Italy

Italy: Pension system in 2012

The new Italian pension system is based on notional accounts. After the reform of 2011, all workers currently contribute to a NDC scheme. 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 worker earnings (AW)	EUR	28 900	32 400
	USD	38 100	42 700
Public pension spending	% of GDP	15.4	7.8
Life expectancy	At birth	82.2	79.9
	At age 65	20.3	19.1
Population over age 65	% of working-age population	34.5	25.5

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Qualifying conditions

The normal pension age under the new system will increase gradually for men and women. In 2012, it was 62 for women employed in the private sector; 63 for self-employed women and 66 for men (both employed and self-employed). For women, the reform has established gradual increases in pension age, so as to equal men's at 66 years by 2018. Further increases in line with life expectancy evolution will take place after 2018 to achieve 67 at least in 2021. The 2011 pension reform has however introduced a flexible window of retirement between 62 and 70 years. Old-age pensions can be obtained with a minimum length of 20 year of contributions and whether the pension amount is not lower that 1.5 times the social assistance (see below).

Benefit calculation

Earnings-related scheme

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of death, the probabilities of leaving any widow or widower and the number of years that a survivor's benefit will be withdrawn.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. According to the 2011 reform and to allow a flexible retirement window, they will be available for the age bracket 62-70. The latest available coefficients, applicable from the 1 January 2013 to 31 December 2015 are as follows:

Age	Divisor	Value (%)
57	23.236	4.304
58	22.647	4.416
59	22.053	4.535
60	21.457	4.661
61	20.852	4.796
62	20.242	4.940
63	19.629	5.094
64	19.014	5.259
65	18.398	5.435
66	17.782	5.624
67	17.163	5.826
68	16.541	6.046
69	15.917	6.283
70	15.288	6.541
Discount rate = 1.5%		

Source: *Gazzetta Ufficiale*, 24 May 2012.

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 2012, minimum pay for contribution purposes was EUR 192.21 per week (35% of average earnings). Maximum earnings for benefits were EUR 96 056 per year under the new scheme, or just over 332% of average earnings.

The indexation of pensions in payment is progressive and lower pensions are indexed more generously than higher pensions. The indexation of pension benefits according ISTAT "cost-of-life" index has been suspended for 2012 and 2013. For 2012 the suspension concerns pension benefits higher than EUR 1 400 a month and for 2013 it concerns pension benefits higher than EUR 935 a month (twice the minimum). The general rule has since January 2009, been to index benefits up to five times the minimum pension with full price indexation above this threshold, pensions in payment have been up rated with 75% of price inflation.

Social assistance

Under the contributive scheme, the amount of the pension is determined solely on the basis of contributions. However, for people with a contributory pension below a minimum level (EUR 481 a month in 2012), the system offers the possibility of social payments to reach EUR 6 253 of pension income per year. People without a contributory pension can claim a means-tested tax-exempted social assistance benefit from the age of 65: the *assegno sociale*. From 2013, this age is increased to 65 years and three months and the entitlement age will increase in line with life expectancy, in the same way as pensions do. Including supplements, the 2012 value of the *assegno sociale* for a single person was EUR 5 582.33 per year, or EUR 429.41 a month with 13 payments a year. In 2013, the benefit will rise to EUR 442.30 per month (EUR 5 749.90 per year). Beneficiaries of the *assegno sociale* aged at least 70 can have an increase of their monthly pension for up to EUR 188.03; thus reaching a maximum income from social transfers of EUR 8 026.72 a year. The value of the minimum contributory pension and the *assegno sociale* for a person aged 65 years are equivalent to 22% and 28% of average earnings, respectively.

Voluntary private pensions

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% of gross salary. The invested funds are capitalised each year with the application of a fixed rate of 1.5% and a variable component, equal to 75% of the annual increase in the consumer-price index. 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 faster 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.

Variant careers

Early retirement

The 2011 reform has stressed the importance to ensure an adequate contribution record for workers wishing to retire before pension age. For this reason, the former system of quotas – which allowed the departure satisfying age/contribution requirements in different combinations – has been abolished. Under the previous system, workers could retire at age 61 if they had contributed to the system for 35 years. Today, for people who used to be fully enrolled in the defined-benefit scheme before the 2011 reform, retirement without penalty is possible from age 62 if contributions have been paid for at least 42 years and one month for men and 41 years and one month for women. These requirements will be lengthened in line with life expectancy. In 2013 the necessary requirement has increased with four months for both men and women. For every year of early retirement, pension entitlements are reduced by 1%-age point. This reduction increases to 2%-age points for each additional year if the age of departure is two years below the minimum of 62. The penalty, however, does not apply to workers who will meet the contribution requirement by 2017. For people under the contributive or mixed system, early retirement is possible only if the person fulfils the contribution requirement, without penalties due to age. Alternatively, these workers can retire at age 63 given the condition that they have paid contributions for at least 20 years.

Late retirement

It is possible to retire after age 65, the new transformation coefficients being defined between age 62 and 70. Between 2004 and 2008, people who continued working after reaching pension age had the right to a monthly "bonus" in their payroll, equivalent to 32.7% of the salary (i.e. the amount of the contribution due). This benefit was non-taxable.

