PENSION POLICY NOTES

ITALY

December 2019

www.oecd.org/pensions/policy-notes-and-reviews.htm

- **Duly implement the automatic links between retirement ages and life expectancy**

- **Introduce actuarial adjustments to early retirement in the mixed system, eliminate the "women's option" and make survivor pensions eligible from the statutory retirement age**

The public PAYGO pension system is slowly shifting from defined benefit (DB) to notional defined contribution (NDC). The transition will be long because the NDC scheme fully covers only those who had not worked before 1996. In 2016 only about one-fifth of new retirees retired under the NDC rules while NDC (if any) and DB entitlements were pro-rated (mixed system) for the remaining four-fifths. NDC rules follow actuarial principles, implying that pension levels are adjusted to both the effective retirement age and changes in life expectancy. These mechanisms contribute to financial sustainability and will only be fully effective when the transition is completed, i.e. around 2045. Within NDC, additional safeguards are in place to prevent people from retiring with too low pensions: pension entitlements generating around one-half of the average wage are required to retire at age 64 in 2019, and of one-third at the statutory retirement age of 67 years (there is no conditions from age 70). For the mixed system, there is no age condition for men and women having contributed for 42.8 and 41.8 years, respectively. The 2019 reform introduced the so-called "Quota 100", which applies until 2021, i.e. the possibility to retire from age 62 with 38 years of contributions, subject in addition to a labour-income test which restricts working longer.

Key indicators: Italy and OECD average

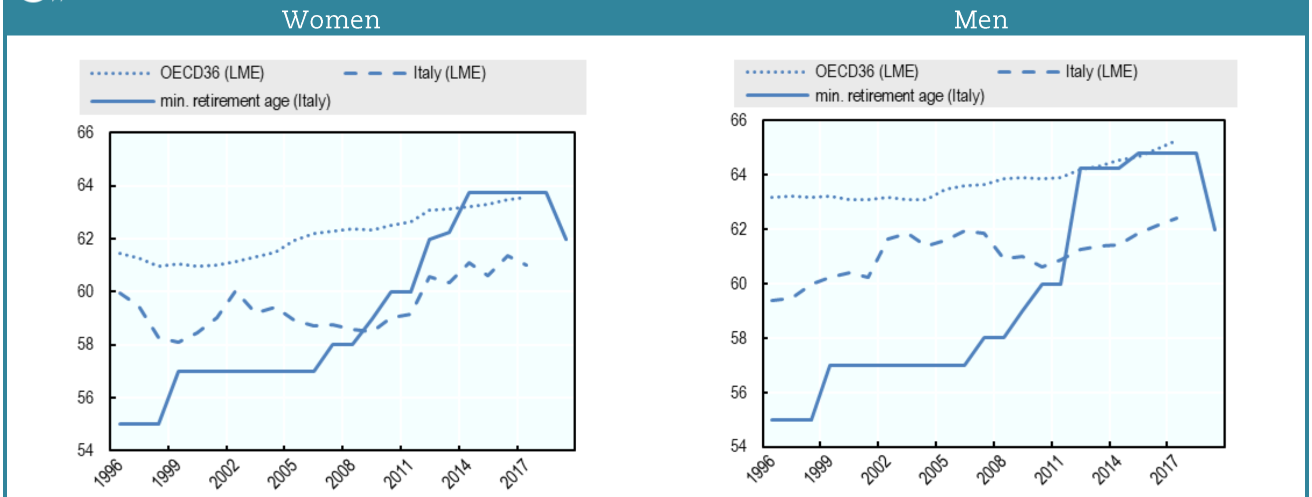
	Mid-1980s	Mid-1990s	Mid-2000s	Latest available	Latest OECD	Long term	Long term OECD
Normal retirement age for a full-time career starting at the age of 22	55.0	55.0	57.0	67 (66.6)	64.2 (63.5)	71.3	66.1 (65.7)
Statutory retirement age	60 (55)	60 (55)	65 (60)	67 (66.6)	64.5 (63.8)	71.3	66.5 (66)
Net replacement rate, average earner						91.8 (91.8)	58.6 (57.6)
Effective contribution rate (average earner)				33.0	18.4		
Total pension spending, % of GDP	11.7	14.5	14.9	17.5	10.0		
Public pension spending, % of GDP	10.8	13.2	13.8	16.2	8.4		
Public debt, % of GDP	87	120	119	148	80		
Employment rate 55-64, %	53.9 (14.8)	44.7 (13.5)	42.7 (20.8)	64.2 (43.9)	68.5 (54.8)		
Labour-market exit age	62.5 (61.5)	59.1 (59.7)	61.6 (58.9)	63.3 (61.5)	65.4 (63.7)		
Old-age poverty rate, %	18.0	16.7	14.2	10.3	13.5		
Life expectancy at 65, years	14.7 (18.5)	16.0 (20.1)	17.9 (21.6)	19.3 (22.5)	18.1 (21.3)	23.5 (26.6)	22.5 (25.2)
Old-age to working-age ratio	0.22	0.27	0.32	0.40	0.31	0.75	0.58
Fertility rate	1.3	1.2	1.4	1.3	1.7	1.6	1.7

