CHAPTER 05

Implementing the proposed changes to the Pensions System

05

SUMMARY

01. **Presents time frames for the implementation of changes proposed.**

02. **Presents an assessment of the proposed changes on beneficiaries and the cost of the proposed pensions system.**

03. **Presents an abstract of the changes proposed.**

04. **Presents a reconciliation of the changes proposed with the main recommendations of the World Bank.**

05.1 Implementing the Proposed Changes to the Pensions System

The proposed new pensions system is designed to, through the:

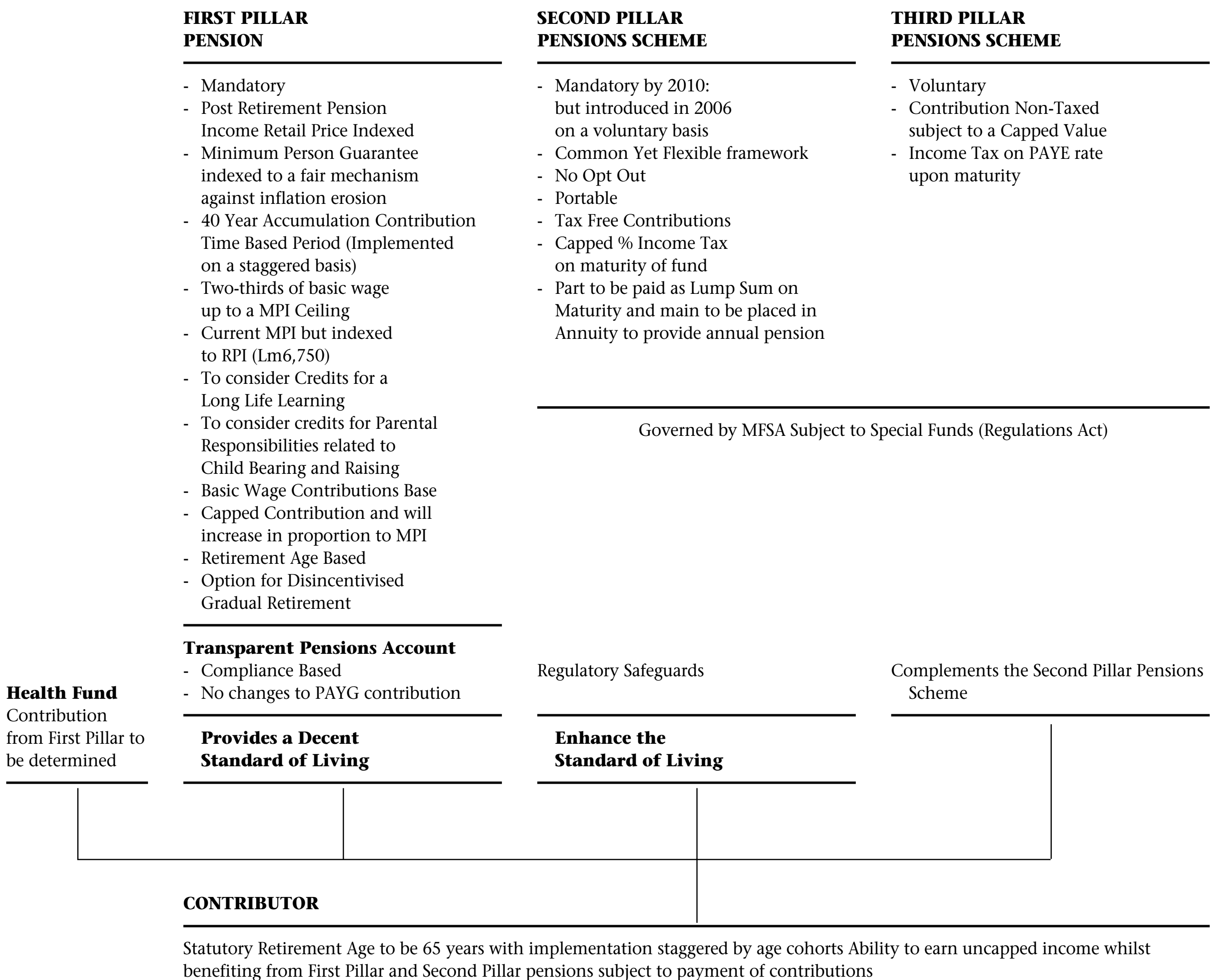
01. First Pillar, to provide a decent standard of living commensurate with one's contribution record.

02. Second Pillar, to enhance one's standard of living during retirement age.

03. Third Pillar, to provide one with the opportunity to invest further to meet the expectations of a particular chosen life style.

