

Memorandum submitted to Cabinet by the Honourable
Minister of Labour, Employment and Welfare

Adjustment of the National Insurance Fund

Brief Review

The Director of Social Services has been expressing fears for the stability of the Fund since 1965. In fact in Memorandum No. 518 submitted to Cabinet on the 28th December, 1965, paragraph 10 read as follows:

"10. Despite the absence of reliable trends for an accurate appraisal, the facts revealed by the figures may perhaps be interpreted as a rough indication that an increase in contribution rates may be necessary simultaneously with the proposed increases in pension rates, or not long after such revision".

2. When on the 20th October, 1967, the United Kingdom Government Actuary reported on the working of the National Insurance Scheme in the five years ending March 1966, he recommended that from the year 1968-69, the contribution payable by each party (employee - employer - State Grant) in respect of an employed man should be increased by 10d. (from 1s.10d. to 2s.8d.) with corresponding increases for all other contribution rates. He recommended a further increase of 11d. in the year 1970-71 to be followed by further increases in subsequent years.

3. The Actuary's final comments in that report were as follows:-

"46. It is clear from the results of this review that contributions at present rates are much too low to support the present benefits of the Scheme and that immediate steps should be taken to raise the contributions to an adequate level. Any further improvements in benefits should also be accompanied by extra contributions of amounts sufficient to support the extra costs over a substantial period because the full effect of improvements

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in pensions benefits usually emerges comparatively slowly over a number of years."

The Actuary's report was submitted to Cabinet together with Memorandum dated 17th January, 1968.

4. At the beginning of 1969 the Director of Social Services reviewed the position of the National Insurance Fund as at the end of 1968. In his report in which he gave facts regarding developments in the Fund since 1962, proving the inadequacy of current contribution rates, he submitted two alternatives calculated to take effect from the beginning of July 1969, namely:-

a) increase of employed man's contribution rate payable by each party by 1ld. (from 1s.10d. to 2s.9d.) with further increases in the following years;

or

b) increase of same current contribution rate by 1s.10d. (from 1s.10d. to 3s.8d.) with more widely spaced increases and possibly with some improvement in benefit rates from early in 1971.

The Director's report was submitted to Cabinet with Memorandum dated 7th March, 1969.

5. In January 1970 the Director carried out another review of the position of the Fund as at the end of 1969. In his report dated 23rd January, 1970, he provided figures which left no doubt about the urgent need for an increase in the contribution rates to redress the deteriorating position of the Fund. He recommended, for this purpose, an increase of 1s.4d. payable by each party in respect of an employed man, with corresponding increases in all other contribution rates. These recommendations were included in the Memorandum to Cabinet dated 2nd March, 1970 (paragraph 2 to 6, and item (a) in Appendix II to the Memorandum).

6. On the 15th October, 1970, the Actuary, after seeing the Annual Report of the Department for 1969, spontaneously wrote to the Director. He noted the increasing excess of payments over income, and the sharp increase in pension payments. He expected that the position of the Fund would continue to worsen,

notwithstanding/.....

notwithstanding the contribution increases introduced from the 3rd August, 1970. A copy of the Actuary's letter is annexed as Appendix I.

Actual Position

7. The revenue and expenditure of the National Insurance Fund at the end of the financial year ending March 1970, was as follows:-

Revenue and Expenditure in the Year 1969-70

	<u>Revenue</u>	<u>Expenditure</u>
Contributions	£ 745,486	Total Payments £1,628,734
State Grant	£ 350,905	
Interest	£ 82,494	
Excess of Expenditure	£ 449,849	
	<u>£1,628,734</u>	<u>£1,628,734</u>

The excess expenditure of £449,849 in the above Table compares with an excess of payments of £343,283 in the calendar year 1969, and shows that the excess rose by over £106,000 between the calendar year 1969, and the financial year ending three months later.

8. At the end of March 1970, the balance of the Fund stood at £1,189,385. However, if the amount of over £57,000 representing appreciation of securities, which has no tangible significance, is ignored, the balance in the Fund was £1,131,963. Of this, the cash in hand and at bank was only £2,290.

9. The following are some other relevant developments in the Fund:-

- a) i) Total payments in the first six months of the year 1969-70 were over £694,000.
- ii) The payments for the same period in the current year amounted to over £1,053,000. This amount reflects only a minor proportion of the revision of pension rates which is being implemented gradually, but with effect from the 3rd August, 1970.

b) In/.....

b) In the first six months of the current year (1970-71), the revenue from paid contributions, the interest, and the estimated State Grant due together amounted to over £622,000. Thus, the operation of the Fund during this period has shown an unfavourable balance of about £431,000.

c) In the last five years, the number of persons receiving the main pensions namely, Old Age, Widow's and Invalidity, has developed as shown in the subjoined Table:-

Main Pensions

Date	Number of Pensioners			
	Old Age	Widow's	Invalidity	Total
End of 1965	4,817	1,271	-	6,088
End of 1969	6,919	2,488	447	9,854
October 1970	11,787	2,831	471	15,089

Invalidity Pension was first paid in January 1966, with effect from August, 1965.

d) On the 20th October, 1970, the Accountant General informed the Director that at the end of the previous month the National Insurance Fund had an over-draft with the Public Account of £358,889, and suggested the immediate disposal of £483,685 worth of securities. In November 1970, the nominal value of securities held by the Fund amounted to £1,069,965. With the disposal suggested by the Accountant General, the nominal value of the remaining securities will immediately go down to £580,280.

e) Another excess of at least £500,000 or more in the last six months of this year up to the end of March 1971 is quite possible, not to say certain, on current trends. This would wipe out the remaining securities.

