European Commission

EUROPEAN SOCIAL POLICY NETWORK (ESPN)

Financing social protection

Malta

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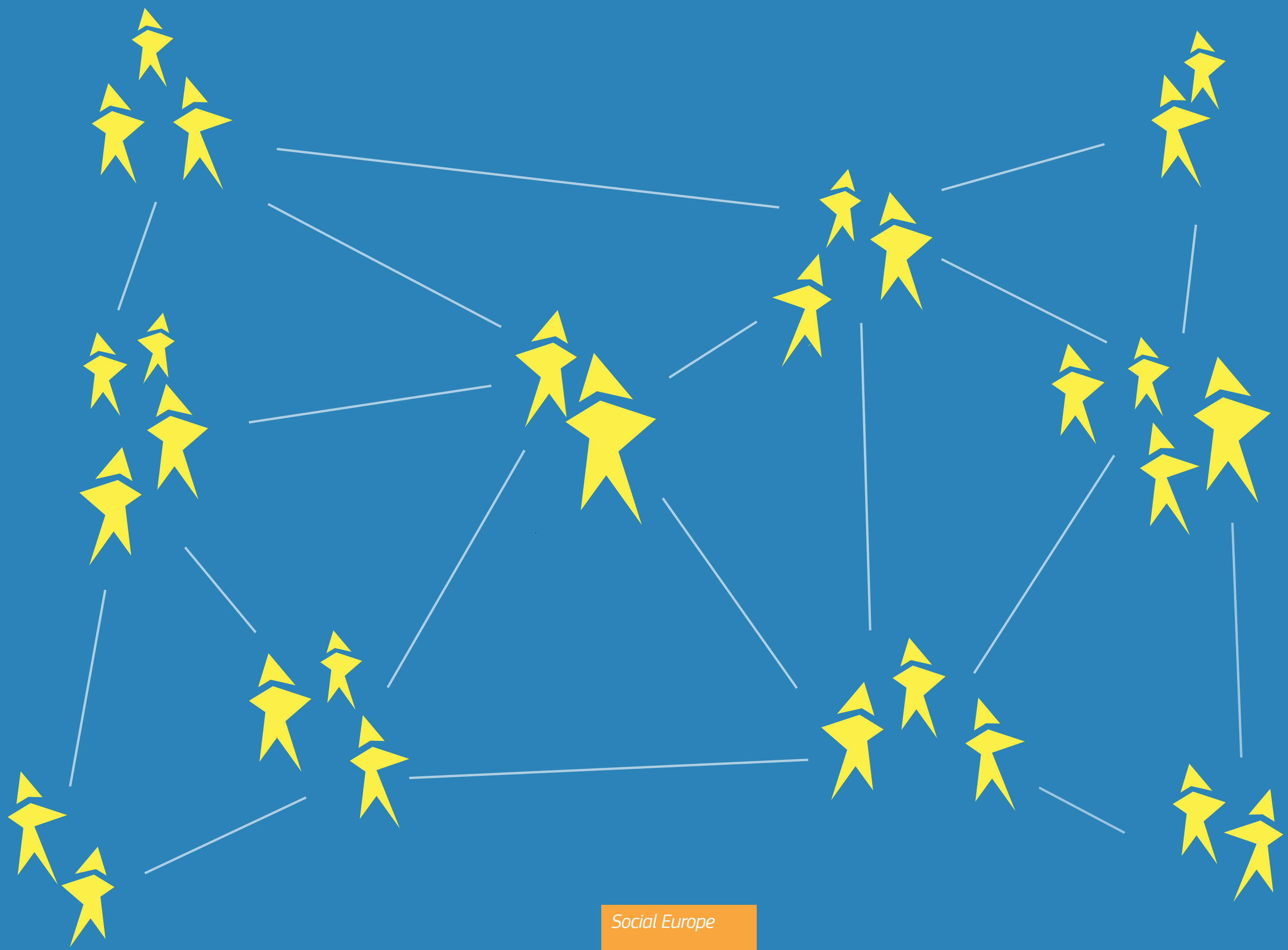

Social Europe

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ESPN Thematic Report on Financing Social Protection

Malta

2019

Mario Vassallo

Directorate-General for Employment, Social Affairs and Inclusion
2019

The European Social Policy Network (ESPN) was established in July 2014 on the initiative of the European Commission to provide high-quality and timely independent information, advice, analysis and expertise on social policy issues in the European Union and neighbouring countries.

The ESPN brings together into a single network the work that used to be carried out by the European Network of Independent Experts on Social Inclusion, the Network for the Analytical Support on the Socio-Economic Impact of Social Protection Reforms (ASISP) and the MISSOC (Mutual Information Systems on Social Protection) secretariat.

The ESPN is managed by the Luxembourg Institute of Socio-Economic Research (LISER) and APPLICA, together with the European Social Observatory (OSE).

For more information on the ESPN, see:
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Quoting this report: Vassallo, Mario (2019). ESPN Thematic Report on Financing social protection – Malta, European Social Policy Network (ESPN), Brussels: European Commission.

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Summary

This report engages in an analysis of the current levels and trends in social protection financing, covering both receipts and financing, and concludes with a critical appraisal of Malta's current system.

