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Policy Analysis
Network (ESPAN)

Flexible retirement pathways

Malta

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Social Europe



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B-1049 Brussels*

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Summary

The pensionable age in Malta is 64, having risen by one year in 2014 and again in 2019. It will reach 65 in 2027, after which no further raises are currently contemplated.

People may work after pensionable age without deductions to their pension. Partial retirement is not possible; however, there has been mounting pressure from the social partners for combining part-time work with a reduced pension in the years between pension entitlement and pensionable age. This proposal has generated some concern in terms of its potential to reduce rather than increase total labour hours, and over its fiscal impact.

At present flexible retirement takes the form of a pension corridor; irrespective of prior occupation, all people are entitled to claim a pension at age 61 (irrespective of their pensionable age) if they have paid the total number of required contributions over a specific number of years according to their year of birth. This is known as the early opt-out and incurs no pension penalties. However, early opt-out means not being able to work until pensionable age. There are financial incentives for people to defer their pension from the point of entitlement, or from a pensionable age under 65, to age 65. Furthermore if people without full contributory records work beyond the point of entitlement, their social security contributions paid during this period may raise their pension rate when revised at age 65. People who continue to work past age 61 are entitled to social benefits until reaching their pensionable age, and to a supplementary allowance and in-work benefit if otherwise eligible.

Reforms during 2014-2023 were designed to increase employment amongst older people and – other than pension-deferral incentives from 2016 – most pertained to taxation. During 2022-2026 pension income is becoming progressively exempt from tax (subject to a cap) and since 2017 a further rebate has been applied. Similarly, self-employed part-time pensioners have benefited since 2014 from a preferential income tax rate. More general measures, such as reducing personal tax rates and incentives for employers to recruit people aged 45-65 are also pertinent. Such reforms are widely advertised on various portals and broadcast, print and social media.

Data on the take-up of early opt-out pensions and deferral incentives are not publicly available. There has been a slight increase in the number of those aged 65 or over who work, most commonly on a part-time basis, and the rise has been steeper among women than men in this cohort. The increase was far higher among the 60-64 cohort; it is not possible to establish with certainty the relative effects of two pension age rises and the introduction of deferral incentives, although a positive impact is probable. The employment rates of older people rise in line with educational attainment. The gap between the pensionable age and the effective retirement age has narrowed since 2014 among men, and remains smaller for women. In terms of social impact, the in-work poverty rate for employed pensioners was, at 3.3% in 2022, just over a tenth of the income poverty rate among those aged 65 or over, which stood at 30%. In terms of fiscal impact, rising retirement ages and deferral incentives are expected to contribute to improved pension deficit projections for 2070 but the respective contributions are unclear.

Data from a 2019 postgraduate thesis suggested that only around a quarter of people would be willing to work beyond the point of becoming entitled to a pension in the absence of financial incentives, although willingness rises with education and age. The willingness of those born in or after 1962, whose pensionable age is 65, to continue to work is unclear, given the current age 65 cap on incentives. In addition, whether the lobby to introduce partial retirement will be acceded to remains to be seen; whether it would be taken up is also unclear, and its labour market and fiscal impacts need to be studied. That said, cost of living pressures, rising poverty among pensioners, and a growing appreciation of the social and health benefits of remaining engaged might make this a welcome measure for many.

Introduction

Context and objectives of the report

In an ageing society, flexible retirement pathways allowing individuals to choose when and how to retire are increasingly emerging as a concrete policy option in the transition from work to retirement.

On 31 January 2024 the Val Duchesse social partners summit called on the European Commission to present an action plan to tackle labour and skills shortages in spring 2024. In this action plan, issued on 20 March 2024, the Commission committed to evaluating “*the impact of pension reforms introducing more opportunities for flexible retirement and for combining pension income with a salary*” (European Commission, 2024).

As pointed out by the OECD (2017), the design of pension systems, including features such as gains from working longer or caps on earnings from work and on hours worked, influences people’s retirement decisions, including in relation to flexible retirement. The pension rules shaping flexible retirement pathways also closely interact with labour market and workplace arrangements. In its demography toolbox of October 2023 (European Commission, 2023), the Commission clarified this dynamic: “*More flexible working time arrangements support the retention of older workers, for instance with flexible or reduced working hours, and enable people to remain longer in employment if they choose to*”.

However, flexible retirement pathways do not always result in extended working lives. It is important to get the incentives right. For instance, as widely acknowledged in the literature, factors beyond possible financial trade-offs, notably linked to people’s health status, may also be at play in the retirement decision, preventing individuals having a full-time career.

Finally, people need transparent and reliable information on the benefits that they can expect to receive under different scenarios concerning when and how they retire (completely or partially), to help them plan ahead. Financial literacy and awareness of pension rights play an important role in that respect.

The objectives of this report are: to map the different flexible retirement pathways existing in Malta and corresponding incentives; to analyse their take-up; and, to the extent possible, consider their expected impacts.

Key definitions

For the purpose of this report, the following definitions apply.

- (a) Pensionable age: the age at which people become eligible for old-age benefits in the main statutory pension scheme without benefit reductions (also known as “statutory retirement age”, “legal retirement age”, etc.), based on the features of the national system applying.
- (b) Retirement: withdrawal from the labour market (not to be confused with claiming a pension benefit).
- (c) Effective retirement age: the age at which individuals effectively withdraw from the labour market.

Scope of the report

The main focus of this report is on statutory pension schemes. These include all social security and similar programmes administered by the general government (i.e. central and local government, plus other public sector bodies such as social security institutions), access to which is based on legislation. Such public pension plans may be financed from social security contributions or general taxation; they are traditionally of a pay-as-you-go type, but may also be funded (i.e. statutory funded pension schemes).

Supplementary (occupational and personal) pension schemes are not the main focus of the report. However, wherever occupational pension schemes play an important role in relation to flexible retirement pathways, relevant rules in these schemes are also described. If the occupational pension system is fragmented and the rules vary by sector or company, the report mentions this and provides one or two relevant examples (e.g. innovative practices and largest sectors).

If different rules apply to some sectors/occupations (e.g. civil servants, and people in arduous jobs), the report mentions it but does not comment on the specific rules that may apply to these sectors/occupations.

