

ITALY



DEMOGRAPHICS AND MACROECONOMICS

| | |
|-------------------------------|--------|
| Nominal GDP (EUR bn) | 1 572 |
| GDP per capita (USD) | 38 455 |
| Population (000s) | 59 366 |
| Labour force (000s) | 25 097 |
| Employment rate | 93.2 |
| Population over 65 (%) | 19.8 |
| Dependency ratio ¹ | 46.9 |

Data from 2008 or latest available year.
 1. Ratio of over 65-year-olds the labour force.
 Source: OECD

COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- The new Italian pension system is based on notional accounts. Contributions earn a rate of return related to GDP growth. Benefits are a function of accumulated notional capital and an actuarial factor, which takes account of average life expectancy at retirement

Private pensions: occupational (voluntary)

- Contractual pension funds (*fondi pensione negoziali*)
- Open pension funds (*fondi pensione aperti*)
- Pre-existing autonomous pension funds (*fondi pensione preesistenti autonomi*)
- Pre-existing non-autonomous pension funds (*fondi pensione non preesistenti autonomi*)

Private pensions: personal (voluntary)

- Open pension funds (*fondi pensione aperti*)
- Individual pension plans provided through life insurance contracts (PIPs)

PENSION FUNDS DATA OVERVIEW

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|--------|--------|-----------|--------|--------|----------|----------|----------|
| Assets | | | | | | | | |
| Total investments (National currency millions) | 28,221 | 30,573 | 33,840 | 37,694 | 43,183 | 49,140 | 55,930 | 60,285 |
| Total investments, as a % of GDP | 2.26 | 2.36 | 2.53 | 2.71 | 3.02 | 3.31 | 3.62 | 3.83 |
| Of which Assets overseas, as a % of Total investment: | | | | | | | | |
| • Issued by entities located abroad | ND | ND | ND | ND | ND | ND | ND | ND |
| • Issued in foreign currencies | ND | ND | ND | ND | ND | ND | ND | ND |
| By financing vehicle (as a % of Total investments) | | | | | | | | |
| • Pension funds | 99.32 | 97.98 | 96.22 | 94.30 | 92.27 | 90.75 | 89.65 | 89.06 |
| • Book reserves | ND | ND | ND | ND | ND | ND | ND | ND |
| • Pension insurance contracts | 0.68 | 2.02 | 3.78 | 5.70 | 7.73 | 9.25 | 10.35 | 10.94 |
| • Other financing vehicle | NA | NA | NA | NA | NA | NA | NA | NA |
| By pension plan type | | | | | | | | |
| • Occupational assets | 27,184 | 28,876 | 31,028 | 33,559 | 37,170 | 41,336 | 46,676 | 50,147 |
| • % of DB assets | 30.29 | 28.65 | 20.028878 | 18.85 | 17.37 | 16.17 | 14.50 | 14.72 |
| • % of DC (protected and unprotected) assets | 69.71 | 71.35 | 79.971122 | 81.15 | 82.63 | 83.83 | 85.50 | 85.28 |
| • Personal assets | 1,035 | 1,698 | 2,812 | 4,135 | 6,013 | 7,804 | 9,254 | 10,138 |
| Structure of Assets (as a % of Total investments) | | | | | | | | |
| Cash and Deposits | 9.75 | 10.21 | 7.89 | 5.98 | 4.31 | 6.08 | 6.64 | 6.67 |
| Fixed Income | 36.21 | 37.60 | 32.76 | 28.62 | 33.64 | 32.55 | 33.36 | 35.54 |
| Of which: | | | | | | | | |
| • Bills and Bonds issued by the public and private sector | 36.21 | 37.60 | 32.76 | 28.62 | 33.64 | 32.55 | 33.36 | 35.54 |
| • Loans | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Shares | 7.42 | 6.52 | 6.98 | 8.72 | 9.10 | 9.78 | 9.04 | 7.15 |
| Land and Buildings | 13.72 | 12.36 | 12.36 | 11.93 | 7.21 | 5.33 | 4.65 | 4.29 |
| Other Investments | 32.89 | 33.31 | 40.01 | 44.75 | 45.74 | 46.25 | 46.31 | 46.34 |
| Contributions and Benefits | | | | | | | | |
| Total Contributions, as a % of GDP | 0.30 | 0.32 | 0.35 | 0.35 | 0.40 | 0.42 | 0.55 | 0.69 |
| • Employer Contributions, as a % of Total contributions | 35.12 | 31.38 | 30.55 | 31.36 | 30.23 | 28.34 | 23.46 | 20.10 |
| • Employee Contributions, as a % of Total contributions | 64.88 | 68.62 | 69.45 | 68.64 | 69.77 | 72.06 | 76.54 | 79.90 |
| Total Benefits, as a % of GDP | 0.19 | 0.16 | 0.25 | 0.22 | 0.20 | 0.25 | 0.22 | 0.29 |
| • % of benefits paid as a Lump sum | 73.54 | 69.16 | 77.93 | 76.48 | 66.87 | 75.09 | 72.98 | 80.04 |
| • % of benefits paid as a Pension | 26.46 | 30.84 | 22.07 | 23.52 | 33.13 | 25.02 | 27.02 | 19.96 |
| Membership (in thousands of persons)¹ | | | | | | | | |
| Total membership | ND | ND | ND | ND | 3,136 | 3,384.02 | 4,747.62 | 4,952.55 |
| • % of Active membership | ND | ND | ND | ND | 96.65 | 96.92 | 97.62 | 98.00 |
| Of which: % of Deferred membership | ND | ND | ND | ND | ND | ND | 0.28 | 0.15 |
| • % of Passive membership | ND | ND | ND | ND | 3.35 | 3.08 | 2.38 | 2.00 |
| Other beneficiaries | ND | ND | ND | ND | ND | ND | 41.52 | 35.53 |
| Number of Pension Funds/Plans | | | | | | | | |
| Total number of funds | 696 | 681 | 632 | 615 | 580 | 572 | 557 | 531 |
| Total number of plans | ND | ND | ND | ND | ND | ND | ND | ND |