Malta has a social protection system covering all its citizens. The system is partly financed through contributions paid by persons who have a regular income (whether as employees, as self-employed or as 'self-occupied',[1] as specifically defined in Maltese legislation) and partly through taxation. The so-called 'Contribution' system has not changed during the period under consideration. However, the actual amounts collected through this system have increased because a) the amounts collected represent a percentage of wages/salaries, and these have increased over the years; and b) many more persons have joined the work force, mostly as migrants in search of work. These migrants are both EU and third-country nationals.

Benefit schemes are divided into two broad streams: those linked to contributions (contributory benefits) and those subject to means testing (non-contributory benefits). Malta has a National Health System (NHS) through which services are provided without any direct cost to the user, both at primary and secondary levels. The NHS is financed through general taxation.

A detailed analysis of social security expenditure shows that Malta is not one of the big spenders on welfare in terms of share of GDP. In 2005, expenditure was 17.7%, which declined to 16.7% in 2016, marking a reduction of one percentage point over this decade. This is well below the EU averages for 2005 and 2016, at 26% and 28.2%, respectively.

What might also appear paradoxical at first sight is that Malta registered a decrease in its share of GDP on social protection expenditure. This is in sharp contrast to EU figures, which saw an increase. This decrease, however, is only true as a percentage of GDP – actual expenditure increased considerably in real terms. This was only possible because of a fast-growing economy that saw Malta change from an emigration-oriented economy to an immigration-oriented economy, resulting in a rapidly expanding GDP.

The demographic composition of the Maltese population is ageing rapidly, thus putting pressure on pension schemes. Reforms have been introduced to make the pension system more sustainable. Over the last few years, ever greater numbers of Maltese pensioners have been caught in at-risk-of-poverty categories, as their relative economic and financial positions have declined in the context of rising costs associated with a fast-growing economy.

What is most striking, however, is that the government's share in the financing of the different social security schemes has surged. Of course, this has been possible because of increased revenues from general taxation: although tax rates remained unchanged (and in some cases income tax was actually reduced), more money was collected through the various tax streams because of economic growth. It is stated government policy that the more wealth is generated, the more the benefits can be improved.[2]

[1] In Maltese law, a 'self-occupied' person is a person who: i) is not an employed person; ii) is excepted under Part II of the First Schedule of the Social Security Act; and iii) is engaged in any activity through which earnings in excess of €910 per annum are derived. See: https://socialsecurity.gov.mt/en/Social%20Security%20Contribution%20and%20Benefit%20Rates/Pages/Social-Security-Contribution.aspx.

[2] This was declared repeatedly by the Minister of Finance in the presentation of the budget for 2019. Among other things the Minister stated: *'Għalhekk Sur President, b'ekonomija b'saħħitha li qed trendi aktar flus fil-but tan-nies u b'sostennibbilta` fil-finanzi pubbliċi, se nkunu qed indaħħlu miżuri li jkunu mmirati li jkomplu jtejbu l-kwalita` tal-ħajja tal-familji tagħna [Therefore, Mr President, with a thriving economy, one that is "leaving more money in people's pockets", and since our public finances are now sustainable, we are going to introduce measures which will further improve the quality of life of our families]*. See https://mfin.gov.mt/en/The-Budget/Documents/The_Budget_2019/Diskors_Budget_2018_1.pdf, p. 3.

The lack of a specific social security fund in Malta and issues like the sustainability of the National Health Service are occasionally discussed in public fora. But the debates are not consistent or considered urgent in any way. The Maltese are largely confident that the future will not be difficult to handle and that issues can be solved, just as they have been solved in the past! This is, of course, a very risky approach, and the financing of all the segments of the social security system needs to be better addressed to secure a surer footing for future eventualities.

1 Current levels and past changes in financing social protection

This analysis of the levels, trends and composition of social protection financing in Malta focuses on the current 'welfare effort' (i.e. total social protection expenditure), its change in the period considered (2005-2016) and the main drivers.

When looking at gross expenditure on social protection as a share of GDP in Table 1, the following can be observed:

a) Malta is not one of the big spenders on welfare in terms of share of GDP. In 2005, expenditure was 17.7%, declining to 16.7% in 2016, marking a reduction of 1 percentage point (pp) over this decade. This is well below the EU average in 2005 and 2016, at 26% and 28.2%, respectively.

b) Malta registered a decline in the share of GDP for social protection expenditure. This is in sharp contrast to EU figures, which saw an increase.

Table 1: Gross expenditure on social protection, 2005-2016

	As a share of GDP, %			Index, 2005=100		
	2005	2016	Change 2005-2016 (pp)	2005	2016	Mean annual change 2005-2016 (pp)
EU-28	26.0	28.2	2.2	100.0	122.6	1.9
Malta	17.7	16.7	-1.0	100.0	151.3	3.8

Source: Spasova and Ward (2019), Annex ESSPROS tables

Table 1 shows a decrease in gross expenditure, as a share of GDP for Malta, from 17.7% to 16.7% between 2005 and 2016. It also shows that, in terms of actual expenditure, expressed as an index (with 2005=100), Malta saw an increase to 151.3 in 2016. This translates to a mean annual change of 3.8 pp for Malta over the period 2005-2016, in contrast to the EU-28 mean annual change of 1.9 pp.

A comparison of the gross and net expenditure figures in Table 2 shows an increase in both between 2007 and 2010: gross expenditure increased from 17.8% in 2007 to 19.3% in 2010, but thereafter decreased to 17.1% in 2015. Net expenditure increased from 17.5% in 2007 to 18.9% in 2010, but again decreased to 16.4% in 2015. The decreases between 2010 and 2015 are the result of an expanding economy: in percentage terms, Malta had to spend less of its GDP in 2015 than it had to in 2010. This was not the result of a reduction in benefits. In fact, in some instances, benefits increased.