1. Mapping of flexible retirement practices

Section 1.1 provides some broad contextual information about the pension system in Malta: pensionable age; basic conditions for pension entitlement; and available early-retirement options. Section 1.2 then maps the flexible retirement pathways available, as well as the rules affecting pension benefits and retirement incentives.

1.1 Short description of pensionable age and basic conditions for pension entitlement, and of early-retirement options

In 2024 the pensionable age is 64. Subsequent to a major pension reform in 2006 the pensionable age rose in a staggered manner from 61 for men and 60 for women, and will reach 65 by 2027 for both sexes. Pensionable ages by cohorts are illustrated in Table 1.

Table 1: Pensionable ages by age cohorts, Malta, 2024

Year of birth	Pensionable age	Years required for full pension	Number of weekly contributions for full pension
Between 1952 and 1955	62	35	1,820
Between 1956 and 1958	63	35	1,820
Between 1959 and 1961	64	35	1,820
In or after 1962	65	40	2,080
In or after 1969	65	41	2,132

Source: Department of Social Security (n.d.[a], n.d.[b]).

Table 1 also illustrates the basic conditions for contributory pension entitlement in 2024, which are the same for men and women. Entitlement requires the payment or accreditation of social security contributions for a minimum of 10 years, rising to 35 years for a full pension for those born before 1962, which will rise to 40 for those born in or after 1962, and again to 41 for those born in or after 1969.

Pension rates differ according to whether people have a full contributory record or not. Most pensioners receive the two-thirds pension, under an earnings-related pay-as-you-go scheme. The maximum pension that may be received if people have a full contributory record is two thirds of a maximum pensionable income (MPI): this cap was EUR 26,831 per annum in 2023 for those born in or after 1962 and lower for those born before 1962. With effect from 2024 the MPI for the latter group – at EUR 22,000 – is set to gradually rise to parity with the MPI of those born in or after 1962.¹

There are two other types of contributory retirement pensions.² The flat-rate retirement pension is paid to people who also receive a service pension for having occupied one of various public sector roles for at least 10 years (or two legislatures, in the case of MPs).³ The national minimum pension (NMP) is paid to those whose social security contributions are low. For those born in or before 1961 the NMP was tied to the minimum wage; for those born in or after 1962 the guaranteed NMP may not be less than 60% of the national median income. Both employed and self-employed⁴ people are eligible for contributory pensions.

There are no early-retirement pathways whereby people who have not reached pensionable age may retire on a reduced retirement pension. However, an early opt-out at age 61 is possible if people have fulfilled their contributory requirements (Section 1.2.1.2 below).

1.2 Mapping of flexible retirement pathways and rules affecting pension benefits and retirement incentives

1.2.1 Policies related to flexibility about when to retire

1.2.1.1 Deferred retirement

There is no cap on the right to remain in employment, nor is there a mandatory retirement age; remaining in employment after pensionable age is at the discretion of the employer and the individual concerned.

1.2.1.2 Flexible pensionable age

Pensionable ages are fixed in Malta, as explained in Section 1.1. That said, people may draw a full pension (subject to having made sufficient contributions) at age 61 (Section 1.2.1.3).

1.2.1.3 Differentiated pensionable ages

The Maltese pension system allows for an early opt-out between age 61 and the pensionable age. That is, those who have made the necessary number of contributions over the requisite number of years may (irrespective of their pensionable age) draw a pension at age 61 without penalties. If they do so they may not work until they reach the pensionable age and thus would not be eligible to deferral incentives. This is not in itself an early-retirement scheme. It was initially envisaged as a corridor (though not called so) to cater for those in arduous work who tend to enter the labour market early, but it is not restricted to them. Hereafter, the term

¹ [Pre-1962 MPI increase from 2024](#)

² There is also a non-contributory pension, for people aged 60 who do not meet the requirements for a contributory pension, and who satisfy a means test.

³ Police, armed forces, civil protection, correctional services, MPs, the judiciary and Attorney General, permanent secretaries, Cabinet Secretary, and public servants who joined the service before 1979.

⁴ Referred to as the “self-occupied” in Maltese social security legislation.

“pension entitlement” refers to becoming eligible for a pension after having satisfied contributory contributions, even if the pensionable age has not yet been reached.

The early opt-out scheme does not differentiate in terms of type of career or sector; even if it was initially intended for people in arduous work, it is available for anyone who has met the requisite social security contributions. The only differentiation pertains to the date of entry to the labour market (and hence to social security), resulting in an earlier entitlement to a pension among those who leave education relatively early to take up formal employment versus those who either continue with tertiary education or take time out of work for personal reasons such as care. That said, students in full-time education are entitled to some social security credits depending on their level of study,⁵ and accreditation also occurs in various other circumstances, which reduces this effective differentiation to some degree.

Early opt-out does not incur a pension reduction. Although the Pensions Strategy Group recommended in 2010 that it should do so until pensionable age, this recommendation was not accepted (Pensions Strategy Group, 2020).

A number of occupational groups in public service benefit from a service pension after having served careers of varying lengths (except for pre-1979 government officers, where age rather than length of service is the criterion).⁶ A portion of the service pension is exempted when calculating recipients’ retirement pensions.

1.2.2 Combining a pension with income from work

1.2.2.1 Claiming a full pension at pensionable age and continuing to work

People who reach the pensionable age and draw a pension may continue to work on a full- or part-time basis, as employees or as self-employed, with no cap on income and without affecting the amount of pension to which they are entitled.

1.2.2.2 Claiming an early pension and continuing to work

It is not currently possible to claim an early opt-out pension in Malta and continue to work. Although, as outlined in Section 1.2.1.3, people may claim a pension at 61 if they have met the necessary contributions for pension entitlement, they lose this pension if they remain in employment until the pensionable age.

1.2.2.3 Claiming a partial pension and continuing to work part time

It is not currently possible to claim a partial pension and continue to work part time.

