BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

MALTA'S LONG-TERM AGEING EXPENDITURE FORECASTS – THE IMPACT OF MIGRATION ASSUMPTIONS

Article published in the Quarterly Review 2022:3, pp. 70-72

BOX 4 : MALTA'S LONG-TERM AGEING EXPENDITURE FORECASTS – THE IMPACT OF MIGRATION ASSUMPTIONS[1]

The Maltese economy has experienced high migration flows in recent years. Such kind of flows have made it harder to make reliable population projections especially due to significant revisions of past data every few years. The first set of Eurostat's population projections for Malta made in 2005 suggested a population of 508,000 by 2050 while those made in 2010 indicated 427,000 for the same year. Yet the Maltese population in 2020 was already more than 516,000. This box discusses the main findings in Grech (2021), which assesses existing population projections considering administrative data on the length of stay of migrants.[2]

Migratory flows in Malta are driven to some extent by the economic cycle, with immigration falling sharply in both the Great Recession and the pandemic. Though emigration of foreigners rises during recessionary periods, it has never actually offset immigration. Rather, emigration flows show a significant degree of correlation with the immigration flows of a year or two earlier. However, the way Eurostat sets its net migration assumption that underpins its population projection does not seem to consider these observations. It instead follows a time series approach with an imposed assumption that migration flows across Europe converge over time, so that gradually net migration to Malta subsides.[3] Most migrants are implicitly assumed to stay in Malta till their death. In fact, Eurostat's no migration population projection shows a population aged 65 and over of 168,000 in 2050 as against the baseline projection of 210,000 for the same year. This suggests that the Eurostat baseline projections imply that over 42,000 pensioners in 2060 will be recent migrants to Malta.

However, Borg (2019) using longitudinal administrative data finds that around a quarter of foreigners exit the Maltese labour market within their first year in the country while around half exit between one and two years later.[4] To qualify for Malta's Two-Thirds pension, a worker must have paid contributions for a minimum period ranging from 10 to 12 years depending on one's date of birth, while to get a full pension the required contributory history is between 35 to 41 years. Workers from EU countries and from nations with whom Malta has signed special agreements may be able to utilise contributory periods in Malta to qualify for a pension when they retire elsewhere, but Malta's share would be pro-rata at most. Administrative data from the Social Security Department indicate that at present the number of foreign citizens who have paid enough contributions to qualify for at least a pro rata minimum pension in Malta amounts to just over 3,500 individuals. This means that less than one in twenty of current foreign workers at present have a direct entitlement to a pension from Malta.

To double check the Social Security Department data, labour market administrative data were investigated to assess if they indicate a similar number of foreign workers having

---

[1] Prepared by Dr Aaron G. Grech, Chief Officer of the Economics Division of the Bank. The views expressed in this article represent those of the author and should not be interpreted to reflect those of the Bank. Any errors are the author's own.

[2] For a fuller version of this study, see Grech, A.G. (2021), "The impact of migration assumptions on ageing expenditure forecasts", Central Bank of Malta, *Policy Note*.

[3] For details see European Commission (2020), "Methodology of the Eurostat population projections 2019-based (EUROPOP2019)", ESTAT/F-2/GL, *Technical Note*.

[4] Borg, I. (2019), "The length of stay of foreign workers in Malta", Central Bank of Malta, *Policy Note*.

Table 1
ESTIMATE OF FOREIGNERS REMAINING IN THE MALTESE LABOUR MARKET ENOUGH TO QUALIFY FOR A MINIMUM PRO RATA PENSION

First year in Malta	Amount who entered labour market	Proportion still working in Malta after ten years	Foreign workers qualifying for pension
2002	1,516	24%	361
2003	970	24%	233
2004	1,138	29%	329
2005	2,267	22%	508
2006	3,339	20%	655
2007	4,451	15%	675
2008	5,271	16%	880

Source: Author's calculations using labour market administrative data.

worked for enough years to qualify for a Maltese pension. Table 1 summarises our findings, showing that as the number of foreign workers rose, there was an opposite trend in the proportion of those who were working long enough to get pension entitlement in Malta. Taken together, of all the foreign workers who came to Malta between 2002 and 2008, just over 3,600 may have vested pension rights. This is similar to the amount indicated by Social Security Department data and implies that less than one in five of these workers will get any return on their national insurance contributions.

Based on available data and applying a cohort approach to determine their probability to leave the Maltese labour market, it appears that when one looks at the next decade of arrivals, the proportion who may acquire vested pension rights may be at most 20% of the initial inflow. This would suggest that over 15,500 of the current foreign workforce could eventually have some entitlement to a Maltese pension. Furthermore, while they may have some entitlement to a Maltese pension, their pension is highly likely to be pro rata as they would be unable to reach the required number of contributions for a full pension. Unless a third country national has started to contribute in Malta as from the age of 24, and continues doing so until age 65, such person would not qualify for a full pension. Of all the migrants that have come to Malta in the last decade, only a quarter would have a full contributory period if they were to remain working in Malta till retirement age.

European Commission (2021) identifies Malta as one of the top five EU countries in terms of the projected rise in pension spending.[5] The rise projected for Malta is nearly four times the EU average. This, however, is expected to occur only after 2040, whereas in the EU the rise in spending will happen by 2040. This is a direct reflection of the population projections, which see Malta's old age dependency ratio take a turn for the worse after 2040, due to the assumed ageing of migrant workers in Malta.

Table 2 presents alternative estimates of ageing costs based on the methodology used in the European Commission study but with different assumptions about how many migrants leave the islands before acquiring pension entitlements. At one extreme, if one assumes all migrants leave Malta before having pension entitlement, ageing costs in 2070 would be

[5] European Commission (2021), "The 2021 Ageing Report: Economic & budgetary projections for the EU Member States (2019-2070)", Economic and Financial Affairs, Institutional Paper 148.

Table 2
ESTIMATE OF AGEING COSTS USING MODIFIED POPULATION PROJECTIONS
Percentage of GDP

	Baseline projection	Baseline projection with no migrants staying on until 65	Baseline projection with 66% of migrants staying on until 65	Baseline projection with migrant length of stay in line with recent
2019	17.9	17.9	17.9	17.9
2030	17.8	16.9	17.5	17.2
2040	18.5	16.4	17.8	17.2
2050	20.4	17.2	19.3	18.4
2060	23.7	19.0	22.1	20.8
2070	25.9	17.9	23.2	20.9

Source: Author's calculations using European Commission (2021).

the same as in 2019. If instead one assumes two thirds of those migrants which Eurostat assumes will be staying until retirement do so, spending would rise by 5 percentage points compared to 2019. If one were to calibrate this scenario further such that by 2060 there are 15,500 migrants who are retired in Malta, the growth in spending would be of slightly less than 3 percentage points. This would bring Malta's results nearly in line with those of the rest of the euro area, instead of being four times as high.

The extent to which ageing expenditure forecasts are affected by assumptions on migration warrants a degree of caution. For policy formulation purposes, Maltese policymakers need to monitor the length of stay of migrants and take this into consideration when making long-term fiscal plans. Relying on existing population projections, with their strong assumptions about migrants settling permanently in Malta, may make the country's long-term fiscal sustainability appear much worse than it could effectively be. It could also impact the process of pension reform weighing the case against adequacy reforms unnecessarily. Moreover, it is crucial to look at a number of different scenarios with varying assumptions, so as to make pension policy robust to changes in migration patterns.