The proposed pensions system is depicted graphically below.

Graph 10: The Proposed Pensions System



The PWG proposes the following recommendations for the implementation of the changes to the pensions system.

Current Pensioners

01. Current pensioners and individuals who will retire prior to the implementation of the proposed changes will not be effected by the recommendations proposed.

Retirement Age

02. The retirement age should be increased to 65 years of age for both men and women. To smoothen the impact of this change it is proposed that this measure is introduced in a scaled manner as follows:
    (a) In terms of women, the pension age will be 61 years of age with effect from 1st January 2007.
    (b) The increase of pension age for all to the 65 years threshold will start from 1st January 2007, persons holding the following years of age will retire as follows:

Years of Age as at 1st January 2007	Retirement Age
55 years of age and over	No change
52 years of age to 54 years of age	62 years
49 years of age to 51 years of age	63 years
48 years of age and below	65 years.

First Pillar Pension

03. The minimum pension guarantee should be annually adjusted to assure its value against inflation erosion. This recommendation should be implemented as from 1st January 2007.

04. The contribution period for the accumulation of the Two-Thirds First Pillar pension should be increased from 30 years to 40 years. This recommendation should be implemented as from 1st January 2007. To smoothen the impact of this change it is further proposed that this measure is introduced in a scaled manner as follows:

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.

05. The base-line for the calculation of the Two-Thirds First Pillar pension should be changed from the best consecutive three years from the last ten years for employees and from the average of the last ten years' net income for self-employed persons to the average of the 40 year contributions accumulation history for both employees and self-employed. This recommendation should be implemented as from 1st January 2007. To smoothen the impact of this change it is proposed that this measure is introduced in a scaled manner as follows:

Years of Age as at 1st January 2007	Base-line for Calculation of First Pillar
55 years of age and over	No change from the base-line calculation period
50 years of age to 54 years of age	Average of best 5 years
45 years of age to 49 years of age	Average of best 10 years
44 years of age and below	40 years.

06. A strong compliance regime is put into place in order to safe guard honest and hard working persons as well as to deter abuse, fraud and mis-use. Action should be taken with immediate effect.

07. The Two-Thirds First Pillar post-retirement pension income is annually built up for all pensioners on an annual uniform basis. The annual uniform basis to be applied should be the Retail Price Index. This recommendation should be implemented as from 1st January 2007.

08. A person may continue to opt to work beyond the new statutory retirement age whilst enjoying the Two-Thirds First Pillar (and Second Pillar) pension with no capping on income earned subject to the payment of the First Pillar contribution. This measure will come into effect in tandem with the recommendations proposed on the retirement age.

09. The current invalidity pensions scheme should be reviewed with a view to tighten the eligibility criteria as well as to adopt the principle of 'rehabilitation or alternative work before pension'. Action should be taken with immediate effect.

10. The ceiling of the First Pillar's Maximum Pensionable Income should be the current Maximum Pensionable Income adjusted yearly to reflect inflation. This recommendation should be implemented as from 1st January 2007.

11. The Class I and Class II contributions should remain unchanged.

12. Part of the Social Security Contribution should finance health services. This should be determined as early as possible in 2005.

13. A ring-fenced account for contribution benefits and pensions, with appropriate transparent governance should be established. This recommendation should be implemented as from 1st January 2007.

14. Non-contributory benefits should be financed through the Consolidated Fund. This recommendation should be implemented as from 1st January 2007.

15. A policy instrument that takes into account parental responsibilities in relation to child bearing and child raising periods by providing for the phased crediting of the individual's contributions as well as the payment of voluntary contributions under established conditions should be introduced. This policy measure should be determined in 2006 and introduced as at 1st January 2007.

16. A policy instrument that removes those elements in the pensions system that encourage periods of inactivity within the informal economy when people need to be attracted to participate in the labour market should be introduced. This policy measure should be determined in 2006 and introduced as at 1st January 2007.

17. A policy instrument that accounts for 'credits' for the undertaking of unpaid periods of training, re-skilling and continuous development should be introduced. This policy measure should be determined in 2006 and introduced as at 1st January 2007.

Second Pillar Pensions Scheme

18. The Second Pillar Pensions Scheme should be mandatory. Nevertheless it should be introduced in a transitional manner with the Second Pillar first introduced on a voluntary basis as from 1st January 2006.

19. MFSA and Government should work with the private sector financial firms to encourage them to introduce a scheme that will allow owners of life endowment and similar policies to convert such policies into the Second Pillar pension. Action should be initiated in 2006 and once agreement is reached a caveat should be set to allow owners of such policies who take up this option to post date subscription to 1st January 2006.

