

BOX 1: DOES COVID-19 NECESSITATE A REASSESSMENT OF THE ECONOMIC IMPACT OF THE RISING PENSION AGE IN MALTA?¹

The Maltese Government had enacted a reform in 2006 that as from 2013 raised the pension age gradually from 61 for men and 60 for women to 65 for both genders. Individuals are still able to receive a pension as from age 61 if they have a full contribution record, but if they do so, they are precluded from working till they reach their statutory pension age. If someone with a full contributory record opts to work beyond 61, their pension is boosted by a maximum of 23% if they work till 65.

Since older cohorts were more vulnerable to COVID-19, the pandemic was expected to be an age-specific shock to the labour market, undoing the lengthening of working lives of previous decades. In the case of Malta, the existence of the early exit age of 61 enhanced these fears, as older workers could withdraw more easily from the labour market and draw a more generous benefit than the COVID-19 wage supplement. This box discusses the main findings in Grech (2022), which uses administrative data to assess whether COVID-19 impacted significantly early exit from the labour force, and whether the estimates of economic impact of the rising pension age made in Grech (2016) need to be reassessed.^{2,3}

The latter study had utilised Jobsplus' employment register data to study the retirement behaviour of those affected by the pension age changes, but it only had information on the behaviour of those born in 1952, and the early exit behaviour of those born in 1953. This covered just the first change which moved the pension age from 61 for men to 62, and from 60 for women to 62. Administrative data now fully covers the period to 2021, which means that the labour market behaviour of all those born till 1958 is now known, while the early exit behaviour of all those born up to 1960 is also available. This means that the projections made in Grech (2016) can be compared with actual outcomes for an additional six to seven single-birth year cohorts.

The last cohort where both the statutory pension age and the early exit age was 61 was for those that were born in 1951. Labour market data show that of those born in that year who were still working at age 60, only 36% were still working at age 61. Full-time labour market participation of this cohort continued to decline with each year, falling to 22% for men and to 25% for women by age 65, as can be seen in Table 1.

The first rise in the pension age affected those born in 1952. The rate of drop-out from full-time employment immediately declined significantly, such that 63% of men who had been working at age 60 were still working at age 61, an effective improvement of about two-fifths in the drop-out rate. For women, the impact was much stronger, as the improvement was of about four-fifths. For men, the impact was limited to age 61, whereas for women there was a distinct improvement also for those who continued to work full-time to age 62.

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² For a fuller version of this study, see Grech, A.G. (2022), "[The impact of COVID-19 on longer careers – An initial assessment for Malta](#)", Central Bank of Malta, *Policy Note*.

³ Grech, A.G. (2016), "[The possible impact of pension age changes on Malta's potential output](#)", Central Bank of Malta, *Policy Note*.

Table 1
PROPORTION OF THOSE BORN IN A PARTICULAR YEAR WHO WERE
WORKING FULL-TIME AT AGE 60 AND WHO WERE STILL WORKING FULL-TIME
BY SINGLE YEAR OF AGE

(a) Male; per cent

Birth year	61	62	63	64	65
1951	36	28	26	24	22
1952	63	30	26	24	21
1953	68	31	28	26	24
1954	71	36	32	31	28
1955	72	40	36	34	29
1956	74	65	45	37	30
1957	75	67	44	38	
1958	78	68	49		
1959	75	66			
1960	78				

(b) Female; per cent

Birth year	61	62	63	64	65
1951	42	33	29	27	25
1952	91	42	31	27	24
1953	89	41	31	29	27
1954	90	44	37	34	32
1955	92	53	42	40	35
1956	90	86	58	44	36
1957	90	82	55	48	
1958	88	85	60		
1959	86	80			
1960	90				

Source: Author's estimates using Jobsplus data.

With each subsequent birth year cohort, the tendency to stay in employment post age 60 strengthened. Of men born in 1960 who had been working full-time at age 60, 78% were still working at age 61, whereas 90% of women continued to work full-time. Looking, for instance, at the cohort of men born in 1957, their labour market participation at age 64 was better than that at age 61 of those born in 1951. In simple terms, 64 was the new 61 even for those whose retirement age was still 63.

The initial reaction to the second pension age increase, that from 62 to 63, ended up being quite like the first pension age increase. The proportion of men who stayed in full-time employment went up to 65%, which was just above the increase that had occurred in the first year after the retirement age had risen from 60 to 61. Among women, the impact of the second pension age rise was a bit less pronounced than the first one, but in relative terms the impact of the second pension age on female labour participation remained much stronger than that for men.

One thing that is quite evident from Table 1 is that while there was a significant improvement over time in the proportion of men who remained in full-time employment at age 61, this proportion has remained below 80%. This contrasts with Grech (2016) which had

assumed that post-61 labour market behaviour of men would converge to that of women. While there was some convergence, this appears to have stalled somewhat.

On the other hand, Table 1 indicates that successive cohorts are ending up working for longer after the statutory pension age. For instance, 24% of men born in 1952, who faced for the first time the new pension age of 62 were still working at age 65. This was the same proportion as that for men born in 1952, who faced a retirement age of 61. By contrast, 29% of men born in 1955 were still working at age 65, even though they faced the same retirement ages as men born in 1952. This pattern is evident for all cohorts. This diverges from the projections made in Grech (2016) where the bulk of the change in behaviour was related to changes in the pension age, while data now show that a growing proportion of those who stayed to work till the statutory pension age opt to continue working even beyond it.

