Malta:
Update of Convergence Programme
2006 - 2009

Addendum:
The Impact of the Pension Reform on Long-Term Pension Projections
1. Introduction

In Malta, demographic changes are expected to pose significant economic, budgetary and social challenges. Reflecting a falling birth rate, longer life expectancy together with the entry of the post-war baby boomers into retirement, the outlays on pensions paid by Government will increase. The working of these factors will generate a higher pensions system deficit. In light of these developments in June 2004, Government tasked the Cabinet Committees’ Support Unit to head a Pensions Working Group (PWG) to review all previous work carried out on pensions and to submit recommendations to Government on the way forward. Following an extensive national consultation and discussion process, the PWG presented a final report in June 2005. The report provides a comprehensive and detailed analysis of developments in the Maltese Pension System under a baseline ‘no reform’ scenario and puts forward a set of recommendations in conjunction with the expected impact of the proposed reforms on long-term fiscal sustainability. In March 2006, the Prime Minister announced a series of changes to the current Pension System. Act No. XIX of 2006 entitled the Social Security (Amendment) (No. 2) Act, 2006 was published in the Supplement to the Government Gazette on the 7th December 2006, after it was formally adopted by the House of Representatives.

This document is being submitted as an Addendum to Malta’s Update of Convergence Programme 2006-2009. The aim of this document is to provide a review of the salient elements of the pension reform and a preliminary analysis of the long-term budgetary impact of this reform.

2. Review of the Pension Reform

This section provides an overview of the salient elements of the Social Security (Amendment) (No. 2) Act. The Act involves significant changes to the current pensions regime, to be introduced in a gradual manner that enables a smooth transition without causing social disruptions. Act No. XIX of 2006, referred to earlier, provides for the following:

Definition of Pension Age
The pension age was sixty years for females and sixty-one years for males. According to the Act referred to earlier, pension age shall mean sixty-five years of age, provided that:

· In the case of a person born on or before the 31st December 1951, pension age shall be sixty-one years.
· In the case of a person born during the calendar years 1952 to 1955, pension age shall be sixty-two years.
· In the case of a person born during the period 1956 to 1958, pension age shall be sixty-three years.
· In the case of a person born in the period 1959 to 1961, pension age shall be sixty-four years.
· If the person is born on or before the 31st December 1951, pension age shall be sixty years.

Disqualification from a Pension in respect of Retirement
The previous pensions system provided for disqualification from a pension in respect of retirement in the case of a person under the age of sixty-five who is still working and earning more than a weekly average equivalent to the National Minimum Wage. Under the Act, a person under the age of sixty-five years born on or before the 31st December 1961 shall be disqualified from receiving a pension during any period in which he is gainfully occupied when his earnings from such occupation exceed a weekly average equivalent to the National Minimum Wage. On the other hand, a person under the age of sixty-five years born on or after the 1st January 1962 shall be disqualified from receiving a pension during any period in which he is gainfully occupied.
Retirement before Pension Age

The Act states that a person who has attained the age of sixty-one years but has not yet attained pension age, may after attaining sixty-one years of age claim a pension in respect of retirement if such person is no longer gainfully occupied. It is necessary that since reaching his/her eighteenth birthday, the claimant has had a total of:

- 2,080 paid or credited contributions in the case of a person born on or after the 1st January 1962, or
- 1,820 paid or credited contributions in the case of a person born during calendar years 1952 to 1961.

Full rate of Two-Thirds Pension

Previously, the full rate of the Two-Thirds Pension equal to 2/3 of the pensionable income was granted to the insured person who had paid or had been credited with a yearly average of 50 contributions over a period of thirty years. According to the Act, the full rate of the Two-Thirds Pension is equal to 2/3 of the pensionable income of the claimant who has paid or has been credited with a yearly average of 50 contributions over a period of:

- Thirty years in the case of a person born on or before the 31st December 1951,
- Thirty five years for a person born during calendar years 1952 to 1961,
- Forty years in the case of a person born on or after the 1st January 1962.

For a person born on or after the 1st January 1962, the yearly average of contributions required for the purposes of awarding a Two-Thirds Pension shall be assessed on any period of 40 years between the first day of his contribution year in which he reaches the age of eighteen and the last day of his last complete contribution year before the beginning of his benefit year which includes the day on which the conditions are required to be satisfied.