20. The determination of the parameters of the proposed mandatory Second Pillar Pensions Scheme should be taken on the basis of intensive actuarial studies that Government should commission through the MFSA. Government should commission this study through MFSA in tandem with the consultation process.

21. Indications through the modeling carried out are that a mandatory Second Pillar Pensions Scheme should be in place by 2010. Government should take all the necessary action to establish the appropriate mechanisms to enable the introduction of the mandatory Second Pillar Pensions Scheme by 2010. Nevertheless, the Government should in 2009 undertake an assessment to determine whether the prevailing conditions at that point in time are such that necessitate the mandatory introduction of this Pillar by 2010.

Third Pillar Pensions Scheme

22. The new pensions system should also provide for a Third Pillar which shall be a voluntary option directed to complement pensions income. The Third Pillar Pensions Scheme should be introduced as from 1st January 2006.

Regulation of the Second and Third Pillar Pensions Schemes

23. The regulation of the Second and Third Pillar Pensions Schemes should be entrusted to the MFSA operating under the Special Funds (Regulation) Act 2002. Such authority should be provided to the MFSA with immediate effect so that the necessary work for the introduction of a voluntary Second Pillar Pensions Scheme and the Third Pillar Pensions Scheme is completed in 2005.

Periodic Review of the Pensions System

24. The new pensions structure once introduced cannot be considered to be etched in stone – immutable to review and change. The pensions structure must be continuously under review so that parameterisation, calibration and changes are undertaken incrementally and in an evolutionary manner.

    Thus, periodic health checks of the new pensions system to account for emerging needs and changes in the social and economic fabric of our Nation are essential. Such health check reviews and assessments should be carried out every five years.

    The first periodic structured review of the pensions system should be carried out in 2009.

05.2 Impact of the Proposed Changes to the Pensions System

The impact of the proposed changes is assessed on two tiers. The first assesses the impact of the proposed changes on pension benefits to be received by contributors. The second assesses the impact of the proposed changes on the cost of the pensions system.

05.2.1 Impact on Beneficiaries

The Department of Social Security was requested by the PWG to assess the impact of the proposed changes on persons occupying the positions shown below. The models simulate a number of scenarios of persons holding different ages:

- Labourer
- Clerk
- Assistant Principal
- Senior Principal
- Director.

The scenarios modeled are shown in Table 11 (page 65). The basic assumption taken is that the annual rate of inflation will be 2.5%. As can be seen from Table 11 the main impact on the First Pillar Pension will be on those cohorts of persons who will be 44 years of age and below at the time when the changes are introduced.

This is so for two main reasons. First, the proposed recommendations seek a change in the determination base of the pension from 30 years to 40 years, as well as a shift in the accumulation time base from the best consecutive three years of the last 10 years to 40 years.

Second, the proposed recommendations to the pensions system are premised on the cardinal principle that the proposed changes to the First Pillar Pension will be complemented by the Second Pillar Pensions Scheme. Thus, the loss accruing to a reduced First Pillar Pension for this cohort of persons will be compensated by the Second Pillar Pension.

In this regard, the impact of the proposed recommendations on beneficiaries reflects the conceptual thinking that spurred the recommendations: where the Second Pillar Pension becomes a key component in the pensions system for those persons who will be tomorrow's future pensioners.

The results of the models generated would be of concern if the changes proposed impact the 45 years of age and above cohorts – the cohorts that will not be buffered by the introduction of the SPPS given that the Second Pillar Pension would require sufficient time to accrue capital and to generate a positive return on that capital. This concern, however, as can be seen from Table 11 does not materialise.

It is, however, pertinent to underline that the First Pillar Pension is expected to improve for those persons who join the workforce following the introduction of the proposed reforms. As can be seen a person who joins the workforce at the age of 25 years in 2014 will obtain a higher First Pillar Pension. This is the consequence of the recommendations related to the maximum pensionable income ceiling, which will be subject to inflation indexed adjustments.

Wages, however, will also increase and various categories of workers will see their wages surpass the MPI ceiling. A consequence of this is that over time the maximum of the Two-Thirds pension income will be reached by a considerable number of categories of workers.

The recommendation relating to the Minimum Pension Guarantee – that is correlating the increases to the Minimum Pension directly with inflation - will see the rate of adjustment to the current base line to increase at a lower rate than if a flat rate of Lm1.50 annual COLA increase is assumed. Under the proposed mechanism the Maximum Pension Guarantee will by 2023 increase to Lm73.8 as against Lm79.4 under a COLA adjustment mechanism.

