

MEMORANDUM FOR THE CABINET  
BY THE HONOURABLE PRIME MINISTER

Extension of Pensionability and  
Abatement of Civil Service Pensions

The Ministry of Finance, Customs and Port have examined the financial implications of the implementation of that item in the Government Electoral Programme which provides for the non-abatement of 'National Insurance' benefits from civil service pensions.

2. At present, the abatement rule applies to National Insurance pensions as well as to other benefits under the National Insurance Scheme, namely, Marriage Grant, Disablement Pension, Widow's Benefit, Widow's Allowance, Orphans' Allowance and Parent's Allowance. The awards made under the Pensions Regulations in respect of these other benefits are as a general rule very few and far between and the abandonment of the abatement policy will not in their case have any financial repercussions.

3. The effect of non-abatement will be felt mostly in the case of retiring pensions granted under Regulation 2. This regulation limits abatement to those employees who became pensionable on or after the 19th January, 1962. Indeed, were it not for the extension of pensionability to the grades in the Standardisation of Wages Scheme (viz. Groups VI to VIII in 1961 and the 'interim arrangements' for Groups I to V in 1965), the number of abatements in the next 10 years or so would have been negligible, and the withdrawal of the abatement provision would not, in that event, have had any short-term adverse financial effect. In this connection, it may be pointed out that when the interim arrangements were recommended to Cabinet, it was not known that the question of abatement was to be included in the Electoral Programme.

4. However, the extension of pensionability to industrial employees has made non-abatement much more expensive in the short-term. It is estimated that if the abatement rule is abandoned the following additional expenditure in the Pensions Vote during the next 10 years, assuming a life expectancy of 72½ years would be incurred:-

1966	£16,000
1967	£20,000
1968	£22,500
1969	£26,500
1970	£30,500
1971	£35,000
1972	£38,500
1973	£41,500
1974	£46,000
1975	£49,000

The above estimates are based on the assumption that the interim pensionability arrangements made in respect of industrial employees in Wage Groups I to V will be withdrawn and a Scheme

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on a 5% basis introduced. If these arrangements remain in force the additional expenditure resulting from a non-abatement policy will increase cumulatively by £10,000 a year. The full impact of non-abatement will, however, be felt in 30 years time, when in accordance with the current regulations (Pensions Regulation 2) the abatement rule will apply to all pensionable employees retiring from the Government service.

5. In view of the fact that the cost of non-abatement depends to a large extent on the extension of pensionability to industrial employees, it is inevitable that these two questions be considered jointly and concurrently. It will be recalled that following pressure in the Malta Government Joint Council and subsequent negotiations with the General Workers' Union, the Government, on the 15th December, 1965, introduced the current interim pensionability arrangements with regard to employees in Groups I to V of the Standardisation of Wages pending the working out of a permanent scheme of pensionability for employees in these Groups. During the negotiations, the General Workers' Union made it clear that they would accept nothing less than the extension to the lower groups of the 5% scheme which employees in Groups VI to VIII have enjoyed since 1961.

6. Since then Establishments have been examining the possibility and implications of extending such a scheme to the lower groups and it has been found that the application of a 5% scheme to the lower groups would accentuate certain defects that have been found to exist in that scheme and which are giving rise to many complaints. Briefly the difficulty is this: Under the 1961 5% Scheme, seniority is established on the basis of length of service in the Group and not on length of continuous service with Government. The application of this seniority system has created the anomalous situation whereby an employee who is very near to attaining pensionability in one group would on promotion find himself at the bottom of the seniority list and would, therefore, lose all hope of a pensionable status. In this way, employees are put in the quandary of having to choose between promotion and pensionability.

7. In view of this difficulty, alternative schemes have been explored. Briefly these are:-

- (a) General Pool - all the employees in Wage Groups I to VIII (or I to V only) would be pooled into one large group for pension purposes (seniority being established on the basis of length of service) and 5% of them declared pensionable.

Such a scheme would be relatively simple to operate but it has been found that as the men with the longest service (and therefore holding the pensionable posts) would also be the more advanced in years there would be a continuous turnround of pensionable retirements, which might, in effect, entail almost full pensionability.

It may be observed that the present 5% scheme, in practice, attracts as much as 20% pensionability.

- (b) Pension contingent upon a minimum number of years service, i.e. all temporary employees, who on superannuation at age 63, or retirement on medical grounds, have the established number of years service (30 years or 25 years depending on the extent to which finances could go) would be accorded a pension.