Calculations of Pensionable Income

The calculations of pensionable income have also been revised. Under the previous regime, pensions were determined by a formula based on the average of the best three consecutive calendar years out of the last ten years basic wages/salaries in the case of employees; and the average of the last ten years’ net income/earnings in the case of self-employed persons. According to the amended Act discussed herein, for a person born on or after the 1st January 1962, the pension shall be determined by taking the yearly average of the basic wage/salary/net income/net earnings as the case may be, during the best ten calendar years within the last forty years immediately preceding his retirement or invalidity.

The Maximum Pensionable Income

The preceding pensions system set a maximum pensionable income capped at Lm6,958 in 2006. The Act states that in the case of a person born on or before the 31st December 1961, whose retirement occurs on or after the 1st January 2007, the basic wage/salary/net income/net earnings and the resultant pensionable income, shall not exceed Lm6,958 increased by such sum as the Government may award as a cost of living increase. The following provisions stand:

- For a person born on or before the 31st December 1951, the resultant pensionable income including any such cost of living increase shall not exceed the sum of Lm7,500.
- In the case of a person born during calendar years 1952 to 1961, the resultant pensionable income including any such cost of living increase shall not exceed the sum of Lm9,000.

In the case of a person born on or after the 1st January 1962 whose retirement occurs on or after the 1st January 2007, the resultant pensionable income shall not exceed:

- Lm6,958 increased by such sum that the Government awards for the cost of living, in respect of the years 2007 to 2010.
· Lm6,958 increased on the 1st January of each year between 2011 and 2013 by one third of the difference between the sum referred to above and Lm9,000.

· Lm9,000 increased annually by 70 percent of the percentage increase in the national average wage for the previous calendar year, plus 30 percent of the inflation rate for that same year. This applies as from the 1st of January 2014.

The Guaranteed National Minimum Pension
Changes were enacted to the National Minimum Pension, which stood at 4/5ths of the National Minimum Wage for a couple and 2/3rds of the National Minimum Wage for any other person. A person born on or after the 1st January 1962 who is not entitled to a Service Pension shall be entitled to a Guaranteed National Minimum Pension (GNMP) which shall be payable at a rate which is not less than 60 percent of the National Median Income. This represents a higher rate than that awarded to pensioners at present. The exact rate shall be determined by the Minister in charge of the Department of Social Security with the concurrence of the Minister responsible for Finance. In any case, the rate of the GNMP cannot be less than that declared for the preceding year.

Crediting of Contributions
Changes were made to the categories of persons to whom crediting of contributions is allowed. The categories have been extended to include persons born on or after the 1st January 1962, who have the legal care and custody of a child who is less than 6 years old, or 10 years old in the case of a child suffering from a serious disability. Crediting of contributions may be claimed for a maximum period of two years in the case of a parent who has stopped working to take care of his/her child. This period is extended to four years in the case of a child suffering from a serious disability. An adoptive parent is also able to claim such credits. Credits may be claimed for every child, while there is no distinction between employed and self-employed persons. The claimant is bound to have worked a minimum number of years equal to the duration of the crediting period. In the case of a parent’s death, this latter legal binding ceases to apply.

Ministerial Powers and Responsibilities
The Minister in charge of the Department of Social Security will, within intervals not exceeding five years, prepare a report reviewing the workings regarding the Retirement Pensions together with recommendations for achieving further adequacy, sustainability and social solidarity. The first report will be submitted by not later than the end of the year 2010, and shall then be discussed by the Social Affairs Committee of the House of Representatives. This development is notable in the sense that it introduces an element of flexibility in an environment where demographic and macroeconomic projections tend to be affected by a significant degree of uncertainty.

The Minister, in concurrence with the Minister for Finance has the power to make and vary any regulations requiring persons who have not reached pension age and their employers as the case may be, to make contributions into Mandatory Second Pension funds. Such regulations may provide for the rate of contribution payable, method and frequency of payment. Second Pension funds shall be governed by the Special Funds (Regulation) Act (Cap. 450).

The Minister may in conjunction with the Minister for Finance provide for exemptions from income tax in respect of contributions made by any person to Third Pension funds. These funds will be governed by the Special Funds (Regulation) Act or the Insurance Business Act (Cap. 403) as applicable.
3. Methodology

The pension projections included in this document are based on simulations carried out using the World Bank’s Pension Reform Option Simulation Toolkit (PROST) model. The PROST models pension contributions, entitlements, system revenues, and system expenditures over a long time frame.