Table 11: Impact on Beneficiaries - Scenarios Modeled

AGE GROUPS	GRADE 20 WORKER	CLERK
A person of 55 years of age who will obtain a First Pillar Pension under the Current Pensions System	- Will retire at 61 years of age with a weekly pension of **Lm57.07** - At age of 75 years weekly pension will stand at **Lm80.65**	- Will retire at 61 years of age with a weekly pension of **Lm75.98** - At age of 75 years weekly pension will stand at **Lm107.37**
A person of 52 years of age who will obtain a First Pillar Pension under the proposed changes	- Will retire at 62 years of age with a weekly pension of **Lm63.00** - At age of 75 years weekly pension will stand at **Lm80.65**	- Will retire at 62 years of age with a weekly pension of **Lm83.87** - At age of 75 years weekly pension will stand at **Lm107.37**
A person of 45 years of age who will obtain a First Pillar Pension under the proposed changes	- Will retire at 65 years of age with a weekly pension of **Lm80.65** - If Second Pillar Pensions Scheme is mandatory introduced for persons of 45 years of age and younger the above pension benefit will be supplemented with a Second Pillar Pension	- Will retire at 65 years of age with a weekly pension of **Lm107.36** - If Second Pillar Pensions Scheme is mandatory introduced for persons of 45 years of age and younger the above pension benefit will be supplemented with a Second Pillar Pension
A person of 44 years of age and below who will obtain a First Pillar Pension under the proposed changes	- Will retire at 65 years of age with a weekly pension of **Lm76.93** - If Second Pillar Pensions Scheme is mandatory introduced for persons of 45 years of age and younger the above pension benefit will be supplemented with a Second Pillar Pension	- Will retire at 65 years of age with a weekly pension of **Lm94.38** - If Second Pillar Pensions Scheme is mandatory introduced for persons of 45 years of age and younger the above pension benefit will be supplemented with a Second Pillar Pension
A person of 18 years of age who joins the workforce following the introduction of the proposed changes will obtain a First Pillar Pension as follows	- Will retire at 65 years of age with a weekly pension of **Lm98.18** - If Second Pillar Pensions Scheme is mandatory introduced for persons of 45 years of age and younger the above pension benefit will be supplemented with a Second Pillar Pension	- Will retire at 65 years of age with a weekly pension of **Lm172.93** - If Second Pillar Pensions Scheme is mandatory introduced for persons of 45 years of age and younger the above pension benefit will be supplemented with a Second Pillar Pension

ASSISTANT PRINCIPAL

- Will retire at 61 years of age with a weekly pension of **Lm97.15**
- At age of 75 years weekly pension will stand at **Lm137.28**

- Will retire at 62 years of age with a weekly pension of **Lm107.24**
- At age of 75 years weekly pension will stand at **Lm137.28**

- Will retire at 65 years of age with a weekly pension of **Lm137.27**
- If Second Pillar Pensions Scheme is mandatory introduced for persons of 45 years of age and younger the above pension benefit will be supplemented with a Second Pillar Pension

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- Will retire at 65 years of age with a weekly pension of **Lm101.37**
- If Second Pillar Pensions Scheme is mandatory introduced for persons of 45 years of age and younger the above pension benefit will be supplemented with a Second Pillar Pension

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- Will retire at 65 years of age with a weekly pension of **Lm185.43**
- If Second Pillar Pensions Scheme is mandatory introduced for persons of 45 years of age and younger the above pension benefit will be supplemented with a Second Pillar Pension

SENIOR PRINCIPAL OFFICER

- Will retire at 61 years of age with a weekly pension of **Lm102.89**
- At age of 75 years weekly pension will stand at **Lm145.38**

- Will retire at 62 years of age with a weekly pension of **Lm110.84**
- At age of 75 years weekly pension will stand at **Lm141.89**

- Will retire at 65 years of age with a weekly pension of **Lm133.65**
- If Second Pillar Pensions Scheme is mandatory introduced for persons of 45 years of age and younger the above pension benefit will be supplemented with a Second Pillar Pension

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- Will retire at 65 years of age with a weekly pension of **Lm101.37**
- If Second Pillar Pensions Scheme is mandatory introduced for persons of 45 years of age and younger the above pension benefit will be supplemented with a Second Pillar Pension

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- Will retire at 65 years of age with a weekly pension of **Lm186.43**
- If Second Pillar Pensions Scheme is mandatory introduced for persons of 45 years of age and younger the above pension benefit will be supplemented with a Second Pillar Pension

DIRECTOR

- Will retire at 61 years of age with a weekly pension of **Lm102.89**
- At age of 75 years weekly pension will stand at **Lm145.38**