Note. The figures for women appear in parenthesis where they differ from those for men.
Long term: Around 2060 based on all legislated reforms up to mid-2019.

Recent measures substantially increased old-age safety-net levels and expanded the possibilities to leave the labour market early. The introduction of the so-called "Citizen's Pension" in 2019 increased the means-tested safety net by about 30% from an initially low level, which is improving social protection substantially. The retirement-age conditions (of 64 and 67 years currently) are linked to changes in life expectancy, but, on top of introducing "Quota 100", the 2019 reform suspended such links until 2026 for some workers, including those in arduous occupations. In addition, the links of the reference-contribution periods (42.8 and 41.8 years) with life expectancy were suspended until 2026 for all workers. From 2017 early labour market exit has been made possible from age 63 through a largely subsidised benefit under special conditions (so called social APE) and a preferential loan against future pensions (financial APE). The APE schemes are supposed to be temporary measures, applying until the end of 2019. The so-called "women's option" was closed in 2015 but then reopened in 2016; it now allows women to retire at age 58 with 35 years of contributions if they fully switch to NDC benefit calculation.

Early exit from the labour market and high pension spending remain key challenges. Average effective labour market exit ages of 62 for women and 63 for men in 2018 are two years lower than the OECD averages. In order to raise the effective labour market exit age it is crucial to preserve the link between retirement ages and life expectancy. Moreover, the average income of people older than 65 is very close to the population-wide level, against being 12% lower in the OECD. This combination generates high costs for the public purse. According to Parliamentary Budget Office estimates, the 2019 expansion of early-retirement options alone will increase pension expenditures by around 0.4% of GDP yearly over 2020-2023. The recent measures have partly reversed policies undertaken between 1992 and 2011 to limit pension expenditure and prolong careers. Moreover, survivor pensions, which are available without any age condition unlike in many other OECD countries, contribute to high spending, reaching the OECD highest share of GDP at 2.6% against 1.0% on average. Despite high spending, people with patchy careers or non-standard work arrangements that are more common in Italy than in many other OECD countries might be more exposed to low retirement income than in other countries. A 5-year unemployment-related career break reduces pension by 10% compared to an uninterrupted career, which is twice more than on average in the OECD. Improving pension prospects for those with incomplete carriers would require strengthening pension credits for unemployment spells and improving labour market outcomes more generally through skill and activation policies.

Lower minimum retirement ages might prevent labour-market exit ages (LME) from increasing



Note: Minimum retirement age assumes a person starting career at age 22 and retiring in the mixed system.
Source: OECD database on effective ages of labour market exit and [OECD Pensions at a Glance 2019](#).

Increasing effective retirement ages is essential to maintain an adequate level of old-age income in a financially sustainable way. This requires duly implementing the links between both retirement ages and reference-contribution periods and life expectancy. Any option to retire before the statutory retirement age should result in benefits being actuarially adjusted in the DB scheme. The "women's option" scheme should be eliminated because it increases old-age poverty risks of many women who might find themselves in a poor income situation a few years after having retired. Permanent survivor pensions should not be available much below the retirement age: having no age-related condition is costly and might reduce labour market participation at an early age. Moreover, equal treatment of all earnings implies that the pension contribution rates should be aligned between the self-employed and dependent workers. Indeed, many self-employed workers contribute only 24% of their income towards pensions compared to 33% for dependent workers.

Contacts

✉ Maciej.LIS@oecd.org
☎ +33 1 85 55 45 09
✉ Stefano.SCARPETTA@oecd.org
☎ +33 1 45 24 19 88

@OECD_Social
www.oecd.org/pensions/policy-notes-and-reviews.htm