3.1 The Model

The model generates population projections, which combined with economic assumptions, are used to forecast future numbers of contributors and beneficiaries. These in turn generate flows of revenues and expenditures. The model then projects fiscal balances, taking account of any partial pre-funding of liabilities.

A second PROST module analyses the impact of pensions at an individual level. The user can explore the impact of the system on workers with different income levels, mortality rates, earning profiles, job entry ages, retirement patterns etc. The model can assess anything from ‘parametric’ reforms of initial pay-as-you-go systems – changing pensionable age, contribution rates, benefits, indexation etc. – to fundamental reforms, such as the introduction of individual, funded retirement savings accounts. A shift from a defined benefit pay-as-you-go scheme to one based on notional accounts can also be modelled. PROST can handle provident fund schemes as well as pay-as-you-go systems as the starting point, before reform.

Data input in PROST is divided into a number of specific sheets. The main input sheet includes general assumptions pertaining to the economy and some parameters of the pension system. Inputs are further subdivided into sheets related to Population, the Labour market, and Pensions. For this exercise data was collected from national sources, including the National Statistics Office, the Inland Revenue Department and the Department of Social Security within the Ministry for the Family and Social Solidarity. Four specific beneficiary categories are modeled in PROST and these comprise all pension benefits granted in Malta under the contributory scheme:

- 2/3 retirement pensions (2/3 retirement pension, National Minimum Pension and Increased national minimum pension)
- Invalids (National Minimum Invalidity Pension)
- Survivors (National Minimum Widows Pension, Survivors Pension, Early Survivors Pension)
- Top-ups (retirement pension, increased retirement pension, decreased national minimum, invalidity pension, increased invalidity pension, decreased national invalidity pension, widows pension)

This addendum provides an update of the long-term expenditure and revenue projections for pensions and reflects the Social Security (Amendment) No. 2 Act, 2006. The PROST input files were calibrated, where possible, to incorporate the common assumptions as prepared by the Economic Policy Committee (EPC). A number of variables included in these assumptions were not incorporated in the PROST workings, primarily due to the fact that such input variables are not required as PROST inputs. Some of the EPC assumptions diverge from those adopted by the PWG. Hence, a second set of projections is being presented on the basis of National assumptions.

3.2 Economic Policy Committee Common Assumptions

The Demographic assumptions used are the following:

- The fertility rate is assumed to decline to 1.5 in 2010, and subsequently rise to 1.6 by 2050
- Life expectancy at birth for men is assumed to increase gradually to 81.3 years in 2050
- Life expectancy at birth for women is assumed to increase to 84.5 years by 2050
- Net migration is assumed to increase annually by an average of around 2,500 during the forecast period.
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The Macroeconomic assumptions used are:

- Inflation is assumed to be 2.0 per cent throughout the whole projection period
- GDP growth in real terms is assumed to reach 3.1 per cent by 2030 and decline to 1.7 per cent by 2050
- The unemployment rate (16-61 years) is assumed to increase to around 9.0 per cent by 2020, and decline slightly to 8.6 per cent in 2050
- Female participation rate (16-60 years) is assumed to increase to 58.3 per cent by 2050
- Male participation rate (16-61 years) is assumed to increase to 86.4 per cent by 2050

3.3 National Assumptions

Demographic assumptions used are:

- The fertility rate is assumed to decline to around 1.3 in 2010, and increase gradually to 2.1 by 2050
- Life expectancy at birth for men is assumed to increase to 80.7 years in 2050
- Life expectancy at birth for women is assumed to rise to 84.1 years in 2050
- Population is assumed to increase annually by the addition of 500 immigrants, whereby 70 per cent are assumed to be in the age cohort of 18-45 years.
- It is further assumed that the workforce will increase annually by the addition of 150 returned migrants, which are assumed to be in the age of 36-40 years

In terms of macroeconomic assumptions:

- The inflation rate is assumed at 2.2 per cent during the projected period of 2002 to 2050
- Real GDP is projected to grow by 2.8 per cent in 2010, increasing to around 4.0 per cent by 2030, and decline to around 3.0 per cent by 2050
- Unemployment rate is assumed to fall to around 7.0 per cent after 2015
- Female participation rate (16-60 years) is assumed to increase to around 55.0 per cent by 2050

3.4 Migration

The National population projections are based on the assumption that net migration will increase annually by 500 immigrants and by 150 returned migrants. This contrasts with the EPC assumption that net migration will increase by an annual average of around 2,500 during the forecast period, thus leading to a higher influx of immigrants from that assumed under the national population projections. This influx is leading to a significantly higher growth in Malta’s population by the year 2050 under the projections based on the work of the EPC.