Childcare

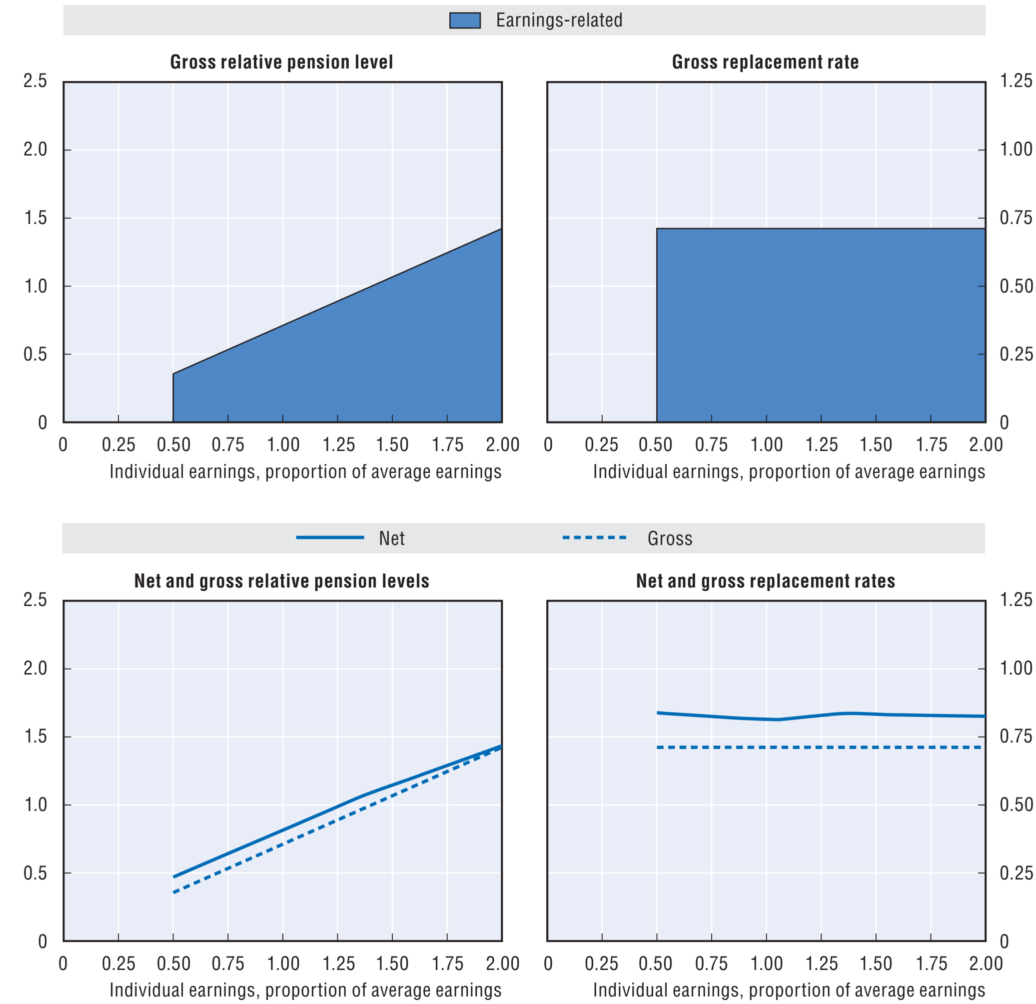
The pension is increased for mothers by giving them a more generous transformation coefficient. For mothers of one or two children this is the transformation coefficient of their actual retirement age plus one year. For three or more children this is the actual retirement age plus two years. Thus, according 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. Alternatively, working mothers under the contributive or mixed scheme have the possibility to anticipate retirement of four months for every child, up to a maximum of 12 months.

Unemployment

For businesses facing situations of distress, public assistance intervenes to grant earnings to workers through the *Cassa Integrazione Guadagni* (CIG). The CIG is payable to all employees excluding executives, trainees/apprentices and home workers. The length of the coverage varies, but the benefit is generally offered for up to 12 or 24 months. The allowance is equivalent to 80% of the last salary, but there are ceilings. In 2012, the maximum payable benefit was of EUR 931.28 per month for workers with a working salary up to EUR 2 014.77 per month, or EUR 24 177 per year. For higher earnings, the allowance could be as high as EUR 1 119.32 per month. The payment is subject to a reduction of 5.84% for social contributions. For this reason, the maximum monthly net benefits were EUR 876.89 and EUR 1 053.95 respectively. This benefit is then subject to normal income taxation.

For people in unintentional unemployment, there is the opportunity of a monthly allowance for up to eight months if the worker is aged below 50 years or up to 12 months otherwise. Entitlement to such benefit requires a minimum of one year of full contribution in the two years before the dismissal. Lower requirements apply to former trainees/apprentices or employees in the construction or agricultural sector. The benefit is equivalent to 60% of the average salary in the three months before the dismissal. After the first six months, the benefit lowers to 50% of the average salary. There is no reduction due to contribution rates. In 2012, the ceilings to payments were of EUR 931.28 and EUR 1 119.32 per month for workers with an average salary within and above EUR 2 014.77 per month, respectively. The unemployment allowance has been reformed in 2012 and new rules apply from 1 January 2013.

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	60.5	35.6	53.4	71.2	106.8	142.4
(% average gross earnings)						
Net relative pension level	71.1	47.0	64.3	81.5	114.6	143.5
(% net average earnings)						
Gross replacement rate	71.2	71.2	71.2	71.2	71.2	71.2
(% individual gross earnings)						
Net replacement rate	82.0	83.9	82.6	81.5	83.3	82.6
(% individual net earnings)						
Gross pension wealth	11.9	11.9	11.9	11.9	11.9	11.8
(multiple of individual gross earnings)	*13.7*	*13.7*	*13.7*	*13.7*	*13.7*	*13.5*
Net pension wealth	9.7	10.9	10.0	9.5	8.9	8.2
(multiple of individual gross earnings)	*11.1*	*12.5*	*11.4*	*10.8*	*10.1*	*9.4*

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