Table 2: Gross and net social protection expenditure as a share of GDP over time

	Gross expenditure (% GDP)			Net expenditure (% GDP)			Net minus gross (pp)		
	2007	2010	2015	2007	2010	2015	2007	2010	2015
EU-28	25.3	28.6	28.4	23.5	26.5	26.1	-1.7	-2.1	-2.2
Malta	17.8	19.3	17.1	17.5	18.9	16.4	-0.3	-0.3	-1.1

Source: Spasova and Ward (2019), Annex ESSPROS tables

It needs to be emphasised that in Malta welfare benefits have never been additionally taxed. Indeed, the tendency has been for income tax brackets to be expanded to ensure that benefits are maximally enjoyed by recipients. This has now been formalised, to the extent that recipients of the maximum social security pension are not taxed on it, so long as it is their only income. If pensioners receive additional income, the income from pensions is incorporated into total income.

The stability referred to above does not necessarily mean that social protection expenditure in Malta has always provided a stable level of living to all segments. Table 3 effectively shows that the EU indicator 'Median relative income of elderly people' (i.e. the median equivalised income of people aged 65+ as a ratio of that of people aged 0-64) in Malta decreased over the years – from 0.81 in 2010 to 0.71 in 2017, contrary to the situation in the EU-28 (which registered an increase, from 0.88 in 2010 to 0.92 in 2017).[3]

Table 3: Median relative income of elderly people (median equivalised income of people aged 65+ as a ratio of that of people aged 0-64)

	2010	2011	2012	2013	2014	2015	2016	2017
EU-28	0.88	0.90	0.92	0.93	0.94	0.93	0.93	0.92
Malta	0.81	0.79	0.80	0.80	0.77	0.75	0.72	0.71

Source: Eurostat online database, indicator ilc_pnp2.

An examination of expenditure by function (see Table 4) shows that in Malta expenditure is heavily burdened by Old Age benefits and Sickness/Health. In 2005, Old Age accounted for as much as 7% of GDP and for 40.2% of social expenditure. Sickness/Health accounted for 6% of GDP and 31.4% of social expenditure. In both cases, the share of social expenditure increased in 2016. It is very relevant to note that, although the share shifts appear minimal, the amount of money disbursed for each of these two segments increased substantially between 2005 and 2016. Table 4 also gives the respective amounts at constant 2010 prices.

Table 4: Breakdown of gross expenditure on social protection, by function

	2005			2016		
	Sickness/ Health	Old age	Other	Sickness/ Health	Old age	Other
As a share of GDP						
EU-28	n/a	n/a	n/a	8.0	10.9	9.2
EU-15	7.3	9.8	9.4	8.2	11.1	9.7
MT	6.0	7.0	n/a	5.4	7.1	n/a
As a share of social expenditure						
EU-28	28.7	38.6	32.7	29.5	40.1	30.4
EU-15	27.7	37.0	35.3	28.5	38.4	33.1
MT	31.4	40.2	28.4	33.0	44.2	22.8
Euros per inhabitant at 2010 constant prices						
EU-28	n/a	n/a	n/a	2174.9	2961.3	2240.9
EU-15	2152.8	2880.0	2448.2	2583.4	3478.5	2664.0
MT	790.3	1010.9	0.00	1114.1	1491.1	0.00

Source: Spasova and Ward (2019), Annex ESSPROS tables and Eurostat online database indicator spr_exp_sum.

Table 5, in turn, shows that gross expenditure by function on the Other category, as a percentage of total expenditure, decreased for all functions between 2005 and 2016. Significant reductions are to be noted in Disability (from 6.4% to 3.6%), Family (from 6.3% to 5.9%) and Unemployment (from 3.3% to 2.7%). It is to be emphasised that these figures are percentage shares, and not absolutes.

[3] It would have been interesting to compare the income derived from national pensions by persons aged 65 and over as a percentage of the average national wage in Malta with that of different EU Member States, but historical data are unfortunately not available.

Table 5: Breakdown of gross expenditure, by function in Other category (% total expenditure)

	Disability	Survivors	Family	Unemployment	Housing	Social exclusion
				2005		
EU-28	8.0	6.7	8.4	5.8	2.0	1.8
EU-15	7.9	6.6	8.4	5.9	2.1	1.8
MT	6.4	10.0	6.3	3.3	0.8	1.6
				2016		
EU-28	7.4	5.5	8.7	4.6	2.0	2.2
EU-15	7.4	5.4	8.6	4.8	2.1	2.2
MT	3.6	8.3	5.9	2.7	0.9	1.3

Source: Spasova and Ward (2019), Annex ESSPROS tables

What are the processes that can explain these trends? Demand and supply factors are at play, as are demographic factors; together these can be used as vantage points to explain what is happening.

At least four main potential types of driver – influencing the amount of available resources and/or the number of individuals entitled to draw on those resources – are to be considered: a) growth factors; b) demographic changes; c) reduced unemployment; and d) policy innovation.

a) Growth

Despite the international recession that affected all the countries around Malta, the country's economy managed to weather the downturn extremely well. Thanks to its small size and adaptability, Malta managed to retain a degree of activity that did not require any drastic measures while the recession lasted. When the effects of the recession outside Malta started to subside, the Maltese economy was sufficiently attuned to changes in international trade, so that it could take off and start registering growth rates unlike any it had experienced before. Table 6 effectively shows the extent of GDP growth in real terms over the period under consideration, and how this contrasts with the overall growth rate registered in the EU-28 as a whole: between 2005 and 2016, Malta posted average yearly GDP growth of +4.8 pp, as opposed to 1.2 pp for the EU-28 as a whole. This rapid expansion in GDP allowed more resources to be allocated to social expenditure.

