

Italy

Highlights from OECD *Pensions at a Glance 2011*

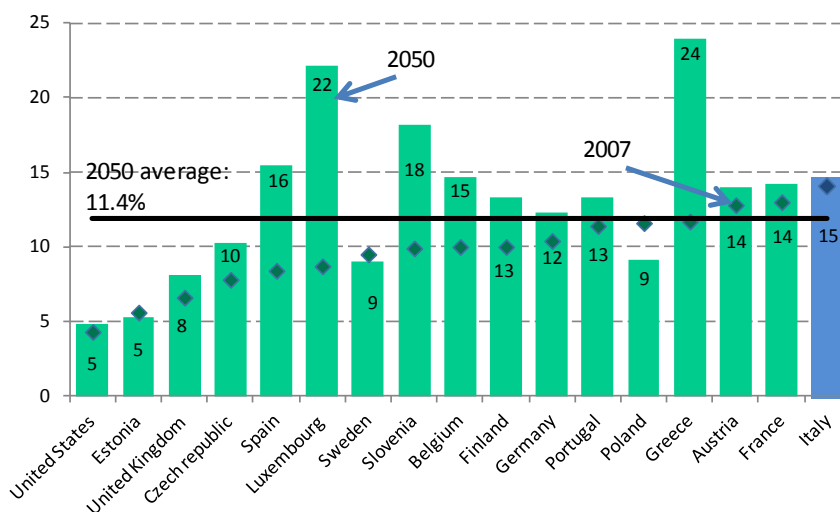
- In 2010, Italy was the second oldest OECD country after Japan with only 2.6 people of working age (20-64) relative to the number of retirement age (65+) (i.e. the support ratio). The demographic context is the main driver of the high spending on old-age and survivors' benefits: 14.1% of GDP compared to 7.0% on average in OECD. Pension reforms undertaken in recent years will result in some benefit reductions for future retirees and in increases in the age at which people first claim pensions. This will reduce growth in public pension expenditure.
- To ensure success of the pension reforms it is crucial to improve the participation rates of workers over the age of 60 years. However, assuming that a person works for a full career starting at age 20, the full pension entitlement is already reached at age 60, which reduces the incentives to stay in work after that age compared with other OECD countries.

Rapid population ageing is mirrored in the current high public spending on pensions

Italy's population is ageing very rapidly. Population projections show that this trend will continue. Ageing is driven by the relatively low fertility rates (at around 1.4 children per woman compared to the OECD average at 1.7 children per woman) and high life expectancy both at birth and at pensionable age. The old-age support ratio, defined as the number of people of working-age per person above 65, is projected to fall to 1.5 in 2050.

In 2007, Italy spent the largest proportion of national income on pensions among OECD countries – nearly one-seventh of GDP. Other countries with high public pension spending are Austria, France and Greece at about 12% of GDP and Germany, Poland and Portugal at about 11%. Like in other fast ageing countries, pension spending accounts for a large part of Italy's public expenditures: 29.4% in 2007.

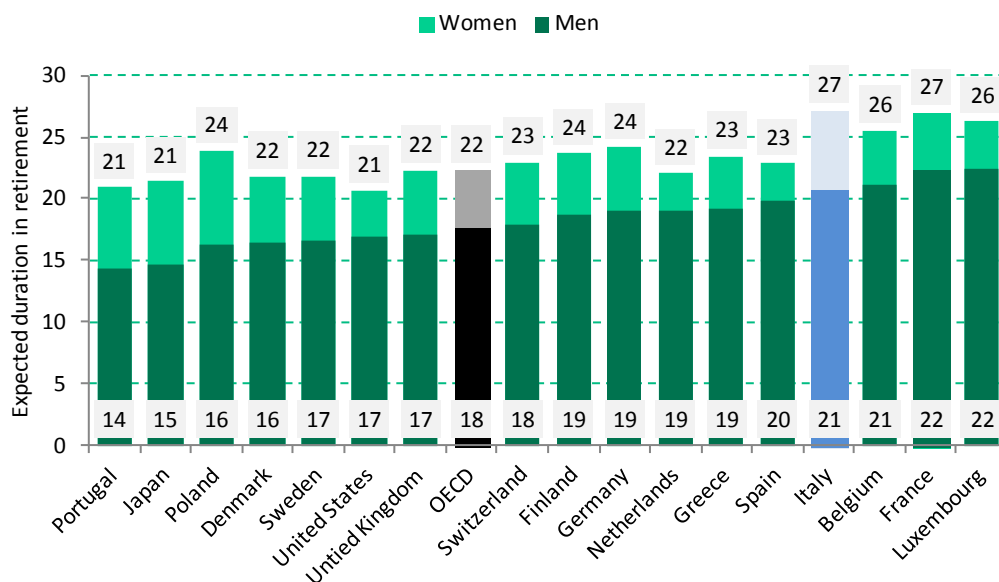
Italy has gone through a series of pension reforms in the past 15 years. The gradual shift to the new Notional Defined Contribution system (NDC hereafter), the revisions of the NDC age-specific transformation coefficients, which account for the increase of life expectancy, the introduction of an automatic link between life expectancy and pensionable age from 2015, are measures that will help to contain pension spending in the long-term. Reductions in benefits for future retirees and increases in the age at which people can first claim pensions are also likely to reduce the growth in public pension expenditure, provided that labour market participation of older workers increases. As a result, public spending on pensions is forecast to remain broadly stable until 2050 in Italy.



