

# Italy

## Italy: Pension system in 2020

Currently, pension system prorate pension entitlements from defined benefit scheme and notional defined contribution scheme (NDC). The NDC will be fully effective for people who entered labour market after 1995. In the NDC, contributions earn a rate of return related to real GDP growth. At retirement, the accumulated notional capital is converted into an annuity taking into account average life expectancy at retirement.

### Key indicators: Italy

		Italy	OECD
Average worker earnings (AW)	EUR	30 233	34 301
	USD	34 532	39 178
Public pension spending	% of GDP	15.6	7.7
Life expectancy	at birth	83.2	80.6
	at age 65	20.9	19.7
Population over age 65	% of working- age population	39.5	30.4

### Qualifying conditions

Old-age pension requirements in 2020, for private and public employees, is 67 years with a minimum of 20 years of contributions. The updating occurs automatically in line with life expectancy at 65, every two years as of 2021. Because of slowing down of life expectancy growth, with Decree 5 November 2019 was disposed that no increase will take place in 2021 and 2022. Old-age pensions, fully calculated with notional accounts system, can be obtained with a minimum of 20 years of contributions and if the pension amount is not lower than 1.5 times the old age social allowance in 2012, indexed with the five-year average of nominal GDP. A temporary flexibility measure of early retirement (called *Quota 100*) was also introduced, experimentally from 2019 to 2021, concerning the possibility of retiring with 62 years of age and 38 years of contributions or more, with no adjustment to DB-benefits. A more restrictive Quota-102, available from age 64, is expected to apply for 2022.

### Benefit calculation

#### Earnings-related scheme

The notional accounts system has a contribution rate of 33%, of which about one-third is paid by the employee and two-thirds by the employer. At retirement the pension benefit is calculated as the accumulated lifelong contributions valorised with the nominal GDP growth rate (as a five-year moving-average) and the transformation coefficient. The transformation coefficient is a function based on the probabilities of death, the probabilities of leaving a widow or widower behind and the expected duration of years that a survivor's benefit will be withdrawn.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 available for ages 57 to 71 and reviewed every two years as of 2021, with those applying to new pensions in 2021 shown in the table below.

Age	Divisor	Value	Age	Divisor	Value	Age	Divisor	Value
57	23.889	4.186%	62	20.964	4.770%	67	17.937	5.575%
58	23.315	4.289%	63	20.367	4.910%	68	17.325	5.772%
59	22.732	4.399%	64	19.763	5.060%	69	16.708	5.985%
60	22.148	4.515%	65	19.157	5.220%	70	16.090	6.215%
61	21.556	4.639%	66	18.549	5.391%	71	15.466	6.466%

Discount rate = 1.5%

In 2020 the minimum pay for contribution purposes was EUR 206.23 per week (40% of the minimum pension). Maximum earnings for benefits were EUR 103055 per year under the new scheme.

The indexation of pensions in payment is progressive and lower pensions are indexed more generously than higher pensions. In 2020 the indexation rule for pensions in payment is: 100% of the “cost-of-life” index for treatments up to three times the minimum pension; 97% of the “cost-of-life” index for pensions up to four times the minimum pension; 77% of the “cost-of-life” index for pensions up to five times the minimum pension; 52% of the “cost-of-life” index for pensions up to six times the minimum pension; 47% of the “cost-of-life” index for pensions up to eight times the minimum pension; 45% of the “cost-of-life” index for pensions up to nine times the minimum pension; 40% of the “cost-of-life” index for pensions higher than nine times the minimum pension.

### ***Minimum pension***

Under the old DB 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 515.58 a month in 2020), the system offers the possibility of social payments (Minimum Pension Supplement) to reach EUR 6702.54 of pension income per year. The Minimum Pension Supplement does not apply to pensions calculated according to the contribution related calculation system.

### ***Targeted schemes***

Individuals without a contributory pension benefit can claim a means-tested tax-exempted social assistance benefit called the *assegno sociale* (old age social allowance). The social allowance is a welfare benefit which does not depend on the payment of contributions and is paid to persons who are in disadvantaged financial condition at a certain age. In 2020, it is granted to Italian citizens, EU citizens or non-EU citizens resident in Italy for at least 10 years, who are at least 67 years old. The entitlement age will increase in line with life expectancy. In 2020 the *assegno sociale* for a single person was EUR 5 977.79 annually with 13 payments per year (EUR 459.83 per month). Beneficiaries of the *assegno sociale* aged 70 or over receive an additional monthly pension (called *maggiorazione dell'assegno sociale*) for up to EUR 191.68 which brings the benefit up to EUR 8469.63 per year.