- Will retire at 62 years of age with a weekly pension of **Lm113.61**
- At age of 75 years weekly pension will stand at **Lm141.89**

- Will retire at 65 years of age with a weekly pension of **Lm133.65**
- If Second Pillar Pensions Scheme is mandatory introduced for persons of 45 years of age and younger the above pension benefit will be supplemented with a Second Pillar Pension

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- Will retire at 65 years of age with a weekly pension of **Lm101.37**
- If Second Pillar Pensions Scheme is mandatory introduced for persons of 45 years of age and younger the above pension benefit will be supplemented with a Second Pillar Pension

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- Will retire at 65 years of age with a weekly pension of **Lm186.43**
- If Second Pillar Pensions Scheme is mandatory introduced for persons of 45 years of age and younger the above pension benefit will be supplemented with a Second Pillar Pension

Table 12: Minimum Pension Guarantee Assessment

		Weekly Rate	Inc By COLA 1.75	Inc by Inflation 2.5	Difference
Basic Year	**2004**	**46.15**	**46.15**	**46.15**	
	2005		47.90	47.3	0.60
	2006		49.65	48.5	1.16
	2007		51.40	49.7	1.70
	2008		53.15	50.9	2.21
	2009		54.90	52.2	2.69
	2010		56.65	53.5	3.13
	2011		58.40	54.9	3.54
	2012		60.15	56.2	3.92
	2013		61.90	57.6	4.26
	2014		63.65	59.1	4.57
	2015		65.40	60.6	4.85
	2016		67.15	62.1	5.08
	2017		68.90	63.6	5.28
	2018		70.65	65.2	5.44
	2019		72.40	66.8	5.56
	2020		74.15	68.5	5.64
	2021		75.90	70.2	5.68
	2022		77.65	72.0	5.67
	2023		79.40	73.8	5.62

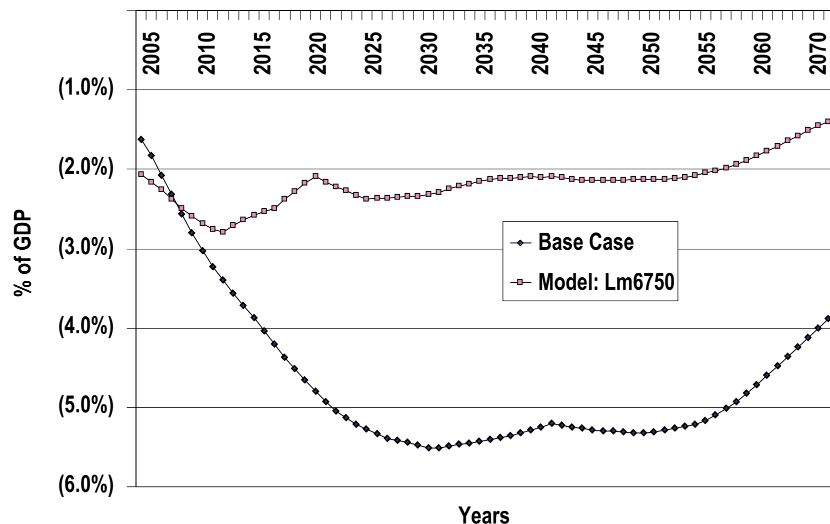
05.2.2 Impact on the Cost of the Pensions System

The World Bank was requested by the PWG to model the recommendations proposed within the context of macro economic related variables. The assumptions provided to the World Bank are presented in **Appendix IV**.

It is pertinent to state that the macro economic assumptions provided to the World Bank are different from those adopted by the World Bank when it presented its results in its March 2004 Report. Thus a 'like' baseline comparison with the World Bank's March 2004 projections is not possible.

The simulations of the proposed changes to the pensions system show that:

(i) Graph 11: PROST Simulation: Sustainability, World Bank: October 2004



A scenario of no change (Base Case) will see the deficit increase extensively within a relatively short period of time: 25 years. This result is largely consistent with the World Bank March 2004 simulation (Graph 09: page 46).