1.3 Rules affecting pension benefits and incentives to work longer

1.3.1 Incentives to defer retirement

Financial incentives were introduced in 2016 to encourage people working in the private sector to remain in employment or in self-employment beyond the point of pension entitlement (or pensionable age if the latter occurs before age 65) (Legal Notice 289 of 2016). These incentives are payable only if the people concerned defer the receipt of their pension. These

⁵ [Social security credits](#)

⁶ [Service Pensions](#)

incentives serve to augment people’s eventual pension for each year spent in employment after pension entitlement until the maximum age of 65, at rates depicted in Table 2.

Table 2: Percentage increases for deferring pension, Malta, 2024

Eligible to retire at age	Defer pension until age	Pension increase %
61	62	6.5
62	63	7
63	64	7.5
64	65	8

Source: Department of Social Security (n.d.).

These pension increases are cumulative as follows:

- (a) a 13.5% increase for a two-year deferral (e.g. from age 61 to age 63);
- (b) a 21% increase for a three-year deferral (e.g. from age 61 to age 64); and
- (c) a 29% increase for a four-year deferral (from age 61 to age 65).

These incentives stop at age 65, although the accumulated increase remains part of people’s pensions thereafter. It is unclear whether this cap will be amended as those born in or after 1962 come to retire at their pensionable age of 65 from 2027.

1.3.2 Impact on benefits when combining a pension with work

1.3.2.1 Accrual of additional pension rights

People remaining in employment or self-employment after reaching pension entitlement must continue to pay social security contributions until 65 (or earlier, if they stop work before). Such contributions are not added to people’s pension contribution histories but placed in the Consolidated Fund (Malta Financial Services Authority, n.d.) – except in the case of those with incomplete records. From 2018 when people with incomplete records reach pensionable age before 65, draw pensions and continue to work, the social security contributions they pay after reaching pension entitlement serve to increase their pensions when revised at age 65.

1.3.2.2 Penalties for partial retirement

Partial retirement is not possible and therefore no penalties exist.

1.3.3 Taxation policies applicable to flexible retirement pathways, including tax incentives for employers

Those who continue to work beyond 65 no longer pay social security contributions but only income tax.

People who receive both a pension and employment income must declare all such income on their tax return and are then charged at applicable tax rates.⁷ The existence of tax exemptions and rebates for pensioners, as explained hereunder, effectively means that less of people’s employment income is subject to taxation; this is therefore less likely to deter employment.

⁷ See [Tax Rates 2024](#) for tax rates. In the case of part-timers, there is a preferential rate of 10% on the first EUR 10,000 in the case of employed part-timers, and EUR 12,000 in the case of self-employed part-timers.

Pensions equivalent to or below the minimum wage have been exempt from tax since 2014. Pension income even beyond the minimum wage (whether deriving from statutory, personal or occupational pensions) has been partially exempt from tax since 2022, with the exemption increasing by 20% each year to reach full exemption by 2026. As illustrated in Table 3, the exempted amount is capped.

Table 3: Tax exemption on pension income(s), 2022-2026, Malta

Year in which pension income received	Exempted portion of pension income (%)	Exempted amount capped at (€)
2022	20	2,864
2023	40	5,987
2024	60	9,732
2025	80	12,976
2026	100	16,220

Source: *Subsidiary legislation 123.204 of 2022.*

People in receipt of a pension have also been eligible for a tax rebate since 2017. Thus a person in receipt of pension income (less the exempted portion as outlined in Table 3) is charged tax at the applicable rates, before a rebate is deducted as outlined in Table 4.

The rebate is calculated as 15% of people's taxable pension income less a specified amount, which differs according to whether people opt for single, parent, or married tax status, and is capped. An additional tax rebate is available for married people who earn income besides their pension. There are caps on the amount of pension and non-pension income eligible for rebate, of EUR 16,220 and EUR 3,600 respectively in 2024.

Table 4: Tax rebates by tax status, 2024, Malta

Tax status	Amount deducted from pension before 15% is applied (€)	Rebate capped at (€)
Single	9,100	1,068
Parent	10,500	858
Married (pension income only)	12,700	528
Married (pension plus other income)	12,700	540

Source: *CFR – Pensions.*

Notes: See here for computation examples: *CFR – Tax Rebate on Pensions.*

There are no tax incentives for employers to retain employees beyond the pensionable age.

1.3.4 Eligibility to other social protection benefits when deferring retirement or combining a pension with work

1.3.4.1 Eligibility when deferring retirement

Employed and self-employed people are entitled (if otherwise eligible) to unemployment benefit (Social Security Act, Article 60), sickness benefit⁸ (Social Security Act, Article 18) and injury benefit (Social Security Act, Article 29) until their pensionable age. If they are eligible for

⁸ To be eligible for sickness benefit, self-employed people must prove that they are normally self-employed and would be so if it were not for their sickness.

an early opt-out pension at age 61, and choose to remain in employment and defer their pension claim, they are entitled to these benefits until their pensionable age.

People whose annual means fall below the thresholds specified in the Social Security Act and who do not receive a children's allowance are entitled to a supplementary allowance (Social Security Act, Article 73 and Fourteenth Schedule). This is also payable to those employed pensioners whose income renders them eligible. The amount varies according to people's marital status and whether they are heads of household. In addition, people in receipt of pensions who still have co-residential children aged under 23 who depend on them are eligible for the in-work benefit if their means permit it.⁹

1.3.4.2 Eligibility when combining a pension with work

If people defer retirement beyond the pensionable age they are not entitled to benefits in relation to unemployment, sickness or injury. However, as stated, employed pensioners remain eligible for supplementary allowance and in-work benefit if their income permits.

2. Reforms (1 January 2014 – 30 June 2024)

Section 2.1 provides a brief description of the relevant reforms that took place in Malta between 1 January 2014 and 30 June 2024. Section 2.2 then describes the way the country has communicated about these reforms.

2.1 Description of reforms

This section sets out reforms that have affected pensioners' labour market attachment and their decision whether and when to draw a pension. All these reforms derive from the annual budget speeches of the Minister for Finance during 2013-2024 (Ministry for Finance, n.d.).

