

At the end of 2007 accumulated pension liabilities amounted to €14.3 billion or 264.2 per cent of GDP.

Accrued-to-date Pension liabilities: 2006-2007

The Committee for Monetary, Financial and Balance of Payments Statistics (CMFB) in June 2006 established by mandate a joint Eurostat/ECB Task Force to work on the compilation and statistical measurement of the assets and liabilities of pension schemes of the EU Member States. Throughout 2008, The National Statistics Office cooperated with Freiburg University, as subcontractors to the joint Task Force, by making available the data required for computing the accrued-to-date pension liabilities for Malta. The pilot exercise covered calendar years 2006 and 2007.

Accrued-to-date pension liabilities represent the current value of pensions to be paid in the future, on the basis of accrued pension rights. This interpretation does not consider the future contributions of current workers, or the accrual of new pension rights to such workers. The joint Eurostat/ECB Task Force considers the accrued-to-date concept as being the most appropriate for eventual inclusion in the (non-core) national accounts of a country.

The model developed by Freiburg University evaluates the accrued-to-date pension liabilities of EU Member States using common benchmarks, thus enabling cross-sectional analysis. The model assumes a universal 1.5 per cent real growth in the Gross Domestic Product and in wages. The inflation rate and discount rate are assumed to be 2.0 per cent and 3.0 per cent respectively.

The data supplied to Freiburg University consisted of all pension payments (Old Age, Disability, Survivors') made in 2005, 2006 and 2007, split by gender and by single years. Data on Treasury pensions was provided in an aggregated format. Future income projections were based upon 2005, 2006 and 2007 earned income, and these were also disaggregated by gender and by single years. Apart from arriving at the estimated pension liabilities, the sub-contractors were able to estimate the effects of the local Pension Reform of 2006. A preliminary report by Freiburg University estimates that by raising the statutory pension age from 61 to 65 (in the period 2014 to 2023), Maltese pension liabilities accrued at the end of 2006 will be reduced by approximately 7.0 per cent of the Gross Domestic Product. It is estimated that the whole Pension Reform has reduced pension liabilities by about €1.6 billion.

As can be seen in the attached tables, there are two approaches to estimating social security pension liabilities. The liabilities through the accumulated benefit obligation (ABO) method, amounted to €10.9 billion at end of 2007, or 201.6 per cent of GDP. Concurrently, the Treasury pension liabilities for the same year amounted to €2.1 billion, or 38.6 per cent of GDP.

The projected benefit obligation (PBO) method inflates the pension liabilities as future wage increases are taken into account when applying wage indexation to pension payment increases. These liabilities as at end of 2007 are estimated at €12.1 billion, or 224.2 per cent of GDP, while Treasury pensions are estimated at €2.2 billion, or 40.1 per cent of GDP.

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In due course, the joint Eurostat/ECB Task Force will be publishing the accrued-to-date pension liabilities for all the Member States participating in this pilot project ■

Table 1a. Accumulated Benefit Obligation Method, as at 31 December 2006

billion €

		General Government	
		Treasury Pension	Social Security
Opening Balance Sheet			
1	Pension entitlements	2.06	11.32
Changes in pension entitlements due to transactions			
2	Increase in pension entitlements due to social contributions	0.13	0.82
2.1	Employer actual social contributions	nil	0.14
2.2	Employer imputed social contributions	0.03	nil
2.3	Household actual social contributions	nil	0.14
2.4	Household social contribution supplements	0.10	0.54
3	Other (actuarial) increase of pension entitlements	nil	-0.01
4	Reduction in pension entitlements due to payment of pension benefits	0.08	0.37
5	Change in pension entitlements due to social contributions and pension benefits	0.05	0.44
6	Transfers of entitlements between schemes	nil	nil
7	Change in pension entitlements due to other transactions	-0.01	-1.39
Change in pension entitlements due to other economic flows			
8	Changes in entitlements due to revaluations	0.00	0.00
9	Change in entitlements due to other changes in volume	0.00	0.00
Closing Balance Sheet			
10	Pension entitlements	2.10	10.37
	Pension entitlements (per cent of GDP)	41.16	203.46

Refer to methodological notes

Table 1b. Accumulated Benefit Obligation Method, as at 31 December 2007

billion €

		General Government	
		Treasury Pension	Social Security
Opening Balance Sheet			
1	Pension entitlements	2.10	10.37
Changes in pension entitlements due to transactions			
2	Increase in pension entitlements due to social contributions	0.07	0.82
2.1	Employer actual social contributions	nil	0.14
2.2	Employer imputed social contributions	-0.04	nil
2.3	Household actual social contributions	nil	0.14
2.4	Household social contribution supplements	0.10	0.53
3	Other (actuarial) increase of pension entitlements	nil	0.12
4	Reduction in pension entitlements due to payment of pension benefits	0.08	0.39
5	Change in pension entitlements due to social contributions and pension benefits	-0.01	0.55
6	Transfers of entitlements between schemes	nil	nil
7	Change in pension entitlements due to other transactions	0.00	0.00
Change in pension entitlements due to other economic flows			
8	Changes in entitlements due to revaluations	0.00	0.00
9	Change in entitlements due to other changes in volume	0.00	0.00
Closing Balance Sheet			
10	Pension entitlements	2.09	10.92
	Pension entitlements (per cent of GDP)	38.59	201.60