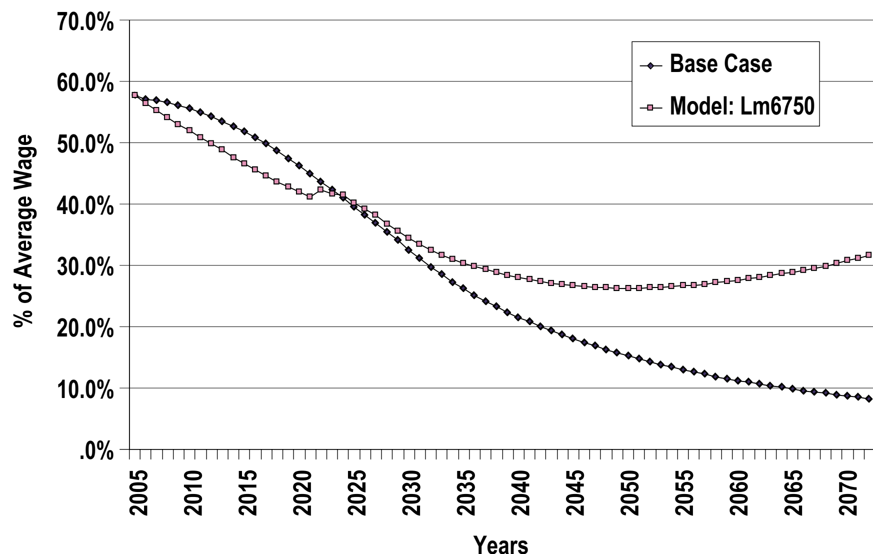
The introduction of the proposed changes will see the deficit increase at a relatively steep rate within the first ten years. This increase stems from the channeling of First Pillar contributions to the Health Fund. It is pertinent to state, though, that this increase in the deficit within this period of time is no worse than if no changes are undertaken to the pensions system.

However, whilst the deficit will continue to grow under the Base Case Scenario, under the proposed reform scenario the deficit will start to improve and will decrease from 3% of GDP to 2% of GDP by 2025.

This improvement arises as the proposed changes (that is, the proposed parameters of the First Pillar Pension and the introduction of a Second Pillar Pensions Scheme) start to impact the pension cohorts towards which they are directed: future generations.

The deficit in proportion to GDP is expected to stabilise over the period of the simulation.

(ii) Graph 12: PROST Simulation: Adequacy, World Bank: October 2004



A scenario of no change (Base Case) as the graph above shows will see the average benefits as a % of average wage fall dramatically over the period of the simulation of the model. This is consistent with the World Bank March 2004 simulation (Graph 08: page 43).

The introduction of the proposed changes will see the benefits as a % of average wage decrease until they stablise at 30% of average wage by 2023 before this starts to improve and gradually increase to 40% of average wage.

The simulations show that the proposed changes manage to stem the erosion of the adequacy of the average pension benefit in relation to the average wage. The proposed changes, however, do not bring the average benefit in proportion to the % of average wage to the relationship it enjoys today.

This result was expected by the PWG. The focus of the changes proposed are directed to establish a multi-pillar pensions system, and within this context introduce incremental changes that are directed to secure to the extent possible a decent standard of adequacy and sustainability in a manner that would smoothen the resulting impact on people's disposable income and the costs to businesses, which in turn could negatively affect the economy.

Radical changes can always be applied – at a cost to both society and the economy at large. The PWG is convinced that such an approach would not be a prudent one. It is for this purpose that it strongly recommends a structured review of the pensions system every five years – in order to allow the government of the day to make appropriate changes to the pensions system in a timely manner by taking into account the circumstances as they would stand at that point in time.

Whilst certain critical elements that underpin a First Pillar Pension are factual: primarily, the aging of the population, the decrease in the population, the continued drop in fertility; the modeling is, ultimately, based on assumptions. Assumptions are ultimately just that – and they are extremely vulnerable when projected over a long term period as is the case with the simulations modeled. The PWG believes that the implementation of radical measures today on the basis of assumed long term macro-economic behaviour is not advisable.

This does not negate the conclusion of this Report that the matter of an adequate and sustainable pensions system is an issue – and for the matter, it is an issue that must be addressed. The PWG, however, believes that a degree of flexibility resides today to enable an approach to the resolution of this issue that is based on staged phases as against a 'big bang' approach that mandates immediate radical changes. This conclusion of the PWG, however, is based on two key premises.

First, a conceptual framework of the pensions system that best serves the country is required. The PWG proposes the multi-pillar pensions system as the framework that is to be adopted in this regard.

Second, the Pensions system must be managed strategically. Thus, continuous and periodic review of the behaviour of the pensions system must be carried out in order to undertake measured and appropriate parametrical revisions to ensure that the goal of securing an adequate and sustainable pensions system is maintained at all times.

In conclusion, the PWG is convinced that in the event that no action is taken within the immediate years, future governments will ultimately have no choice but to adopt and implement radical solutions.

