Pensions at a Glance 2023

OECD

Italy

Italy: Pension system in 2022

Currently, the pension system prorates pension entitlements from the defined benefit and notional defined contribution schemes (NDC). 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 account of average life expectancy at retirement.

Key Indicators: Italy

		Italy	OECD
Average worker earnings (AW)	EUR	33 855	39 182
	USD	35 651	41 261
Public pension spending	% of GDP	15.9	7.7
Life expectancy	at birth	84.0	80.7
	at age 65	86.5	84.6
Population over age 65	% of working-age population	41.0	31.3

Qualifying conditions

Old-age pension requirements in 2022, 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. However, the link is suspended until 2026 while slowing down of life expectancy growth, the link implied no increases s in 2021 and 2022 as well as the adjustment for 2023-2024, disposed with Decree 27 October 2021. Old-age pensions, if 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. For 2022, Law no. 234/2021 (Budget Law for 2022) introduced a temporary form of early retirement, borrowed from the "Quota 100" that was introduced from 2019 to 2021, called "Quota 102", achievable with a minimum age of 64 years and 38 years of contributions. For 2023, this option was prolonged and expanded with a new option "Quota 103" allowing retirement at age 62 with 41 years of contributions.

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probabilities of leaving a widow or widower behind and the expected duration of years that a survivor's benefit will be withdrawn. Consequently, benefits are strongly related to retirement age – the lower the age, the lower the pension. The calculation of the transformation coefficient assumes a discount rate of 1.5% and price indexation of benefits.

The transformation coefficients are available for ages 57 to 71 and reviewed every two years as of 2021. Values shown in the table below continue to apply to new pensions in 2022.

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 2022 the minimum pay for the contributions crediting for pension benefit entitlement purposes was EUR 210.15 per week (40% of the minimum pension). Maximum earnings for benefits were EUR 105 014 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 2022 the indexation rule for pensions in payment is: 100% of the "cost-of-life" index for treatments up to four times the minimum pension; 90% of the "cost-of-life" index for pensions up to five times the minimum pension; 75% of the "cost-of-life" index for pensions up to five times the minimum pension.

Minimum pension

Under the old DB scheme, the amount of the pension is determined solely based on contributions. However, for people with a contributory pension below a minimum level (EUR 525.38 a month in 2022), the system offers the possibility of social payments (Minimum Pension Supplement) to reach EUR 6 829.94 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 2022, 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 2022 the assegno sociale for a single person was EUR 6097.39 annually with 13 payments per year (EUR 469.03 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 192.79 which brings the benefit up to EUR 8 603.66 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. Within the TFR, 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 voluntary pensions is low.

Variant careers

Early retirement

In 2022, 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 2022 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 substantially lower benefit. However, the 2023 Budget law provides for tightening of conditions applied in 2021: female workers, employees or self-employed who have completed the requirements by 31 December 2022 will be able to access to Opzione Donna only if they are caregivers, disabled at least 74% of inability or fired or employed by companies in crisis. Required conditions are 60 years of age and 35 years of contributions completed by 31 December 2022 with a one-year discount for each child within a maximum of two years. The requirements are different for redundant women or employees of companies in crisis: 58 years and 35 years of contributions (achieved by 31 December 2022).

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 substantially lower benefits 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 2023. 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, increasing benefits by about 3%. 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. The recent reform, from 1 January 2022 introduced a single ceiling regardless of the monthly salary of workers. Moreover, in 2022 all the values were revised upwards (+1.9%) due to the increase in

the variation of the cost of living index. In 2022 the maximum benefit was EUR 1 222.51 per month. The payment is subject to a reduction of 5.84% for social contributions and the maximum net benefit is EUR 1151.12 per month. 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 2022, 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 1.250.87, indexed with inflation.
- 75% of EUR 1.250.87 plus 25% of the difference between the monthly average salary and the threshold.

In 2022 the benefit ceiling was equal to EUR 1.360.77 per month. After four months, the monthly allowance is lowered by 3% each month.

Self-employed

Minimum yearly income subject to pension contribution for 2022 for self-employed is EUR 16.243. No tax is due for income below EUR 5 500 for the self-employed. For employment income and similar, the no-tax area threshold leaps up to EUR 15 000, compared to the previous threshold.

The self-employed pay lower pension contributions than employees. In 2022 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

There is no special relief for pensioners.

