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EARLY EXIT FROM THE LABOUR FORCE IN MALTA – THE IMPACT OF PENSION AGE INCREASES

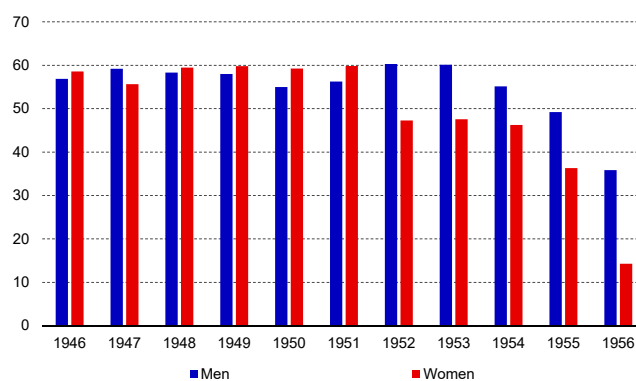
BOX 2: EARLY EXIT FROM THE LABOUR FORCE IN MALTA – THE IMPACT OF PENSION AGE INCREASES¹

In 2006, the Maltese Government enacted an increase in the pension age from 61 for men and 60 for women to 65 for both genders by 2026. The pension age started to rise in 2012. However, individuals with a full contributory record could still opt to claim their pension at age 61, though if they did so they were precluded from staying in employment. Up to 2016, those who had a full contributory record but still opted to remain in employment beyond 61 would effectively receive the same pension as if they had stopped at the early pension age. This changed with a reform that year as a result of which these individuals started to benefit from a permanent increase in their pension of between 5% and 23% depending on the year until which they delayed their pension. Once someone reaches their pension age, they can receive their pension while still remaining in employment.

To understand the possible impact of pension age rises on early exit from employment, one can look at how the labour market behaviour of specific birth cohorts differs. For women born on or before 1951, the pension age was 60, while for men born in those years it was 61. The pension age rose to 62 for members of both genders born between 1953 and 1955, and to 63 for those born between 1956 and 1958. Chart 1 shows that nearly 60% of women and 56% of men born in 1951 – that is persons unaffected by the pension age rise – who had been active at ages 60 and 61 left the labour force by the time they reached age 63. For those born in 1956, the labour force drop-out rates decline to 14% for women and 36% for men. This indicates that the pension age changes had a very significant impact on labour market behaviour. If labour force exit rates had remained unchanged after 2012, the labour force aged 50 and over would have been nearly 3,500 (or 8%) fewer than it actually was.

The provision of an early exit age clause in the 2006 pension reform, and its retention after the 2016 changes, was based on the consideration that workers in certain occupations and sectors would find it very hard to adjust to rises in the pension age. In particular, policymakers felt that manual workers and those employed

Chart 1
PROPORTION BY BIRTH YEAR COHORT OF THOSE ACTIVE ONE YEAR BEFORE PRE-REFORM PENSION AGE WHO DROP OUT OF LABOUR FORCE BY AGE 63
(per cent)



Sources: Jobsplus; author's estimates.

¹ Prepared by Dr Aaron G. Grech, Chief Officer of the Economics Division of the Central Bank of Malta. This Box summarises a policy note on '[The ageing of the Maltese workforce and the impact of pension age changes](#)' published by the Central Bank of Malta in February 2020. The views expressed are those of the author and do not necessarily reflect the views of the Central Bank of Malta. Any errors are the author's own.

in sectors such as construction would not take up the option of remaining in the work force beyond the age of 61.

Chart 2 shows that of men born in 1951, who were working in elementary occupations at age 55, only 19% remained in full-time employment after they reached age 61. By contrast, of the cohort born in 1957, 71% remained in employment

after they reached age 61. Turning to men born in 1951 who were working as managers at age 55, only 57% stayed in this kind of full-time employment after they reached age 61. For the cohort born in 1957, the proportion stood at 82%. This confirms that while the labour market drop-out rates for the two ends of the occupational spectrum were very pronounced before the pension age rises took place – standing at 38 percentage points – in just a few years this gap fell to 11 percentage points. The 1957 cohort working in elementary occupations had a much higher participation rate at age 61 than the 1951 cohort who worked as managers. Even stronger results are observed when focusing on women working in the same occupations.