The Maltese authorities consider that their national projections provide a more reasonable picture of likely future trends and therefore, have expressed reservation on the common EPC migration projections.

4. Pension Projections

This section provides updated pension projections and outlines the main results in terms of pension expenditure, revenue and system balance, comparing the reform outcome with respect to the pre-reform scenario. The baseline in the PROST model reflects the National and the common EPC assumptions with the base year being 2002 in the case of the former and 2004 for the latter. The post-reform scenario models the main parametric reforms enacted by Government. It is important to remark that the projections for the post-reform
scenario are presented on a provisional basis and in particular, the impact of changes in employment (in reflection of the rise in pension age) on the GDP was not explicitly modelled.

4.1 Projections based on the EPC common assumptions

4.1.1 Demographic Developments under the EPC common assumptions

Population projections based on the common EPC assumptions are presented in Table A.1. Total population is projected to grow to around 487,000 by 2030 and increase further to around 513,000 by 2050. Under the pre-reform and the post-reform scenarios, the old-age dependency ratio is generally on an upward trend. In the pre-reform scenario, the old-age dependency ratio reaches 43.4 per cent in 2020 and then continues to rise to 57.9 per cent by 2050. However, under the post-reform scenario, the old-age dependency ratio will reach 35.4 per cent in 2020 and then increase to 41.6 per cent by 2050. Thus it is notable that as a result of the reform the old-age dependency ratio rises at a slower rate mainly in reflection of the changes to the pension age.

Whilst the reform results in an improvement in the support ratio, this indicator is also projected to follow a similar trend under the pre and post-reform scenarios. Under the pre-reform scenario, the support ratio is projected to reach 1.7 by 2050, which implies that while in 2004 there were around 4 persons in employment

<table>
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<th>Population Trends</th>
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<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2010</th>
<th>2020</th>
<th>2030</th>
<th>2050</th>
</tr>
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<tr>
<td>Total population</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
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<td>0-15 yrs</td>
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<td>75,154</td>
<td>77,048</td>
<td>79,654</td>
<td>79,854</td>
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<td>61+ yrs</td>
<td>67,141</td>
<td>86,686</td>
<td>115,830</td>
<td>132,205</td>
<td>151,659</td>
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<tr>
<td>Total</td>
<td>402,429</td>
<td>425,045</td>
<td>459,671</td>
<td>487,431</td>
<td>513,034</td>
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<td>Pre-reform scenario</td>
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<td>43.4</td>
<td>48.0</td>
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<tr>
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<td>32.9</td>
<td>35.4</td>
<td>36.3</td>
<td>41.6</td>
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<tr>
<td>Support ratio**</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pre-reform scenario</td>
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<tr>
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<td>3.0</td>
<td>2.8</td>
<td>2.8</td>
<td>2.4</td>
</tr>
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</table>

*Old-age dependency ratio is defined as the number of persons that reached pension age and over as a share of those sixteen to pension age

** The support ratio is the number of persons aged sixteen to pension age as a share of the persons that reached pension age and over

Note:
In the pre-reform scenario, the pension age in Malta was 60 years for females and 61 years for males. In the post-reform scenario, the pension age between 2002 and 2010 is 61 years for females and 61 years for males, in 2020, the pension age is 63 years, while between 2030 and 2050 the pension age is 65 years.

Source: PROST
for every retired person, by 2050 there will be around 2. Under the post-reform scenario, the support ratio in 2050 reaches 2.4. The main difference arises in 2020 and 2030, where under the pre-reform scenario the support ratio is around 2, while under the post-reform scenario the support ratio is closer to 3.

### 4.1.2 Projected Pension System Developments 2004-2050

Table A.2 presents the main developments in PAYG Total Revenue, PAYG Total Expenditure and Pensions System Balance under both pre-reform and post-reform scenario on the basis of the EPC common assumptions. Under the pre-reform scenario, the PAYG Total Revenue is on a declining trend from 7.4 per cent of GDP in 2004 to 3.4 per cent of GDP by 2050. Meanwhile PAYG Total Expenditure is on a rising trend up to around 2020, declining to 7.3 per cent of GDP by 2050. As a result, the pensions system balance worsens from a deficit of 0.9 per cent of GDP in 2004 to 4.9 per cent of GDP in 2020. In subsequent years, the pensions system balance is projected to register an improvement reaching 3.9 per cent of GDP by 2050.