Table 6: GDP trends in real terms

	EU-28	Malta
2016 value (Index number; 2005=100)	112.9	152.6
Average yearly GDP real growth – 2005-2016	+1.2 pp	+4.8 pp

Source: Eurostat online database, indicator nama_10_gdp.

a) Demography

Malta's post-war baby boomers are fast becoming old; but in 2005, the respective percentages for persons under 65 and for persons under 75 were below EU-28 levels, as can be seen from Table 7. By 2016, however, the gap was narrowing very rapidly: whereas between 2005 and 2016 the change in respect of persons aged 65 years or above was +19.3% in the EU-28, in Malta the increase for the same age group was +55.5%. In respect of individuals aged 75+ years, the change in the EU-28 between 2005 and 2016 was +27.7%, whereas in Malta the figure was +50.2%. This, of course, necessitated more expenditure on Old Age in absolute terms, but again as a reflection of the overall growth of the economy, the increase was not so dramatic. As was documented in Table 4, the percentage share of social expenditure for the Old Age segment increased by only 4 pp, from 40.2% to 44.2%. This was also possible because state pensions were only increased through the Cost of Living Allowance (COLA)[4] mechanism, and only minor tweaks occurred in the period under examination. For many persons – especially those whose wages and salaries were above the official average wage – this meant that the buying power of their pensions declined. The reforms introduced to raise the pensionable age also contributed to this relatively slow increase in the share.

Table 7: Ageing European societies: Malta in a comparative perspective

		EU-28	MT
Share of population 65 years or over in total population	2005	16.6%	13.3%
	2016	19.2%	18.5%
Share of population 75 years or over in total population	2005	7.4%	5.4%
	2016	9.2%	7.3%
Number of individuals 65 years+	Change between 2005 and 2016	+19.3%	+55.5%
Number of individuals 75 years+	Change between 2005 and 2016	+27.7%	+50.2%

Source: Eurostat online database, indicator demo_pjanbroad demo_pjanind.

b) Reduced unemployment

A major positive factor that contributed to lower unemployment levels was, as has already been stated, the capacity of the Maltese economy to grow. Not only did the growth in GDP increase the money supply, but more importantly, it achieved the opposite of what was happening elsewhere. As can be seen from Table 8, instead of increasing, the unemployment rate declined dramatically to a situation of economic 'full employment'. From 6.9% in 2005, unemployment was brought down to 4.7% in 2016 – i.e. a decrease of 2.2 pp (or 31.9%). Effectively, even though more money was used to help persons who were still unemployed to move out of unemployment, there was a reduction in the money spent on the unemployed.

Table 8: Unemployment in European societies: Malta in a comparative perspective

		EU-28	Malta
Unemployment rate	2005	9.0%	6.9%
	2016	8.6%	4.7%
Number of unemployed individuals	Variation between 2005 and 2016	-0.1 pp	-46.8 pp

Source: Eurostat online database, indicator une_rt_a.

Despite the economic growth that Malta experienced during the period under study, the data show that this was not equally shared by all segments of the population. In fact, between 2005 and 2010, the absolute number of persons at risk of poverty or social exclusion (AROPE) actually increased from 81,000 to 86,000, and then to 90,000 in 2016 (Table 9). It might appear a paradox that the same table shows a decline in the percentage of the total population at risk of poverty or social exclusion in 2016. This is indeed so, because of the enormous increase in the population in this short space of time, as Malta transformed itself from an emigrant country to an immigrant country. This population increase resulted from: a) 'illegal migration'; and b) the number of persons migrating to Malta in search of job opportunities.

[4] The COLA mechanism was implemented in 1991 and was established specifically to be independent of the government. It is a mechanism agreed to by the social partners, on the basis of which the cost of living of year 'x' is calculated, and an obligatory increase is given to all wages and salaries in Malta as from 1 January following the end of year 'x'. Please see Malta Government (1991).

Table 9: People at risk of poverty or social exclusion

	Thousands			Percentage		
	2005	2010	2016	2005	2010	2016
Total Population						
EU-28	:	117,907	118,040	:	23.8	23.5
Malta	81	86	90	20.5	21.2	20.3
Males						
EU-28	:	54,916	55,414	:	22.7	22.5
Malta	37	41	45	18.9	20.1	20.2
Females						
EU-28	:	62,991	62,625	:	24.8	24.4
Malta	44	45	45	22.0	22.4	20.4
Persons over 60 years of age						
Total						
EU-28	:	22,393	23,460	:	19.4	18.5
Malta	19	18	26	27.2	21.1	24.2
Males						
EU-28	:	8,474	9,217	:	16.5	16.1
Malta	8	9	11	26.8	21.9	22.3
Females						
EU-28	:	13,919	14,243	:	21.7	20.4
Malta	10	10	15	27.4	20.5	26.0

Source: Eurostat online database, indicator ilc_peps01.

c) Policy innovation

There has been little recent innovation in policy. What has been tweaked is the amount paid in entitlements for the various schemes. These are generally increased on an annual basis, usually on the occasion of the annual budget. These continuous increases (mostly through the COLA mechanism) were possible because there was no need to adopt any austerity measures during the financial crisis.