If one looks at full-time employment beyond the early exit age, the narrative is similar. Table 1 shows the proportion – by birth cohort and occupation – of those working as full-timers one year before the pre-reform pension age who leave full-time employment by age 63. Whereas less than a third of male professionals born in 1951 continued to work in the same occupation when they reached age 63, the proportion rose to 74% for those born in 1956. Similarly, among male workers of the same birth cohorts who worked as plant and machine operators, the rise was from 38% to 63%. The trends observed for female workers are even more significant. Even before the pension age rise, the occupational category gradient in labour drop-out rates was already smaller for women than it was for men. Since the changes, women employed in the more manual occupational categories are tending to remain longer in employment than those working in non-manual full-time jobs.

However, Chart 3 indicates that while there was a considerable rise in the proportion of men who continued working past the early pension age in both construction, and professional and scientific sectors, the gap narrowed at a less pronounced pace than the trend observed among occupations. For those born in 1951, there was a 47 percentage point difference between the rate of men who continued to work in professional and scientific services and those who continued to work in construction. For those born in 1957, the gap had narrowed

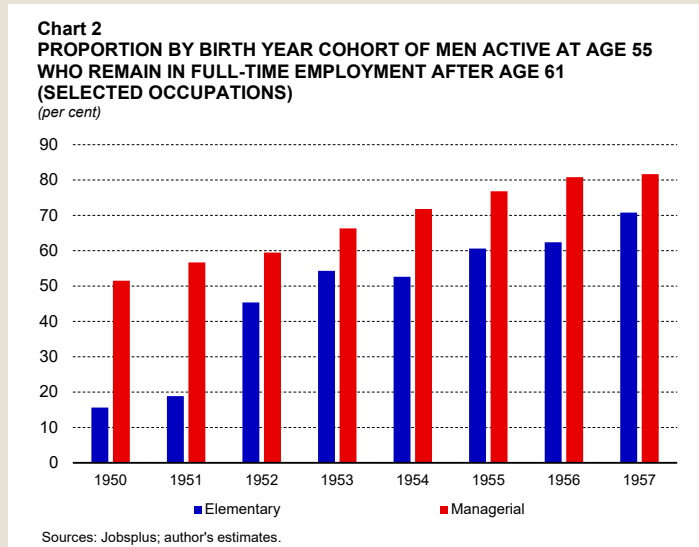


Table 1
REFORM PENSION AGE WHO REMAIN ACTIVE BY AGE 63 (BY OCCUPATIONAL CATEGORY)

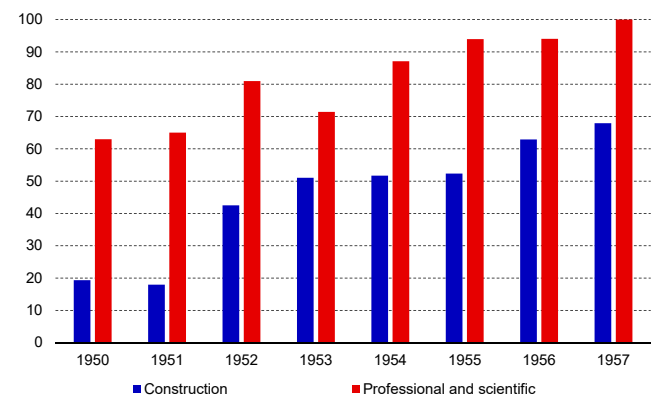
Per cent

	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956
Men											
Armed Forces	0	8	0	0	0	0	0	0	0	0	100
Managers	35	53	49	46	54	51	56	58	66	65	81
Professionals	28	29	35	40	35	30	39	34	42	46	74
Technicians and associate professionals	25	20	32	23	32	27	32	34	41	45	68
Clerks and support workers	19	21	27	28	20	20	27	23	27	34	55
Services and sales workers	15	26	41	33	40	38	43	35	35	48	58
Skilled agricultural, fishery and forestry workers	35	47	17	37	30	63	20	78	32	67	67
Craft and related trades workers	18	22	15	23	28	22	23	27	34	34	58
Plant and machine operator and assemblers	9	20	18	18	26	38	27	29	36	37	63
Elementary occupations	10	15	13	16	18	20	17	19	23	31	61
Women											
Armed Forces	0	0	0	0	0	0	0	0	0	0	0
Managers	45	35	51	52	40	43	74	62	56	63	80
Professionals	9	17	18	15	19	14	26	19	20	34	74
Technicians and associate professionals	30	17	13	15	33	25	45	63	42	55	83
Clerks and support workers	22	21	31	33	27	37	38	44	54	60	86
Services and sales workers	35	43	36	41	30	34	51	57	74	68	100
Skilled agricultural, fishery and forestry workers	100	33	33	25	0	0	0	0	0	67	100
Craft and related trades workers	40	20	50	50	33	43	33	20	41	90	100
Plant and machine operator and assemblers	10	8	7	30	12	67	60	33	60	89	91
Elementary occupations	24	30	30	27	22	35	46	48	45	55	90

