ACCRUED-TO-DATE PENSION ENTITLEMENTS IN SOCIAL INSURANCE: FACT SHEET

[Malta]

[11 December 2023]

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This type of pension scheme does not exist in Malta.

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This type of pension scheme does not exist in Malta.

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This type of pension scheme does not exist in Malta.

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This type of pension scheme does not exist in Malta.

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This type of pension scheme does not exist in Malta.

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1. General description of the scheme and the calculation model
a. Coverage of the scheme

ServicePension (Mandatory Scheme): Payable to the following groups of civil servants upon retirement:

  a. All Government employees who started service with the Government prior to 15th January 1979;

  b. Police, Armed Forces of Malta personnel, Correctional Facilities officials and members of the Civil Protection;

  c. Widows of public officers who held a pensionable post and who contributed to the widows pension scheme;

  d. Members of Parliament;

  e. Members of the Judiciary and the Attorney General;

  f. Secretary to the Cabinet; and

  g. Permanent Secretaries.

Pensions paid out from this Scheme are split into two types; (i) old age pensions and (ii) survivors pensions. Furthermore, public officers are eligible to receive a Treasury Pension if the service they rendered was continuous. A member of this pension system is eligible to receive a full pension after 30 years of continuous service (25 years of service in case police officers, armed forces personnel and correctional facilities officials).

The pension is awarded as a result of dedicated and loyal service. In cases where service is deemed to be inferior, the pension awarded may be granted at a reduced rate.

Persons eligible to receive a Service pension may also be entitled to a social security pension, if their Service pension and the rate of Retirement pension payable in their case (based on contributions paid throughout their career) do not exceed two-thirds of their pensionable income.

% of workforce covered: Approximately 14% of the total general government employees (current contributors) are eligible to receive a Treasury Pension after reaching retirement age.

b. Institutional set-up	
Data sources/ suppliers	Both the Service pensioners micro database and the SABS database, the latter recording the annual micro data for current contributors, were collected from the Department of Social Security.
Which institution is running/managing the calculations?	The National Statistics Office (NSO) is in charge of compiling the annual accrued-to-date pension entitlements for Malta.
c. Major formulas: Benefit formula; Indexation of benefits	

Benefit formula	The pension is calculated on the last annual salary of the retiring official. If there is a change in the grade of the official during the last three years of his/her employment, the average salary is taken for the calculation of the pension. If the average is less than the salary the employee had prior to the change in grade, the pension is computed on the salary received prior to the change in grade. In any case, the maximum Treasury pension a civil servant may receive in his/her lifetime cannot exceed: $$\frac{2}{3} \times Highest\ Career\ Income\ recorded\ by\ civil\ servant$$
Indexation of benefits	After the 2006 pension reforms (refer to Section 4), the annual indexation of pensions, for persons born from 1962 onwards, was changed from an indexation primarily based on the COLA to one where the pension is updated annually by a sum corresponding to a 70% increase in the national average wage and 30% of the inflation rate.

d. Type and structure of the calculation model

The model used is based on the Freiburg Model used in the original studies carried out by Eurostat from 2007 to 2009 and was compiled by an expert from Research Center for Generational Contracts (RCG) at Albert-Ludwigs-Universitat Freiburg.

A forward-looking approach is applied to compute the accrued-to-date pension entitlements, as historical data is projected into the future. The estimated entitlements represent solely on pension payments occurring after the base year in question, where for every individual the period taken starts from one year after the base year up to a maximum age of 100 (based on available Eurostat life expectancy data).

Future survival rates, based on Europop projections, are inputted for the calculation of entitlements. A discount rate of 2% real/4% nominal (following Eurostat recommendations) is included to discount all future pension payments to the base year.

2. Assumptions and methodologies applied

a. Discount rate

2% real/4% nominal

b. Wage growth

The future real earnings growth is based on the labour productivity growth assumptions made by the Ageing Working Group (AWG) underlying the 2024 Ageing Report.

c. Valuation method: ABO/PBO

The PBO method was applied.

3. Data used to run the model

a. Mortality tables

Age and sex specific mortality rates, derived from Europop 2023 projections, used to compile the mortality tables.

b. Entitlement statistics; other relevant statistics

4. Reforms incorporated in the model

2006 Pension Reforms:

The following set of parametric forms, implemented by the House of Representatives in 2006, were incorporated in the model:

(i)   The change in pension indexation; from an indexation based on the COLA (still applies for persons born prior to 1962) to a sum equivalent to 70 per cent growth in the average national wage and 30 per cent of the inflation rate.

(ii)   The introduction of a Guaranteed National Minimum Pension paid to persons not entitled to receive a service pension and at a rate not less than 60 per cent of the National Median Income.