So in essence, policy innovations in Malta focused on gradual growth, consolidation and the introduction of measures, such as the in-work benefit, free childcare, and the addition of more chronic illness medicines on the register of free medicines.

All this is, of course, in addition to the pension reforms that introduced three main changes:

a) an increase in the pensionable age;
b) the possibility (initially for non-public-sector employees, but now extended to public-service personnel) to postpone retirement, in return for incremental incentives in their old-age pensions; and
c) the launch of a set of incentives for persons who voluntarily opt for third pillar pensions.

2 Current mix and past changes in the sources of financing social protection

The system of collecting funds has not changed, except to the extent that discussions on the third pillar pensions have been slightly more active. Otherwise, the system continues to be based on contributions by individuals in employment, by their employers in the case of employees, and by the state. What is most significant is that because the number of contributors has increased, more funds have become available. Funds have also increased, since the contributions payable are a percentage of income, and with annual increases in income, the amount payable has also increased, however slightly.

Malta's social protection system is universal, and all citizens benefit from it, whatever their condition. It is financed partly by 'contributions' and partly through taxation. Entitlements fall either under the 'Contributory Scheme' or the 'Non-Contributory Scheme'.[5]

The Contributory Scheme is based on regular contributions, while non-contributory benefits are not linked to contributions by those who benefit from them. Any person between 16 and the retirement age, who is employed, self-employed or not in receipt of a salary (whose income comes not from economic activity, but from other sources) pays contributions on a weekly basis, in accordance with the provisions of the Social Security Act. All cash benefits are administered by the Department of Social Security.

In the Non-Contributory Scheme, the basic requirement is that the conditions of the means test are met.

A person may be exempted from paying Class 2 Social Security Contributions (contributions paid by self-occupied persons) due to low income or earnings. The following are eligible for exemptions, following a means test:

- a self-occupied person whose earnings do not exceed €910 per year;
- a single person who does not work and whose income from interest, dividends, rents, etc. does not exceed €1,005 per year; and
- an employee who is employed for less than 8 hours per week by the same employer and earns less than €17.50 per week.[6]

Furthermore, an elderly person or a disabled person who employs a carer (employee) has the option of being exempted from paying his/her share of social security contributions as the employer of the carer. Nevertheless, as an employer one still needs to pay the employee's (i.e. the carer's) social security contributions.[7]

The list of benefits under the Contributory Scheme includes: Unemployment Benefit/Special Unemployment Benefit; Injury on Duty Benefit; Marriage Grant; Maternity Benefit; Maternity Leave Benefit; Contributory Retirement Pension; Widow's

[5] Wage/salary earners pay Class 1 contributions. In this case, employees and employers pay an equal share. In addition, employers pay an additional 'Maternity' contribution, which goes to a special fund to cover part of the maternity leave entitlement of female employees.

Malta's Social Security legislation provides for a unique concept, namely that of 'self-occupied persons'. The category 'self-occupied' includes all individuals who derive income of more than €910 from an economic activity and who are not employees. This concept is different in law from that of self-employed. In detail, the two categories can be distinguished in the following way:

- Self-occupied persons – persons who earn income from trade, business, profession, vocation or any other economic activity that exceeds €910 per annum.
- Self-employed persons – persons who receive income from rents, investments, capital gains or any other income.

Self-occupied persons pay Class 2 contributions. Class 2 contributions are higher than Class 1 because there is no employer involved.

For more details, please visit: https://socialsecurity.gov.mt/en/Pages/Social-Security-Contributions.aspx

[6] See https://socialsecurity.gov.mt/en/Documents/INF%20-%20ExemptionContributionsEN.pdf

[7] See https://socialsecurity.gov.mt/en/Documents/INF%20-%20ExemptionEmployershareSSCCarerEN.pdf

Pension; Invalidity Pension; Grant paid to persons who do not qualify for a pension due to a low contribution average.[8]

The list of non-contributory benefits includes: Old-Age Pension; Social Assistance/Unemployment Assistance; Subsidiary Unemployment Assistance; Payment to Residents of a Therapeutic Community; Tapering of Benefits; Sickness Assistance; Milk Grant; Free Medical Aid (Pink Form); Schedule 5 (Yellow Card); Assistance for a Disability; Assistance for the Visually Impaired; Severe Disability Assistance; Severe Intellectual Disability Assistance, Carers' Benefits; Children's Allowance; Supplementary Allowance; Energy Benefit; In-Work Benefit; and Senior Citizen Grant.[9]

Malta has a National Health Service, which is completely free, at both the primary and the secondary level. The NHS is financed completely through taxation, and only a small number of health-related benefits are linked to the social welfare system.[10] These are listed as social welfare benefits that can be enjoyed by persons who are entitled to them on the basis of a means test, or because of certain health conditions, even though they have never paid any social security contributions.

In 2005, social protection financing in Malta primarily relied on social contributions, which constituted 61.3% of total financing – a figure higher than the European average (58.7%). As can be seen from Table 10, however, by 2016 Malta was relying more on general revenues to finance the expansion of social protection expenditure. Thus, in 2016, as much as 61.5% of social protection financing was being provided through general taxation. This trend partially reflects the general trend in other Member States, as reflected in the average figures for the EU-28; but Malta's change is much more extensive.

