



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

A photograph of the interior of the Central Bank of Malta's vaults. The space is filled with rows of metal safes, illuminated by warm, golden light. A large, arched stone doorway is visible in the background. The ceiling is high and features a dramatic, colorful sky with orange and red hues, suggesting a sunset or sunrise. The overall atmosphere is one of security and historical significance.

CENTRAL BANK OF MALTA POLICY NOTE



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

DID THE EARLY PENSION DEFERRAL SCHEME LENGTHEN CAREERS IN MALTA?

Aaron G. Grech¹

Policy Note

November 2025

¹ Dr Aaron G. Grech is the 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 Dorian Bezzina, Ms Cecilia Falzon, all at Jobsplus, 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.

Any queries or requests should be sent [here](#).

Abstract

Individuals in Malta can take early pensions at 61. The government adopted a deferral scheme, initially for private-sector workers in 2016 and then extended to all by 2019, offering actuarially fair pension increases, made more generous in 2023, and a prohibition of work until pension age for early retirees. Jobsplus data indicate early pension uptake fell from 25% in 2016 to 15% by 2024. During this period exit rates at age 61 fell by 3 points among private sector workers after the scheme's launch, and when the scheme was extended a large drop occurred among public sector workers. More generous deferral reduced exit rates by between 3 to 5 points across sectors. Overall, the scheme accounts for a quarter of the decline in exit rates, adding 1,800 workers. Replacing this approach with partial pensions for all could reverse these gains; instead, enhancing the current scheme would better support longer careers.

JEL Classification: E37, J26, H55

Keywords: Public Pensions, Retirement Behaviour, Labour market reforms.

Table of Contents

Abstract.....	2
Executive Summary	4
1. Introduction.....	5
2. What is the pension deferral scheme in Malta?.....	5
3. Has career duration changed in Malta over recent years?	7
4. How much of recent changes can be attributed to the pension deferral scheme?	9
5. Conclusion and policy recommendations	12
References	13

Executive Summary

Since 2012 the pension age in Malta has been increasing gradually. Yet, individuals who reach 61 years still can opt for an early pension. Instead of opting for just financial disincentives, the Maltese Government took a carrot and stick approach. The carrot is an early pension deferral scheme introduced in 2016, initially only for those working in the private sector, and then after 2019 to all employees. Under this scheme, if someone who is eligible for an early pension defers this right, they receive an increase of between 5% to 23%, rising to between 6.5% and 29% from 2023 onwards. The stick is the provision that if one takes an early pension, they are precluded from working again till they reach the pension age.

Thanks to the early pension deferral scheme, if a man who could retire at age 61 in 2016, instead retired at 65 in 2020, he will receive the same total pension income. Since women have a longer life expectancy, total income from deferred pensions after age 65 are 5% higher than the stream of pension from 61 onwards. With the more generous rates introduced after 2023, men now get 13% more total pension income over their lifetime if they opt to draw their pension at 65 rather than at age 61. Women get a slightly higher boost.

Department of Social Security data indicate that the number of those who were in employment just before opting for an early pension have dropped by nearly a third since the introduction of the deferral scheme. Similarly, the number of those who were inactive, or on benefits a year before, has more than halved. Jobsplus data suggests that whereas in 2016, about 25% of those in employment opted to get an early pension, by 2024 the share had fallen to 15%. That said, the availability of early pension access contributed to a 5,000 drop in employment at age 61 over the last decade.

To put this in context, between 2016 and 2024, nearly 7,900 persons benefitted from the deferral scheme. Of those, 34% did so for one year, 45% for two years, and 21% for three years or more. Looking at exit rates at age 61 by age of birth and by type of employment reveals that the increase in the pension age had a much sharper effect on public sector employees and on women, while for male private sector workers and self-employed the impact of the early pension was much stronger. The introduction of the scheme in 2016 led to an immediate drop of 3 percentage points in the exit rate of private sector workers. The extension of the scheme to public sector workers resulted in the total elimination of the gap in exit rates between public and private sector employees at age 61, a gap that had been considerable before the pension age started to rise. The introduction of more generous deferral rates in 2023 led to a decline in the exit rate of 3 and 5 percentage points among public sector and among private sector employees and the self-employed, respectively.

