THE MALTA CHAMBER

GENERAL WORKERS' UNION MALTA
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Proposals for Reforms to the Pension System presented by The Malta Chamber and the General Workers Union

Whilst progress has been achieved since the launch of the pension reform programme in 2004, much is yet to be done to secure the pension system's adequacy, solidarity, and sustainability. The Malta Chamber and the General Workers' Union have agreed to work together to present to the government and for national discussions, common positions reached on key pension reforms.

The Malta Chamber and the Union recommend that the government should adopt the following measures to increase the active employment of senior citizens and thus achieve the EU and national objectives relating to active ageing:

(a) The existing 'all or nothing approach' to early retirement is replaced by a Flexi-employment approach, which allows a person to balance their needs to opt-out of a 40 hour week whilst remaining active in the labour market. To ensure that such a Flexi-employment approach does not become an exit route from retiring at the statutory retirement age, it is suggested that this is governed by conditions that may include:

(i) The pension to be drawn down should the person opt for early retirement at the age of 61 years of age whilst continuing to work pro-rated, for example, as follows:

- Retiring at 61 years of age, the pension income entitled to is pro-rated at 50%.
- Retiring at 62 years of age, the pension income entitled to is pro-rated at 60%.
- Retiring at 63 years of age, the pension income entitled to is pro-rated at 70%.
- Retiring at 64 years of age, the pension income entitled to is pro-rated at 85%.

(ii) A person who selects a Flexi-employment approach to retirement must work for a minimum set of hours established through a formal contract between them and their employers and employment registration with Job plus to benefit from the drawing down of the retirement pension.

(b) The top-up incentive mechanism, whilst proving to be successful, is based on a negative actuarial rate. This should be replaced by a positive actuarial rate so that more persons are incentivised to remain fully active in the labour market and defer the drawn down of their pension.

(c) Recommendation 14 presented in the 2015 Strategic Review report[1] that recommends the introduction of a mechanism to incentivise the deferral of retirement age so that a person aged 65 and over remains active in the labour market should be implemented by the government – albeit at a far more aggressively positive actuarial rate than proposed by the Pension Strategy group.

(d) The tax structure for senior citizens who receive income from continued post-retirement employment and pension income should be re-designed. It should become an incentive rather than acting as a detriment to continued active employment.

Both The Malta Chamber and the Union strongly underline that a carefully designed workplace pension based on the principles of opt-in on employment with the choice of opt-out is introduced in Malta. Such voluntary opt-in on employment pensions schemes with the choice of an opt-out can be designed in a manner that creates no social tensions or adverse impacts on both employers and employers. This can be achieved by adopting the following design principles:

[1] Pg 92, Strengthening the Pension System: A Strategy for an Adequate and Sustainable Maltese Pension System, Pension Strategy Group, 17th June 2015

(a) As is the case today, employers are nudged to contribute on behalf of their employees based on a fiscal incentive (**that is, no mandatory contribution**) and through collective bargaining.

(b) Employees earning below a certain income are excluded from opt-in on employment so that no negative pressures are placed on their disposal income, though they will maintain their right to opt-in should they wish.

(c) Each employee will have the right to opt-out or suspend their contribution.

(d) The contribution that an employee will pay, which will continue to be subject to a fiscal incentive, will be the annual minimum requested by the pension provider selected by the employer or that selected by the employee.

(e) The only obligation to be placed on the employer is that of presenting information on retirement on the engagement of an employee, enrolling an employee in the pension provider selected by it or that chosen by an employee, managing the monthly contribution payment deducted from the employee's wage; and transferrin this contribution to the selected pension scheme provider.

(f) The pension scheme is introduced incrementally over five years, initially targeting large employers and subsequently rolling it out to micro and small enterprises.