In Malta, employers contributed 42.9% of gross expenditure on social protection in 2005; by 2016, it was 27.3% – a substantial percentage decrease. The employee share in 2005 was 14.9%, dropping to 9.0% in 2016. Maltese self-employed individuals contributed 3.4% in 2005 and 2.1% in 2016. The changes are a result of the fact that the contributions for each employee – by both employers and employees – represent a percentage of a worker's wage or salary. With the annual COLA increases, the actual amount in Euros paid by individuals increased. The total amount paid in social security contributions by the gainfully employed also increased, because more persons joined the labour force. Despite these increases in contributions, the percentage of expenditure that was provided by the government rose, because benefits also increased over the ten-year period under consideration.

[8] Ibid
https://socialsecurity.gov.mt/en/Documents/INF%20-%20ExemptionEmployershareSSCCarerEN.pdf

[9] More details are available at https://socialsecurity.gov.mt/en/Benefits-and%20Assistance/Pages/Non-Contributory-Benefits.aspx

[10] The health-related benefits specifically covered by the social security system are: a) Free Medical Aid (Pink Form); Injury Benefit; Injury Grant; Leprosy Assistance; Milk Grant; Sickness Assistance; Sickness Benefit; and Tuberculosis Assistance. For more information, please see: https://socialsecurity.gov.mt/en/Benefits-and%20Assistance/Pages/Medical-Assistance.aspx

Table 10: Financing of gross expenditure on social protection, by source (% of total financing)

	Employers	Employees	Self-employed	Benefit recipients	General government contrib.	Other receipts	Total social contrib.	Total general taxation
2005								
EU-28	38.5	16.1	2.4	1.7	37.8	3.5	58.7	41.3
MT	42.9	14.9	3.4	0.0	36.1	2.6	61.3	38.7
2016								
EU-28	34.9	15.2	2.4	2.1	40.4	5.1	54.5	45.5
MT	27.3	9.0	2.1	0.0	59.4	2.1	38.5	61.5

Source: Spasova and Ward (2019), Annex ESSPROS tables

In Malta, as in most other Member States, the financing mix varies for each branch of the welfare state. Thus, the health care, long-term care, pensions and unemployment benefits differ in this respect. Social insurance benefits are mostly financed through social contributions, while in-kind benefits tend to be financed through general taxation. The situation is complex in Malta, since all the money collected for 'social insurance' is actually credited to the Consolidated Fund,[11] and not to specific funds aligned to the different segments of welfare provision.

The main forces that influence financial outlays for the different welfare strands can be summarised as follows:

a) Changes in contribution rates. In Malta, these have not changed per capita for a number of years, and therefore this factor is not so relevant for the period under study. The only changes in the contribution made by individual employees result from an increase in the wage/salary, since the contribution is a percentage of a person's wage/salary.

b) Changes in entitlement conditions. Thus, in Malta's case, one example in this regard is the recent extension of unemployment benefits to the self-employed. Unfortunately, there has been no specific study on how this extension has affected the financial outlay. In the 2019 budget, when this measure was introduced, no figure was given.[12]

c) Extensions or the introduction of new benefits to persons enjoying non-contributory benefits, e.g. the introduction of an annual bonus to persons over 75 who are still living in their own home in the community.[13] Persons entitled to non-contributory benefits receive them without ever having contributed anything to the social security system. The entitlement rights of those entitled to non-contributory benefits stem from the fact that they fall into a particular category (e.g. they suffer from chronic illness), or they meet the means test. Extensions of this kind

[11] The Consolidated Fund is not a social security fund, but the fund in which all government revenue, whatever its source (taxation, social security contributions, foreign grants, etc.) is deposited. All government expenditure – whether social investment, capital expenditure, recurrent expenditure to cover all government costs – is in turn debited to this fund.

[12] The budget speech referred to the matter thus:

'2.7 Self-employed persons with a new right to compensation in case of unemployment.

We will amend the Social Security law so that for the first time in our country, self-employed persons who for some reason have to cease their activity and start registering for work, will start having the right to receive unemployment benefits according to the contributions that they have paid. In this way, we will be removing the discrimination that exists between employees and people who are self-employed.'

See: https://mfin.gov.mt/en/The-Budget/Documents/The_Budget_2019/Budget_speech_English_2019.PDF p. 14.

[13] The bonus is paid only to persons aged 75 or above who are still living in their home in the community, and not in an elderly people's home.

have taken place each year over the whole period 2005- 2016. These extensions are incremental increases in the amounts given, and not the result of a systemic reform taking place at any particular date. In all cases, the impact of these incremental changes was restricted to the share government had to provide through tax revenue. In practice, only when tax revenue increased did the policy makers consider, and eventually introduce, these increases.

d) Changes in the workforce size and composition. This has been a major factor in Malta, especially with the advent of so many economic immigrants, who are working and paying regular social security contributions. The additional funds collected offset the outlays on other segments of the welfare system.

Ideally, in addition to the analysis of the relative weight attributed to each financing source, the role played by each of the aforementioned factors would need to be assessed; but data by sector are not available. It is extremely important to note that the figures in the following tables are apportionments made for accounting purposes only.[14]

Old age and survivors

The share of pension expenditure financed by social contributions went down by 25.4 pp between 2005 and 2015 (Table 11). This reduction is in sharp contrast to the EU, where the figure decreased by only 0.1 pp between 2005 and 2015.

