UĦM Proposals
Budget 2014

Introduction

Union Ħaddiema Magħqudin (UĦM) is pleased that its efforts in making its Jobs+ policy a reality are coming to fruition. The historic agreement reached on the 22nd January 2013, between all social partners and political parties was the first step in the right direction. As stipulated in the declaration, following the elections, the new government had to set up a committee which would be responsible from taking the necessary initiatives to set up a holistic plan of active labour market policies for Malta. The Jobs+ committee was set on the 2nd May 2013. In addition, as announced in the pre-budget meetings, UĦM is satisfied that government will introduce free child care as from next year. This was another proposal put forward by UĦM before the general elections.

The proposals put forward in this document are a continuation of the union's policy in addressing labour market needs while ensuring social justice across the board. The proposals mentioned herein refer to i) making work pay, ii) tapering, iii) pensions, iv) co-operatives, v) environment and vi) civil society fund.

Making Work Pay: The case for in-work benefits

In-work benefits were discussed at length in the union's document '*The Next Leap*' which led to the setup of Jobs+. In-work benefits consist of financial incentives that make work pay for the unskilled. Such benefits are intended to overcome the inactivity trap and the unemployment trap. The unemployment trap exists where the market wage is too low to offer an incentive to take up work compared with the welfare benefits individuals receive. This is a result of the effect of benefit withdrawals and higher tax rates as they move into work. There is also a challenge to get those who are out of work but not claiming benefits into employment. The so called inactivity trap exists where employment is judged not to pay because income related benefits may be lost with the uptake of paid work. For example partners or spouses of working individuals may not take up work if pay is jointly taxed, or if the couple may lose family benefits if household income is raised.

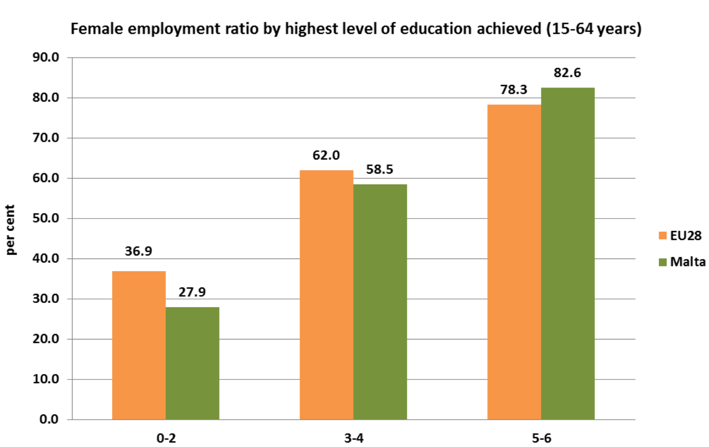


Figure 1

Addressing the Inactivity Trap

Malta has a low female employment ratio relative to the EU28 because of low emancipation among females aged over 40 years and with low educational attainment. As shown in figure 1, female participation among those with the highest educational attainment is higher in Malta than in the EU28. Among those with post-secondary education (3-4), Malta's employment ratio is almost at par with the EU28. However, it is evident that among those with low educational attainment Malta has an employment ratio of 27.9 per cent, 9 percentage points lower relative to the EU28 employment ratio.

The employment ratio gap further widens among females who are 40 years or older. It transpires that Malta trails the EU28 average across all categories. Nevertheless, while the gap is within single digits among those with average or high educational attainment, there is a full 20.0 percentage point gap among those with low educational attainment. It is quite evident that if Malta is to improve its female employment ratio, most of the effort must be addressed to this category of females.

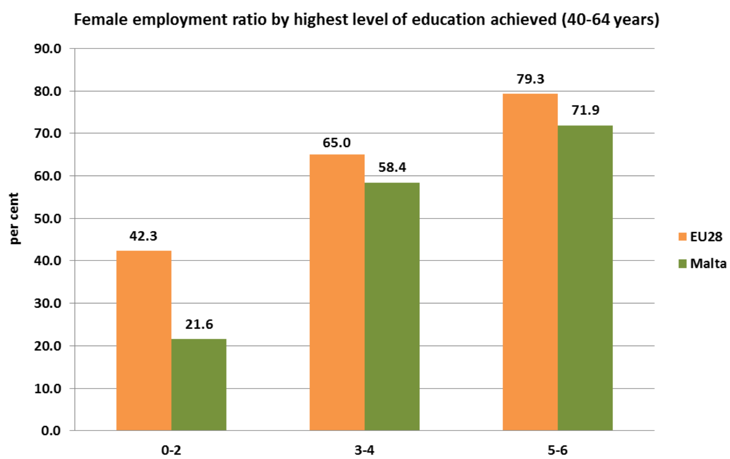


Figure 2

In addition, UĦM notes that inactivity among low income families contributes to a higher probability of at-risk-of-poverty.