The advantages of such a scheme are:-

- (i) it would remove the defect inherent in the 5% scheme which is based on seniority in the Group;
- (ii) it would not entail the complications of a general seniority list (required under the General Pool Scheme at (b) above) and could therefore be operated departmentally rather than centrally;
- (iii) as an employee is declared pensionable only on retirement the Government would make a significant saving upon the 'fringe benefits' (such as vacation/sick leave) to which employees would be entitled were a number of pensionable posts to be declared. Under a 5% scheme for Groups I to V, about 350 posts would have to be declared pensionable;
- (iv) the gratuity payable at age 63 years is less than that payable at age 60;
- (v) it would not make Government depart from the principle of pensionability on the basis of permanency as an employee serving for 30 years (even 25 years) can be said to have a claim to permanency.

8. It is realized that such a scheme would, in the long run, constitute almost 100% pensionability as the prospect of a pension after, say 30 years service, would keep the majority of employees in continuous employment. From the study carried out, it emerged that under such a scheme the average number of annual retirements on pension during the course of the next fourteen years is 63 if the pension is made contingent on 30 years service and 93 if on 25 years service.

9. The maximum cost, without abatement, of a scheme based on 25 years service, is estimated to be as follows:-

<u>Annual Computed Pension</u> (cumulative for a period of 12 years, assuming a life expectancy of 72½ years)	= £18,000
Annual Gratuities	= £64,000
Less Compassionate Gratuities	= <u>£17,000</u>
Nett Gratuities	= <u><u>£47,000</u></u>

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If abatement continues, the annual cost of the Commuted Pensions would be reduced by more than half to £8,500.

10. These schemes have been put forward as technically and financially feasible only because of the existence of the provision by which the pensions paid by the Government to new entrants to the pensionable establishment are reduced by the amount of the pensions paid under the National Insurance Act. Now, however that consideration is being given to the abolition of the abatement system, any further extension in the pensionability scheme for temporary employees will have to be viewed with the greatest caution. The total cost of pensions is estimated at £975,000 during the current financial year (1967/68) and this is bound to rise because of salary adjustments. As can be seen from the above estimate, if abatement is discontinued, the recurrent and cumulative annual cost of the commuted pension would more than double. In this connection, it may be relevant to point out that the State is contributing £300,000 annually to the National Insurance Fund which covers all the benefits, including pensions, in addition to contributing as an Employer in respect of all Civil Servants.

11. Therefore, in case it is decided to abolish the abatement system it would be very difficult, financially, to continue with the current interim pensionability arrangements in respect of Groups I to V (which entail practically 100% pensionability). However, in view of the agreement with the General Workers' Union, these arrangements could only be withdrawn if a definite Pension Scheme is established instead. Under these circumstances, the least expensive proposal would be the extension to the lower Groups of the 1961 5% Pensionability Scheme. As has been explained above, this Scheme has been found to have a very serious operational defect which has given rise to criticism and complaints from various sectors, but it is thought that the weakness inherent in this Scheme can to some extent be remedied by making it possible for employees who are promoted from one group to a higher group to retain, for pension purposes only, the place and the seniority they had, on a particular date (say the 15th December, 1965, when the interim arrangements came into effect) in the former group. It is realised that the establishment of seniority lists in the Group as on a particular date would affect adversely many employees who had just moved to other groups but that is the price that would have to be paid if the scheme is to be put on a more rational basis. It is, therefore, considered that in spite of its complicated nature and of its faults, this is the only Scheme that would be economically advisable if the question of non-abatement is proceeded with.

12. Briefly, an extension of the 5% Scheme to Group I to V would entail the immediate provision of another 350 pensionable posts and it is estimated that there would be an annual average of 36 pensionable retirements in the course of the next ten years at an annual cost of £7,000 (cumulative) plus £29,000 by way of annual gratuities, assuming that all employees opt, as is usual, for a commuted pension. This expenditure on gratuities would be partly offset by a sum of about £6,000 saved by way of

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compassionate gratuity otherwise payable in terms of Regulation 18 of the Pensions Regulations. To this should be added the cost of the fringe benefits (increased vacation and sick leave) to which the 350 pensionable employees would become entitled.

13. Finally, on the general question of abatement and extension of pensionability, Hon. Ministers may wish to consider whether it would not be more in the interest of Government and of the general public, if instead of abolishing abatement, a study would be made of the possibility of increasing the National Insurance Pension so that employees in the private sector might not get the feeling of being an underprivileged class vis-a-vis their counterparts in the public service. An improvement of the National Insurance Pension Scheme made concurrently with an extension of pensionability to Government employees, besides showing Government's concern in improving the pensioner's position in all sectors of the population, would also reduce the recurrent and cumulative expenditure on Government pensions.

14. It is, therefore, for Cabinet's consideration:-

- Yes*
- (a) whether in view of the observations made above, the abatement of Civil Service Pensions by the National Insurance Pension is to be discontinued;
  - (b) if non-abatement is decided upon, whether negotiations may start with the General Workers' Union with a view to withdrawing the interim pensionability arrangements and introducing a scheme in respect of Groups I to V based on the 1961 5% Pension Scheme with such modification as may appear necessary in order to render the scheme more equitable.

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