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**Analysis of Formal Feedback Received**  
**Supplementary Paper to the Final Report of the Pensions Working Group**  
**Supplementary Paper No 01**

**Prepared by the Technical Team to the Pensions Working Group**

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## Glossary

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<b>COLA</b>	Cost of Living Adjustment
<b>DSS</b>	Department of Social Security
<b>EET</b>	Exempt Exempt Taxable
<b>FPPS</b>	First Pillar Pensions Scheme
<b>MFSA</b>	Malta Financial Services Authority
<b>MEU</b>	Management Efficiency Unit
<b>PPP</b>	Public-Private-Partnership
<b>PTWG</b>	Pensions Technical Working Group
<b>PWG</b>	Pensions Working Group
<b>SPPS</b>	Second Pillar Pensions Scheme
<b>RPI</b>	Retail Price Index
<b>SSC</b>	Social Security Contributions
<b>TPPS</b>	Third Pillar Pensions Scheme

## 01. Introduction

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The Pensions Working Group (PWG) received formal submissions in response to the White Paper. An analysis of the feedback shows that the feedback is generally characterised by serious non-partisan recommendations putting forward a series of alternative approaches for the reform of the Pension system.

All recommendations received have been reviewed by a Technical Working Group reporting to the Pensions Working Group. The Technical Working Group is composed of members of the:

- Cabinet Committees Supporting Unit (CCSU);
- Malta Financial Services Authority (MFSA);
- Management Efficiency Unit (MEU);
- Economic Policy Department (EPD); and
- Department of Social Security (DSS).

This Paper presents a synopsis of the formal feedback received, highlighting the issues and recommendations that were brought up most often. The full documentation of the formal feedback received by the Pensions Working Group is available on the Pensions Web Site: [www.pensions.gov.mt](http://www.pensions.gov.mt).

## **02. The Key Points of Discussion**

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### **02.1 General**

There is overall agreement of the urgent need for reform of the existing pensions system. A substantial amount of feedback indicates agreement with the general principles of the White Paper. The majority show a clear understanding of the situation and offer support to the reform if not always in agreement with the proposed changes.

### **02.2 Current Pensioners**

A considerable part of the feedback received argued that current pensions are not adequate. The maximum pension of Lm4,500; that is two thirds of Lm6750, the current Maximum Pensionable Income (MPI), is believed to be low.

There is common agreement amongst the submissions received on the principle that the ceiling established by the current MPI should be raised – though there are different views of what the quantum of a newly increased MPI should be. There is also agreement that measures should be taken to relate accurately the pension received to the cost of living. A number of responses propose that the direct cost of living indexation should also apply to current pensioners as to reduce issues of poverty amongst pensioners. A school of thought argues that a separate RPI Index for pensioners should be designed, that takes into account the particular needs of this group which include, for example, higher health expenses.

Another emerging recommendation was that people not affected by the proposed pension system should be allowed to participate in Pillar 2 and Pillar 3 arrangements, whereas the Pillar 1 should be adjusted in accordance to the inflation rate.

### **02.3 Retirement Age**

A considerable part of the feedback expresses concern with the proposed increase in retirement age to 65 years. The concern is triggered by issues which include:

1. an increased retirement age will act as a 'choker' to new employment; thereby impacting new entrants onto the labour market;
2. the potential decline of the productive output for people exceeding 61 years of age;
3. the inability of an employer to initiate necessary employee turnover hence increasing overall employment costs;
4. the inability of people pursuing strenuous and stressful jobs to work beyond a certain age; and
5. the disparity between contribution years and retirement age could prove unfair on a large section of the population that would have entered the labour market at a young age.

There is unilateral agreement that incentives are given for people to work beyond 61 years and the mandatory retirement age.

The number of the feedback received argued against early retirement in the public sector. There was however, an overall understanding that it could be used as a tool for improving the overall output quality of the existing workforce, mainly by reducing unproductive resources or changing over with fresher employees.

A number of the feedback received is of the opinion that people should retire once they would have met the full contribution defined for eligibility for a full pension. Incentives should be provided to attract people not to opt out of the labour market.

