Italy

Italy: Pension system in 2008

The new Italian pension system is based on notional accounts. Contributions earn a rate of return related to GDP growth. At retirement, the accumulated notional capital is converted into an annuity taking account of average life expectancy at retirement. It applies in full to labour-market entrants from 1996 onwards.

Key indicators

		Italy	OECD
Average earnings	EUR	26 300	27 800
	USD	38 500	40 600
Public pension spending	% of GDP	14.1	7.0
Life expectancy	At birth	81.1	78.9
	At age 65	84.5	83.1
Population over age 65	% of working-age population	33.0	23.6

Qualifying conditions

The normal pension age under the new system will be 60 for women and 65 for men from 2008 onwards.

Benefit calculation

Under the contribution-based regime the private and public employees contribution rate is 33%, of which about one-third is paid by the employee and two-thirds by the employer; the amount of pension is calculated as a product of two factors: the total lifelong contributions, capitalised with the nominal GDP growth rate (in line with a five-year moving average) and the transformation coefficient whose calculation is mainly based on the probabilities of death, the probabilities of leaving any widow or widower and the number of years that a survivor's benefit will be withdrawn. As a consequence, benefits are strongly related to retirement age – the lower the age, the lower the pension.

The transformation coefficients are reviewed every three years. They are available for the age bracket 57-65, but workers may not retire earlier than 65 unless they have reached the eligibility requirements stated by the current legislation and an amount of pension not less than 1.2 times the old-age allowance.

The baseline assumption in modelling all countries is 2% annual real wage growth. Given the projected decline in the Italian labour force, a consistent assumption is that real GDP growth is 1.6% per year.

For employees, in 2008, minimum pay for contribution purposes is EUR 177.42 per week (35% of average earnings). Maximum earnings for benefits are EUR 88 669 per year under the new scheme, or just over 337% of average earnings.

The indexation of pensions in payment is complex, since smaller pensions are accorded a more generous treatment than larger pensions. In 2008, for benefits up to five times the minimum pension there is full price indexation of pensions in payment. This threshold is EUR 2 180.70 per month for 2007 (which is used to index pensions in 2008). For benefits between five and eight times the minimum pension, pensions in payment are uprated by 75% of price inflation. Above this threshold, there is no indexation. From

January 2009, for benefits up to five times the minimum pension there is full price indexation of pensions in payment. This threshold is EUR 2 217.80 per month for 2008 (which is used to index pensions in 2009). Above this threshold, pensions in payment are uprated by 75% of price inflation.

Voluntary

There is an additional voluntary, supplementary occupational system. It consists of both open funds and closed collectively agreed funds. The closed funds can be funded by both employers and employees as well as from the Tfr. The open funds provide an annuity based on contributions. The current Tfr contribution rate is 6.91%. The number of workers enrolled in a private pension fund is still low. For this reason, the Finance Act for 2007 has anticipated (with some changes) the pension reform recently passed which introduced further measures in order to foster the development of the second pillar: *a)* higher fiscal incentives; and *b)* silence-as-assent for the transfer of the private severance pay (Tfr). In particular, the latter means that the current severance pay accumulation is supposed to be transferred to private pension funds, unless he/she applies for communicating his/her refusal. However, enrolments in the private pension funds remain on a voluntary basis.

Social assistance

The minimum pension is abolished for people covered only under the new system; *i.e.* entrants after 1996. However, pensioners with incomes below the social-assistance level can claim a means-tested benefit from age 65. Including supplements, the 2008 value of the social-assistance benefit (*assegno sociale*) was EUR 5 310.63. There is a higher benefit of EUR 7 540 for over 70s. These are equivalent to 20% and 29% of average earnings, respectively.

Variant careers

Early retirement

Under the previous system, workers could retire at age 57 if they had contributed to the system for 35 years. From January 2008, minimum age has been increased to 58 years (59 years if self-employed). A recent reform, approved as part of the 2008 budget process, has introduced a quota system based on a combination of age and seniority, so the minimum age to request early retirement (seniority pensions) will increase from 57 to 61 years old by 2013 as shown in table.

	Employees		Self-employed	
	Quota	Age	Quota	Age
From 1 July 2009 to 31 December 2010	95	59	96	60
From 1 January 2011 to 31 December 2012	96	60	97	61
From 1 January 2013	97	61	98	62

However, it will remain possible to retire at any age with 40 years' contributions.

Late retirement

Women have the right to continue working until the normal pension age for men. Retirement is not compulsory at 65 but employers have the right to dismiss employees reaching that age. From January 2009 it is possible to totally combine employment and pension receipts. Referring to pensions under the contribution-based regime: *a)* it is possible to totally combine employment and anticipated old-age pension receipts for pensioners who have 40 or more years of seniority; *b)* it is possible to totally combine employment and old-age pension receipts for pensioners who are 65 years old or more, if male, and 60 years old or more, if female.

It is possible to defer the pension claim after age 65, however the transformation coefficient remains the same, and benefits increase only because of the accumulation of further contributions and their (notional) capitalization for one or more further years.

Childcare

The pension is increased for mothers by giving them a more generous transformation coefficient. For mothers of one or two children this is the transformation coefficient of their actual retirement age plus one year. For three or more children this is the actual retirement age plus two years. Thus, according to the projected transformation coefficients, the effect is to increase the pension by around 3% for one or two children, and 6% for three or more children.