Sources: Jobsplus; author's estimates.

to 32 percentage points. Certain sectors appear to have been more prone to see an increase in employment after age 61 than others (see Table 2). This suggests that employment culture within a sector may be a more important determinant of longer careers than the type of occupation that one has. A concerted attempt to change these industry-specific attitudes may help to lengthen further working careers in Malta. That said, the proportion of men born in 1957 working in construction who remained working in the same sector after age 61 was significantly higher than the proportion of men born in 1951 who remained working in professional and scientific services after reaching age 61. Just six years have led to very dramatic changes in labour market behaviour

Chart 3
PROPORTION BY BIRTH YEAR COHORT OF MEN ACTIVE AT AGE 55 WHO REMAIN IN FULL-TIME EMPLOYMENT AFTER AGE 61 (SELECTED SECTORS)
(per cent)



Sources: Jobsplus; author's estimates.

Table 2
PROPORTION BY BIRTH YEAR COHORT OF THOSE ACTIVE ONE YEAR BEFORE PRE-REFORM PENSION AGE WHO REMAIN ACTIVE BY AGE 63 (BY ECONOMIC SECTOR)

Per cent

	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956
Men											
Agriculture & Fishing	15	33	62	60	52	72	41	59	75	69	55
Mining & Quarrying	25	29	25	45	71	50	50	50	40	0	25
Manufacturing	15	19	19	24	26	25	23	28	29	37	58
Construction	15	19	13	13	18	14	20	24	29	33	61
Wholesale & Retail Trade; Repair	27	46	40	46	46	49	47	46	51	53	65
Transportation & Storage	13	25	35	32	25	32	33	34	44	40	66
Accommodation & Food Service	17	31	34	33	49	37	34	34	41	43	50
Information & Communication	15	12	23	41	24	33	53	19	52	46	66
Financial & Insurance Activities	30	30	38	29	53	38	57	50	53	53	85
Real Estate Activities	27	30	50	50	64	37	36	50	55	60	90
Professional, Scientific & Technical	35	52	65	62	65	60	56	68	68	83	83
Administrative & Support Service	41	41	36	37	58	41	37	41	43	88	73
Public Administration & Defence	19	17	17	13	13	14	16	17	17	28	66
Education	45	60	29	30	50	58	31	72	58	46	63
Human Health & Social Work	8	4	47	53	45	35	58	30	32	35	81
Arts, Entertainment & Recreation	35	29	31	29	35	30	37	35	33	65	91
Other Service Activities	25	35	36	46	46	19	70	47	65	39	86
Women											
Agriculture & Fishing	67	30	50	20	44	43	67	57	67	50	100
Mining & Quarrying	0	0	0	0	0	0	0	100	0	0	100
Manufacturing	23	31	25	32	21	78	48	49	45	60	90
Construction	25	17	30	67	25	50	67	100	67	100	100
Wholesale & Retail Trade; Repair	45	33	59	65	41	48	59	69	62	65	87
Transportation & Storage	20	13	29	10	43	40	25	27	64	100	87
Accommodation & Food Service	15	28	43	38	26	31	64	44	46	53	88
Information & Communication	0	25	0	17	100	80	33	17	33	43	100
Financial & Insurance Activities	17	40	50	27	38	21	56	70	50	31	65
Real Estate Activities	27	100	67	0	20	25	0	100	33	75	100
Professional, Scientific & Technical	14	64	45	25	75	44	64	44	64	79	82
Administrative & Support Service	67	35	27	47	45	56	57	70	85	100	100
Public Administration & Defence	14	14	18	11	11	10	23	20	18	27	68
Education	25	25	20	25	23	28	43	32	53	45	83
Human Health & Social Work	13	13	11	26	32	23	32	36	43	43	82
Arts, Entertainment & Recreation	33	50	38	100	0	20	43	0	57	100	100
Other Service Activities	60	52	41	50	50	67	87	67	59	79	100

Sources: Jobsplus; author's estimates.

that few could have predicted. This shows the importance of continuing to pursue activation policies. Furthermore, as technological advancements reshape work landscapes and employment practices, and health conditions improve, it may become easier for workers in physically demanding jobs to remain in employment past their pension age.