It is relevant to note that the pension deferral scheme applies for ages up to 65 and offers quite significant top-ups at ages 63 and 64. One cannot exclude that this financial incentive is leading to a growing proportion of individuals to continue working up to the age when the deferral scheme offers its maximum return. In 2021, the proportion of men still working full-time at age 64 was higher than that of men who were working full-time age 61 just six years earlier. The same result is observed for women.

Turning specifically to what appears to have happened in 2021, the drop-out rates out of full-time employment (displayed in the bottom diagonal in the Table 1) do not appear to have deteriorated. In fact, for all ages bar 62, the proportion of those who had been working full-time in 2020 and who remained in full-time employment in 2021 was a historical high. For example, 49% of men born in 1958 who had been working before they reached the early exit age, were still working in 2021 even though they were 63 by then. For those born a year earlier, the proportion was just 44%. The only age where there appears to have been a significant negative impact in 2021 was for those who were aged 62. For this age bracket, there was a decline in full-time employment rates, especially among women.

Jobplus data therefore suggest that the pandemic did not exert any long-lasting impact on the lengthening of careers. There may have been an initial dip in employment of older workers, but this was quite temporary and labour market behaviour returned to pre-pandemic levels quickly. Despite the possibility to retire early and access their pension, the bulk of workers remained in full-time employment, and the trend to work beyond the statutory pension age continued unabated.

Grech (2016) had estimated the labour market impact of pension age changes by assuming that had the latter not been enacted, employment drop-out rates would remain unchanged after 2012. This no-policy change benchmark had been contrasted with the actual labour market outcomes between 2012 and 2014, together with forecasts made for the period 2015 to 2026 based on the assumption of continued improvement in drop-out rates as a result of subsequent rises in the pension age. The same approach was undertaken again utilising updated labour market data up to 2021, with forecasts made to 2026 based on the insights on employment drop-out rates that have been described above.

The new estimates are presented in Table 2 and contrasted with those made in Grech (2016). This indicates that in 2026 the potential labour supply should be some 3% higher than it would have been otherwise, and Malta's potential output should be some 1.7% higher than if the pension age had remained unchanged. This is somewhat lower than the Grech (2016) projections, but this reflects mostly a base effect as the Maltese economy and workforce grew much more sharply than had been expected, and therefore the base against which the pension age-induced improvements are being compared is much higher.

The fact that thousands more persons are remaining in full-time employment instead of drawing a two-thirds pension, of course, also has a strong positive impact on public finances. Assuming those in full-time employment would have drawn the average two-thirds pension, the annual saving in spending for Government grew nearly tenfold, from €5.8 million in 2013 to €52.4 million in 2021. If one makes a conservative projection of annual rises in pension rates, till 2026, the saving will nearly double. At the same time, the induced increase in GDP had a very positive impact on government revenue, estimated at €7.1 million in 2013, and reaching €65.5 million in 2021. Assuming the tax-to-GDP ratio remains stable at its 2021 level, by 2026 this positive impact should also nearly double. Taken together these two impacts imply that had labour market behaviour post age 61 remained frozen in its 2012 pattern, government would have needed to borrow an additional 9.1% of GDP between 2013 and 2026. This is higher than the estimate made in Grech (2016). This reflects two facts: namely that since that study was conducted, the Maltese Government

Table 2
NEW ESTIMATE OF THE IMPACT OF PENSION AGE CHANGES (2013 TO 2026)

Per cent

	Potential labour supply	Potential output	Public debt ratio (% of GDP)
2013	0.4 (-0.2)	0.2 (-0.4)	0.2 (0.0)
2014	0.6 (-0.1)	0.3 (-0.1)	0.4 (0.0)
2015	0.7 (0.0)	0.4 (0.0)	0.7 (0.0)
2016	0.8 (-0.1)	0.4 (-0.1)	1.0 (0.0)
2017	0.9 (-0.3)	0.5 (-0.2)	1.4 (0.0)
2018	1.4 (-0.2)	0.8 (-0.1)	1.9 (0.1)
2019	1.7 (-0.1)	1.0 (0.0)	2.5 (0.1)
2020	1.8 (-0.1)	1.1 (0.0)	3.2 (0.3)
2021	2.1 (-0.1)	1.2 (0.0)	4.0 (0.4)
2022	2.3 (-0.2)	1.4 (0.0)	4.9 (0.6)
2023	2.6 (-0.2)	1.5 (-0.1)	5.9 (0.8)
2024	2.6 (-0.3)	1.5 (-0.2)	6.9 (1.0)
2025	2.8 (-0.4)	1.6 (-0.3)	8.0 (1.3)
2026	3.0 (-0.6)	1.7 (-0.4)	9.1 (1.4)

Source: Author's calculations.

Note: The figure in brackets compares the new estimate with the estimate made in Grech (2016).

consistently awarded higher than projected annual pension increases, and also that the tax-to-GDP ratio did not fall as much as had been expected.

In conclusion, the pandemic does not appear to have led to any substantive revisiting of the economic impact of the pension age changes. The labour market behaviour changes induced by the pension age changes have been resilient in the face of what initially appeared would be quite an age-specific shock. The strong and quick economic recovery, combined with the pension deferral scheme, undoubtedly played a role in this respect.