In the post-reform scenario, the PAYG Total Revenue registers an improvement relative to the baseline reaching the rate of 5.7 per cent in 2050, an increase of 2.3 percentage points relative to the pre-reform scenario. The changes to the contribution period, pension age, and contribution ceiling mainly contributed to this rise. At the same time, PAYG Total Expenditure recorded decreases relative to the baseline up to 2030, with the situation reversed during the outer years of the projection. These developments reflect the various

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**Pensions Systems Balance Projections**  
*(based on Economic Policy Committee Assumptions)*

<table>
<thead>
<tr>
<th>Percentages of GDP</th>
<th>2004</th>
<th>2010</th>
<th>2020</th>
<th>2030</th>
<th>2050</th>
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<tr>
<td>PAYG Total Revenue</td>
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<td>-4.8</td>
<td>-3.9</td>
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<td><strong>Post-reform scenario</strong></td>
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<td></td>
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<tr>
<td>PAYG Total Revenue</td>
<td>7.4</td>
<td>6.8</td>
<td>7.1</td>
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<td>5.7</td>
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<tr>
<td>PAYG Total Expenditure</td>
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<td>9.2</td>
<td>9.2</td>
<td>8.3</td>
<td>10.9</td>
</tr>
<tr>
<td>Pensions System Balance</td>
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<td>-2.3</td>
<td>-2.1</td>
<td>-1.4</td>
<td>-5.1</td>
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</table>

*Note:* Figures may not add up due to rounding

**Source:** PROST

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**Pension Payments Projections**  
*(based on Economic Policy Committee Assumptions)*

<table>
<thead>
<tr>
<th>Percentages of GDP</th>
<th>2004</th>
<th>2010</th>
<th>2020</th>
<th>2030</th>
<th>2050</th>
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<td>7.4</td>
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<td>10.2</td>
<td>9.0</td>
<td>7.0</td>
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<tr>
<td><strong>Post-reform scenario</strong></td>
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<tr>
<td>7.4</td>
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<td>8.9</td>
<td>8.0</td>
<td>10.5</td>
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</tr>
</tbody>
</table>

*Source:* PROST
parametric changes that affected expenditure and are sensitive to the timing of such measures. In reflection of the changes projected for revenue and expenditure, the pensions system balance records an improvement relative to the base line during the period up to 2040, whilst worsening in the last five years of the projection.

### 4.1.3 Pension Payments Projections

Table A.3 presents the developments in payments in the pre-reform and post-reform scenario over the period 2004 – 2050. Under the post-reform scenario, pension projections are expected to be generally lower than recorded in the baseline during the period up to 2030. However pension expenditure is expected to be higher than reflected in the baseline during 2040 and 2050. The changes reflect the parametric changes envisaged in the pension reform that affect the trends in pension expenditure over the period under study.

### 4.2 Projections Based on the National Assumptions

#### 4.2.1 Demographic Developments under the National Assumptions

The projected trends in demographic indicators based on National assumptions, may be observed from Table A.4. Population projections indicate that total population is projected to grow to around 410,000 by 2030 and then decline to around 387,000 by 2050. The old-age dependency ratio follows the same trend in both scenarios, however, it recorded a more pronounced rise under the pre-reform scenario. Under this no-reform scenario, the old-age dependency ratio reaches 45.8 per cent in 2020 and then increases to 71.4 per cent in 2050.
Under the post-reform scenario, the old-age dependency ratio increases to 37.4 per cent in 2020, and then rises to 50.3 per cent by 2050. The lower rate of increase in the old-age dependency ratio reflects the rise in pension age as outlined in the reform law.

Under the pre-reform scenario, the support ratio is projected to fall to 2.2 in 2020 and to 1.4 by 2050. This implies that by 2050 there will only be around 1 employed person compensating for a retired person. By contrast, under the post-reform scenario, the support ratio falls to 2.7 in 2020 and then declines to 2.0 by 2050. Therefore, in 2050 there will be around 2 employed persons compensating for a retired person. This implies that the reform has a positive impact on the support ratio.

