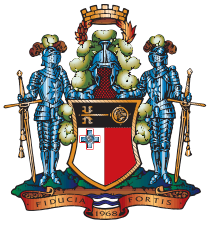
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THE CONTRIBUTION OF THE EARLY PENSION DEFERRAL SCHEME TO LOWER EARLY RETIREMENT IN MALTA

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THE CONTRIBUTION OF THE EARLY PENSION DEFERRAL SCHEME TO LOWER EARLY RETIREMENT IN MALTA[1]

The locally-born Maltese workforce is ageing rapidly, particularly that in the public sector and industry, and would have likely declined had the pension age not increased in recent years.[2,3] Yet, stakeholders argue that the incentives faced by older Maltese workers to continue working should be strengthened further, for instance, through the introduction of a partial pension after the age of 61. Instead, this box will show that the early pension deferral scheme introduced in 2016 has clearly lengthened careers and its replacement by another scheme could have a negative impact on Malta's future labour supply.

Malta's early pension deferral scheme

Up to 2011, the pension age in Malta was 61 for men and 60 for women. Thereafter it rose gradually such that by 2026, it will have reached 65. Yet, individuals who reach 61 can opt for an early pension if they pay the stipulated number of contributions by that age. For those born between 1952 and 1961, the requirement was of 35 years, rising to 40 years for those born in 1962. For those born in subsequent years the period is being increased to maintain the current balance between this contribution period and expected life expectancy at the standard pension age.[4]

Whereas in other countries early access to pensions implies a financial penalty, with the pension being reduced, the only penalty for someone who accesses a pension early in Malta is that the person is precluded from being in gainful employment between the early pension age and their official pension age. Moreover, as from 2016, the Maltese Government introduced an early pension deferral scheme initially open only to those working in the private sector, but in 2019 extended also to public service employees. The top-up rates set for those who reached age 61 at first ranged from 5% to 23%, but in the Budget for 2023 they were increased, to between 6.5% to 29%. The new rates imply that if eligible persons work till age 65, they get an overall pension stream which is 13% higher than if they retire at 61. The previous rates were actuarially fair, leaving a person in the same position if they retired at 61 or at 65.

Table 1 shows that the number of persons opting for an early pension has dropped by nearly a third since the introduction of the deferral scheme. The proportion of those who were inactive or on benefits a year before opting for an early pension has also fallen significantly in recent years, and in absolute numbers has more than halved.

If one combines this information with data from Jobsplus on those in gainful employment at age 60 a year before, one realises that the phenomenon of early pension access has also dropped

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[1] Prepared by Dr. Aaron G. Grech, Chief Officer of the Economics Division at the Central Bank of Malta. The author would like to thank Mr Alexander F. Demarco, Mr Noel Rapa and Mr Mark Musu for their comments, and Ms Marydiane Inguanez, Ms Doriana Bezzina, Ms Cecilia Falzon, all at Jobplus, and Mr Bernard Mamo and Mr George Cremona, all at the Ministry for Social Policy and Children's Rights for data provided. The views expressed are those of the author and do not necessarily reflect the views of the Central Bank of Malta or any other institutions. Any errors are the author's own.

[2] Grech, A.G. (2020), The ageing of the Maltese workforce and the impact of pension age changes, Central Bank of Malta *Policy Note*.

[3] Grech, A.G. (2022), The impact of COVID-19 on longer careers – An initial assessment for Malta, Central Bank of Malta *Policy Note*.

[4] Pensions Strategy Group (2020), Strategic review of the adequacy, sustainability and solidarity of the pension system as mandated by Article 64B of the Social Security Act.

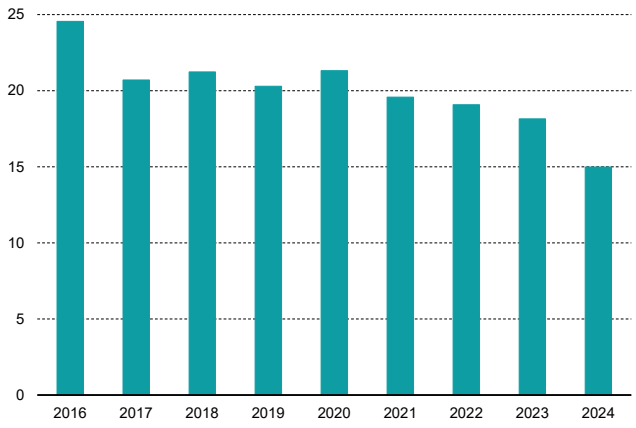
Table 1
THOSE WHO OPTED FOR AN EARLY PENSION

	Was in employment or self-employment year before	Was on benefits or inactive year before	Those who took a pension at age 61
2016	63%	37%	1,254
2017	61%	39%	1,223
2018	69%	31%	1,220
2019	70%	30%	1,123
2020	72%	28%	1,155
2021	71%	29%	1,124
2022	75%	25%	1,079
2023	84%	16%	936
2024	74%	26%	864

Source: Department of Social Security.

in relative terms. Chart 1 shows that whereas in 2016, about 25% of those who were working a year before opted to get an early pension, by 2024 the share of those quitting employment had fallen to just 15%.

Chart 1
PROPORTION OF THOSE WORKING WHO OPT FOR EARLY PENSION
(per cent)



Source: Author's workings using Jobsplus and Department of Social Security data.