The analysis suggests that about a quarter of the entire decline in the exit rate post 61 for men, was due to the introduction of the deferral scheme, while there was only a negligible impact for women, leading to an additional supply of 1,800 workers. The effect of the more generous scheme that is open to all sectors is about 6 times stronger than the original limited scheme and is also starting to benefit women. Replacing this successful 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 these strong benefits. Rather than undermining the 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.

1. Introduction

The native Maltese workforce is ageing rapidly, particularly that in the public sector and industry.² Cumbo (2025) shows that after having risen steadily due to higher participation rates, over the next few years the Maltese workforce is projected to start to decline. Previous research indicated that this drop would have been even much more pronounced had the state pension age not been increased in recent years.³ Yet, stakeholders argue that the incentives faced by older Maltese workers to continue working could be strengthened further, for instance, through the introduction of a partial pension after the age of 61.⁴

In this light, this policy note seeks to evaluate the impact of the early pension deferral scheme introduced in 2016 to understand whether there is scope for further improvement. The note first describes the scheme and how it has been refined after its introduction. It then looks at Eurostat and administrative data to determine the extent to which working careers have lengthened since the scheme was introduced. Finally, it seeks to understand whether this lengthening was caused by the introduction of the deferral scheme and its modifications. Based on these findings, the paper concludes with some recommendations on the policy and compares it with the likely impact of different schemes.

2. What is the pension deferral scheme in Malta?

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 65⁵. With this increase, the pension age in Malta will converge to the most common age found across the EU, with only three countries having a lower age.⁶ At present five EU countries have a pension age of 67 (with two of them planning further increases in coming years).

That said, many pension systems allow the receipt of pensions at an earlier date depending on certain conditions being fulfilled.⁷ Malta is one of these countries, with individuals who reach 61 years of age being able to opt for an earlier pension entitlement provided they had paid the stipulated contributions between age 18 and the chosen date of retirement. For those born between 1952 and 1961, the requirement was of 35 years, rising to 40 years for those born in 1962.⁸ 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.⁹

The provisions for early access to pensions in Malta are quite generous by EU standards. For instance, in Germany someone with 35 years of contributions can draw a pension at age 63 but with a permanent reduction of 0.3% per month for claiming early, while in Belgium one requires 43 contribution years to access the state pension at age 61. Scandinavian countries have abolished early access.¹⁰ 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 until they reach their official pension age.

² Grech (2020).

³ Grech (2022).

⁴ <https://timesofmalta.com/article/mut-makes-tax-pension-proposals-suggestions-budget.1116647>

⁵ Grech (2017).

⁶ See <https://www.etk.fi/en/international-affairs/international-comparisons/retirement-ages/>

⁷ OECD (2023)

⁸ See <https://socialsecurity.gov.mt/en/information-and-applications-for-benefits-and-services/contributory-pensions/retirement-pension/>

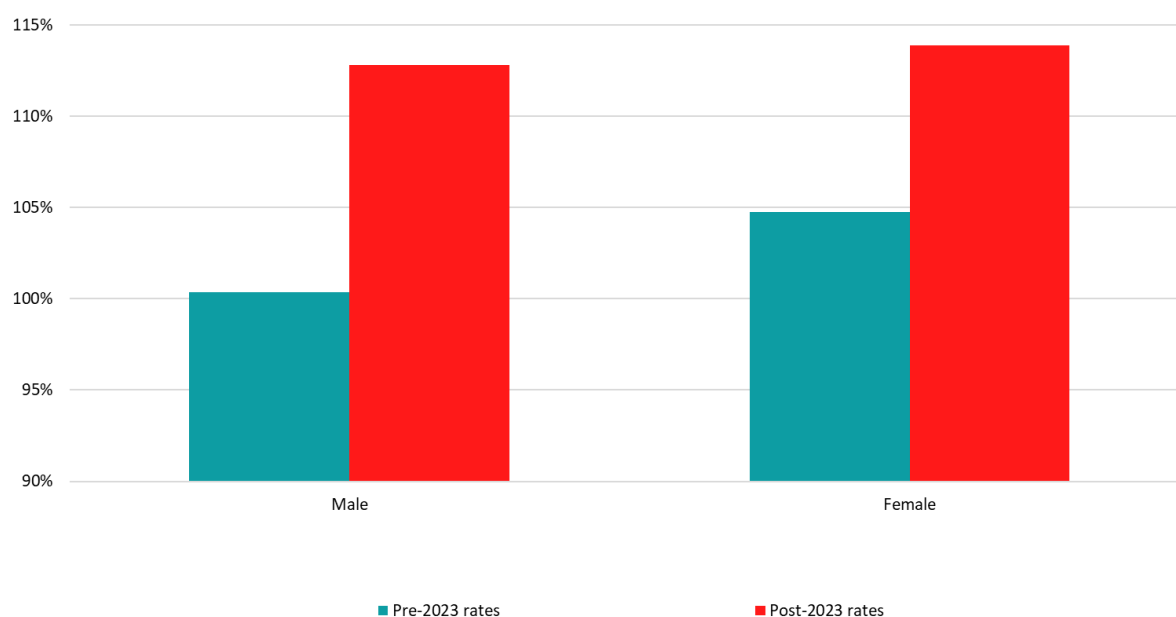
⁹ Pensions Strategy Group (2020). The requirement has already been increased twice and now stands at 41 for those born between 1969 and 1975, and at 43 for those born subsequently.