Refer to methodological notes

Table 2a. Projected Benefit Obligation Method, as at 31 December 2006

		billion €	
		General Government	
		Treasury Pension	Social Security
Opening Balance Sheet			
1	Pension entitlements	2.15	12.82
Changes in pension entitlements due to transactions			
2	Increase in pension entitlements due to social contributions	0.12	0.89
2.1	Employer actual social contributions	nil	0.14
2.2	Employer imputed social contributions	0.01	nil
2.3	Household actual social contributions	nil	0.14
2.4	Household social contribution supplements	0.11	0.61
3	Other (actuarial) increase of pension entitlements	nil	-0.24
4	Reduction in pension entitlements due to payment of pension benefits	0.08	0.37
5	Change in pension entitlements due to social contributions and pension benefits	0.05	0.28
6	Transfers of entitlements between schemes	nil	nil
7	Change in pension entitlements due to other transactions	-0.02	-1.57
Change in pension entitlements due to other economic flows			
8	Changes in entitlements due to revaluations	0.00	0.00
9	Change in entitlements due to other changes in volume	0.00	0.00
Closing Balance Sheet			
10	Pension entitlements	2.18	11.53
	Pension entitlements (per cent of GDP)	42.72	226.25

Refer to methodological notes

Table 2b. Projected Benefit Obligation Method, as at 31 December 2007

		billion €	
		General Government	
		Treasury Pension	Social Security
Opening Balance Sheet			
1	Pension entitlements	2.18	11.53
Changes in pension entitlements due to transactions			
2	Increase in pension entitlements due to social contributions	0.07	0.88
2.1	Employer actual social contributions	nil	0.14
2.2	Employer imputed social contributions	-0.04	nil
2.3	Household actual social contributions	nil	0.14
2.4	Household social contribution supplements	0.11	0.59
3	Other (actuarial) increase of pension entitlements	nil	0.12
4	Reduction in pension entitlements due to payment of pension benefits	0.08	0.39
5	Change in pension entitlements due to social contributions and pension benefits	-0.01	0.61
6	Transfers of entitlements between schemes	nil	nil
7	Change in pension entitlements due to other transactions	0.00	0.00
Change in pension entitlements due to other economic flows			
8	Changes in entitlements due to revaluations	0.00	0.00
9	Change in entitlements due to other changes in volume	0.00	0.00
Closing Balance Sheet			
10	Pension entitlements	2.17	12.14
	Pension entitlements (per cent of GDP)	40.07	224.17

Refer to methodological notes

Methodological Notes

1 - The opening stock of pension entitlements, which is exactly equivalent to the closing stock of the previous year.

2.1 and 2.3 - Employer and employee actual social contributions.

2.2 - Any changes in entitlements over the year not included in other rows of the table are recorded here. In defined benefit schemes, employer imputed social contributions are measured as the balancing item.

2.4 - This row relates to the property income earned, or imputed, on the schemes which is routed via the household sector. In defined benefit schemes, whether funded or unfunded, this property income would be equivalent to the unwinding of the nominal discount rate. In other words the value is equal to the discount rate times the start of year entitlements.

3 - This row is solely associated with imputed transactions of social security pension schemes. The entries can be either negative or positive – with a negative figure implying a social security scheme where the discount rate is higher than the scheme's internal rate of return.

4 - The pension benefits that are paid during the year and which settle some of the pension entitlements stock.

5 - This row presents the changes in pension entitlements due to contributions and entitlements. It is calculated through the summation of 2 and 3 minus 4.

6 - If the responsibility of pension entitlements is transferred from a sponsor to another sponsor the amount transacted is recorded here.

7 - This row shows the impact of reforms of pension scheme structures on entitlements relating to past service.

8 - This row deals with revaluations in the model; mainly in changes in the assumed discount rate, wage developments and price developments.

9 - Other changes in the volume of assets or changes in assumptions and model specifications are recorded in this row.

10 - The total amount of pension entitlements as a stock pending at year end. It is the summation of 1, 5, 6, 7, 8 and 9.

Glossary

Accrued pensions is the amount of accumulated pension benefits of a pension scheme member on the basis of years of service.

Accumulated benefit obligation (ABO) is the actuarial present value of benefits, attributed to the pension formula to employee service rendered to a particular date, based on current salaries.

Disability Pensions are benefits provided to people below standard retirement age whose ability to work and earn is impaired beyond a minimum level laid down by legislation by a physical or mental disability.

Discount Rate is an interest rate used to convert a future income stream to its present value.

Inflation Rate is the rate at which general price levels increase over a period of time.

Gross Domestic Product (GDP) is the total output produced within a country during a reference period.

Old Age Pensions are the benefits provided as a replacement income when the aged person retires from the labour market.

Projected benefit obligation (PBO) is the actuarial present value attributed to the scheme through the pension benefit formula for service rendered to that date based on the employees' future salary levels.

Survivors' Pensions are the benefits given to people who suffered the loss of the spouse who would have been entitled to a pension had she/he reached retiring age at the time of bereavement.

Wage Indexation is the method with which pension benefits are adjusted taking into account changes in wages.

Pension Reform 2006: <http://www.doi.gov.mt/EN/press%5Freleases/2006/03/pr0307.asp>