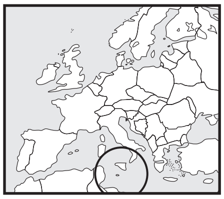
MALTA

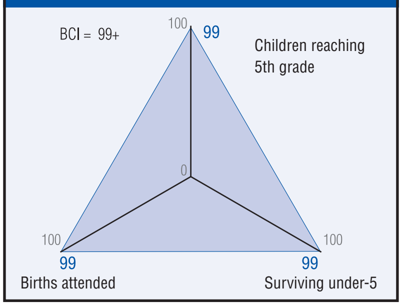
Will EU inroads foster greater social security?



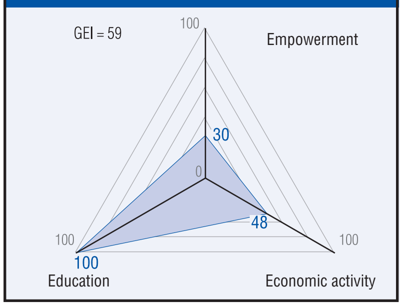
In 2006, Malta continued its inroads within the EU, with reforms in legislation aimed at adopting EU directives and reaching EU targets. Still, women face disadvantages to build an adequate pension and the new social security scheme may lower pension payments. Meanwhile, Malta claims to devote 0.15% of its GNI to 'development aid', although how much of this money actually goes towards its stated goal is highly questioned.

Kopin
Joseph M. Sammut

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Advances in gender equality

The legislative framework for gender equality improved considerably in Malta on joining the EU in 2004. Malta is continuously updating its own legislation in line with existing European Community legislation on equal gender treatment in the areas of employment and social solidarity. The employment rate among women registered a slight increase (one percentage point) between 2000 and 2005. There is still a large gap between women (33.7%) and men (73.8%) in the rate of employment. The employment rate for older women is 12.4% compared to 50.8% for men. The rate of employment for women between the ages of 20 and 49 falls by 8.9 percentage points when they have a child, while that of men increases by 4.4 percentage points. Around one fifth of working women (21.8%) work part-time, as compared to only 4.5% of working men. Malta has the widest gender imbalance in the EU regarding political decision making, with women holding only 9% of seats in parliament, while in the economic sphere, women account for only 17.7% of managerial positions. However, Malta tops all EU countries as the least inequitable with regard to the gender pay gap (4%). Women also represent the majority of new higher education graduates (57%), although this fact is not yet reflected in the different spheres of society. At the social level, women – and especially elderly women and single mothers – are at a greater risk of exclusion and poverty (Eurostat, 2006).

Poverty and social exclusion

The at-risk-of-poverty rate for 2004 stood at 15.5% among women (compared to an EU average of 20%) and 14.2% among men (EU average 15%). Children (21.9%) and the elderly (16.5%) are the population categories at highest risk of poverty. When analyzing poverty by household type, single-parent households (which are mainly headed by women) account for the highest percentage (47.9%) (NSO, 2007b). Half of the unemployed fell under the poverty line, in contrast to 5.5% of the working population. Most of the unemployed under the poverty line were male (53.7%). The ratio between the highest and lowest equivalized income quintiles was estimated at 4:1. The overall poverty rate in Malta (14.9%) is 1.1 percentage points lower than the EU average (16%) (Eurostat, 2007, figures for 2004).

Pension reform based on EU policy

Malta, like other developed countries, is facing an ageing population. Due to the effects of demographic trends on economic and social policies, a bill to amend the Social Security Act was presented to Parliament in July 2006 and became an Act on 1 January 2007 (Malta Parliament, 2006). The Act introduced a new pension system that responds to the need to provide for adequate and sustainable pensions in view of future trends. The new system is built on the EU policy (European Commission, 2003) to improve incentives for older workers to remain longer in the labour market, to strengthen the link between contributions and benefits, and to increase public and private funding, in light of the long-term implications of increased life expectancy on pension expenditures.

