employers can considering introducing the following measures in their companies:
 - a clear statement of the reasons for the change;
 - training arrangements which take into account the characteristics of experienced workers and which are developed specifically for older workers; and
 - a timetable that enables older workers to spread and consolidate the skills acquired with particular attention to how the beginning of training or the starting in new posts is organised, together with their time preferences.

This will ensure the change at the work place is successful by integrating older workers who are or were in manual and other demanding jobs.

Governmental

- Government is to commit itself to offer employment services that are specifically targeted towards workers in manual jobs or other demanding jobs who are not capable of maintaining their current job and thus are rendered redundant. Financial support for training can also be provided in case of those individuals willing to retrain themselves but do not have the necessary financial resources.
- An alternative for workers involved in manual and other demanding jobs can be to start their own business and participate in the labour market self-employed or else to form co-operatives. These alternatives may give the workers who go for such options the opportunity of engaging themselves in something different and that they were longing for, while utilising their strongest skills for the benefit of the whole economy. Government should support and encourage such individual initiatives.

- Older workers who can no longer work as manual workers or in other demanding jobs, but who possess other skills that can be utilised in other jobs, can be employed as temporary workers. This will alleviate the burden from the individuals who are stressed out or injured because of their job, but at the same time they will be participating in the labour market with a resulting positive effect on the economy and on the sustainability of the pensions system. At the same time, workers will be still contributing towards their own pension.
- Government should coordinate the increase in retirement age with the other national policies such as health policies. One example lies in a separate benefits programme³⁹ can be set up for those people that are not able to work up till age 65 for valid reasons such as those who have strenuous jobs or poor health that makes working up till age 65 difficult for them. The programme can provide cash benefits and/or medical care.
- Government is to set up legislation to prevent age discrimination in order to facilitate the employability of older workers who leave their manual or other demanding job, and are still capable of participating in the labour market. On the other hand, a strong enforcement regime and resultant administrative capacity is required to ensure that the invalidity pensions scheme and the gradual/early retirement schemes (if adopted) are regulated effectively.
- Persons in strenuous and stressful positions should be offered reskilling opportunities to allow them to continue to be part of the labour market albeit in a different type of employment (e.g. a mason could be retrained to act as a site foreman, a loader could be retrained to become a salesman etc). This also indicates that the educational system must be geared to instil in everyone the importance of continuous professional development as a means for securing one's own competitiveness in the labour market.
- Government should offer assistance (fiscal incentives, financial assistance, consultancy and advice) to employers who employ persons working beyond the statutory retirement age and older reskilled workers. Such measures could be similar to the current payment of half the national minimum wage for a definite period for each unemployed person recruited through ETC.
- Government should foster a dynamic macro-economic environment which produces a steady demand for labour encourages the participation of manual workers and other workers in demanding jobs in other sectors of paid employment.

Recommendation 04

The Project Team recommends that Government encourages, facilitates and implements a hybrid of the above-mentioned societal, individual, organisational and governmental mitigation measures to minimise the impacts on workers in manual and demanding jobs resulting from an increase in retirement age.

The measures recommended relate to micro-issues rather than to the macro-operational aspect of the pensions system. None the less, their implementation is essential to complement the mitigation measures recommended earlier on in the report. The implementation of the pensions reform and of the above-mentioned measures is to take place together with reforms in other sectors, including the reform of the amount of contributions that have to be paid by part-time workers.

³⁹ Saletan, W. February 2005. *The new 65*. [Internet] Available from: <http://slate.msn.com/id/2113883>.

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