Source: Based on data from European Communities (2009), "2009 Ageing report: Economic and budgetary projections for the EU-27 Member States (2008-2060)".

Incentives to stay on the labour market should be improved

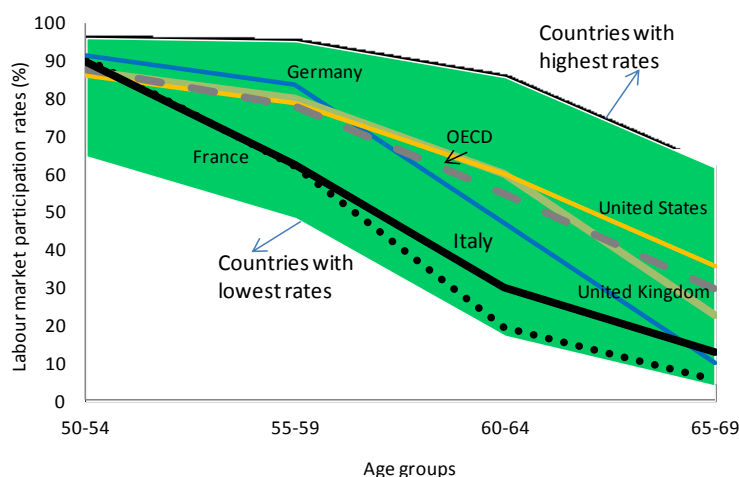
The combination of a low effective age of labour market exit – at 61 for men and around 59 for women – and high life expectancy at that age leads to a long duration of retirement. Men can expect to live almost 23 years in retirement and women more than 27 years. These are among the longest retirement periods in OECD countries, along with France, Greece, Luxembourg and Turkey. But the increase of the pension age will stabilise the expected duration of retirement in Italy over the period 2010-2050.



Source: OECD (2011), *Pensions at a Glance 2011*

The success of the reform crucially rests on the ability to increase the duration of the working life. More generally, labour-market participation of older workers, youth and women has to increase. There is room for improvement of the situation in Italy.

Participation rates of people in the age-range 55-69 are relatively low compared to the OECD average. 62% of men aged 55-59 participate in the labour market compared to around 78% in OECD on average. This percentage further drops with age: only 30% of people aged 60-64 and around 13% in the age range 65-69 participate in the labour market compared to 54.5% and 29.3%, respectively on average in the OECD.



Source: OECD Employment database.

The incentives to retire embedded in the pension system are still relatively large compared to other OECD countries. Despite being lower than it was in the past, there is still an implicit tax on working an additional year between the ages of 60 and 64 years (worth around 11% of annual earnings in gross terms and around 18% in net terms). In addition, transformation coefficients (i.e. the coefficients related to age and life expectancy that allow to transform the accrued amount in an annuity at retirement) do not change beyond age 65 and this may discourage people to defer retirement after that age.

“Pension reforms have helped to achieve better economic and financial sustainability of the Italian pension system, but social sustainability could be an issue in the future”, says Anna D’Addio economist specialist on pensions in the Social Policy division of the OECD. “The current economic condition and the characteristics of the labour market with more precarious jobs and earnings have the potential of reducing pension entitlements in the future for these workers” she warned.

Key indicators

		Italy	OECD
Gross replacement rate	Average earner (%)	64.5	57.3
	Low earner (%)	75.3	72.1
Public spending on pensions	% GDP	14.1	7.0
Life expectancy	At birth	81.1	78.9
	At age 65	84.5	83.1
Population aged 65	% of working-age population	33.0	23.6
Average earnings	EUR	26 300	27 800

Note: replacement rate is pension entitlement from all mandatory sources of retirement income relative to individual earnings. Calculations for a full-career worker entering the labour market in 2008. Low earner is assumed to earn 50% of the average.

Source: OECD (2011), Pensions at a Glance: Retirement-Income Systems in OECD and G20

Notes to editors:



Pensions at a Glance 2011: Retirement Income Systems in OECD and G20 Countries

Published 11.00am Paris time on 17 March 2011

The report includes 36 indicators of retirement-income systems for the 34 OECD member countries and nine further G20 economies. There are five special chapters on (i) trends in pensionable ages; (ii) patterns of working and retirement at older ages; (iii) incentives to retire embedded in pension systems; (iv) helping older workers find and retain jobs; and (v) linking pensions to life expectancy.

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