High average relative income in old age but large inequalities

The average income of people over 65 years old is slightly higher than that of the total population in Italy as it has increased much more over the last two decades. By comparison, it is 12% lower on average in the OECD. In 2023, on top of the regular indexation to inflation, the minimum pension was increased by 1.5% for pensioners younger than 75 and by 6.4% for pensioners aged 75+. The minimum contributory pension which currently benefits about 15% of 65+ is being slowly phased out as it is not a part of the notional defined contributions (NDC) scheme. This phasing out is likely to increase old-age inequalities which are already much higher that most EU-OECD countries.

High pensions are not fully indexed to prices

To limit pension spending, Italy, as Austria, Colombia, Latvia and Portugal, applies full indexation to prices for low pensions but index pensions above certain thresholds at lower rates or not at all. Italy has a long history of frequently changing these thresholds. In 2012 and 2013, for example, pensions in the upper bracket were not indexed at all. From 2014 to 2018, indexation differed across five income brackets ranging from 100% to 45%, and in 2019 seven brackets were created with indexation ranging from 100% to 40%. However, most pensions are fully indexed as, for example in 2022, the full indexation applied to pension amounts up to four times the minimum pension or around 150% of the average pension. The instability of these thresholds generates uncertainty for pensioners and undermines confidence in the system.

A consistent rule of reduced indexation for higher pensions can be an effective strategy to control pension expenditures while fully protecting the purchasing power of low-income pensioners. This cost-saving strategy might be particularly relevant for Italy, where many current pensioners did not have their pensions actuarially adjusted for retiring at early ages as is increasingly the case for new pensioners.

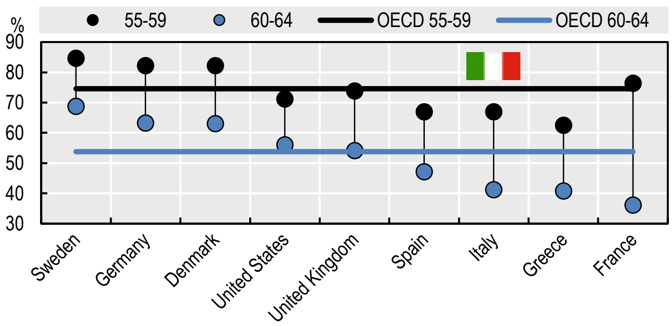
High statutory retirement age but broad access to early retirement

Italy is one of the nine 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 and therefore potential output. For current labour market entrants, the normal retirement age would reach 70 years in the Netherlands and Sweden, 71 years in Estonia and Italy and even 74 years in Denmark based on established links to life expectancy. As of 2023, the statutory retirement age is 67 in Italy, increasing strongly after the reforms enacted during the Global Financial Crisis.

However, the high statutory retirement age is not binding for many workers as Italy provides broad access to early retirement, often without a penalty. In 2023, Italy extended early retirement options which were supposed to expire by 2022. The quota system, initially legislated as “Quota 100” in 2019 to terminate in 2021, was extended in 2022 and 2023. It eases conditions to retire without penalty. In 2022, a person could retire at age 64 with 38 years of contributions (Quota 102), which was thus the normal retirement age. In 2023, Quota 102 was expanded with Quota 103 allowing to retire at age 62 with 41 years of contributions, whereas the statutory retirement age currently is at 67.

There is also an alternative option to retire early – at age 64 with 20 years of contributions, which results in substantially lower benefits as they are then fully based on NDC rules. Similarly, when opting for benefits fully based on NDC rules, women can retire at age 60 – and even 59 and 58 for women with one child and two or more children, respectively. This so-called women’s option has been tightened in 2023 as it is now only available for women who are caregivers, disabled at least 74% or laid off by companies in crisis, and the eligibility age was 58 instead of 60.

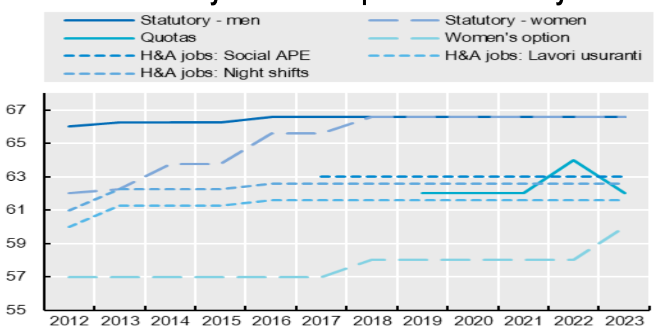
Employment rates at older age groups are low, 2022



Source: Figure 6.7.

These options to retire before the statutory retirement age result in very low employment rates after age 60. This will be a growing challenge as the working-age population is projected to fall by more than one-third by 2060. Granting relatively high benefits at relatively low ages such under the Quotas contributes to the second highest public pension expenditure among OECD countries, at 16.3% of GDP in 2021. Even though the contribution rate is very high, pension contribution revenues are only around 11% of GDP, requiring substantial financing from general taxation.

Various early retirement options exist in Italy



Multiple provisions for hazardous or arduous jobs

Italy belongs to a group of 15 OECD countries providing special pension provisions for hazardous or arduous jobs for a large number of jobs. Along with the substantial increases of retirement ages in the 1990s and the unification of pension rules, most occupation-specific schemes were phased out. In 2012, the minimum retirement age was set at age 60 for strenuous jobs referred to as *lavori usuranti*. Jobs were chosen based on a short list of working conditions for which there is some evidence on negative health impact, e.g. underground and underwater work and night shifts.

Hazardousness and arduousness of jobs should be primarily addressed outside the realm of pensions, particularity through health and safety regulations, communication about the risks, professional training and reskilling policies. Conversely, in 2016, a broader category of arduous occupations was created (*lavori gravosi*) and further expanded in 2018. The inclusion of specific occupations is not based on clear criteria concerning working conditions and covers many jobs, including nursery teachers and train drivers. Within this list, workers can retire after a 41-year career if they started working before age of 19. Additionally, since 2017, the so-called social APE (it. *Anticipo Pensionistico*) is available from age 63 with 36 years of contribution for workers who worked at least seven out of the last ten years before retirement in occupations listed as *lavori gravosi*. Social APE covers also the long-term unemployed, family carers and people with partial disability. It was supposed to be a temporary measure, but it has remained in place ever since.

Contacts: Maciej Lis (+33 1 45 24 45 09; maciej.lis@oecd.org), Stefano Scarpetta (+33 1 45 24 19 88; stefano.scarpetta@oecd.org)