The government adopted a White Paper on a pension reform strategy in November 2004 and asked social partners and other interested parties to provide feedback and submit proposals. A multidisciplinary team was created to form the Pension Working Group (2005), which assessed the feedback received and presented its final recommendations to the government in 2005. That same year, the Ministry for the Family and Social Solidarity (2005), in collaboration with other concerned ministries, released the National Report on Strategies for Social Protection and Social Inclusion, which included a section on pension reform.

The old contributory social security system, introduced in 1956, catered for old age pensions and survivors' pensions. In 1965 the system was expanded to include disability pensions. In 1979 a mandatory earnings-related pension scheme that covered old age pensions and survivors' pensions was also introduced. It is called the 'two-thirds pension' because the initial benefits upon retirement were calculated as two thirds of the average income during the highest-earning three years of the previous 10 years, after a contribution period of 30 years. The retirement age was 60 for women and 61 for men. The lower the number of years of contributions, the lower the pension disbursed, and at least 10 years of contributions were required to be entitled for such a pension.

From a benefit scheme to a contribution scheme

The new pension reform gradually increases the retirement age from 60 and 61 years to 65 years for both genders. Workers will have to contribute to the scheme for 40 years in order to qualify for the full two-thirds pension, which will now be based on the average salary during the highest-earning 10 of those 40 years. The old system capped at a maximum pensionable income (MPI) of EUR 15,525 (USD 21,475). The new system raises the amount in accordance with the increase in the cost of living adjustment until 2010. By 2014, the MPI will be gradually increased to EUR 20,700 (USD 28,630), and social security contributions will be adjusted in line with this new MPI. After 2014, revision adjustments will be weighted 70% on wage indexation and 30% on inflation. Currently, the national minimum pension is equivalent to four fifths of the national minimum wage for married people and two thirds of the national minimum wage for single people. For people born on or after

1 January 1962, the guaranteed national minimum pension will be equivalent to 60% of the median national income.

A clause was also introduced through which persons over 61 years of age who were born on or after 1 January 1962 and have 40 years of credited contributions can opt for early retirement and start collecting a pension, as long as they do not resume paid employment before reaching 65. In addition, the Act established the crediting of contributions for parents (including adoptive parents) who were born on or after 1 January 1962, who have the legal care and custody of children less than six years old (or 10 years in the case of severely disabled children), and have stopped work to take care of their children. This provision applies to both mothers and fathers, who can claim the crediting of contributions for up to two years per child (four in the case of disabled children). The new Act also gives one year credit for students and workers who want to further their education and skills. Meanwhile, people working on a part-time basis can be granted the reduction of the minimum national insurance contribution to one tenth of their weekly earnings.

The new scheme mentions the introduction of a second pillar private pension at a later date, and a third pillar pension which is to remain totally on a voluntary basis. The second pillar will be built by directing a percentage of social services contributions to be invested through a retirement fund handled by professional fund managers. The government plans to introduce the second pillar scheme at the 'opportune' time, depending on the economic climate, so as not to impose heavier burdens on workers and employers.

The new pension scheme maintains the pay-as-you-go nature of the existing pension system, but has made substantial changes to the accrual of pension entitlements, the age at which benefits can be drawn, and the contribution periods required. Essentially, there has been a shift from a defined benefit pension scheme to a defined contribution scheme, which in turn shifts more risks towards the individuals concerned and results in a more restricted distribution to lower income earners and women.

Women disadvantaged to build an adequate pension

In principle, the new pension system gives everyone the same possibilities of building an adequate pension. In Maltese society, however, many women still devote more time to unpaid work and less time to paid work than men, which results in lower average pensions for women. The trend is for women's career patterns to be shaped by their care obligations towards the family. Statistics show that the most common reason for women to be unemployed is due to personal or family responsibilities (44%) (NSO, 2007a). The 2005 employment rate for women, 34.9%, is considerably below the Lisbon Strategy target of 60%, as is the employment rate of older workers (31.5%). The employment rate for older women of 12.4% is amongst the lowest in the EU-25 and decreased by 1.5 percentage points between 2003 and 2004.