05.3 Abstract of Proposed Principles and Recommendations of the New Pensions System

01. Government should positively consider issuing the Report of the Pensions Working Group as a White Paper to facilitate the national discussion and consultation process required on this important matter.
02. Whilst the process of pensions reform must be holistic in its design and formulation, implementation of measures constituting the new pensions system should, as far as possible, be staggered and phased.
03. There should be a minimum pension guarantee that acts as a safety-net against social exclusion.
04. A fair mechanism needs to be put in place to automatically assure the value of the minimum pension guarantee against inflation.
05. The new pensions system must be supported by a strong compliance regime to safeguard honest and hard working persons as well as to deter abuse, fraud and mis-use.
06. The new pensions system should include a Second Pillar Pensions Scheme (SPPS) to increase one's pension income to enhance the standard of living.
07. The new pensions system should also provide for a Third Pillar Pensions Scheme (TPPS) which shall be a voluntary option directed to complement the pensions income.
08. The regulation of the SPPS and the TPPS should be entrusted to the MFSA operating under the Special Funds (Regulation) Act 2002.
09. The SPPS should be established in terms of a common yet flexible scheme basis.
10. An employee should have the right to choose the provider of the SPPS.
11. The SPPS will also apply to the self-employed.
12. Entry into the SPPS provision by private sector insurance firms must be subject to strict entry and performance criteria that must be met at all times.
13. The SPPS contributions paid by the employer must be strictly separated from the said employer; with the pension fund established as an autonomous 'ring-fenced' asset.
14. The SPPS should be managed on the prudent-person principle together with (a) the inclusion of specified limitations to determine the diversification parameters of the investment portfolio, and (b) restrictions to limit the private sector insurance firm managing the portfolio to invest in its own assets or subsidiaries.
15. Measures to provide for financial protection to SPPS contributors and pensioners against fraud, mis-use, insolvency, etc, must be introduced, and should be designed in a manner that place the least burden on stakeholders.
16. Funds under the SPPS should be portable and a person should not have the option to liquidate the fund.
17. The annual contributions into a SPPS should not be taxed on an annual basis. A maximum tax, established at a fixed percentage rate, should be paid upon the maturity of the Scheme.
18. The SPPS should upon maturity allow for the option to convert a maximum established part of the individual matured pension fund into a lump sum and with the bulk placed as an annuity to provide for a steady annual pension income over the lifetime of the pensioner.
19. The SPPS should be introduced on a mandatory basis.

20. MFSA and Government will work with private sector financial firms to encourage them to introduce a scheme that allows owners of life endowment and profits related policies to convert such policies into the SPPS.
21. The SPPS should be introduced in a transitional manner; with the SPPS to be first introduced on a voluntary basis as from 1st January 2006.
22. The determination of the parameters of a mandatory SPPS should be taken on the basis of intensive actuarial studies.
23. Indications are that a mandatory SPPS should be in place by 2010. Government should take all necessary action to establish the appropriate mechanisms to enable the introduction of the SPPS by 2010. Nevertheless, the Government should in 2009 undertake an assessment to determine whether the prevailing conditions at that point in time are such that necessitate the mandatory introduction of the Second Pillar by 2010.
24. The annual contribution to the TPPS should be non-taxed up to a capped limit. The income derived on the maturity of the TPPS will be subject to income tax based on the individual's PAYE rate.
25. The First Pillar must remain as the main mechanism to ensure solidarity. Participation in the First Pillar is to continue to be mandatory.
26. Solidarity within generations requires that the First Pillar post-retirement pension income is annually built up for all pensioners on an annual uniform basis. The annual uniform basis to be applied should be the Retail Price Index.
27. 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.
28. The statutory retirement age of 65 years will be for both men and women.
29. The rising of the statutory retirement age to the proposed 65 years should be gradual with women reaching the 61 year threshold in 1st January 2007. Subsequent to which the statutory retirement age is to increase as shown in Table 08. Individuals should be able to opt for a shorter career between the age of 61 to 65 years on the basis of proportionate benefits.
30. A person may opt to continue to work beyond the new statutory retirement age, whilst enjoying the First and Second Pillars pensions, with no capping on the income earned, subject to the payment of the First Pillar contribution.