Assessing the impact of the early pension deferral scheme

Out of those working at age 60, on average, just over half satisfied the conditions to start getting a state pension the following year. Of these, about four out of ten persons opted for an earl pension, while the remaining six out of ten continued working. Between 2016 and 2024, nearly 7,900 persons benefitted from the early pension deferral scheme.

Exit rates at age 61 by age of birth and by type of employment are presented in Table 2 for selected adjacent birth cohorts, selected on account of policy changes affecting them. The first two adjacent birth cohorts are those born in 1951 and those born in 1952, with the latter being the first to be affected by the creation of the early pension exit pathway. While the pension age increase had a strong impact on public sector employees, with over four-fifths leaving employment once they reached 61, amongst private sector employees the exit rate was under a third, while among the self-employed the exit rate was just 14%. This suggests that statutory pension ages are more binding on public sector employees and less so for the private sector.

The next set of adjacent cohort exit rates is that when the deferral scheme was introduced. The overall exit rate had fallen to 22% in the year preceding the introduction of the scheme, and the immediate effect of the latter appears minor. However, this reflects the fact that there was no

Table 2
EXIT RATES AT AGE 61 BY AGE OF BIRTH AND BY TYPE OF EMPLOYMENT

Birth rate	Total	Public sector	Private sector employees	Self-employed
1951	47%	81%	31%	14%
1952	28%	31%	28%	20%
1954	22%	25%	23%	13%
1955	21%	25%	20%	14%
1957	20%	20%	21%	16%
1958	18%	19%	19%	12%
1961	18%	16%	21%	13%
1962	14%	16%	15%	11%
1963	14%	13%	16%	8%

Source: Author's workings using Jobsplus data.

impact on public sector employees, who were not included in the scheme at that point, and, also, because the self-employed did not react to the scheme. Amongst private sector workers, whereas the legislated rise in pension age had led to an immediate drop of 3 percentage points, the introduction of the deferral scheme resulted in the same drop in absolute terms and to a stronger one in relative terms.

The third assessment of exit rates is when the deferral scheme was extended to public sector employees. This resulted in a minor improvement in the exit rates in the public sector, which by now equalled those observed among private sector employees. This is probably the most interesting development when one looks at this breakdown by employment type. Whilst before the legislated rise in pension age, there was an immense gap between the exit rates of public and private sector employees at age 61, in just seven years this gap disappeared completely.

The final set of exit rates relates to the boost in the pension deferral rates in 2023. The effect was once again strongest among private sector employees, with a decline of about 6 percentage points. The self-employed, also, adjusted strongly their exit age. In view of this large effect, Table 2 also includes data for the latest available birth cohort to have reached age 61, that born in 1963. This shows that, if anything, the impact of the higher pension deferral rates exerted an even stronger effect on the self-employed, with the exit rate at age 61 dropping to 8%. So, among the three employment types, one finds that in a matter of just two years after the introduction of the improved deferral rates, the exit rate improved by 3 percentage points among public sector, and by 5 percentage points among private sector employees and among the self-employed.

Grech (2025) estimates that "had labour market behaviour post the age of 61 remained unchanged, in 2023 there would have been 8,600 less Maltese in employment aged above 61".[5] The analysis made above suggests that of the entire decline in the exit rate post 61 for men, about a quarter was due to the introduction of the deferral scheme, while there was only a negligible impact for women. Thus, the deferral scheme as implemented over the years has added at least 1,800 additional workers.

[5] Grech, A. G. (2025), Understanding recent labour supply dynamics in Malta, Central Bank of Malta *Discussion Paper* DP/01/2025.

Conclusion and policy recommendations

Today barely 14% of individuals who are working in the year immediately before the early pension age opt to stop working. Even before the pension age was increased, the bulk of private sector employees and most self-employed continued to work past 61. The pension age changes mostly impacted public sector employees, who lengthened their career in response.

The introduction of the deferral scheme further increased the incentive not to retire at age 61, particularly among men. Among women, gaps in the contribution record meant that most opt to continue working to acquire better pension rights. The deferral scheme has only been open to all workers since 2019, and only in 2023 it started giving deferral rates that are more than actuarially fair. The impact of the last two changes in the scheme was, in fact, six times stronger than the impact when the actuarially fair scheme was introduced just for private sector workers and the self-employed. This suggests that the reformed scheme is much more popular than the previous one.

Replacing this scheme with a new one that instead grants a partial pension to all those with a full contribution record and lets them work while receiving this pension is highly likely to unwind the strong benefits to the Maltese economy that have arisen since the pension age started to rise from 61. The bulk of those persons who now are opting to continue working full-time post 61 would be tempted to shift to part-time work, and the end result is likely to be a reduction on the overall labour supply, as it is highly unlikely that additional work effort from those 14% who are retiring at 61 and being stopped from working could offset the reduced effort from the other 86% who are currently continuing to work full-time post 61.

At a time of increasing labour shortages, reducing the supply of older workers could prove to be of major damage to the economy, besides increasing unnecessarily the demand for foreign workers. Rather than undermining this successful scheme, it would be better to seek to strengthen it further, possibly by introducing generous deferral rates post age 65 to reward a further lengthening of careers by Maltese workers.