The relative income of older people is high in Italy today

In Italy, the average income of people over 65 years of age is similar to that of the total population while it is 12% lower on average in the OECD and it was 15% lower in Italy 20 years ago. However, income inequality and the relative income poverty rate among older people are in line with the median OECD country, following a substantial fall in the old-age poverty rate in Italy over the last decades. During the COVID-19 crisis, pensions did not fall and pension entitlements kept accruing fully also for those in subsidised employment (Cassa Integrazione), similar to most other OECD countries.

Strong automatic life-expectancy links

With the introduction of a notional defined contribution (NDC) pensions in 1995, Italy made a decisive step towards addressing challenges posed by fast population ageing. The Italian system adjusts benefits to life expectancy and economic growth. Due to a long transition, the scheme will be fully effective only around 2040. Among the six OECD countries with NDC schemes, only Sweden has on top an automatic mechanism that ensures a balanced pension budget over time. The Italian scheme would benefit from improved transparency in the calculation of NDC benefits and a better monitoring and management of long-term solvency.

Italy is also one of the seven OECD countries linking the statutory retirement age with life expectancy. In an NDC system, such a link is not needed to enhance pension finances, but it aims at avoiding that people retire too early with too low pensions as well as promoting employment at older ages. Italy has among the highest future normal retirement age of 71 years, along with Denmark (74) and Estonia (71) against an OECD average of 66 years for the generation entering now the labour market. In Italy and these two other countries, all improvements in life expectancy are automatically passed into the retirement age. Alternatively, Finland and the Netherlands transmit two-thirds of improvements in life expectancy into the retirement age.

Prolonged early retirement options

Over the past two years, early retirement options were extended in Italy, providing workaround of the link between retirement age and life expectancy. Between 2019 and 2021, Quota 100 has allowed retiring at age 62 - hence 5 years below the statutory retirement age - with 38 years of contributions, without fully adjusting benefits actuarially. In the draft Budget law for 2022, this early retirement option has been prolonged for 2022 while tightening the age condition to 64 (Quota 102).

Quota 100 has made it easier to access pensions as retiring below the statutory retirement age previously required a contribution record of 42.8 years for men and 41.8 years for women. Beyond Italy, only Spain allows to get a full pension before the statutory retirement age with less than 40 years of contributions, with Belgium requiring 42 years, France 41.5 years and Germany 45 years. There is also an alternative option to retire early - at age 64 with 20 years of contributions - in Italy. It results, however, in substantially lower benefits because benefits are then fully based on NDC rules while NDC and defined benefit pensions are pro-rated when retiring at the statutory retirement age (or under Quota 100 or Quota 102). Defined benefit - and thereby prorated - pensions are higher than those based only on NDC rules.

Self-employed workers will receive much lower pensions

Theoretical pensions of a self-employed worker relative to that of an employee, both with taxable income at average net wage before taxes

Employment rates at older age groups are low

Employment rates by age groups in 2020

Source: Figure 5.7.

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. The so-called women’s option, initially introduced for one year in 2017, was extended until the end of 2021, and based on draft Budget law for 2022 it has been prolonged for 2022. This option allows women to retire at age 58 (or 59 if self-employed) after a 35-year career, but pensions are then fully calculated based on NDC rules.

Many options to retire below the statutory retirement age result in low average labour market exit ages, at 61.8 years on average against 63.1 years for the OECD average. Granting relatively high benefits to relatively young retirees contributes to the second highest public pension expenditure among OECD countries, at 15.4% of GDP in 2019.

Population ageing will be fast and there will be 74 people 65 and older per 100 people aged between 20 and 64 in 2050, one of the highest ratio in the OECD. Over the last 20 years, employment growth, including...
through longer careers, offset more than half of the ageing pressure on pension expenditure in Italy. Despite this, pension expenditure increased by 2.2% of GDP between 2000 and 2017. Continuing to boost employment, at older ages in particular, remain crucial for Italy.

High future pensions for full-career employees, less for others

The Italian pension system combines a high future statutory retirement age with a high pension contribution rate of 33%, and these will result in a high net replacement rate of 82% for full-career average-wage workers against 62% on average in the OECD. When retiring 3 years earlier at 68, the future net replacement rate falls substantially at 72%, which remains high in international comparison.

However, not all workers can expect such high replacement rates. In Italy, an employee starting her career at age 27 and having a 10-year unemployment break during her working life will receive a 27% lower pension than a full-career worker, against 22% lower in the OECD on average. Moreover, as contribution rates of the self-employed are one-third lower than those of dependent employees, self-employed workers can expect pensions to be about 30% lower than those of employees with the same taxable income throughout the whole career - the OECD average is 25% lower.