It transpires that 65.0 per cent of all persons at risk of poverty are families with children, hence the need to link any form of new benefits to work and presence of children.

To this end, UĦM is urging government to make it possible for primary breadwinners to keep on paying taxes as per married schedule when the spouse enters into employment on part-time basis and earns a minimum wage.

A person who takes up a part-time job paying won't pay any income tax. However, if the husband earns an average wage of €17,180, he has to pay €778 more in income tax because of a change in the tax computation. This amount is equal to 17.4% of the wife's income (assuming she earns a minimum wage).

Tapering of Social Benefits: Addressing the Unemployment Trap

Another issue UĦM has been harping on is the need to integrate social benefit long-term beneficiaries into the labour market. To date there are about 18,000 beneficiaries, costing the country about 1.1 per cent of its Gross Domestic Product per year in benefits. Over 9,000 of these beneficiaries are still below 40 years of age.

The current social benefit system is punitive on beneficiaries who would like to take up a job. The beneficiary can face a marginal effective tax rate up to 110 per cent. Simply put, the moment a beneficiary starts to work, he or she loses up the benefit and has to pay 10 per cent national insurance on the earned income. This means that the beneficiary is worse off if he or she is at work rather than on benefits.

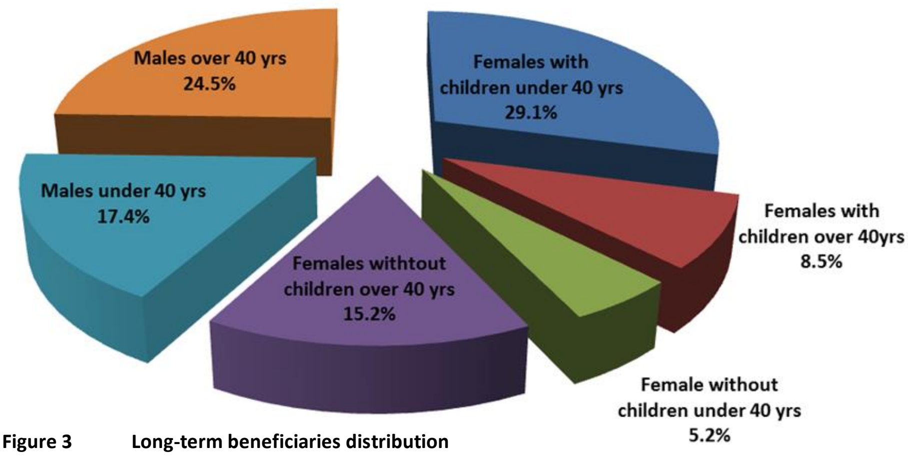


Figure 3 Long-term beneficiaries distribution

Thus, UĦM recommends to government the need to change our welfare system such that the unemployment trap no longer confines beneficiaries to spend a life-time on benefits. A number of EU and OECD countries have long ago introduced tapering systems whereby beneficiaries who take up work do not have their entire benefits lifted up at once. A gradual tapering system (eg. 75% benefit retention during the first year, 50% during the second year and 25% during the third year) helps beneficiaries to integrate better into the labour market without having to fear the possibility of no income if they had to experience sudden job termination. It is worth noting that, the integration of social benefit beneficiaries into the labour market is a commitment expressed by the Jobs+ declaration.

To further encourage social beneficiaries with children to take up work, UĦM is also suggesting the introduction of an in-work benefit that is paid to all those who are on the minimum wage. This measure won't cost the government more than €1.8 million per annum. Such initiative would not only attract more people in the labour market but it will also serve as a means to reduce the at-risk-of-poverty among the working poor.

Pensions

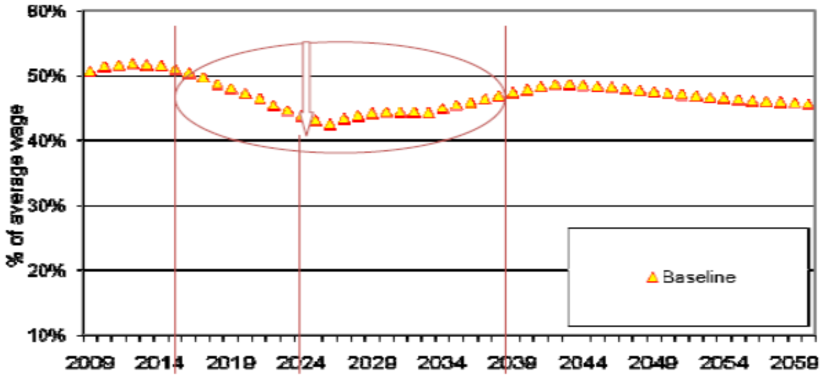
Third Pillar

In the pre-budget document, government expressed its intention to introduce a legislative framework together with fiscal incentives to promote third pillar pensions. UĦM commends this initiative but still remains very concerned about the state of pensions in general and future pensioners.