### ***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 voluntary transformation of TFR (private severance pay). 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.

## **Variant careers**

### ***Early retirement***

In 2020, early retirement is possible if contributions have been paid for at least 42 years and ten months for men and 41 years and ten months for women, increasing in line with life expectancy. However, the Decree-Law 4/2019 disposed an exemption from the application of life expectancy adjustments until 31 December 2026.

The legislator also has renewed for 2020 the possibility for women with a mixed calculation method to retire earlier (called *Opzione Donna*), given the condition that the future pension will be entirely calculated by the NDC method, which implies a substantial penalty. In this case, requirements for female employees are 58 years of age (59 years if self-employed) and 35 years of contributions by 31 December 2020.

Workers can choose to retire 3 years below the statutory retirement age with 20 years of contributions if agreeing to have their pension being fully calculated under NDC rules, hence with substantial penalty for those who had accrued some pension entitlements in the DB scheme given the condition that the pension amount is not lower than 2.8 times the old age social allowance in 2012.

Italy extended also other temporary early retirement options which were supposed to expire in 2020. This includes the option to retire at age 63 with 30 years of contributions for people unemployed, disabled or giving care, or after 36 years for people in arduous occupations. A similar extension to retire up to seven years before the statutory retirement age was granted to workers in companies undergoing restructuring.

### ***Late retirement***

It is possible to defer retirement. Adjustment based on remaining life expectancy apply to the NDC part of pension entitlements.

### ***Childcare***

Mothers receive a more generous transformation coefficient. Women with one or two children receive a more favourable transformation coefficient used to calculate the pension benefit. The age that is used is the actual retirement age plus one year. For women with three or more children this age is equal to the actual age plus two years.

Alternatively, working mothers under the contribution scheme have the possibility to anticipate retirement by four months for each 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 2020 the maximum benefit was EUR 998.18 per month for workers with a working salary up to EUR 2 159.48 per month. For higher earnings the allowance equals EUR 1 199.72 per month. The payment is subject to a reduction of 5.84% for social contributions and the maximum monthly net benefits were EUR 939.89 and EUR 1 129.66 respectively. Benefits are subject to income tax.

For individuals in unintentional unemployment there is a monthly allowance called NASpI (*Nuova Assicurazione Sociale per l'Impiego*). Entitlement requires a minimum of 13 weeks of contribution in the four years before the dismissal and a minimum of 30 days of effective work in the two years before the dismissal. Lower requirements apply to trainees/apprentices or employees in the construction or agricultural sector. NASpI is given for a maximum period equal to half the number of weeks of contribution in the last four years. In 2020, the benefit is equivalent to:

- 75% of the monthly average salary in the last two years before the dismissal, if the average salary is lower than a fixed threshold equal to EUR 1227.55 , indexed with inflation;

- 75% of EUR 1227.55 plus 25% of the difference between the monthly average salary and the threshold.

In 2020 the benefit ceiling was equal to EUR 1335.40 per month. After four months, the monthly allowance is lowered by 3% each month.

### *Self-employed*

Minimum income for pension contribution for 2020 for self-employed is EUR 15 953. No tax is due for income below EUR 4 800 for the self-employed instead of EUR 8 145 for all workers.

The self-employed pay lower pension contributions than employees. In 2020 the contribution rates were: employees: 33% of income; farmers: 24%; artisans: 24%; merchants: 24.09%; contract workers: 25%; liberal professions: every category has got a different rate starting from 10% of the professional income.

In the NDC the benefits are linked to contributions. The contribution base is the taxable income after deducting social security contributions.

### **Personal income tax and social security contributions**

#### *Taxation of pensioners*

The contributory public pension is taxable. In 2020 the income brackets and tax rates remain unchanged: 23% for pension income up to EUR 15 000, 27 % between EUR 15 001 and EUR 28 000, 38% between EUR 28 001 and EUR 55 000, 41% between EUR 55 001 and EUR 75 000 and 43% above EUR 75 000. No personal tax is due for pensions below EUR 8 125 a year independently from the pensioner's age. Contributions paid to the public pension system are fully deductible from income before taxes.