Specific reforms

- (a) The *deferral incentives* introduced in 2016 were extended to public sector employees in 2019 and subsequently to the disciplined forces. The 2016 incentive rates were raised in 2024 (Ministry for Finance, 2023) as described in Section 1.3.1.
- (b) In respect of *taxation*, reforms were as follows.
 - (i) From 2014, pensioners whose income derived only from a pension not exceeding the minimum wage were exempted from paying tax on it, in a staggered manner. In 2022 it was announced that during 2022-2027¹⁰ this exemption would gradually be extended to pension income beyond the minimum wage too, with a view to encouraging employment among pensioners.
 - (ii) From 2014, pensioners working on a self-employed part-time basis started to benefit from a preferential income tax rate of 15% in respect of the income on which they paid the lowest social security rate.
- (c) In respect of *social security*, reforms were as follows.
 - (i) From 2015, workers without sufficient contributions to qualify for a pension were granted the opportunity to pay up to five years of contributions retrospectively. This may have served to encourage some to remain engaged in the labour market – so as to be able to afford this back-payment and because the prospect

⁹ [In-work benefit](#). The eligibility of people in receipt of a pension was confirmed through a written communication from the Department of Social Security to the author on 27 June 2024.

¹⁰ Increasing by 20% each year, such that in 2024 60% of people's total pension income is ignored for tax purposes.

of gaining entitlement to a pension had been enhanced. This measure is likely to have affected women in particular.

- (ii) From 2018, people aged 65 or over who received a pension and were in employment had their pension adjusted to reflect the social security contributions paid after pensionable age.

General measures

Measures that may have indirectly incentivised older people to remain in (or return to) employment included taxation and employment incentives.

In respect of taxation the measures were:

- (a) a reduction in the maximum personal tax rate of 32% to 29% in 2014 and to 25% from 2015 onwards;
- (b) raising the income ceiling for part-time income liable for the preferential tax rate of 15%, and in 2022 reducing the preferential tax rate to 10%; and
- (c) the introduction in 2015 of private pension legislation and an annual income tax exemption (raised in 2021) on private pension payments; this exemption may incentivise people to work longer and accrue a more favourable private pension.

In respect of employment incentives, from 2014, employers recruiting people aged 45-65 (even if the pensionable age at the time was 62) off the unemployment register were to benefit from: (i) an income tax deduction for the first two years of such employment; and (ii) an income tax deduction of 50% of the cost of training these workers.

Although the following does not, at least yet, constitute a reform, social partner pressure is mounting in this direction and thus deserves a mention. Employers' representatives and major trade unions have recently lobbied for improved flexible retirement options, first announcing proposals in March 2022 (Malta Chamber, 2022). In June 2023 the Malta Chamber reiterated that the ban on working between 61 and the pensionable age had negative effects on the people concerned, the labour market, and government revenue (Zammit, 2023a). It called once again for revisions to policy and incentives, as did the Malta Employers' Association and the two largest trade unions (Zammit, 2023b). In December 2023 the Malta Chamber and the General Workers' Union presented their proposals to the social partners at the Malta Council for Economic and Social Development, under which people who drew an early opt-out pension, worked formally for a minimum of 25 hours per week, and paid social security contributions for inter-generational solidarity, would be entitled to retain 40-75% of their pension, with those closer to their pensionable age receiving a higher portion (MCESD, 2023). The social partners welcomed this proposal, while the Central Bank stated that the fiscal impact needed studying (Farrugia, 2023). Official concern has been expressed about the potential of flexible retirement to reduce overall working hours (Musù, 2023).

2.2 Communication on reforms

Reforms to the laws and benefits governing pensions in general are announced in the annual budget speech, eagerly awaited each autumn on local television. They are also announced on the Department of Security website and Facebook page. Reforms are widely published, in accessible language, in the English and Maltese media. Reforms are also explained on *Gemma*, the financial literacy portal.

3. Access to information about available flexible retirement pathways

It is important that citizens have access to information about the flexible retirement pathways available in the country, including the rules affecting pension benefits and retirement incentives.

All information relating to pensions, including early opt-out and deferral incentives, is widely available on various media channels. The Department of Social Security has an informative and regularly updated Facebook page¹¹ with clear contact details for those wishing more information. The website of this department sets out, in standardised form, information on each benefit, including eligibility, what to expect and a link to benefit rates. One such page provides information on incentives for deferral, in a clear manner with examples.¹² A pension calculator is available but does not appear able to take deferral incentives into account.¹³ However, people may request a “tentative assessment” online, which asks applicants whether they intend to continue working (and if so, on a full- or part- or self-employed basis) after reaching pension age.¹⁴

In addition to these official online sources, pension developments are also widely reported on television and radio and in the printed media. *Gemma*, the financial literacy portal, is widely advertised. The portal is updated twice weekly, and features over 70 educational videos, periodic e-Books and webinars. *Gemma* is targeted at older people but also children and vulnerable groups, particularly those with mental health difficulties. In respect of pensions, it provides information through an easy-to-retrieve online portal in generally accessible language and often with helpful examples. One page on this portal deals with employment after pensionable age.¹⁵ However, a recent study of adult financial literacy found that awareness of this portal is limited, with less than half of respondents knowing of its existence. Fewer still were aware of its role in raising pensions literacy: even if people in the older age brackets were slightly more aware than younger ones, the highest values only ranged from 16.5% of those aged 50-59, 12.3% of those aged 60-69, and 14.6% of those aged 70-79 (Ministry for Social Policy and Children’s Rights, 2024).

It appears, though, that people may be obtaining information from other sources. The same financial literacy study¹⁶ found that over 35% of those aged 40 or over ranked their financial literacy quite/very high, with a definite improvement over the prior 2018 study when it came to having a retirement plan, increasing from 55% in 2018 to 88% in 2023. When asked how they fund, or intend to fund, their retirement (which allowed for multiple answers), 74.8% referred to their government pension, 40.4% referred to personal savings, and 32.6% said they would continue to work after the pensionable age (Ministry for Social Policy and Children’s Rights, 2024).

¹¹ [DSS Facebook Page](#)

¹² [Dept of Social Security – Pensions Information](#)

¹³ [Retirement Pension Calculator](#)

¹⁴ [Tentative pension assessment](#)

¹⁵ [Gemma – Employment beyond Pension age](#)

¹⁶ This was part of an international study led by OECD’s International Network on Financial Education in 37 countries.