L-ARKIVJI NAZZJONALI TA' MALTA

Recommended Adjustment

10. In the Memorandum to Cabinet dated 2nd March, 1970, it was proposed that the joint contribution payable in respect of an employed man, by the employer and the insured person, should be increased as follows:-

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|---|--------|
| a) To adjust National Insurance Fund | 2s.8d. |
| b) To increase benefit rates | 6d. |
| c) To lower men's pension age to 60 years | 2s.0d. |

11. In the Budget policy adopted by Government, the increase at (b) above was approved. Pension age was to be reduced progressively in three stages, and so an increase of 8d, instead of 2s.0d. was adopted. This means that the contribution payable by each party in respect of an employed man was increased by 7d. No increase at all was approved for the purpose of adjusting the National Insurance Fund.

12. In view of the precarious position of the Fund as explained in the foregoing paragraphs, it is strongly recommended that at least the increase of 2s.8d. per week in the joint contribution in respect of an employed man (1s.4d. by each party), together with proportionate increases in all other contribution rates as in Appendix II, be implemented from the 4th January, 1971. It is emphasized that the calculations for this increase had been based on the assumption that it would be put into effect from the 3rd August, 1970.

13. The proposed increase of 2s.8d. per week would raise the current joint contribution in respect of an employed man from 4s.10d. to 7s.6d. per week. The contribution actually paid by the employed man would rise from 2s.5d. as at present, to 3s.9d. This would apply to the employer as well. Full details of all current and proposed contribution rates are given in Appendix II.

Additional Expenditure out of Public Funds

14. If the proposed increases would be implemented from the 4th January, 1971, it is estimated that the additional expenditure out of public funds for the period January to March 1971 would amount to somewhat over £84,000. The additional expense for a whole year may amount to £336,000.

Recommendation

15. Honourable Ministers are requested to decide whether National Insurance contribution rates should be increased as recommended in paragraph 12 above.

4th December, 1970.

GOVERNMENT ACTUARY'S DEPARTMENT
CAXTON HOUSE EAST,
TOTTENHAM STREET, S.W.I.

15th October, 1970.

J. Vella Bonnici, Esq.,
Director of Social Services,
Valletta - Malta G.C.

Dear Mr Bonnici,

We have recently received a copy of the Report of your Department for 1969. It is clear from the tables on page 24 of this report that, as was forecast in the Government Actuary's report of 20th October, 1967, the National Insurance Fund is rapidly running out.

During 1969 the balance in the fund was reduced by £334,000 to £1,317,000 while the excess of payments over income is increasing each year; and as you indicate in paragraph 81 of the report there will be a sharp increase in pension payments in 1970.

The contribution increases introduced from 3rd August 1970 under Act No. XXII of 1970 may lead to a temporary improvement in the position but since they were not, in our view, sufficient to match the increased benefits, we expect the position of the fund to continue to worsen. It is clear that within the next year or two consideration will have to be given to measures to provide further income to meet the benefit expenditure of the fund.

Yours sincerely,

(Sgd) C.E. CLARKE

L-ARKIVII NAZZONALI TA' MALTA

Paragraph 81 in Director's Report for 1969

It was envisaged that a sharp increase in old age pension payments would be registered in 1970. Persons who joined the Scheme in 1965 and reached pension age would become entitled to the pension in February 1970. Up to the end of December 1969, about 3,000 claims had already been assessed.

Increase in Number of National Insurance Old Age Pensioners before reduction in Pension Age in August 1970

1969	1970						
December	January	February	March	April	May	June	July
6,919	6,938	9,666	10,067	10,301	10,435	10,589	10,652

Current and Proposed National
Insurance Contribution Rates

Category of Contributions	Rates per Week				
	Payable by Insured Person			Total Contribution (value of stamp)	
	Current Rate	Increase	Revised Rate	Current Rate	Revised Rate
Employed Persons:					
Men over 19 years	2s.5d.	1s.4d.	3s. 9d	4s.10d	7s. 6d.
Women over 19 years	1s.4d.	11d.	2s. 3d	2s. 8d	4s. 6d.
Boys under 19 years	6d.	4d.	10d	1s. 0d	1s. 8d.
Girls under 19 years	4d.	3d.	7d	8d	1s. 2d.
Self-Employed Persons:					
Men	4s.2d.	2s.5d.	6s. 7d	4s. 2d	6s. 7d.
Women	2s.3d.	1s.6d.	3s. 9d	2s. 3d	3s. 9d.
Non-Employed Persons:					
Men	3s.0d.	1s.9d.	4s. 9d	3s. 0d	4s. 9d.
Women	1s.8d.	1s.2d.	2s.10d	1s. 8d	2s.10d.

Notes:

- 1) Current rates came into effect on the 3rd August, 1970.
- 2) In the case of employed persons, the employer pays one half of the total contribution.
- 3) The State pays a subsidy 'State Grant' equivalent to one half of the total weekly contribution actually paid.