But it is important to note that the share of old-age financing paid from government revenue has gone up from 25.3% to 51.1%, reflecting the shift towards improving pension benefits over the period under consideration, gradually introduced on the occasion of the annual financial budget.

The reduction in the role played by social contributions, thus, is not due to changes in contribution rates. The influx of workers into the economy had two major effects:

a) more revenue was collected through the contribution system, since more workers and their employers were paying social security contributions; and

b) more taxation revenue was collected through the VAT and Income Tax streams, since these workers paid income tax and consumed in order to survive, and therefore had to pay VAT like everybody else.

This additional revenue, which is essentially the result of more economic activity, allowed the government to increase its share without imposing additional burdens on the social contributions system. This explains why government's share increased in *all* the segments of the welfare system.

[14] In the budget for 2016, the minimum amount payable for a contributory pension, including the bonus, for those with sufficient contributions was increased to €7,280 per annum or €140 per week. In addition, provision was made for married pensioners receiving a minimum pension who started to benefit from an increase of €4.15 per week. See: https://mfin.gov.mt/en/The-Budget/Documents/The_Budget_2016/Budget_Speech_2016_en.pdf p. 19. The 2017 budget also increased pensions by €4 each week. See: https://mfin.gov.mt/en/TheBudget/Documents/The_Budget_2017/Budget_Speech_2017_English.pdf p. 40. Following the budget for 2018, pensioners receiving contributory and non-contributory pensions started to receive a €2 per week increase in their pensions. *Service pensions* (i.e. pensions received by persons who were previously employed with the British Services when Malta was still a colony) were also increased by €200, and were to be deducted from the social security pension. See: https://mfin.gov.mt/en/The-Budget/Documents/The_Budget_2018/Budget_speech_English_2018.pdf p. 17. In the budget for 2019, pensions were again increased for a fourth year, by up to €2.17 per week. See: https://mfin.gov.mt/en/TheBudget/Documents/The_Budget_2018/Budget_speech_English_2018.pdf p. 15. These incremental increases were on top of the increases due because of the COLA mechanism.

Table 11: Financing of old-age benefits by source (% of total financing)

	Social contributions					Govt. revenue	Other receipts
	Employers	Employees	Self-emp.	Benefit recipients	Total social contrib.		
2005							
EU	43.4	18.4	2.9	0.2	64.9	18.8	16.4
MT	54.1	16.3	3.7	0.0	74.1	25.3	0.6
2015							
EU	41.8	19.5	3.3	0.2	64.8	19.8	15.4
MT	35.5	10.7	2.5	0.0	48.7	51.1	0.3

Source: Spasova and Ward (2019), Annex ESSPROS tables

Health care

The NHS has always been tax based.

Once more, one can see from Table 12 a substantial increase in funding for the NHS through government revenues, and a decrease in the 'apportionment' made by other contributors. In effect, Malta's expenditure on health varies according to need, and the Exchequer[15] is always open to provide additional finance when innovative procedures or initiatives are indicated, e.g. in the provision through the NHS of expensive new medicines to address cancer patients when these become available on the market. As explained earlier, the percentage increase in the government's share results from the fact that more money was available via tax streams, and so new initiatives could be supported.

Table 12: Financing of health/sickness benefits by source (% of total financing)

	Social contributions					Govt. revenue	Other receipts
	Employers	Employees	Self-emp.	Benefit recipients	Total social contrib.		
2005							
EU	22.2	11.4	0.7	4.2	38.5	51.4	10.1
MT	45.2	16.4	3.7	0.0	65.4	33.9	0.7
2015							
EU	21.8	12.8	0.9	5.1	40.5	49.9	9.5
MT	30.5	10.5	2.5	0.0	43.5	56.1	0.4

Source: Spasova and Ward (2019), Annex ESSPROS tables

Disability

In the area of social expenditure protection of disability, the changes in the financing mechanism followed the same pattern: more government expenditure to support new initiatives, but otherwise no additional burdens. Details are provided in Table 13. As explained earlier, the percentage increase in the government's share results from the fact that more money was available via tax streams, and so new initiatives could be supported.

[15] In Britain and some other countries (including Malta), the Exchequer is the government department that is responsible for the country's finances, including tax levels and how much money the government can spend.

Table 13: Financing of disability benefits by source (% of total financing)

	Social contributions					Govt. revenue	Other receipts
	Employers	Employees	Self-emp.	Benefit recipients	Total social contrib.		
2005							
EU	32.5	10.2	1.9	1.2	45.8	40.8	13.4
MT	33.8	15.9	3.6	0.0	53.3	38.3	8.4
2015							
EU	25.7	10.3	1.5	1.8	39.3	46.7	14.0
MT	16.7	7.9	1.9	0.0	26.4	65.2	8.4

Source: Spasova and Ward (2019), Annex ESSPROS tables

Family and children

The Maltese government has traditionally financed expenditure on family benefits from taxation. As can be seen from Table 14, in 2015 government revenues contributed more than 95% of all expenditure in this welfare segment. This is only a slight increase on the 2005 figure. Benefits in this sector have remained practically constant through the ten-year period under study. The only exception in this regard is the provision of a special fund, created through contributions by employers, to be used to finance extended parental leave. Even so, the amounts are minimal and do not show up in the overall contribution of employers in the European System of Integrated Social Protection Statistics (ESSPROS) data.