4. Impact of flexible retirement pathways

A crucial question for policy-makers aiming to extend working lives is how flexible retirement pathways will affect older workers' labour market participation. Three possible effects need to be considered, as follows.

- (a) Offering greater flexibility through the pension system might lead some workers to continue in employment (thus postponing full retirement) while receiving retirement benefits.
- (b) The availability of partial-retirement options might entice those who work full time and are supposed to retire at the pensionable age to reduce their working hours before reaching the retirement age.
- (c) Partial retirement before reaching the pensionable age may allow extended working lives for specific groups of people (especially those with health problems, disabilities, care responsibilities and physically or mentally demanding jobs) who would otherwise have to exit the labour market early through early retirement or other schemes, such as those for disability or long-term sickness.

Section 4.1 looks at the take-up of the different flexible retirement schemes: that is, how widely are flexible retirement pathways used?

The following aspects are then considered:

- (a) impact on retirement age (Section 4.2);
- (b) labour market dynamics and the impact of flexible retirement (Section 4.3);
- (c) expected redistributive impact (Section 4.4);
- (d) expected impact on fiscal policies and sustainability (Section 4.5);
- (e) expected impact on quality of life and society (Section 4.6); and
- (f) motivation for using flexible retirement pathways (Section 4.7).

4.1 Take-up of flexible retirement pathways

Official data are not publicly available for the number of people who remain in work after becoming entitled to a pension, or for the take-up of pension-deferral incentives.

Contextual data for those aged 65 or over in employment (who may in principle retain their pensions while working) show that during 2014-2023 employment increased slightly, by 2.8 percentage points (p.p.), with that for women (3.8 p.p.) over double that for men (1.6 p.p.). The introduction of pension-deferral incentives in 2016 would not have affected this group, as people may only benefit from them up to age 65. Employment grew far faster in the 60-64 cohort, by 18.4 p.p., though it is not possible to determine how many in this group continued to work beyond becoming entitled to a pension.

It is not clear how the introduction of a partial pension for those working between the point of pension entitlement and pensionable age would affect retirement behaviour. Grech (n.d.) found that part-time employment rose among men after their pensionable age (when they may work again without losing their pension) but did not among women, suggesting their labour market detachment on receipt of a pension was more permanent. This led Grech to surmise that were employment to be allowed between 61 and people's pensionable age, this might have an impact on increasing employment among men (but not among women).

4.2 Impact on retirement age

By way of context, during 2014-2023 the effective labour market exit age (EEA) rose by two years among men and by 0.3 years among women, remaining higher among women.¹⁷ It is plausible that the EEA was higher among women because by working longer they augmented their contributory records to compensate for absences from the labour market. It may also be the case that the lower EEA among men was due to the lower skills profile of older men in Malta, who may have had a more arduous career and decided to draw a pension and retire at the earliest possible opportunity, especially if the gap between their employment income and pension was not wide. As Section 4.3 illustrates, education correlates with later retirement.

That said, as Table 5 illustrates, when comparing 2022 with 2014 the gap between the pensionable age and EEA narrowed for men (from 2.5 to 1.5 years) but widened slightly for women to stand at 0.3 years in 2022. However, the COVID-19 pandemic appears to have arrested the upward rise in both men's and women's EEA, with 2022 EEAs for both sexes remaining lower than in 2019. Women's EEA was 62.7 in 2022 and expected to stay the same until 2030; men's EEA was projected to rise from 61.5 to 63.9, a challenging increase of 2.4 years. These 2030 EEAs are projected to remain the same until 2070 (Economic Policy Department, 2020).

Table 5: Pensionable age and effective labour market exit age, 2014-2022, Malta

	2014	2015	2016	2017	2018	2019	2020	2021	2022	Change 2014-2022
Pension age	62	62	62	62	62	63	63	63	63	
EEA men	59.5	60.6	60.9	61.6	62.7	62.1	62.7	62.0	61.5	2
EEA women	62.4	62.2	61.0	62.6	63.3	64.7	62.3	62.1	62.7	0.3

Source: OECD, *Pensions at a Glance*, [OECD EEA](#).

There are no official studies in the public domain as to the relative impact on the retirement age of pension age increases versus pension-deferral incentives. However, some insight may be obtained from the following studies.

- (a) In respect of pension age increases, Grech (n.d.) studied the labour market behaviour of those born before 1961 and noted how the two increases (to 62 in 2014 and to 63 in 2019) resulted in higher proportions of both men and women remaining in employment, with a much stronger effect among women. Grech also made two other relevant points: first, that a considerable number of people were still choosing an early opt-out;¹⁸ and second, that the number of those who continued to work beyond 65 was clearly rising. In seeking to explain the latter, Grech speculated that the pension-deferral scheme, which becomes cumulatively more generous by ages 63 and 64, may have enticed people to remain in work beyond their pensionable age. He noted that “*in 2021 the proportion of men still working full-time at age 64¹⁹ was higher than that of men who were working full-time age 61²⁰ just six years earlier. The same result is observed for women.*” (Grech, n.d., p. 8).
- (b) In respect of deferral incentives, an unpublished postgraduate dissertation in economics submitted to the University of Malta in 2019 contained a quantitative study of retirement preferences among 852 full-time employees between the-then ages of 48

¹⁷ OECD Data Explorer. [Pensions at a glance](#). Downloaded 29 May 2024.

¹⁸ That said, the budget speech for 2024 stated that the number of people retiring at 61 had halved since 2016 (Ministry for Finance, 2024).

¹⁹ When their pensionable age was 63.

²⁰ When their pensionable age was 62.

and 59 (Xuereb, 2019). When asked whether incentives to defer their pension claim would make them work longer, 30.3% of the respondents said they would defer their claim. The author calculated that the introduction of incentives effectively raised the intended retirement age from 61.2 to 62.2 among the respondents. Women, and those with higher education, were more responsive to incentives, as were those in better health and with higher job satisfaction.