5. Specific assumptions
a. How are careers modelled?
Individual data is provided on the number of contributions paid and on wages (from 1980 on). For future wages, the PBO approach is applied. If an individual contributed in the base year, it is assumed that contributions will continue without interruptions. If an individual did not contribute in the base year, it is assumed that the number of contributions will not grow any further until retirement.
b. How are survivor pensions calculated?
Survivor pensions are estimated for individuals who are married, separated or divorced. Survival probabilities of both spouses are taken into account. The amount of survivor pension is calculated according to pension law (5/6 of the deceased's pension if own pension of surviving spouse is not higher).
c. How is the retirement age modelled over time?
For civil servants it is assumed that retirement age stays constant.
d. Other specific features of the model
6. Any other comments

7. Table 29 column H: Social security pension schemes (unfunded)

1. General description of the scheme and the calculation model	
a. Coverage of the scheme	
Social Security Contributory Pensions Scheme (Mandatory Scheme): The main pension scheme in Malta, classified under the Social Security Act (Chapter 318 of the Laws of Malta). Three types of Contributory pensions are classified under this scheme; (1) Retirement Pensions, (2) Invalidity Pensions and (3) Widows Pensions. All gainfully occupied persons (i.e. employed, self-employed and self-occupied) are eligible to receive any of the abovementioned pensions, as long as they satisfy the necessary contribution conditions. In Malta, weekly social security contributions are required to be paid by all gainfully occupied persons between the age of 16 and the statutory retirement age (rising to 64 in 2022 and set to increase to 65 in 2026) in return for accrued social insurance rights under the Contributory Scheme. Two types of contributions exist in Malta; Class One contributions required to be paid by all employed persons, and Class Two contributions to be paid by all self-employed and self-occupied persons. Contributions may also to be credited to persons satisfying certain criteria. **% of workforce covered:** The scheme covers the whole workforce (100%).	
b. Institutional set-up	
Data sources/ suppliers	The SABS database, provided by the Department of Social Security, was used to obtain both the annual micro data for the current pensioners and the current contributors.

Which institution is running/managing the calculations?	The National Statistics Office (NSO) is in charge of compiling the annual accrued-to-date pension entitlements for Malta.

c. Major formulas: Benefit formula; Indexation of benefits	

Benefit formula	$Contribution\ Average\ x\ \frac{2}{3} \times Pensionable\ Income - Service\ Pension$, where:
	
	(1) 'Contribution Average' is the average of two averages; (i) the average weekly contribution over the last 10 years before retirement ($Avg\ Cont_{10}$) and (ii) the average weekly contribution paid during a maximum of 25 years before the last 10 years prior to retirement ($Avg\ Cont_{25}$). This average is calculated as follows:
	
	$$Contribution\ Average = \frac{(Avg\ Cont_{10} + Avg\ Cont_{25})/2}{50}$$
	
	(2) 'Pensionable Income' is equivalent to:
	
	   i. for employed persons born before 1952 (between 1952 and 1955/between 1956 and 1958/between 1959 and 1961): average basic wage or salary for the best 3 consecutive years within the last 10 (11/12/13) consecutive years preceding retirement or invalidity according to the Social Security Act (Cap 318) if person is classified as 'employed';
	   ii. for self-employed or self-occupied persons born before 1952: the average net contributory income of the last 10 consecutive years or part thereof if person has not been self-employed or self-occupied for the whole 10-year period;
	   iii. for self-employed or self-occupied persons born between 1952 and 1955 (between 1956 and 1958/between 1959 and 1961): the average net contributory income of the best 10 consecutive years out of the last 11 (12/13) consecutive calendar years or part thereof if person has not been self-employed or self-occupied for the whole 10-year period;
	   iv. for all eligible persons born between 1962 and 1968: average of the basic wage or salary or net income or net earnings of the best 10 calendar years within the last 40 calendar years;
	   v. for all eligible persons born from 1969 onwards: average of the basic wage or salary or net income or net earnings of the best 10 calendar years within the last 41 calendar years
	
	(3) 'Service Pension' represents the service pension (if any) paid to the individual in question. As highlighted in Section 1a of Column G, a civil servant eligible to receive a Service pension may also obtain a Retirement pension paid under the Social Security Act (Cap. 318) provided their total pension amount does not exceed two-thirds their pensionable income.

Indexation of benefits	After the 2006 pension reforms (refer to Section 4), the annual indexation of pensions, for persons born from 1962 onwards, was changed from an indexation based on the COLA to 70% wage and 30% inflation.

d. Type and structure of the calculation model	

The model used is based on the Freiburg Model used in the original studies carried out by Eurostat from 2007 to 2009 and was compiled by an expert from Research Center for Generational Contracts (RCG) at Albert-Ludwigs-Universitat Freiburg.