¹⁰ See <https://www.missoc.org/missoc-database/comparative-tables/>

Instead of opting for financial disincentives to penalise early pension access, the Maltese Government introduced an early pension deferral scheme in the Budget speech for 2016.¹¹ This measure was initially open only to those working in the private sector, but in 2019 it was 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.¹² Since the beginning of 2023, individuals who were eligible for an early pension at age 61 and who opt to work for another year receive an increase of 6.5% in their pension, rising to 29% if they work till age 65. These increases are permanent and are passed on to a person's partner once the person deceases.

Figure 1 compares the total income flow from opting to get an early pension at age 61 versus the income that one would get by deferring retirement to age 65. If a man had opted to retire at age 61 in 2016, the Eurostat life expectancy tables predict he would receive the early pension for just under 23 years. On the other hand, had he opted to retire at 65 (in 2020), he would look forward to just under 19 years. Despite receiving the pension for a shorter period, retirement at 65 would have yielded slightly more income over retirement, as the higher pension rate would have offset the reduction in the retirement period. The deferral rates were actuarially fair.¹³ Women would receive 5% more income over retirement by deferring early receipt, as they have a longer life expectancy than men. With the more generous rates introduced after 2023, men now get 13% more total pensions over their lifetime if they stay till 65 rather than leaving at age 61. Women get a slightly higher boost.

Figure 1: Deferred pension versus early pension (%) by gender



Source: Author's workings

At the same time, working for an additional 4 years yields much better lifetime income for individuals, as the state pension in Malta at most replaces two-thirds of the basic wage of an individual. For Government, the intake of income tax and social security contributions during the additional 4 years of employment covers about 60% of the absolute difference in pension streams. However, there are

¹¹ Ministry for Finance (2015).

¹² Ministry for Finance (2022).

¹³ For more details on this concept, see Queisser and Whitehouse (2006).

additional monetary benefits to Government if people opt not to take an early pension, such as higher tax revenue from increased consumption and higher economic growth generated from higher employment.

3. Has career duration changed in Malta over recent years?

Table 1 presents data from the Department of Social Security on whether those who opted for an early pension at age 61 had been gainfully occupied a year before their retirement. The first thing to notice is that the number of persons opting for an early pension is falling in absolute terms, dropping by nearly a third since the introduction of the deferral scheme. The second important development is that the proportion of those who were inactive or on benefits a year before opting for an early pension has fallen significantly in recent years, and in absolute numbers has more than halved. The latter reflects two factors; namely the effect of labour activation policies which have reduced the number of inactive persons, combined with the effect of tightening of eligibility conditions for the early pension.