31. The current invalidity pensions scheme should be reviewed with a view to tighten the eligibility criteria as well as to adopt the principle of 'rehabilitation or alternative work before pension'.
32. The contributions calculation base-line for the First Pillar pension should be retained on the basic salary.
33. The contribution period for the accumulation of the Two-Thirds First Pillar pension should be according to Table 09.
34. There should be no discrimination between self-employed and employed persons on the time base period upon which a First Pillar pension is calculated; and that such calculation should be based on an average of the 40 year contributions accumulation history and introduced as shown in Table 10.
35. The ceiling of the First Pillar's MPI should be the current MPI adjusted yearly to reflect inflation.
36. The revenue base line for the determination of the First Pillar should remain two-thirds of the basic wage.
37. The Class I and the Class II contributions should remain unchanged.
38. The 2004 budget declaration that health funding should be separated from social security funding and ring-fenced accordingly, and that part of the social security contribution will finance health services should continue to hold.
39. A ring fenced Account for contribution benefits and pensions, with appropriate transparent governance, is established.
40. The reality of woman's atypical employment and the resultant entitlement handicaps should be recognised and pension policy instruments that reflect this reality are to be introduced.
41. A policy instrument that takes into account parental responsibilities in relation to child bearing and child raising periods by providing for the phased crediting of the individual's contributions as well as the payment of voluntary contributions under established conditions should be positively considered.
42. The introduction of family friendly measures to enable the balance of work and family life and thus ensure not only increased participation but also the retention of women in the labour force should continue to be re-inforced.
43. Measures need to be taken to remove those elements in the system that encourage periods of inactivity or activity within the informal economy when people need to be attracted to participate in the labour market even on a part-time basis.
44. The design of policy instruments that account for 'credits' for the undertaking of unpaid periods for training, reskilling and continuous development should be positively considered.

05.4 Reconciliation of the Proposed Principles and Recommendations of the New Pensions System with the main Recommendations of the World Bank March 2004 Report

As stated in Chapter 01, the World Bank March 2004 econometric models and recommendations constituted the primary mainstay against which the new pensions system was benchmarked whilst being designed. Table 13 provides a reconciliation of the proposed pensions system with the main recommendations submitted by the World Bank:

Table 13: Reconciliation of Proposed Pensions System with the March 2004 World Bank Recommendations

March 2004 World Bank Recommendations	Accepted
Application of measures to minimise abuse of the Invalidity pension.	✔
Adoption of total wages (cash, overtime and in-kind payments).	
Increase of the contribution of self-employed to 20%, and that 50% of this to be deductible from income taxes.	
The reduction of the minimum contribution for part-time workers to make contributions and benefits commensurate with actual earnings.	✔
The removal of disincentives for workers to continue working beyond the minimum retirement age.	
Retirement age will be raised to 65 and will apply to those above the age of 45.	✔
A further rise in the retirement age beyond age 65 in line with future improvements in life expectancy.	
Indexation for pensions post retirement to inflation rather than the 80% inflation and the 20% wage growth contribution.	✔
The pension is based on full life time career earnings for both the accumulation and the base-line calculation of the pensions period. Full life time career established at 45 years.	Partially accepted
No discrimination between self employed and employed persons on the time base upon which First Pillar is calculated.	✔
The target pension for a full career is two-thirds of net wage rather than two-thirds of gross wage.	
Contribution to Health Fund from PAYG: 1% from State Grant; 2% from Employee.	
Workers older than 45 at the time of the reform will retain their old benefit structure although current pensioners will see indexation system change to one that is inflation related as against wage related.	
Ceiling on contributions and the maximum pension will begin to rise right away.	✔
First Pillar contribution rates will remain unchanged.	✔
Second Pillar.	✔
Second Pillar contributions will amount to 2% each from employers and employees and 3% from self-employed in 2005, rising gradually to 5% each from employers and employees and 7.5% from the self-employed by 2020.	

Rejected	New
X	
X	
	Persons will be allowed to work post retirement age with no cap on income earned whilst enjoying their First and Second Pillar pensions. Nevertheless they will be requested to pay the contribution on the incom earned.
	65 years retirement age will be incrementally reached and will be gender neutral. Statutory retirement age to be raised to 65 years and should be introduced in a scaled manner. Option for gradual opt-out between the 61 and 65 years cohort in a disincentivised manner introduced.
X	
	Full life time career defined as 40 years. Introduced in a scaled manner.
X	
Under Consideration	Requires discussion with the Ministry of Health, the Elderly and Community Services to ensure that recommendations are consistent.
X	Current pensioners will not be affected by proposed changes. Scaled implementation process proposed.
	Ceiling on MPI will rise with inflation. Contributions paid will rise accordingly.
	Different institutional mechanism proposed. There will be a transitional process where-in the Second Pillar is introduced on a voluntary basis.
Under Consideration	Actuarial Study should be undertaken by Government through MFSA to determine the parameters of the Second Pillar.
	Minimum Pension Guarantee indexed to a fair mechanism to buffer against erosion through inflation.
	Recognition of women atypical employment nature and policy instruments to be designed in this regard.
	Need to design gender neutral pension policies to account for parental responsibilities relating to child bearing and raising.
	Need to design life long learning pension policies to support Malta’s strive to be a competitive knowledge based economy.
	Establishment of a Pensions Account.