Under the new scheme, it will be difficult for many married women and mothers to reach the 40-year target for a full two-thirds pension; women in certain age groups, who stopped participating in the economy for a period of 10 years or more, will not have made the contributions needed to qualify. Although the new scheme gives two years credit for each child, considering the wide gender gap in employment rates there is a need for more effective means to protect women against discrimination in their old age. Women should be better remunerated for their care-giving role in the family, a factor which has a considerable weight in Maltese society.

The new pension system does not include an automatic scheme for persons who care for elderly and less healthy individuals. The Social Security Act provides for a carer's pension for single people who have left the paid work force to care for their elderly relatives, but this is governed by a means test and subject to certain conditions; for instance, the patient must be bedridden or wheelchair bound. In several EU countries, care of the elderly has begun to be credited within the pension system (European Commission, 2006, p. 142), an important feature left out of the new pension scheme even though home care is considered a priority in elderly care in Malta (MFSS, 2005).

Pension payments on the decline

Due to the considerable lengthening of the measuring period from the top-earning three of the final 10 years (a period when workers would be near the top of their earning history) to the best 10 of the full 40 years, the remuneration may no longer be representative of the final salary of workers before they retire. This kind of reform is more likely to harm those who had steep earning rises in their careers, but may not be any more beneficial to those on a low-income trajectory. With the new changes, pension payments are expected to be on the decline, which in turn is likely to raise the risk of the elderly falling back on means-tested social assistance or dropping below the poverty line.

The shift to a more direct contribution scheme and the determination of benefits by the amount of funds accumulated make it crucial to have an adequate crediting system in place for periods during which workers are prevented from contributing by circumstances such as illness, unemployment, training, or caring for children and the elderly.

The second pillar, when introduced, creates new questions. In general, multi-pillar reforms are still too new for their long-term impact to be evident. A study by the Hungarian Central Bank (Orban, 2005) notes that "the returns recorded so far in the private pension funds fall short of expectations and, on the condition that these low returns persist, the second pillar is projected to provide annuities that do not make up for the reduction in benefits received from the public pillar." Shifting the weight to a direct contribution structure increases the risks shouldered by individual contributors instead of the state, and can reduce the redistributive element present in a more public direct benefit. Given the gender differentials in employment in Malta, it will also tend to lead to greater gender inequality. The second pillar will also introduce investment and administrative charge risks to pension schemes.

The shift to more direct contribution implies that an individual's contributions and benefits will become directly linked, reducing the possibilities of redistribution. Such a move will be negative for lower-income individuals. The longevity risk is shifted squarely to the shoulders of individual contributors of the same generation and not borne by the state, since the move to a direct contribution scheme shifts the financial risk of changing economic and demographic factors from the state to the individual. Taken together, all these measures tend to disadvantage those with low lifetime earnings, and their net outcome increases the risk that women will continue to have lower annual pension incomes.

In general, the parametric reforms are driven by the objective of increasing revenues and decreasing 'generosity' in terms of the annual pension benefits paid out, and thus they are likely to have a negative impact on the incomes of certain strata of pensioners. The new pension reform is mainly driven by demographic pressure and fiscal stability concerns, and its impact on income adequacy and pensioner poverty does not always appear to have been given sufficient assessment. The new reform sends a clear signal to individuals that they need to work more to qualify for the same benefit, rather than simply cutting benefits and then possibly facing a political backlash and being forced to increase them once again. Pensions were introduced in Malta not by chance, but as the result of social consensus after the Second World War that poverty among the elderly must be eliminated.

Social assistance to refugees

The government offers asylum seekers and refugees free accommodation in open centres, as well as an allowance for food and transportation for unemployed immigrants. Services and the duration of the period for which services are offered are regulated by an 'integration and service agreement' or a 'return and service agreement'. Refugees are given social security benefits and are also assisted with a rent subsidy (MFSS, 2007).