## **02.4 First Pillar Pension**

The majority of the feedback received argues against the proposed increase in the accumulation period to 40 contribution years. The feedback argues that such a lengthy career definition will militate against people that would need to leave the labour force for legitimate reasons such as family responsibilities, health, reskilling / apprenticeship / academic and travel. Some argued that if the proposal is introduced it should be mitigated by an adequate credit system that allows the official contribution period to be met by people exiting the workforce with for reasons.

The predominant school of thought in relation to the proposal that recommends a calculation period of the average of 40 years is to retain the current basis toward a final salary assessment. A number of the feedback received proposed a hybrid system that carries out an assessment for a number of years over a defined period that is biased towards a final salary.

There is no agreement on the age for when contributions should be taken into consideration – currently at 18 years. It seems implicit that contributions should be taken into consideration in the employable age or at least not be increased from what it currently is.

A number of recommendations emerged in relation to the indexation mechanism that should be used for pension retirement income:

1. Retail Price Index cost of living related indexation;
2. Wage increase; and
3. A hybrid mechanism.

The feedback also argues that anomalies of the current pension system should be resolved. In line with this, abuse of the pension systems should be dealt with swiftly and aggressively.

The feedback was practically unanimous in arguing that the pension contributions should be placed in a ring-fenced account with revenue collected to be used solely for pension purposes as against the current system where revenue is placed in the Consolidated Fund. Some of the feedback argues that a Governance Board should be established to regulate such a ring fenced Pension Account.

## **02.5 Second Pillar**

The respondents in the majority agree that a voluntary based Second Pillar Pension is introduced and thereby people are provided with a choice to supplement their State Pension income with a private pension.

The respondents practically unanimously agree that the Government should provide fiscal support such as tax incentives to promote a culture of saving for one's retirement. A majority of the respondents support the Exempt Taxable (EET) form of tax incentive and believe that this method will encourage the build up of savings for pensions purposes.

It is pertinent to underline that various arguments were made to introduce Property Pension funds as part of the SPPS or as an optional TPPS scheme.

The argument in favour of a voluntary SPPS is premised on the principle that (i) the FPPS should suffice to ensure an adequate standard of living, if yet modest; (ii) the lack of disposable funds in both low and median income sectors to contribute to a compulsory scheme; and (iii) many persons are deeply tied with financial commitments, particularly mortgages, that last to their retirement age.

A minority of the responses question a compulsory Second Pillar Pension Scheme (SPPS). It is felt that FPPS should suffice to ensure an adequate standard of living, if yet modest. Some reasons to this argument include the lack of disposable funds in both low and median income sectors to contribute to a compulsory scheme. It is felt that this trend is on the increase particularly since – many are deeply tied with financial commitments that last to their retirement age.

A minority maintain that a compulsory SPPS pension fund could present a challenge for people to attain adequacy if they would have opted out of the voluntary scheme and the mandatory scheme is introduced at a later stage as they would not have sufficient time to make the SPP pension fund large enough to ensure that the pension sustains them adequately. Some argue that Contributors to the SPPS pension fund should have the option of invest in capital of doing back-payments to the fund, hence boosting it to ensure its adequacy.

Most believe that the SPPS pension fund could be used as a method to incentivise employees to remain loyal to the organisation, whilst other employers argue that it will add costs to their injections in order to costs structure – potentially rendering them uncompetitive. Employers also make a case that less disposable income due to compulsory contribution will lead to demands for increases in salaries and wages, which will have an inflationary impact on their costs structures.

It emerges that there is diverging opinion as to whether the SPPS pension fund should be state or privately managed though the later is the preferred option - relating to Government's lack of expertise in the area. A minority propose a Public-Private-Partnership (PPP). In both stances it was unanimously agreed that Government should retain a control over the regulation whilst consulting frequently with the social partners.

The element of portability in Second Pillar pension funds was an issue brought up a number of times. The bias tends to favour a state of play where Contributors have the opportunity to move to a fund they deem most advantageous to themselves, whilst the market should regulate itself as to being competitive. Likewise, people changing jobs should have the right to retain the former pension scheme should it be more advantageous.

