

How the early pension deferral scheme helped lower early retirement



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After 2011, the pension age in Malta moved from 61 towards 65. Yet, individuals who reach 61 can opt for an early pension if they have a full contribution record.

Whereas in other countries early access to pensions implies a financial penalty, with the pension being reduced, the only penalty in Malta is that the person is precluded from being in gainful employment between the early pension age and their official pension age.

In 2016, the Maltese government introduced an early pension deferral scheme initially open only to those working in the private sector, but in 2019 extended it also to public service employees. The top-up rates set for those who defer their pension at first ranged from 5% to 23%, but in the Budget for 2023 the rates became 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.

Exit rates at age 61 by age of birth and by type of employment are presented in Table for selected adjacent birth cohorts, selected on ac-

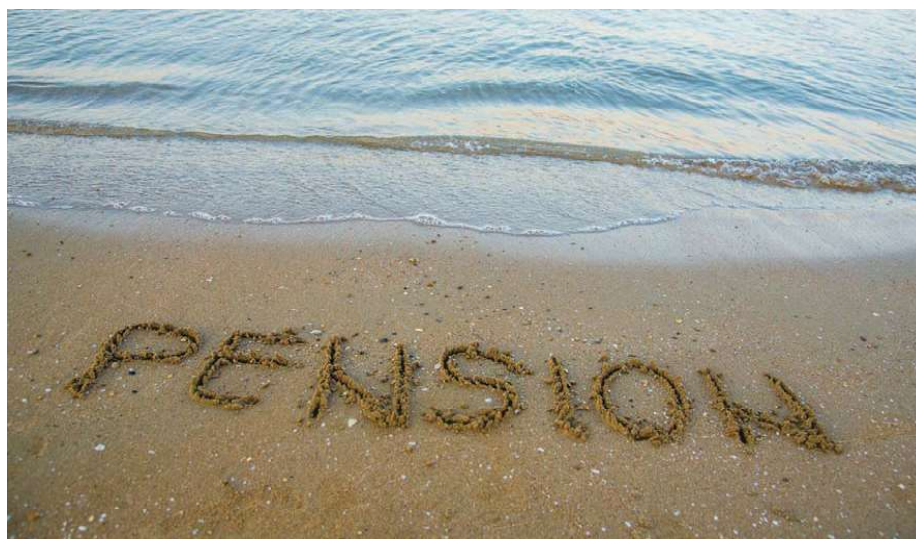


Table : Exit rates at age 61 by age of birth and by type of employment

Birth year	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

count 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, among private sector employees the exit rate was under a third, while among the self-employed the exit rate was just 14%.

The next set of adjacent exit rates is that when the

deferral scheme was introduced. While the scheme was closed to public sector employees, among private sector workers, the exit rate fell by three percentage points. When the deferral scheme was extended to public sector employees, there was a minor improvement in the exit rates in the public sector, which by now equalled those observed among private sector employees.

Finally, the more generous deferral rates as from 2023 had the strongest impact among private sector employees. The self-employed, also,

adjusted strongly their exit age. In a matter of just two years after the introduction of the improved deferral rates, the exit rate improved by three percentage points among public sector, and by five percentage points among private sector employees and among the self-employed.

The analysis made above suggests that of the entire decline in the exit rate post 61, about a quarter was due to the introduction of the deferral scheme, implying that the deferral scheme as implemented over the years has added at least 1,800 additional workers.

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 introduction of the deferral scheme further increased the incentive not to retire early, and the latest reforms to make it more generous are six times stronger in terms of labour impact.

Replacing this scheme with one that instead grants a partial pension to all those with a full contribution record would be risky. 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, potentially reducing the supply of older workers by means of unwarranted policy reforms 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.

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