4.3 Labour market dynamics and the impact of flexible retirement

According to the Labour Force Survey the share of people who were definitely of pensionable age and who worked (that is, those aged 65-74) was 10.5% in 2023, up 2.8 p.p. since 2014. The increase was marginally higher among those aged 65-69 (by 3.9 p.p. to reach 13.4%) than among those aged 70-74 (by 2.7 p.p. to reach 7.2%). The rise was more than double among women in this cohort (3.8 p.p.) than men (1.6 p.p.), and although the gender gap remained quite wide (8.9 p.p.) it had narrowed from 2014 when it was 11.1 p.p. Educational attainment had a clear impact on whether or not people remained in employment after pensionable age, and this impact had grown since 2014, by 1.2 p.p. among those with low education (to reach an employment rate of 6.9%), by 6.2 p.p. among those with medium education (to reach 16.8%), and by 7.4 p.p. among those with higher education (to reach 29.6%).²¹

It is not possible to determine the share of people aged 61-64 who receive a pension and work, or who deferred their pension and work. Looking at projections for those aged 65-74 up to 2070, the employment rate is expected to decline by 2.4 p.p. as illustrated in Table 6. This may be due to the dampening effect of population ageing, with more aged 70 or over in this cohort, and among whom employment rates are lower than among those aged 65-69. Malta is projected to age rapidly, such that by 2100 it will have moved from having one of the lowest median ages to the highest (53.3 years) in the EU-27 and, together with Luxembourg, the biggest fall in the share of the working-age population (14.7 p.p.) (Eurostat, 2023).

Table 6: Labour market projections 2022-2070, age cohort 65-74, Malta

	2022	2030	2040	2050	2060	2070	Peak value	Peak year	Change 2019-2070
Employment rate	11.1	6.6	8.9	9.5	9.4	8.6	11.1	2022	-2.4 p.p.
Median age of labour force	37	39	42	43	43	43	43	2042	+6 years

Source: (Economic Policy Department, 2023).

Most of those in employment aged 65 or over were employees in 2023. Self-employment rates for those aged 65 or over declined by 2.2 p.p. in 2014-2023, to make up 40.3% of all employment among this cohort. All women aged 65 or over in work in 2023 were in employment rather than self-employment. Turning to those aged 60-64, self-employment rose by 2.5 p.p. overall; it rose particularly among men, by 9.1 p.p. to reach 29.5% of male employment in this cohort. Conversely, self-employment among women in this cohort had

²¹ Eurostat. Employment rates by sex, age and educational attainment level (%). [lfsa_ergaed]. Downloaded on 28 May 2024.

dropped by 5.7 p.p. since 2014, and in 2022²² they made up 14.3% of employed women aged 60-64.²³

Most employees aged 65 or over worked on a part-time basis in 2023. However, part-time employment took up a lower share of total employment than it did in 2014, both among the 60-64 cohort (down by 3.6 p.p. to 12%) and among those aged 65 or over (by 0.8 p.p. to 64.2%). The drop in the part-time share of employment was particularly noticeable among women aged 50-64, where it declined by 12.9 p.p. to reach 21.7% of employment in this cohort. Despite these falls, it is notable that almost two thirds of those aged 65 or over worked on a part-time basis, whether by preference or circumstance, posing the question of whether the possibility of flexible retirement at ages 61-65 might indeed result in an overall reduction of working hours.²⁴

People aged 55-64 worked on average in 2023 a similar number of hours per week to the 25-54 age group (39.2 and 39.4 hours respectively), each having risen by only 0.5 p.p. since 2014. For both age groups, the hours were slightly higher for men (with a gender gap of 3.1 p.p. at ages 25-54 and 4.2 p.p. at ages 55-64). That said, whereas older men's working hours had declined very slightly since 2014 (by 0.1 p.p.) they had risen for women (by 3.5 p.p.).²⁵

The number of working years expected at age 15 rose by 4.9 years from 2014 to reach 38.4 in 2023, with a particularly marked increase among women of 7.9 years (1.7 for men).²⁶

Doubt has been expressed about the potential impact of partial retirement on raising employment levels. In July 2023 the Permanent Secretary of the Ministry for Social Policy and Children's Rights stated that the partial pension proposal (referred to in Section 2.1) had been discussed by the Pensions Strategy Group. He explained that the possibility for early opt-out at age 61 was intended for those in arduous work and implied that all others were catered for through pension-deferral incentives. He expressed doubt that the flexi-retirement proposal would have a marked impact on encouraging people to remain in work if they were eligible to draw a pension at 61, and indeed might encourage those who would have continued to work full time to switch to part-time work with an overall loss of labour hours and loss of deferral incentives. He reiterated his belief in improved incentives to postpone retirement rather than "measures that encourage part early exits" (Musù, 2023).

4.4 Expected redistributive impact

There are no studies in the public domain that illustrate the redistributive impact of people deferring their pensions beyond the point of entitlement. However, contextual data on inequality and income poverty provide some insight into the impact of deferring retirement beyond pensionable age.

According to the S80/S20 quintile ratio, inequality among those over 65 rose imperceptibly (by 0.45 p.p.) in 2014-2023, and at 3.62 in 2023 was 1.13 p.p. below that of the total population.²⁷ This is to be expected as the dispersion of pensions is lower than the dispersion of salaries. The effect of taxes and transfers on inequality in Malta is, at 2.4 p.p., lower than the EU-27

²² Data not available for 2023.

²³ Eurostat. Employment by sex, age and professional status (1,000). [lfsa_egaps]. Downloaded on 28 May 2024.

²⁴ Eurostat. Employment by sex, age, professional status and full-time/part-time (1,000). [lfsa_effpt]. Downloaded on 28 May 2024.

²⁵ Eurostat. Average number of usual weekly hours of work in main job, by sex, age, professional status, full-time/part-time and occupation. [lfsa_ewhuis]. Downloaded 29 May 2024.

²⁶ Eurostat. Duration of working life. [lfsi_dwl_a]. Downloaded 28 May 2024.