Note: Assets data and structure of assets refer to pension funds and pension insurance contracts. Contributions data and membership data refer to pension funds, pension insurance contracts and book reserves. Benefits data number of funds/plans refer to pension funds and book reserves.

1. Membership figures reflect 'membership' rather than 'people'. Therefore a person may be a member of more than one types of plan at any one time, particularly if the person has a number of employments in the year.

ND = data not available
NA = data not applicable

Source: OECD, Global Pension Statistics

ITALY: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

The *Istituto Nazionale di Previdenza Sociale* (INPS) is the basic social security programme for most of the population, providing old age, disability and survivor's benefits to wage earners, salaried employees and executives in industry and commerce. The system was financed on a PAYG basis via employer and employee contributions, but in 1995 it was redesigned on a notional defined contribution basis.

Private sector employees pay 8.89% of their gross earnings towards the public old age pension system, with minimum daily earnings for contribution purposes being €40.62 (2006) or the daily minimum wage in the particular sector. Maximum earnings for contribution purposes apply only to those who entered the system after January 1, 1996 (€85,478 per year). Employers generally pay 23.81% of the gross payroll; the same minimum and maximum earning limits apply. Public sector employees and self-employed persons are covered by separate rules.

The normal retirement age under the new NDC system will be 65, but those who entered the labour force in or after 1996 can retire at age 57 with at least 5 years of contributions, provided the pension payable is at least 120% of the value of the social allowance¹. Retirees can work part-time under certain conditions.

A seniority pension is available to those aged 57 who have made contributions for 40 years. They may continue being active in gainful employment, as may those aged 58 who have 37 years of contributions. Those who are awarded seniority pensions may continue to work without restrictions on earnings. Those who entered the system in or after 1996 are not eligible for a seniority pension.

Those who entered the system after 31 December 1995 receive benefits that are based on a notional annual contribution, which is adjusted annually by reference to GDP growth. There is a maximum annual earnings level for benefit calculation purposes (€85,478 in 2006). Those who had less than 18 years of contributions on December 31 1995 receive benefits based on a percentage of reference earnings multiplied by the number of years of contributions up to 40. Reference earnings are equal to the average insured annual earnings using the last 5 to 10 years and they are indexed, with contributions made since 1996 calculated according to the new NDC method used for newcomers. Those who had 18 years of contributions on 31 December 1995 receive final-years pension benefits, that is a percentage of (indexed) average salary earned over the final 5 years of employment multiplied by the number of years of contributions up to 40. The percentage varies between 0.9% and 2%.

In 2006, the minimum monthly pension was €427.58 for a single pensioner with an annual income lower than €5,558.54 (€16,675.62 for a couple) and €550.94 for a single pensioner aged 70 or over with an annual income below €7,1622.22 (€12,124.58 for a couple). Minimum pension benefits are reduced for those who earn more than €5,558.54 and not payable for those who earn more than €11,117.08. Pensions are paid monthly, with a thirteenth month in December.

Employer and employee social security contributions are tax deductible. Annuity payments from INPS are taxed as ordinary income when received.

¹ Those who had less than 18 years of contributions on 31 December 1995 can retire at age 65 (men) or 60 (women) if they have at least 20 years of contributions. Those who had at least 18 years of contributions on 31 December 1995 can retire at age 65 (men) or 60 (women) if they have at least 15 years of deemed or actual contributions.

Pensions in payment are indexed at a rate of 75% of 100% of the average change in the cost-of-living depending on the level of pension benefits. Seniority pensions and social allowance pensions are indexed annually according to the average change in the cost-of-living index.

