

CHAPTER 01

Introduction

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SUMMARY



01.1 The Terms of Reference of the Pensions Working Group

On 1st June 2004 the Prime Minister constituted a Pensions Working Group (PWG) tasked with the following terms of reference:

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

01.2 The Constitution of the Pensions Working Group

The PWG was constituted as follows:

Chairperson	David Spiteri Gingell Manager Cabinet Committees' Support Unit, Office of the Prime Minister
Members	Joe Ebejer Permanent Secretary Ministry for Family Affairs and Social Solidarity
	Edward Gatt Director General Ministry for Family Affairs and Social Solidarity
	Leonard Callus Policy Co-ordinator Prime Minister's Office.

The PWG in the undertaking of its work was assisted by the following organisations:

Department of Social Security
Malta Financial Services Authority
National Statistics Office
Management Efficiency Unit
World Bank.

01.3 The Methodology Applied by the Pensions Working Group

In preparing its Report the PWG applied the following methodology.

First, it carried out consultation and discussions with various persons within Government. The persons consulted are shown in **Appendix I**.

Second, it reviewed reports prepared by the Malta Council for Economic and Social Development (MCESD) and the National Commission for Welfare Report (NCWR) and representations submitted to both bodies by various social partners. It also reviewed international reports on pensions reform. The documentation reviewed is shown in Appendix XII.

Third, in designing the recommendations to the pensions system the PWG was guided by the Value System established for pensions reform and introduced by the European Union at the Gothenburg Council (2001). This Value System is directed to address:

“... the future evolution of social protection from a long term view, giving particular attention to the sustainability of pensions systems ... for the ability of pensions systems to meet their social objectives, namely to provide adequate and fair income to older people to prevent poverty in old age”.¹

The key elements of the Value System, which are presented in Appendix III, are:

- (a) attaining adequacy of pensions to ensure that older people are not placed at the risk of poverty and that they may enjoy a decent standard of living;
- (b) promoting of solidarity between and within generations;
- (c) ensuring the financial sustainability of pensions system; and
- (d) modernising the pensions system in response to changing needs of the economy, society and individuals.

Fourth, the PWG requested the Management Efficiency Unit to carry out a Social Impact Assessment on the Report presented to Government.

Fifth, the PWG worked closely with the World Bank to discuss the conclusions it reached in its March 2004 Report. The World Bank report and the econometric models simulated in its formulation constitute the primary base-line against which the proposals in this Report are benchmarked. It is to be noted that PWG has complemented this study by the undertaking of various models and simulations also undertaken in conjunction with the World Bank to look at the projections onto the financial liabilities arising from options considered and the recommendations put forward. **Appendix IV** presents the major assumptions supporting the econometric modeling simulated on PROST.

Sixth, the PWG presented its Report to the International Social Security Association (ISSA) of the International Labour Organisation for review.

In putting forward its proposals the PWG recommended both specific recommendations where so possible, and principles which in turn are to guide the design of the supporting policy instruments.

01.4 Acknowledgements

The PWG thanks all persons and organisations that assisted it through the provision of information, discussion of issues, and specific studies carried out on its behalf. The conclusions of the Report are, however, the views of the PWG.

¹ pg 10, Joint Report by the Commission and the Council on Adequate and Sustainable Pensions, ECOFIN 76, SOC 115, 7165/03, 10th March 2003, Brussels