### 4.2.2 Projected Pension System Developments 2002-2050

Table A.5 highlights projections of Malta’s pensions system balance based on National assumptions, for both the pre-reform and post-reform scenarios. Under the pre-reform scenario, the pension system in 2002 is running a surplus of 0.3 per cent of GDP, and is projected that as from 2003 onwards the balance will turn into deficit throughout the projection period. The deficit is projected to increase to 2.7 per cent of GDP by 2010 and to 4.4 per cent of GDP by 2020, then declining to 3.3 per cent of GDP by 2050. This outcome mainly reflects developments in both PAYG total revenue and expenditure over the projection period. Total PAYG revenue as a percentage of GDP is expected to reach 1.5 per cent of GDP in 2050, whilst PAYG expenditure will reach a peak of around 10 per cent of GDP in 2020, then fall to 4.8 per cent of GDP by 2050.

In the post-reform scenario, the pension system balance is projected to record a less pronounced deficit than under the pre-reform scenario. While in 2020 in the pre-reform scenario the deficit is 4.4 per cent of GDP, under the post-reform scenario, the pension system is running a deficit of 2.1 per cent of GDP. This deficit is projected to fall to 1.2 per cent of GDP by 2030 and then rise to 2.6 per cent of GDP by 2050. This outcome reflects different developments in both PAYG total revenue and expenditure. PAYG total revenue is projected to fall to 6.0 per cent of GDP in 2020 and then decline to 4.2 per cent of GDP by 2050. Meanwhile, PAYG total expenditure is projected at 8.2 per cent of GDP in 2020 and then to fall to 6.8 per cent of GDP by 2050.

### 4.3 Comparison

The changes in old-age dependency indicator and support ratio over the projection period as a result of the pension reform enacted by Government are highly sensitive to demographic assumptions adopted. By 2050,
an improvement in the old-age dependency ratio is recorded in both sets of projections. However, one notes that at the end of the projection period the old-age dependency ratio under the EPC common assumptions is more favourable, thus implying a higher support ratio.

Expressed as a share of GDP, total PAYG revenue and expenditure are strongly affected by the macroeconomic assumptions, especially GDP growth. GDP growth under the National assumptions tends to be higher than that assumed by the EPC. As a result, PAYG expenditure, revenue and system balance as a ratio of GDP are larger in terms of magnitude under the common EPC assumptions relative to the National assumptions in both pre-reform and post-reform scenarios. Another important factor is the demographic assumptions. In fact the larger population under the common EPC assumption tends to lead to an upward effect on PAYG revenue in the early years of the projection and increased pressure on expenditure in the later years. The effect of the population projections on pension system developments tends to be compounded by differences in the participation rate and the unemployment rate.

The impact of the reform on PAYG revenue and expenditure is generally similar in terms of its magnitude relative to the baseline for both National and common EPC assumptions. Yet some divergences are noted especially with regards to the notable rise in PAYG total expenditure recorded in 2050 under the common EPC assumptions. This rise which may reflect an accumulation of developments is sensitive to demographic assumptions especially the migration flows under the common EPC assumptions. In fact, the timing of the rise in the expenditure coincides with the entry into retirement of the younger cohorts of migrants who entered into the labour market in the first decades of the projection. In contrast, no similar inflow of migrants is envisaged under National assumptions, with the result that the migration-driven rise in expenditure noted above does not materialise. As a consequence of this development, the pensions system balance in 2050 worsens relative to baseline under the common EPC assumptions.

5. Conclusion

This document outlines the preliminary impact on the pension system of the reform law enacted by Government during early December 2006. In view of the divergences between the National assumptions and the common EPC assumptions, the reform was modelled under both assumptions and its impact interpreted in terms of the different assumptions presumed.

In general, the reform results in similar trends in terms of its impact on revenue and expenditure flows. However, the divergences in the demographic and macroeconomic assumptions result in different levels when revenue and expenditure flows are expressed as a ratio of GDP. Additionally, the trends in expenditure and consequently system balance diverge towards the later years of the projection with the consequence that while under National assumptions the reform results in an improvement in the pensions system balance throughout the projection period, under the common EPC assumptions, this improvement lasts till around 2045. These differences coincide with the entry into retirement of the younger cohorts of migrants who entered into the labour market in the first decades of the projection. In this context, Malta would like to highlight again the reservation already expressed in the past with regards to the common migration projections of the EPC.

The results outlined in this document show that the pension reform constitutes a valid effort to improve the long-term sustainability of public finances in Malta.