Table 14: Financing of family & children benefits by source (% of total financing)

	Social contributions					Govt. revenue	Other receipts
	Employers	Employees	Self-emp.	Benefit recipients	Total social contrib.		
2005							
EU	1.8	0.9	0.2	0.0	16.5	78.2	5.3
MT	12.5	2.3	1.6	0.1	2.9	93.7	3.4
2015							
EU	10.8	1.1	1.7	0.1	13.7	83.1	3.2
MT	1.2	0.6	0.1	0.0	1.9	95.3	2.8

Source: Spasova and Ward (2019), Annex ESSPROS tables

Unemployment

Social contributions on unemployment benefits do not show much change over the period 2005-2015, according to the ESSPROS data, summarised in Table 15. Government financing increased slightly over the period, but again – since all payments are paid from the Consolidated Fund – the data might not be an accurate representation of minor changes that have been implemented over the years, and specifically the introduction of unemployment benefits for the self-employed, which were previously non-existent. Otherwise, there were no changes in either financing or disbursement of finance, as the minimal shifts recorded in Table 15 clearly indicate.

Table 15: Financing of unemployment benefits by source (% of total financing)

	Social contributions					Govt. revenue	Other receipts
	Employers	Employees	Self-emp.	Benefit recipients	Total social contrib.		
2005							
EU	38.8	17.8	0.1	0.1	56.8	33.5	9.7
MT	4.2	2.0	0.5	0.0	6.7	90.7	2.6
2015							
EU	43.0	12.3	0,0	0.1	55.4	35.8	8.8
MT	1.1	0.5	0.1	0.0	1.7	92.6	5.7

Source: Spasova and Ward (2019), Annex ESSPROS tables

Housing and social exclusion

Housing and social exclusion are almost entirely financed through general taxation, even if listed under 'other receipts' in the ESSPROS data, as summarised in Table 16. The share of government 'other receipts' for these two functions amounted to only 96.9% in 2005, but was recorded as 100.0% in 2015.

Table 16: Financing of housing & social exclusion benefits by source (% of total financing)

	Social contributions					Govt. revenue	Other receipts
	Employers	Employees	Self-emp.	Benefit recipients	Total social contrib.		
2005							
EU	:	:	:	:	1.1	94.9	3.9
MT	:	:	:	:	0.0	3.1	96.9
2015							
EU	:	:	:	:	0.4	99.5	0.1
MT	:	:	:	:	0.0	0.0	100.0

Source: Spasova and Ward (2019), Annex ESSPROS tables

3 Strengths and weaknesses of the existing mix of financing options and potential future sources of financing - national debate on the topic

As outlined above, in the period 2005-2016, social protection financing in Malta increased in real terms because of increased economic activity. Expenditure on social welfare increased as more money became available to government, so that 'old' schemes could be extended and 'new' schemes could be introduced.[16]

As explained above, the current mix of financing social security in Malta is quite simple: all workers pay an amount from their wages and salaries, which is deducted at source. Employees pay less than self-occupied persons, because employers pay an amount equal to that paid by employees. All amounts collected are credited to the Consolidated Fund, from which, in turn, all social security payments, together with all expenses for the free health system, are paid. It needs to be repeated that the Consolidated Fund is *not* a social security fund, but the fund in which all government revenue, whatever its source (taxation, social security contributions, foreign grants, etc.) is deposited. *All government expenditure – whether social investment, capital expenditure, recurrent expenditure to cover all government costs – is in turn debited to this fund.*

The great advantage of the system is its relative simplicity, for both users and administrators. Allocations for expenditure are made in the annual budget, and benefits are modified from time to time, according to how the economy is faring. Administrators do not have to worry about whether each measure can be financed by the amounts collected and (possibly) invested. Security of expenditure is guaranteed by state policies.

There is no extensive debate on the structure of social security in Malta at present. At times there is debate on the sustainability of the system overall, and for example on whether the health service can continue to be free (i.e. without any direct payments by users for the service), as at present. In fact, it is not uncommon to get the feeling that in common discourse 'free' is often interpreted as 'cost free' for everybody; whereas in fact there is a cost, which is covered by the Exchequer, either through taxation or through social security contributions. More recently, the prime minister declared that unless the Maltese accept more foreign workers, 'they have to say goodbye to pensions'. This statement resulted in strong comments about the extent to which Malta can continue to sustain an increasing population, in view of its physical size. This statement is quite recent, and it is accordingly very difficult to assess its long-term impact. Only time will tell whether the discourse on social security in Malta evolves further. It is still unclear whether any structural or other measures are being planned, but have not been made public yet.

[16] Measures specifically related to social security announced in the budget for 2019 include:

a) self-employed who are forced to quit employment and register for work will be entitled to receive unemployment benefit based on the contributions paid;

b) benefits will be granted to members of the government security forces in case of fatal accident or permanent disability leading to inability to work;

c) increase in the non-contributory medical benefit by €5.14 per week to families with two adults suffering from chronic illness;

d) an increase in Children's Allowance to a maximum of €96 per annum per child to families with annual gross income of less than €20,000;

e) the Minister announced an increase of €50 in the bonus awarded to people who have made social security contributions for more than one year but who nonetheless do not qualify for a pension;

f) the €300 annual grant for persons over the age of 75 who reside in their personal home shall continue to apply during 2019.

A full list of social measures introduced in the same budget is available in European Commission (2018d).

In summary, it can be stated that the apparent stability of the present system of social protection funding, which depends exclusively on current revenue streams, might eventually come under severe stress. A more extensive and in-depth discussion about gradual but fundamental transformations to secure its stability in the long term appears necessary.

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