²⁷ Eurostat. Income quintile share ratio S80/S20 for disposable income by sex and age group. [ilc_di11]. Downloaded 5 June 2024.

average of 4.9 p.p.;²⁸ although age-disaggregated data are not available, the effect is likely to be even lower among those in receipt of pensions (in view of pension caps and the gradual exemption of pension income from taxation). In respect of income, too, in 2023 Malta had the third-lowest tax wedge on the labour costs of low-wage earners which, although 3.7 p.p. higher than in 2014, was only 27.1%.²⁹ Combined, these factors suggest a low tax penalty for low-income earners considering combining work with a pension.

Poverty data provide further insights into the context of redistribution among older people, with the poverty risk being quite high among those aged 65 or over in general, but quite low among those 65 or over in employment. As illustrated in Table 7, the risk of income poverty among those aged 55-64 in 2022 had grown marginally since 2014 (by 1.8 p.p.). However, among those aged 65 or over it had risen markedly by 13 p.p. to reach 30%; the gender gap had grown from 0.3 p.p. in favour of women to 6 p.p. in favour of men.

Looking at in-work poverty (IWP) specifically, the situation among those aged 65 or over and who were in employment, thus most likely to be combining a pension with work income, was very different. Although the IWP rate doubled among those aged 55-64 (from 3% to 6.1%), it halved among those aged 65 or over (from 7.9% to 3.3%), most notably among men. However, this suggests a bias, in that those most likely to stay in employment after pensionable age were higher-educated rather than those who might most need to supplement their pension. In fact Xuereb (2019) found an inverse relationship between income and preferred retirement age, with those on the lowest incomes wishing to retire earliest. Taken together (and in addition to pension adequacy measures) the poverty risk and IWP data underscore the compelling need to consider enabling, not disrupting, the labour market attachment of people at risk of poverty who reach the age at which they become entitled to draw a pension.

Table 7: At-risk-of-poverty rate and in-work poverty rate by age group and gender, 2012-2022, Malta

	At-risk-of-poverty rate (%) ¹						In-work poverty rate (%) ²					
	55-64			65 or over			55-64			65 or over		
	T	M	F	T	M	F	T	M	F	T	M	F
2014	14.6	14.5	14.7	17.0	17.2	16.9	3.0	3.5	1.7	7.9	12.6 ^u	: ^u
2015	16.0	15.2	16.8	21.3	21.0	21.6	2.7	3.3	1.2	9.9	12.6 ^u	: ^u
2016	16.0	14.9	17.1	23.9	22.5	25.2	5.5	6.6	2.8	11.6	11.8 ^u	: ^u
2017	17.0	14.5	19.4	24.9	23.1	26.4	5.3	6.3	2.6	4.3	5.8 ^u	: ^u
2018	18.4	16.8	19.9	25.4	22.9	27.5	8.0	7.8	8.7	5.0	7.0	: ^u
2019	17.1	14.8	19.4	27.7	25.9	29.3	6.2	7.3	3.3	4.7	6.2	: ^u
2020	16.1	15.6	16.6	26.3	24.7	27.8	7.2	9.5	1.9	3.9	5.2	: ^u
2021	16.6	15.1	18.2	28.1	25.9	30.1	8.3	10.5	3.7	0.7	0.9	0 ^u
2022	16.4	15.9	17.0	30.0	26.8	32.8	6.1	7.3	3.3	3.3	4.6	0 ^u
Change 2014-2022 (p.p.)	1.8	1.4	2.3	13.0	9.6	15.9	3.1	3.8	1.6	- 4.6	- 8	:

Source: ¹. Eurostat. At-risk-of-poverty rate by poverty threshold, age and sex. [ilc_li02]. Downloaded 5 June 2024.

². Eurostat. In-work at-risk-of-poverty rate by age and sex. [ilc_iw01]. Downloaded 5 June 2024.

Notes: T=Total, M=Male, F=Female. : = Not available. ^u = Low reliability.

²⁸ Eurostat. Effect of taxes and social transfers on income quintile share ratio S80/S20. [ilc_di11i]. Downloaded 5 June 2024.

²⁹ Eurostat. Tax rate on low wage earners: Tax wedge on labour costs. [earn_nt_taxwedge]. Downloaded 5 June 2024.

Contextual data suggest that those with higher education are most likely to take up flexible retirement. As illustrated in Table 8, employment in both the 60-64 and 65-74 cohorts increased in line with education, and the increase in 2014-2023 was highest for both cohorts among those with higher education. Although the increase was similar for those with low and medium education among the 60-64 cohort, the increase was higher among those with medium education in the 65-74 age group. Focusing only on those aged 65-74, the employment gap between those with low and high education rose from 16.5 p.p. in 2014 to 22.7 p.p. in 2023.

Table 8: Employment rate by selected age groups, gender and educational attainment, 2014-2023, Malta

	2014			2023			Change 2014-2023		
	50-59	60-64	65-74	50-59	60-64	65-74	50-59	60-64	65-74
Total	59.0	23.9	7.7	77.5	42.3	10.5	18.5	18.4	2.8
Men	81.6	34.3	13.4	90.1	50.5	15.0	8.5	16.2	1.6
Women	36.1	13.6	2.3	63.6	33.9	6.1	27.5	20.3	3.8
Low ¹	50.0	19.2	5.7	67.7	33.5	6.9	17.7	14.3	1.2
Medium ²	78.7	38.7	10.6	83.1	53.5	16.8	4.4	14.8	6.2
High ³	85.8	38.9	22.2	89.5	58.4	29.6	3.7	19.5	7.4

Source: Eurostat. *Employment rates by age, sex and citizenship*. [lfsa_ergan]. Downloaded 10 June 2024.

Notes: ¹ Less than primary, primary and lower secondary education (levels 0-2). ² Upper secondary and post-secondary non-tertiary education (levels 3 and 4). ³ Tertiary education (levels 5-8).