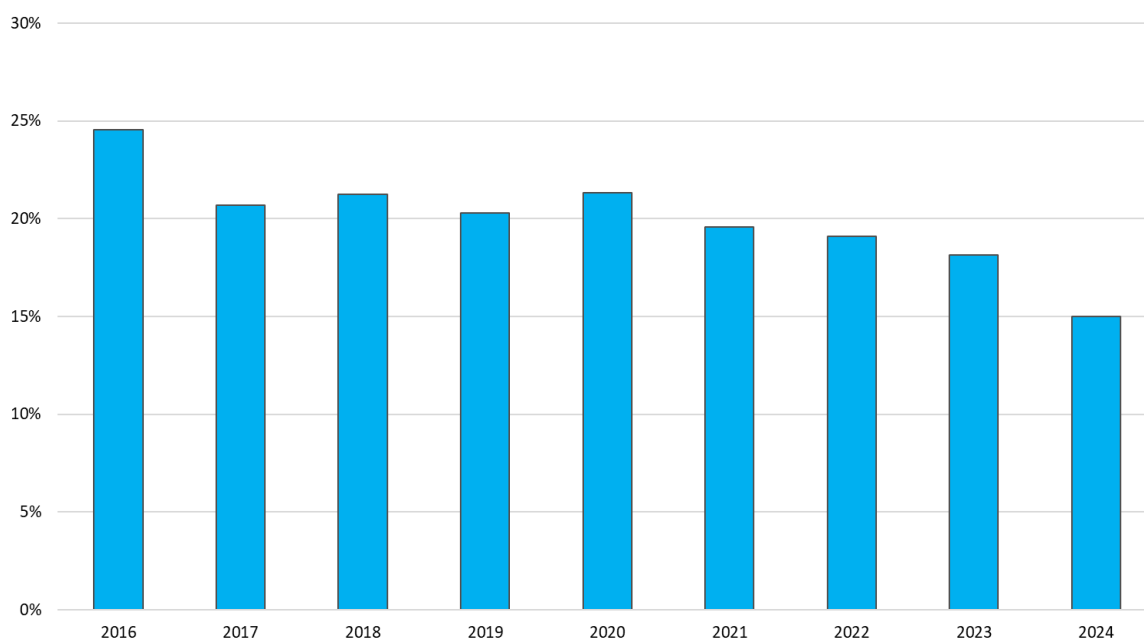
Table 1
THOSE WHO OPTED FOR AN EARLY PENSION

	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.

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 in relative terms. Figure 2 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%. That said, the availability of early pension access contributed to the fact that about 5,000 persons quit employment at age 61 over the last decade.

Figure 2: Proportion of those working who opt for early pension



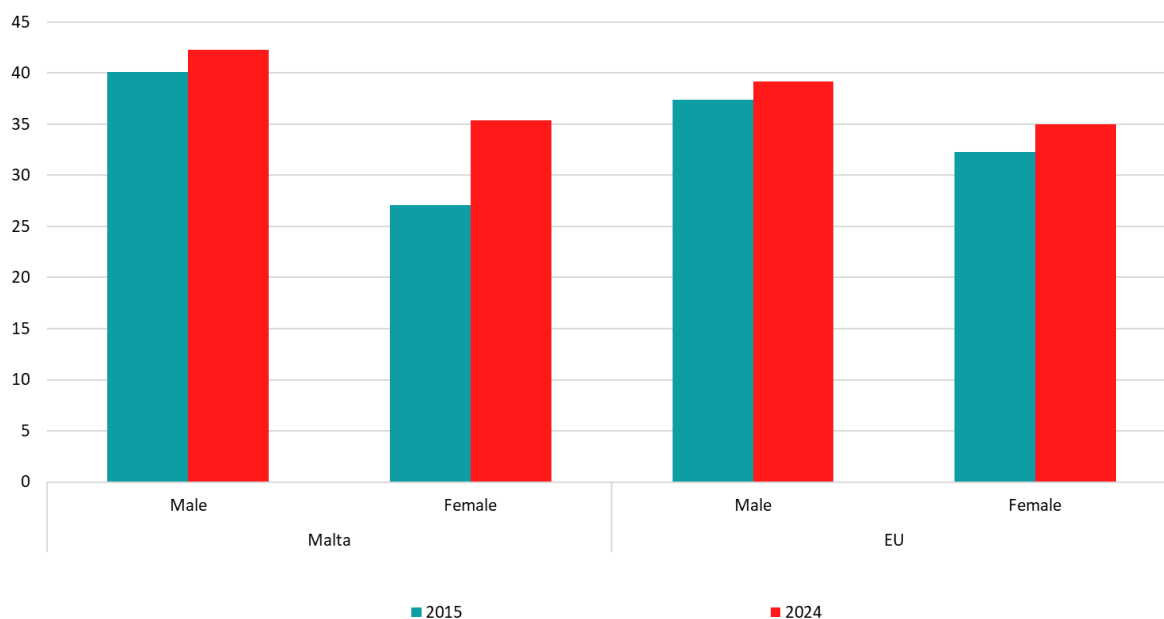
Source: Author's workings using Jobsplus and Department of Social Security data.