A forward-looking approach is applied to compute the accrued-to-date pension entitlements, as historical data is projected into the future. The estimated entitlements represent solely on pension payments occurring after the base year in question, where for each individual the period taken starts from one year after the base year up to a maximum age of 100 (based on available Eurostat life expectancy data).

Future survival rates, based on Europop projections, are inputted for the calculation of entitlements. A discount rate of 2% real/4% nominal (following Eurostat recommendations) is included to discount all future pension payments to the base year.

2. Assumptions and methodologies applied

a. Discount rate

2% real/4% nominal

b. Wage growth

The future real earnings growth is based on the labour productivity growth assumptions made by the Ageing Working Group (AWG) underlying the 2024 Ageing Report.

c. Valuation method: ABO/PBO

The PBO method was applied.

3. Data used to run the model

a. Mortality tables

Age and sex specific mortality rates, derived from the 2023 Europop projections, were used to compile the mortality tables.

b. Entitlement statistics; other relevant statistics

4. Reforms incorporated in the model

(1)   2006 Pension Reforms:

The following set of parametric forms, implemented by the House of Representatives in 2006, were incorporated in the model:

(i)   The gradual increase of the statutory retirement age from age 60/61 (females/males), for persons born prior to 1952, to age 65, for persons born from 1962 onwards.

(ii)   The change in pension indexation; from indexation based on the COLA (still applies for persons born prior to 1962) to a sum equivalent to 70 per cent growth in the average national wage and 30 per cent of the inflation rate.

(iii)   The introduction of a Guaranteed National Minimum Pension paid to persons not entitled to receive a service pension and at a rate not less than 60 per cent of the National Median Income.

(2)   2016 Pension Reforms:

In September 2015, the Pension Strategy Group (PSG; consisting of members from the then Ministry for the Family and Social Solidarity and the Ministry of Finance) submitted to the Maltese Government a list of recommendations of reforms to be made to the Maltese pension system.

One such reform, incorporated in the model, was the introduction of an incentive mechanism to encourage later retirement and increase the working period. Persons eligible to retire at age 61 and who decide to extend their working period will see their pension increase cumulatively for each extra year spent in employment up to the statutory retirement age of 65. A person who continues to work up to age 62 will see their pension rise by 5 per cent while their pension will increase by a further 5.5 per cent if they remain employed till age 63. Furthermore, if a person defers retirement to 64 and 65 they would receive increases of 16.5 per cent and 23.0 per cent respectively.

(3)   In 2020, the third Strategic Review (SR) document compiled by the PSG was presented to the then Ministry for Social Justice and Solidarity, the Family and Children's Rights (MSFC), and later to the Cabinet. The document reviews the workings of Part V *(Pensions in respect of Retirement)* of the Social Security Act. In line with Article 64B within the same Act, such reviews are required to be tabled to House of Representatives within every 5-year period (first in 2010).

As part of the review, a set of recommendations were submitted by the PSG for further pension reforms. Various measures have been or are planned to be implemented by the Government between 2021 and 2027. One such measure, introduced in 2021, sees any contributions paid by individuals prior to the age of 19 now being taken into consideration during assessment for a contributory retirement pension. This measure will enhance the eligibility for those claimants who previously had dropped out early of employment and, hence, did not the reach the minimum contribution average necessary for a pension.

5. Specific assumptions
a. How are careers modelled?
Individual data is provided on the number of contributions paid and on wages (from 1980 on). For future wages, the PBO approach is applied. If an individual contributed in the base year, it is assumed that contributions will continue without interruptions. If an individual did not contribute in the base year, it is assumed that the number of contributions will not grow any further until retirement.
b. How are survivor pensions calculated?
Survivor pensions are estimated for individuals who are married, separated or divorced. Survival probabilities of both spouses are taken into account. The amount of survivor pension is calculated according to pension law (5/6 of the deceased's pension if own pension of surviving spouse is not higher).
c. How is the retirement age modelled over time?
The increase of the statutory retirement age is incorporated in the model, retirement probabilities are assumed to change accordingly.
d. Other specific features of the model

6. Any other comments

8. Table 29 column K: Entitlements of non-resident households

No information available to split the entitlements between resident and non-resident households.

9. Links to (national) publications providing further information on the pension schemes

(1) Latest Country Fiche on Pension Projections:

https://economy-finance.ec.europa.eu/system/files/2021-05/mt_-_ar_2021_final_pension_fiche_0.pdf

(2) Further details on Malta's pension system are available on the:

   a.   Department of Social Security's website:

(i) Social Security Contributory Pensions

https://socialsecurity.gov.mt/en/information-and-applications-for-benefits-and-services/contributory-pensions/

(ii) Service Pensions

https://socialsecurity.gov.mt/en/information-and-applications-for-benefits-and-services/service-pensions-manual/#part2

b.   **Social Security Act (particular reference to Parts IV and V)**

https://legislation.mt/eli/cap/318/eng/pdf