The third pillar, in principle, is intended to serve as a form of supplementary income to pensionable income arising from the first and second pillar. The first pillar is the unfunded pay-as-you-go system where current workers finance current pensioners, while the second pillar is a mandatory funded pension plan where the individual saves for himself/herself.

The first pillar is already in deficit, i.e. current contributions are not enough to match pension payments. As thoroughly explained by the Pensions Working Group Report of 2010, in the coming years the deficit can only deteriorate as the dependency ratio will increase. Recently, credit agency Fitch remarked about this and voiced its concern about the impact that this might have on the fiscal.

Figure 4 Average pension as a share of the average wage



The same report hints that notwithstanding the pension reform of 2007, future pensioners are likely to be worse off relative to current pensioners. Their pensions' purchasing power is expected to decline from 55% to 45% of the average wage. Simply put, in the absence of personal savings, future pensioners face a higher chance of at-risk-of-poverty or lower living standards.

In addition to this, UĦM is concerned that the third pillar will fall short from addressing the needs of the population at large. According to UĦM internal workings, it is estimated that at best only 24.0 per cent of current workers[1] would have enough savings to benefit from the third pillar.

UĦM urges government to take serious action and recommend to social partners the necessary actions that ought to be taken. This country has for long postponed important reforms that should have been in place years ago. In the absence of any concrete actions, the sustainability of the first pillar is questionable. On the other hand if the second pillar is not legislated, there is the risk that for most pensioners complete retirement won't be an option.

UĦM is aware that to address this problem, a degree of belt tightening is required as of now. It is thus why UĦM is in favour that any productivity gains that arise should be put aside to finance the second pillar rather than going into wage increases or higher profits.

Current and Future Pensioners

Pensioners are more probable to experience poverty relative to the population at large. This is because of the limited income pensioners dispose of. In order to keep on addressing this issue, UĦM calls on government to consider the gradual introduction of the Guaranteed National Minimum Pension. In addition, government can continue to grant part of the service pension that is being forfeited. UĦM's pensioners section is also recommending government to consider granting the full supplementary allowance to those who qualify for it.

[1] The average consumption pattern of a single person and a family in 2014 would be around €16,000 and €27,000 respectively. These estimates were based on the Household Budgetary Survey 2008 average consumption patterns and subsequently raised by the annual inflation rates. Thereafter, using income figures from PQ37774, it was estimated that only 40.0 per cent of workers would have sufficient income to generate enough savings to benefit from the third pillar. Furthermore, assuming that income is normally distributed along all age cohorts (which is not the case), it transpires that only 24.0 per cent of all workers would be able to make use of the third pillar. This is because only 57.0 per cent of all workers are under 40 years of age.

Co-operatives

UĦM acknowledges the relevance of co-operatives and their economic contribution. UĦM is of the opinion that much more can be done to strengthen the sector, hence it is recommending the following proposals to government:

- A revision of the rules that govern the co-operatives fund.

- It is common practice among European Member States to permit the setting of co-operatives with just 3 members. The Maltese government should thus consider lowering the threshold from 5 to 3 members. This move would facilitate the setting up of new co-operatives.

- Government should consider improving the co-operatives' legislation. The 'new' legislation should explore the concept of social enterprise. Social enterprise embraces the interests of disadvantaged people. Through social enterprise, government can promote better work environment to those who currently may be experiencing exploitation.

The introduction of social co-operatives can be a good opportunity to address the needs of 'old' workers who have been long-term unemployed. In part, this may also serve to increase Malta's employment ratio among females aged over 40 years and with limited skills.

Environment

UĦM reconfirms its commitment to a cleaner environment. It is well known that energy consumption is Malta's main pollution cause. Smarter energy consumption together with an increased supply of green energy would positively contribute to curb pollution. UĦM recommends to government the extension of subsidies on photovoltaic panels, solar water heaters and building insulation material. In addition, UĦM would like to recommend the introduction of a rebate on energy efficient appliances. The energy reduction brought about by such incentive can be considerable. An energy efficient fridge-freezer of 500 litres can consume 1,000 units less of electricity per annum. This would translate into cost savings of circa €121 per annum.

Civil Society Fund

UĦM commends government for honouring its commitment to disburse the money from the civil society fund. These funds are of utmost importance to social partners in order to fulfil their duties. UĦM urges government to commit itself in the budget that these funds would still be available in the years to come. An earmarked vote should be budgeted under MCESD.