Eurostat data show that the duration of working life in Malta has increased more than it has in the rest of the EU. For men the increase was of over 2 years, whereas for women it was of 8 years. Across the EU the increase was less than 2 years, while for women it was of 3 years. While the increase for men was less than the increase in the pension age in Malta, for women it was higher. The duration of working life statistic is not, however, driven solely by individuals retiring later but also reflects reductions in inactivity at earlier years. The latter factor explains the very large increase in career duration of women in Malta, as several policies and social developments have contributed to limit career breaks among women.¹⁴ The duration of working life for Maltese men is the fourth highest in the EU, whereas that for women is now slightly above the EU average. A decade ago, the duration of working life of Maltese women was the second lowest in the EU.

The relatively low employment rate amongst those aged 55 to 64 in Malta is solely down to the low rates observed among women of this age. In fact, even though the pension age in Malta during the last decade was still below that across the EU, the employment rate in Malta among older men rose from 59.6% to 70.1%, very similar to the rise in the EU during the same period (from 58.1% to 71.4%). Among Maltese women there was an increase from 25.1% to 45.9% between 2015 and 2024, but the rates remain low compared to the EU's 59.3%. Among younger cohorts of women, the gap between Malta and the EU is much smaller and even negative for women in the youngest cohorts, such that in a matter of a decade or so, one would expect Malta to surpass considerably the EU average female employment rate even among the 55 to 64 age bracket.

¹⁴ See Grech (2025).

Figure 3: Average career duration (years) by gender



Source: Eurostat.

4. How much of recent changes can be attributed to the pension deferral scheme?

Administrative data suggest that, on average, between 2016 and 2024, about 41.7% of those working at age 61 were persons who benefitted from the 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. During these years, about 4 out of 10 persons who could get an early pension at age 61 opted to get it, while the remaining 6 out of 10 continued working. That said, one needs to consider that the constraint of the required contribution years to be able to retire early will become ever more binding as time goes by. While the cohort born in 1961, who reached age 61 in 2022, needed just 35 years, those born on or after 1976 need 42 years (of which 35 must be paid contributions and not credits).

Some of those who benefitted from the deferral scheme would probably have continued working beyond age 61 even without the deferral scheme. However, before delving into this issue, it is interesting to look at some of the characteristics of those who deferred their pension. Between 2016 and 2024, nearly 7,900 persons benefitted from the pension deferral scheme. As can be seen from Table 2, the scheme affected relatively similar numbers of those born between 1955 and 1960. The bulk of persons opted to defer till their state pension age. In fact, 34% deferred for one year, 45% for two years, and just 21% for three years or more.

Table 2: Those who opted to defer their pension by age of birth

Birth year	Amount of persons
1955	1,469
1956	1,191
1957	1,302
1958	1,325
1959	1,265
1960+	1,322

Source: *Department of Social Security.*

To analyse the possible impact of the scheme on labour market behaviour in more detail, Jobsplus data for employment by single year of age is used to compute exit rates at age 61 by age of birth and by type of employment. These rates are presented in Table 3 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 rise in the pension age from 61, and the creation of the early pension exit pathway. It is quite interesting that while the pension age had a very strong impact on public sector employees, with over four-fifths leaving employment once they reached age 61, amongst private sector employees the exit rate was of just 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 to a lesser extent on private sector employees.