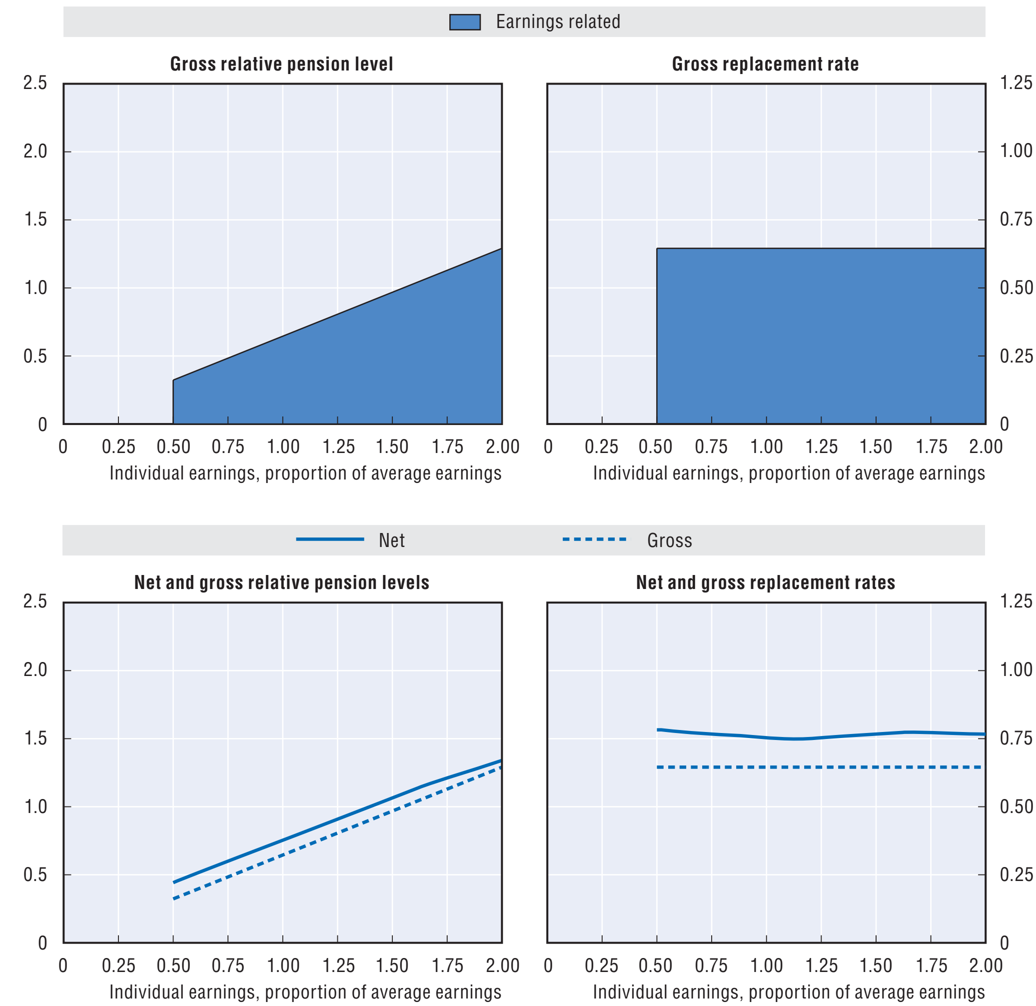
Unemployment

All the unemployment insurance schemes – *cassa integrazione guadagni* (CIG), *indennità di mobilità* and *indennità di disoccupazione* – give rise to credited contributions for the time the benefit is received. Previous earnings are used as a base for pension calculation.

The maximum credit period is five years over the lifetime for people that entered the labour market from 1993 onwards. This affects only the right to receive a seniority pension. Furthermore, credited contributions for *indennità di disoccupazione* – the general unemployment scheme – cannot be counted towards the 35-year contribution requirement although they do count (under the five-year limit) towards the 40-year requirement.

Contributions are normally paid by the government, with the exception of *indennità di mobilità* in the first year of receipt and CIG, which are partially paid by the employee at a reduced rate of 5.54%.

Pension modelling results: Italy



Men *Women (where different)*	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level	54.9	32.3	48.4	64.5	96.8	129.1
(% average gross earnings)	*43.0*	*25.3*	*37.9*	*50.6*	*75.9*	*101.2*
Net relative pension level	66.3	44.2	60.0	75.3	106.5	134.0
(% net average earnings)	*54.8*	*35.8*	*49.8*	*62.1*	*86.3*	*110.7*
Gross replacement rate	64.5	64.5	64.5	64.5	64.5	64.5
(% individual gross earnings)	*50.6*	*50.6*	*50.6*	*50.6*	*50.6*	*50.6*
Net replacement rate	76.2	78.2	76.7	75.3	76.7	76.7
(% individual net earnings)	*63.0*	*63.4*	*63.7*	*62.1*	*62.1*	*63.3*
Gross pension wealth	10.6	10.6	10.6	10.6	10.6	10.5
(multiple of individual gross earnings)	*11.1*	*11.1*	*11.1*	*11.1*	*11.1*	*11.1*
Net pension wealth	9.1	10.3	9.3	8.8	8.3	7.7
(multiple of individual gross earnings)	*9.9*	*11.1*	*10.3*	*9.6*	*8.9*	*8.5*

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