

Corporate Pensions Seminar

Hon. Justyne Caruana – Minister for Gozo

Distinguished guests, ladies and gentlemen.

It is my pleasure to be here today to share my thoughts on the topic of Corporate Pensions. This seminar is important since it covers two imperative pension policy concerns namely sustainability and adequacy which have continuously been debated as top priorities on the Government's Agenda.

As Minister for Gozo, I am honoured to be addressing this seminar since the issue of corporate pensions is of critical importance within an island region which is characterized by an **ageing population** where life expectancy is increasing. Statistics issued by the National Statistics Office highlight that the population aged 65 and beyond reached 23% for Gozo in comparison to 19% for Malta. Gozo is identified as a region with a higher concentration of older persons which is above that of the national average of one out of five persons aged 65 and over. This phenomenon is in good part the result of younger Gozitans who over the past decades have moved to Malta in search of work opportunities. The influx of the retired immigrant population to Gozo, predominantly in older age groups, is another relevant factor in this regard.

Another priority concern within the labour market in Gozo is that the **productivity per worker** as well as the average salary are lower than those registered in Malta. This is due to the lack of higher value added 'new economy' enterprises in Gozo, including, amongst others: financial, professional, administrative, support services and gaming activities. This also reflects the seasonal nature of certain activities in Gozo, as well as the predominance of employment with Government.

Business activity in Gozo is also characterized by a prevalence of micro firms which are predominant in comparison to Malta. 96% of enterprises in the island region are micro

firms, in comparison to the national average of 94%. In addition, the average size of the firm in Gozo is half that of the national average, at just under two employees.

These three aspects – more pronounced population ageing, lower productivity of employment and the predominance of micro business activity within the context of a high dependence on the public sector for jobs pose very important considerations which must be properly evaluated and integrated within corporate pension system design.

To-date, **pension reform in Malta** has addressed the issue of **sustainability** by making pensions more sustainable. It is a well-known fact that the most important reforms to address this issue were introduced through a gradual increase in the statutory retirement age within the First Pillar or Pay as You Go scheme, in 2014. Furthermore, the growing influx of foreign workers of working age has also contributed to alleviate sustainability concerns.

The issue of **adequacy** remains an ongoing challenge. This is due to the high economic growth that has been registered in Malta, within a context where first pillar pensions are capped, making it increasingly challenging for pensioners to keep up with higher living costs.

A number of reforms have followed through the Annual Budget to address the issue of adequacy. The drawing up of an Active Ageing policy is one of them. From past experience as Parliamentary Secretary for the Elderly, I have always strongly supported the concept of active ageing through the realisation of the National Active ageing strategy as well as strengthening of options and services available to improve the quality of life of the ageing population. Whilst serving as a goal in itself, active ageing enables longer worker lives, benefiting the individual on a social and financial level. This has been complemented by a number of provisions that have been introduced to encourage work beyond the new statutory retirement age. To this end, further efforts need to be made to ensure that support structures are in place for transition from full labour market participation to a managed reduction in work commitment. An example of this could be through career counselling and coaching to older employees, typically the baby-boomers. This can serve to prepare them to move to a different phase of their working life where they can serve to mentor younger

employees, typically Generation Xers and Millennials, providing them with access to decades of knowledge and experience. Within a context of an island region where micro firms are highly prevalent, the establishment of mentors within a context of a gradual phase-out to retirement, may be challenging, due to limitations which are typical of small business.

In my view, the concept of active ageing includes both rights and obligations. In other words, rights to social protection from the first pillar pension, lifelong learning and training should be accompanied by obligations to take advantage of the available schemes and services organised by the Government, employers and civil society. One case in point is the participation in voluntary, second or third pillar pensions. Supplementary pension schemes do exist in Malta but these are completely optional though subject to tax incentives. The benefit of such schemes is that, persons do not face a significant gap between the salaries prior to retirement and the pension they receive.

In this respect, I recognise the potential role of corporate pensions not only for Malta, but also specifically for the island region of Gozo, provided that the latter are tailored to suit the specific needs of the population of the Island Region. There is the need to create incentives to make occupational pensions attractive for the needs of Gozo in light of the special circumstances that characterize socio-economic development within the island region. A tailor-made and preferential framework is called for given that ageing is more prevalent; productivity is lower than that of the mainland and the significance of micro firms.

Employees and firms located in Gozo are considered to be meritorious of preferential treatment due to the disadvantages which are reflected by the relatively reduced opportunities for business growth and social development, which can be seen through lower average earnings as well as higher burdens on employers that are typically of a smaller size. Preferential treatment for enrolment in corporate pension schemes may be through the granting of enhanced tax advantages to employers and employees, provision of coaching to firms and information sessions to workers that are planning to retire as well as those planning to continue work following retirement. In this regard, the involvement and commitment of the social partners is imperative from the consultation process to the implementation stage to ensure a bottom-up approach, for the benefit of both workers and employees.

The approach which I am putting forward is already reflected within the framework of business promotion incentives offered by the Government where investment in the region benefits from preferential rates to limit the costs of doing business from Gozo. To this end, the Ministry for Gozo together with the Regional Development Authority looks forward to be actively involved in any discussions on this front.

In my view, the complementary role of occupational pensions to provide adequate income in retirement can achieve a better diversification of wealth and will surely make Malta and Gozo one of the best places to grow old in. Due consideration to the needs of workers and business needs to be made, including the special characteristics on the regional dimension, coupled with an extensive campaign to create awareness on savings and planning for retirement.

We all recognise Gozo as special and distinctive. The region has indeed a role to play in attracting retirement business as a form of niche for prolonged tourism, benefitting the national and regional economies. At the same time as this is taking place, it is important to ensure that the local population inhabiting the island has the best possible opportunities and outcomes in enjoying a stable, healthy and productive retirement experience. Corporate pensions have a role to play as an important pillar in this regard, whose effectiveness will strongly depend upon their coherence with the needs of business and the workforce inhabiting the Island Region.

Thank you very much. I wish you a fruitful conference.