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 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 the private sector, the scheme led to a decline in early exit as strong as that induced by the increase in the pension age four years before. Whereas the legislated rise in pension age had led to an immediate drop of 3 percentage points, the deferral rate 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 7 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 six percentage points. The self-employed, also, appear to have opted to have adjusted strongly their exit age. In view of this large effect, Table 3 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 fell by 3 percentage points among public sector, and by 5 percentage points among private sector employees and among the self-employed.

Table 3: 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.

To test further these results, Table 4 focuses on exit rates computed just for men, as data suggest that they are the most likely to have the full contributory record required to be able to exit at the early exit age of 61. In fact, in the first year after the pension age rose from 61, a distinctive gender gap arose in early exit among the two genders. While up to the generation born in 1951, the exit rate at age 61 was 49% for men and 42% for women, among the first generation to experience a pension age increase, that born in 1952, the gender-specific exit ages fell to 35% and 9%, respectively. By the generation born in 1963, the gender-specific exit ages had fallen to 18% and 9% respectively. Basically, women tend to retire later than the early age, as either they do not have enough contribution years, or they are better off working longer as the later contributions boost their pension considerably.

Looking at just men, one finds very similar results in terms of direction of policy impact as with the overall numbers, except for the initial impact of the pension age rise on male private sector employee. This disappears and instead mirrors the perverse result observed among self-employed persons. Basically, initially more male private sector workers opted to retire post 61 once it became the official retirement age. That said, this blip in behaviour disappeared also immediately.

As for the effect of the deferral scheme, among men the initial introduction of the scheme had the same impact, with a decrease of 3 percentage points in the exit age of private sector employees. The effect of the extension of the scheme to cover public sector employees becomes stronger as the decline in the exit age is of 2 percentage points rather than just one. Finally the impact of the more generous deferral rates on the exit age of private sector employees and the self-employed rises to 6 rather than 5 percentage points.

Among women, the only discernible impact of the introduction of the pension deferral scheme was when it was introduced in 2016, where it reduced the exit rate of privately employed women by 2 percentage points and another decline of 3 percentage points among the same category of women when the deferral rates became more generous in 2023.

Table 4: Exit rates at age 61 by age of birth and by type of employment – Men only

Birth year	Total	Public sector	Private sector employees	Self-employed
1951	49%	83%	34%	14%
1952	35%	39%	37%	24%
1954	28%	30%	30%	18%
1955	27%	30%	27%	21%
1957	25%	22%	27%	22%
1958	22%	20%	24%	18%
1961	22%	18%	26%	18%
1962	18%	17%	20%	13%
1963	18%	17%	20%	12%

Source: Author's workings using Jobsplus data.

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”. 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 accounts for about 21% of the increase observed in the older working age labour force, or about 1,800 additional workers. Assuming these workers earn the average wage, they contribute about €10 million each year to the direct tax intake of Government, or about €40 million overall if they work till 65. This besides saving Government about €31 million annually in early pension expenditure, or about €123 million in foregone pensions if they work till 65. When they retire at 65, these workers will receive a pension top up of slightly less than €9 million over and above what they would have got if they had retired at 61. This means that it will take more than 18 years for Government to incur a net cost, given the savings it gains when individuals defer their pensions.

5. Conclusion and policy recommendations

The evidence shown in this policy note confirms that the pension age policies that have been implemented since 2013 have led to a radical change in the labour market behaviour of individuals post age 61. Today barely 14% of individuals who had been working in the year immediately before the early pension age opt to receive an early pension and 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 became more than actuarially fair. The impact of the last two changes in the scheme were 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, and that finally it is also able to affect the labour market behaviour of women.

The carrot and stick approach currently in place seem to be working very well. 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. Since the Maltese workforce is getting older over time, creating the right incentive structure for older workers is key to the future evolution of Malta's economic model. 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.

References

Grech, A. G. (2017), The impact of pension age changes – The case of Malta, *Intereconomics*, 52(1): pp. 57-62.

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

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

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

Ministry for Finance (2015), Budget Speech 2016.

Ministry for Finance (2022), Budget Speech 2023.

OECD (2023), Pensions at a Glance 2023: OECD and G20 indicators.

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.

Queisser, M. & Whitehouse, E. (2006), Neutral or fair? Actuarial concepts and pension-system design, OECD Social, Employment and Migration Working Papers No. 40.