As of January 2007, the daily allowance given to unemployed refugees in open centres varies according to the status of the immigrant. A person with temporary humanitarian protection is given EUR 4.65, an asylum seeker (someone who is still awaiting a reply from the Refugee Commission) receives EUR 4.65, and a rejected asylum seeker receives EUR 3.5. Couples with children receive EUR 2.33 for every child. Persons with refugee status receive weekly social security benefits which amount to EUR 81.20 and EUR 8.14 for every dependant.

Both refugees and individuals with temporary humanitarian protection are entitled to work after being issued a work permit by the Employment License Unit, valid for one year. Upon employment, all social security benefits and allowances are stopped. All allowances given in the open centres as well as social security benefits and rent subsidies to refugees are taken from the government budget. All immigrants, irrespective of their status, are entitled to free health care.

(Continued on page 242)

Through these policy documents, the government stated its commitment to influencing increased food production on smallholder farms to attain food self-sufficiency through the development and improvement of land access, utilization, enhancement of input and output markets and rural infrastructure. Unfortunately, a great more needs to be done to live up to this commitment. ■

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MALTA

(continued from page 195)

It should be noted that in the Maltese context, the allowances given to asylum seekers and rejected asylum seekers could be compared at par or worse to persons living on a 'dollar a day' in a poor country, if they are not aided by charity organizations.

Official development assistance

According to the European Commission (2007, p. 164), Malta spent EUR 7 million (USD 9.68 million) or 0.15% of its GNI on official development assistance (ODA) in 2006. However, questions have been raised on whether the money was actually spent on aid towards the development of poor countries or for other purposes.

CONCORD (2007), an EU non-governmental development organization (NGDO) platform of which the NGDO Platform is a member, criticizes the government of a lack of transparency on where the money goes and to whom. CONCORD stresses that currently Maltese ODA figures include the cancellation of Iraq's debt to Malta, money spent on migrants during their first year in the country, the repatriating of migrants, and a number of scholarships given to people from developing countries. This money is not helping any developing country to develop and thus should not be counted as ODA. CONCORD further criticizes the government for wanting to tie ODA to the acceptance of the repatriation of migrants. The Maltese NGDO Platform has serious reservations on this measure and considers that it undermines the rightful focus of ODA, namely tackling poverty. ■

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MEXICO

(continued from page 197)

- Claims by trade union organizations presented to the ILO Administrative Council based on violations of Convention 102: 10 claims have been presented and are awaiting admission.
- Complaints by trade union organizations presented to the ILO Freedom of Association Committee based on violations of Convention 98 on the right to organize and bargain collectively: 10 complaints have been presented, admitted and combined in case 2577.[14]

If this type of reform is implemented in the rest of the system (in state companies, for example), the Mexican state will continue to contravene its national and international obligations in respect of the right to social security, and people will be compelled to resort to resistance strategies and extraordinary national and international legal mechanisms.

Challenges

- Demographic change is not the only challenge and may well not be the principal one as the authorities claim. Although fertility and child mortality rates have decreased, while life expectancy has increased, effective measures to address inequality and poverty are still needed along with a review of the social security system administration that is facing problems such as: fragmentation, a lack of integral actuarial assessment, insufficient regulation of private stakeholders (especially financial institutions), tax evasion and a diminishing allocation of budget resources, while fines and surcharges are cancelled for big companies with debts due to non-remittance of employee/employer contributions to IMSS.
- Cuts in the social security and health budget must be prevented to avoid further worsening of the financial crisis facing service institutions, an increased shortage of medicines and equipment and deterioration in the condition of infrastructure and the quality of services.
- It is essential to re-conceptualize social security not only as a work-related benefit but also as a human right applicable to the entire population, in the spirit of ICESCR Article 9.
- While the model continues to be an occupational one, social security can only be guaranteed to the population through policies of full and proper employment that, among other things, widen coverage and guarantee adequate pensions. ■

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14 Further information available from: <www.ilo.org>.