Taxation of pension income

For pension income, the no-tax area rises to EUR 8 500 a year. Private pension incomes are only partially taxable reflecting the tax paid by the pension fund on its investment returns.
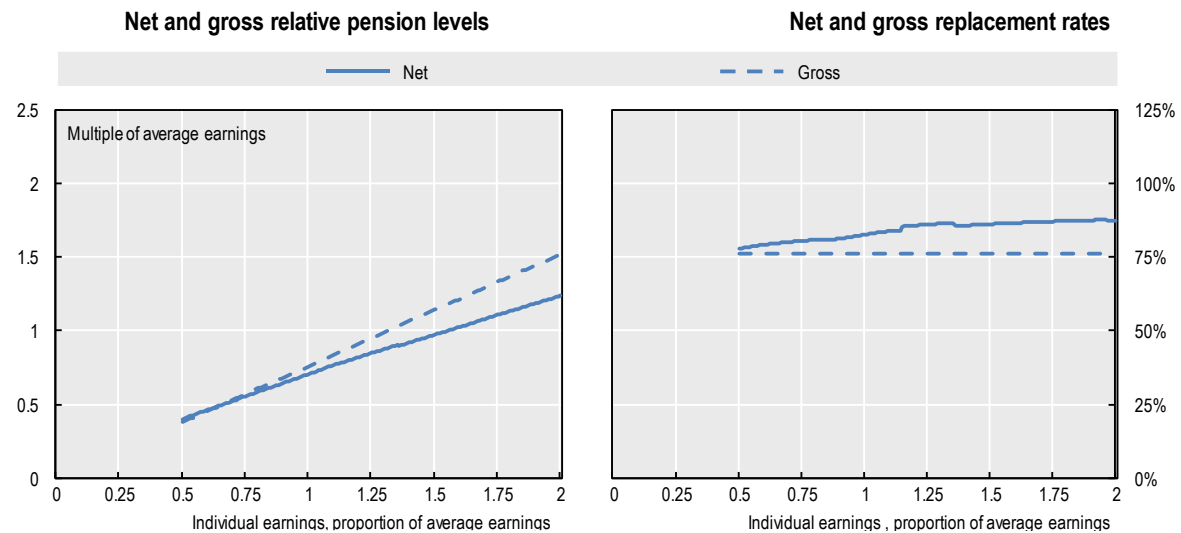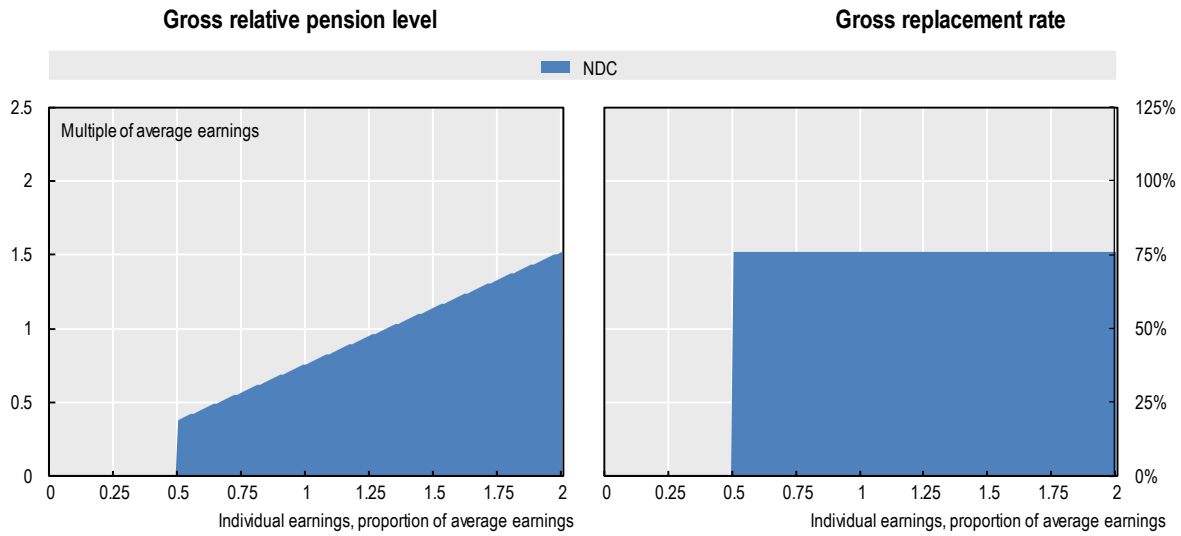
Pension income is subject to a tax credit under the following rules:

Income	Deduction amount
Up to EUR 8 500	EUR 1 955 (no less than EUR 713)
Over EUR 8 500 up to EUR 28 000	700 + (1 955-700) * (28 000-income) / (28 000-8 500)
Over EUR 28 000 up to EUR 50 000	700 * (50 000-income) / (50 000-28 000)
Over EUR 50 000	0

Social security contributions paid by pensioners

Social security contributions are not levied on pension income.

Pension modelling results: Italy in 2071 retirement at age 71

Gross relative pension level

Gross replacement rate

Net and gross relative pension levels

Net and gross replacement rates

Men	Individual earnings, multiple of average					
Women (where different)	0.5	0.75	1	1.5	2	3
Gross relative pension level	38.0	57.1	76.1	114.1	152.1	228.2
(% average gross earnings)						
Net relative pension level	40.2	55.5	70.7	97.3	123.6	171.8
(% net average earnings)						
Gross replacement rate	76.1	76.1	76.1	76.1	76.1	76.1
(% individual gross earnings)						
Net replacement rate	77.8	80.5	82.6	86.2	87.5	86.6
(% individual net earnings)						
Gross pension wealth	13.0	13.0	13.0	13.0	13.0	13.0
(multiple of individual gross earnings)	14.8	14.8	14.8	14.8	14.8	14.8
Net pension wealth	13.3	13.8	14.2	14.8	15.0	14.8
(multiple of individual net earnings)	15.1	15.6	16.0	16.7	17.0	16.8

Assumptions: Real rate of return 2.5%, real earnings growth 1.25%, inflation 2%, and real discount rate 1.5%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equals 90%. Labour market entry occurs at age 22 in 2022. Tax system latest available: 2022.