Those who are not eligible for old-age pension benefits receive a means-tested social allowance. It amounts to €4,962.36 for a single pensioner with an annual income lower than €4,962.36 or for a couple with an annual income lower than €9,924.72. It is increased to € 541.35 if aged over 70 and an annual income below €7,167.55 (€12,129.91 for a couple). Social allowances are indexed according to the average change in the cost-of-living index.

Professional schemes² are private entities, but they are part of the first pillar as they provide a “public service”; membership is compulsory for professionals such as architects, engineers, lawyers and doctors. There are 19 such schemes, which can be defined benefit (DB) or defined contribution (DC) type. Professional schemes have a total of 1.3m members, representing 70% of Italian professionals. They own €30bn in assets, which represents 40% of total retirement assets in the country in 2006. Professional schemes pay 3.7% of total pensions in Italy. The TFR reform does not affect these schemes.

According to OECD estimates, the gross replacement rate from public pensions for the average worker is 78.8% (88.8% on a net level) which is well above the OECD average of 56.9% (68.7%). The introduction of the notional DC system between 1992 and 1995 will lead to a decrease of the gross replacement rate to around 50%, with private pension funds expected to achieve a 20-30% replacement rate.

OCCUPATIONAL MANDATORY

Coverage

The reformed TFR system is compulsory for all employees.

Contributions

Employee TFR contributions amount to 7.41% of gross salary. Maximum combined employer and employee contributions are 12% of annual taxable income, up to a yearly contribution ceiling of EUR 5 165. Employer contributions are not mandatory but may be required by collective agreement.

Benefits

The statutory retirement age is 57, rising to 61 by 2013.

Under the TFR system, companies must provide inflation-protected benefits, with contributions are readjusted each year to 1.5% + $\frac{3}{4}$ of the inflation rate. Under the reformed system, pension funds must guarantee the same level of benefits as those guaranteed under the TFR system, although they can also offer more attractive pension savings arrangements. TFR benefits are paid out as lump sums, while pension funds pay them out as annuities. Employees are entitled to one early withdrawal of the accrued balance during a period of service to cover exceptional medical expenses or to purchase a primary residence. An employee who has eight years of service with the same employer can withdraw up to 70% in order to purchase a primary residence or medical care, or up to 30% for any reason.

² Sources for this section: IPE.com, “Professional funds play dynamic role”, 1 July 2006

Taxation

Since reform was enacted contributions have been tax-exempt up to a ceiling of 2% of payroll.

Benefits are taxed at 15%, or at a reduced rate of 9% if the employee has contributed for 35 years.

OCCUPATIONAL VOLUNTARYCoverage

Coverage has increased somewhat since the TFR reform. By 2007 pension funds covered XX% of the labour force.

Typical Plan Design

The average contribution rate to DC plans is approximately 5.5%.

PERSONAL VOLUNTARY

Personal pension plans can be set up through life insurance contracts known by the acronym PIP. They are offered by insurance companies and can take the form of traditional life insurance schemes or unit-linked contracts.

MARKET INFORMATIONOccupational/personal mandatory

In December 2007 participants numbered 3.5 million in total. There were 557 registered pension funds managing assets worth EUR 50.1 billion (USD 68.7 billion).

Personal voluntary

As of 2007, there was a total active membership of 1.1 million in PIPs. The total value of assets amounted to EUR 5.8 billion (USD 7.9 billion).

POTENTIAL REFORM

There are discussions to create one complementary pension scheme for all professionals. If created, this would be one of the largest private pension funds.

Along with other parametric reforms, pension expenditure is expected to be stabilized at around 15% of GDP, with severe decreases in the replacement rate (from 80% down to 50% for employees and 30% for the self-employed).

Financial education of employees will become key in alleviating the pension burden on the public pension system and developing the reformed TFR pension system, in which savers must choose where to place their savings. The Pension Regulator is expected to issue rules about financial forecasting, which would allow workers to compare their likely future pension fund benefits to their public pension benefits³.

³ IPE.com, "Open Funds Open Wider", 7 July 2007

REFERENCE INFORMATION

KEY LEGISLATION

2005: Legislative Decree 252/2005 passed on 24 November 2005 reformed the TFR system by introducing automatic enrolment and opt-out arrangements.

2000: the legal framework for PIPs was laid down in Legislative Decree no. 47.

1993: Legislative Decree no. 124 allowed the establishment of open and closed pension funds.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

Commissione di Vigilanza sui Fondi Pensione (COVIP), or the Pension Fund Supervision Commission: polices the Italian occupational pension system;

www.covip.it.

KEY OFFICIAL STATISTICAL REFERENCE AND SOURCES ON PRIVATE PENSIONS

Commissione di Vigilanza sui Fondi Pensione (2007), or Pension Fund Supervision Commission, *Annual Report*, [www.covip.it/RA%202007%2020080624 .pdf](http://www.covip.it/RA%202007%2020080624.pdf).

OECD, Global Pension Statistics project, www.oecd.org/daf/pensions/gps.

OECD Est. Gross Replacement Rate Mandatory Pensions, Average Earner 2009