A strong argument is made for the majority agree with the conversion of existing private insurance policies into SPPS pension funds. Administrative costs relating to the conversion or movement of funds to be curtailed to ensure that there are no hidden or unnecessary costs to the SPPS pension fund holder.

It is proposed that in an eventuality that the SPPS pension fund is introduced on a compulsory basis for persons who are 45 years of age and younger, people over this age are allowed to participate in the SPPS should they decide to opt to invest in it.

## **02.6 Third Pillar**

The majority of recommendations favoured the SPPS being voluntary, hence reducing the requirement of the TPPS, which was compared to existing life assurance/saving policies.

The majority believe the success rate of the TPPS based on the willingness of people to contribute to the fund that might be sparse due to the low availability of disposable income, after reducing SPPS contributions. In this regard, responses indicated that TPPS is extra as FPPS should provide adequacy whilst SPPS will provide equilibrium of the standard of living with the pensioner's working life.

Like the SPPS the majority favour EET as an incentive for TPPS and that the incentives should be open to everyone in society including unemployed and underage citizens wishing to contribute to such funds.

The feedback unanimously agrees that TPPS should be strictly regulated by Government – but allow for further flexibility and risk.

## **02.7 Regulation of the reformed pensions system**

The majority agree that regulation should be performed by the MFSA through the Special Funds (Regulation) Act. The feedback indicates a consensus that companies entering for SPPS should be tightly regulated, whilst not inhibiting the smaller players to participate.

There is unanimous agreement that Government should regimentalise contributions given by employers and self-employed hence avoiding reducing abuse that exists or could creep in. This should be furthered to invalidity pensions and early retirements that have long been strung to abuse.

It is felt that the SPPS funds should be regularly assessed and the investment situation disclosed in a transparent manner.

Some feedback concludes the framework should be retained simple and avoid the complex regime adopted by other nations. The premise is that if the public does not understand how private pension funds work they could be end up selecting the wrong policy, or an unfitting pension scheme provider.

Concern is raised on potential insolvency of SPPS provides and recommendations were made for the introduction of strong compensation and protection measures.

## **02.8 Gender and Family Issues**

The majority agree that female participation in the labour force should be increased and believe that a serious commitment should be given to establishing a higher participation rate. The responses directly relate female participation to the intrinsic need for economic growth and the creation of jobs. Many of the proposals argue that the pensions system should be used as a positive instrument to increase women participation by introducing pension credits accounting for child rearing and the redesign of the part-time contribution regime to account for the atypical employment nature of women.

The correct incentives to safeguard family interests whilst retaining productive outputs should be rapidly deployed.

## **02.9 Implementation**

There was unilateral agreement that partisan politics should be kept at bay from such a sensitive issue.

A minority questioned the ownership of the White Paper asking whether the Government was distancing itself from it.

The majority agree that Government should introduce and maintain an aggressive communication and educational strategy throughout the implementation process. The majority felt that decisions relating to implementation should be taken in agreement with social partners and other stakeholders.

The greater part of the responses affirms that the pensions reform should not be done in isolation of other issues, such as health, education and the economy. All three have a direct impact on the success or otherwise of the reform. Hence, reform of health and the creation of new jobs are two issues, which are immediately to be addressed.

The majority agreed that the implementation should be phased. The logic behind the difference in gradients from those proposed in the White Paper emerged from different perceptions of the rapidity required to attain a sustainable pension system.

There is an overall feeling that fraud and evasion in the current system is high and that it is not being tackled with the aggression by relevant authorities that this demands. The responses unanimously call for strong measures to be taken to.

## **02.10 Health**

A considerable part of the feedback received stated that health is more of an issue than pensions and that a reform of the pensions system should be 'pari passu' with a reform of the national health system.

A key issue raised that NI contributions should not be used to finance health expenditure – with health expenditure to have a separate financing mechanism. Thus health should have its own isolated fund, with individual governance.

## **02.11 Other**

There was a general consensus that the White Paper did not tackle the issues related to pensions for the following social groups: MPs, widowers, widows, survivors, and persons with disability and that the pension reform should be all encompassing.

Arguments were made in favour of leveraging the pensions system through ad hoc schemes to positively influence life learning, entrepreneurship, etc.

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**Appendix I**

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