4.5 Expected impact on fiscal policies and sustainability

In 2019 there was a positive balance of 2.1% between social security revenues (including the state's share) and pension expenditure; by the start of the 2050s, though, the projected balance turns negative to reach a deficit of 3% by 2070. That said, the 50-year projections of the pension deficit³⁰ in relation to GDP have improved; in 2010 it was projected to reach 5.8% by 2060, while in 2020 it was projected to reach 3% by 2070. This improved scenario reflects the planned increase in the pensionable age to 65 in 2027 and a projected increase in migration (Pensions Strategy Group, 2020) rather than fertility which stood at 1.08 in 2022, among the five lowest in the world.³¹

The same Pensions Strategy Group report, projecting different scenarios, forecast that if employment amongst those aged 55-74 rose by 10 p.p. in 2021-2033 and persisted thereafter, after 2040 the balance between revenue and expenditure would be neutral and would turn positive from 2060. Although the report mentioned, when referring to this increase, the role of higher retirement ages (2020, p. 31) and of deferral incentives (2020, p. 52) no respective magnitude of impact was given. It must be noted, though, that those reaching the pensionable age of 65 in 2027 will not be able to avail themselves of incentives as currently designed,³² so it is not clear how these are thought to contribute to rising employment after 2027.

³⁰ In addition to old-age pensions, these projections also include survivor and invalidity pensions.

³¹ Eurostat. *Fertility rates by age*. [demo_frate]. Downloaded 7 June 2024; and [World Population Review](#).

³² The report does, in fact, suggest that these are needed (p. 52).

4.6 Expected impact on quality of life and society

There are no studies on the expected impact that people in Malta deferring their entitlement to a pension will have on their quality of life or on society. Once again limited insights may be gleaned from contextual indicators on life satisfaction by age group.

Table 9 illustrates that those aged 65 or over who were in employment in 2022 registered higher satisfaction with their current job than those aged 30-64. The older cohort were also happier with their time use and with their personal relationships. Although the rises in life and work satisfaction in line with income pertained to the whole population, the fact that those on lower incomes reported higher satisfaction with time use and with personal relationships may shed a little light on time-use preferences among older people. 93.6% of respondents aged 65 or over reported receiving material or non-material help from relatives, neighbours or friends in 2022 which, though lower than the 95.1% among the general population, was still quite high – suggesting a protective social context.

Table 9: Mean values for perceived level of satisfaction for selected well-being characteristics, Malta, 2022

		Overall life	Financial situation	Current job	Time use	Relationships
Sex	Male	7.4	6.9	7.7	6.8	8.5
	Female	7.3	6.7	7.8	6.8	8.6
Age	30-64	7.4	6.7	7.7	6.4	8.6
	65+	7.1	6.8	8.3	7.9	8.7
Risk of poverty	No	7.5	7.0	7.8	6.8	8.5
	Yes	6.8	5.8	7.3	6.9	8.6
Annual income	€12,165 and under	7.1	6.2	7.4	7.0	8.6
	€12,166-17,135	7.1	6.5	7.6	6.8	8.2
	€17,136-24,400	7.5	6.8	7.7	6.8	8.4
	€24,401 +	7.7	7.5	8.0	6.7	8.5
Total		7.4	6.8	7.7	6.8	8.6

Source: National Statistics Office (2024).

4.7 Motivation for using flexible retirement pathways

The Special Eurobarometer 378 of 2012 reported that only 23% of Maltese respondents would like to work beyond their pensionable age, rising among non-manual workers (European Union, 2012). Moreover, in the same Eurobarometer, when asked until what age they envisaged being able to do their job, the average reply was (at 57.3%) the lowest in the EU at that time. The data from a 2015 survey by Eurofound (2017) found the willingness to prolong retirement as late as possible to be even lower (also the lowest in the EU), amounting to around 5% of men and 2.5% of women. However, the average age to which the Maltese would like to work was, at 58, broadly similar to the 2012 Eurobarometer (men 59.1, women 56.2). That said, respondents perceived that they would be able (if not willing) to work at least four years later than their preferred end date, that is until 62.2 (men 62.6, women 61.7).

Seven years later Xuereb (2019) asked respondents whether, if they were entitled to retire at 61, they would continue to work until their pensionable age of 64 or 65. Similar to the 2012 Special Eurobarometer, only a quarter of respondents (25.7%) were willing to work until their pensionable age if they were eligible to claim a pension at 61, in the absence of pension-

deferral incentives. Willingness rose with proximity to retirement, educational attainment, health status, job satisfaction, and with non-manual (as opposed to manual) jobs. It did not rise in line with income and subjective financial capability, gender and marital status, or whether respondents worked in the public or private sector.

Data from 2012 and Xuereb's 2019 study were also similar in finding income adequacy to be the most compelling reason to continue working. 45.9% of those aged 50-69 and in receipt of a pension in 2012 stated that having sufficient income was the reason they continued to work; 38.9% of this cohort continued to work for non-financial reasons such as work satisfaction.³³ For Xuereb's respondents, financial considerations were also paramount, although non-financial considerations such as remaining healthy and socially active were also important. The main responses were as follows:

- (a) my savings and pension might not be enough for my needs (41.5%);
- (b) to stay physically and mentally healthy (28.6%);
- (c) to remain socially active (13.8%); and
- (d) job satisfaction (6.9%).

Although health alone does not explain the wish to retire early, it may be the case that the ability to work part time while receiving a pension may indeed keep some older people engaged in the labour market, if such an option were available. The only public data that could be found on this issue date back to the 2012 Special Barometer, where only 47% of Maltese respondents found the prospect of part-time work with a partial pension appealing (the fifth-lowest in the EU), while 30% did not, and 23% did not know (the highest in the EU). The passage of 12 years and the relatively large uncertain group make it hard to gauge whether the inclination may be stronger today, though cost-of-living pressures make it likely to have strengthened. Changing financial, health and social motivations, which are not mutually exclusive, are all likely to have played a role in strengthening the motivation to work longer. Given the rise in poverty among older people, the policy emphasis on active ageing and growing awareness of the health effects of social isolation, the number wishing to extend their working lives is likely to continue to grow.

Progress to date in raising employment levels among older people has been modest, especially among those aged 65 or over. Intensified active labour market measures, work-life balance policies and occupational health and safety awareness – particularly for those with lower educational attainment who are moving towards retirement age – could make a positive contribution to people's motivation to extend their working lives beyond the point of pension entitlement or pensionable age.

³³ Eurostat. Main reason for persons who receive a pension to continue working (%). [lfs0_12staywork]. Downloaded 6 June 2024.

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