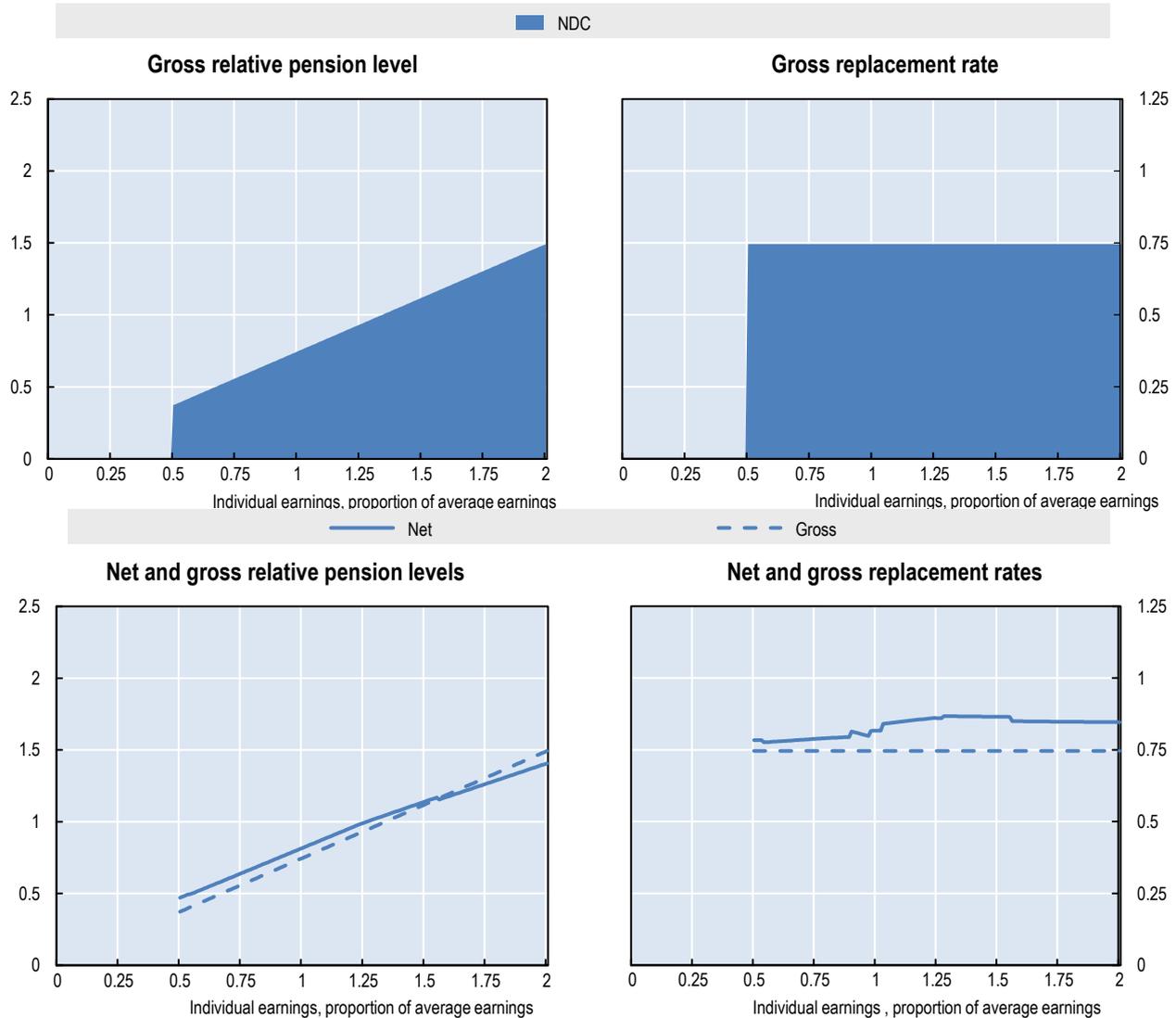
#### *Taxation of pension income*

There is no special relief for public pension income. Private pension incomes are only partially taxable reflecting the tax paid by the pension fund on its investment returns.

#### *Social security contributions paid by pensioners*

Social security contributions are not levied on pension income.

## Pension modelling results: Italy in 2069 retirement at age 71



Men <i>Women (where different)</i>	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level (% average gross earnings)	37.3	56.0	74.6	111.9	149.2	223.9
Net relative pension level (% net average earnings)	47.0	64.0	81.7	113.9	140.6	197.4
Gross replacement rate (% individual gross earnings)	74.6	74.6	74.6	74.6	74.6	74.6
Net replacement rate (% individual net earnings)	78.4	78.8	81.7	86.5	84.6	84.1
Gross pension wealth (multiple of individual gross earnings)	11.7	11.7	11.7	11.7	11.7	11.7
Net pension wealth (multiple of individual net earnings)	12.3	12.3	12.8	13.6	13.3	13.2

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 90%. Labour market entry occurs at age 22 in 2020. Tax system latest available: 2020.