

Economic Growth and Welfare Systems

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Goals of 2011 reform in Italy

The main goals of the 2011 reform were:

1. Economic sustainability;
2. (economic) Equity, contribution principle;
3. The adequacy of the pension system.

The instruments to achieve the goals were:

1. Requirements to achieve pension rights linked to life expectancy;
2. Modification of pension calculation system through the introduction of the notional defined contribution (NDC) scheme to all workers insured after 31.12.2011;
3. Age-related transformation coefficients (every 2 years).
4. **No longer threshold for pension (100/90/95...)**

Pension calculation systems

Until the 1st of January 2012

- **Defined benefit (DB) pension system** for workers with a contribution seniority of at least 18 years as of 31.12.1995
- **Mixed system** for people with less than 18 years of contribution seniority as of 31.12.1995
- **Notional defined contribution (NDC) system** for all those with first contribution from 1.1.1996

Defined Benefit pension system («sistema retributivo»)

Workers with a contribution seniority of at least 18 years as of 31.12.1995

In the DB system the pension was calculated on the basis of the average of the last years of income of the working life

$$P = W * C * r$$

The pension for an employee enrolled in the “INPS employees pension fund” was given by the reference wage “W” (last 5 years for the A share /and last 10 for the B share) multiplied by the contribution years C and the return rate “r” (2% up to a certain wage and then decreasing for progressively higher wages).

Therefore in the DB system:

- The pension rewarded those who had increasing incomes in the last years of work;
- The pension was not based on age, but on the **contribution seniority** (two workers with the same W and the same C had the same pension even if retired at different ages);
- It did not guarantee the **economic sustainability** as it was disconnected from the variable of life expectancy.

Mixed system

Workers with less than 18 years of contribution seniority as of 31.12.1995

In the mixed system

- The DB system applies to seniorities until 31.12.1995 according to the formula $P = W * C * R$
- The NDC system applies to seniorities after 31.12.1995

However pension access requirements remain those of the DB system, given that the contribution-based system only applies to the pension share calculated after the 31.12.1995 (pro-rata).

NDC system

Workers who started working from January 1996

In the pure NDC system, pension is given by:

$$P = M * tc$$

Lifelong contributions “M” are capitalized with GDP growth rates (5-year mobile avg).

The transformation coefficient “tc” is a figure that contributes to the calculation of the pension and varies according to the individual’s age at the retirement.

Higher is the age of access, higher is the pension and vice-versa. The transformation coefficients vary according to life expectancy and are periodically updated.

At the beginning they were supposed to be updated every ten years, then every three years, currently every two years.

Tc represents the reciprocal of the expected numbers years after access to pension (determinant demographical, familiar, divorce, survivals..)

Transformation coefficients

The table shows the fifth update since 1995 (the first revision took place in 2010, then in 2013, in 2016 and in 2019)

TABELLA

COEFFICIENTI DI TRASFORMAZIONE

Età	Divisori	Valori
57	23,892	4,186%
58	23,314	4,289%
59	22,734	4,399%
60	22,149	4,515%
61	21,558	4,639%
62	20,965	4,770%
63	20,366	4,910%
64	19,763	5,060%
65	19,157	5,220%
66	18,549	5,391%
67	17,938	5,575%
68	17,324	5,772%
69	16,707	5,985%
70	16,090	6,215%
71	15,465	6,466%

tasso di sconto = 1,5%

The new coefficients reveal a **reduction between 0.33 and 0.72%** in comparison with the figures showed in 2019-2020 for the same age, with **the highest reductions concentrated on the highest age groups.**

The pension system since 2012

Summary

Contribution seniority as of 31.12.1995	Contribution until 31.12.1995	Contribution from 01.01.1996 to 31.12.2011	Contribution from 01.01.2012
At least 18 years	Defined benefit scheme	Defined benefit scheme	NDC scheme
Less than 18	Defined benefit scheme	NDC scheme	NDC scheme
None		NDC scheme	NDC scheme

The pension system since 2012

Old-age pension

1. At least **20 years** of contribution seniority (+67y., and 1,5 SA). Mixed: no 1,5 SA
2. Age requirements adjusted to life expectancy.
3. Same age for men and women (from 2018).
4. Requirement of **the so called minimum amount** of old-age pension for workers in the NDC scheme (64 years + 2,8 times the Social Allowance).
5. The minimum instead is not required for retirement at the age of 71, adjusted to life expectancy. In this case the minimum seniority required is 5 years.
6. Consequently there is no **“integration to the minimum benefit”** for those indicated in the previous point 4.

Old-age pension

	age	Requirement: number of years of contribution
Mixed	67 y	20 y contributions
NDC	67 y	20 y contributions + 1,5 SA
NDC	71 y	5 y contributions («pensione di vecchiaia contributiva»)
heavy/overused worker	66 y e 7 months	30 y contributions

The pension system since 2012

Early pension

1. Minimum contribution seniority (41,10 Female; 42,10 Men)
2. Not based on age
3. Different for men and women
4. Never required a minimum amount of pension

However workers in the NDC scheme

Are entitled to early retirement based on:

- Age 64
- Contribution seniority of at least 20 years. Minimum amount of pension (2,8 times the Social Allowance). 2,8 Social Allowance = more or less to 35 years of contribution

Early pension

	Age	Requirement: number of years of contribution
Early pension	none	41/42 y e 10 months *(untill 2026)
Early pension Only NDC	64 y	20 y and 2,8 SA
«Quota 100»	62 y	38 y
Female option	58 y/59 y	35 y
Early workers (<19 years started working)	none	41 y *(untill 2026)

The pension system since 2012

Main issues

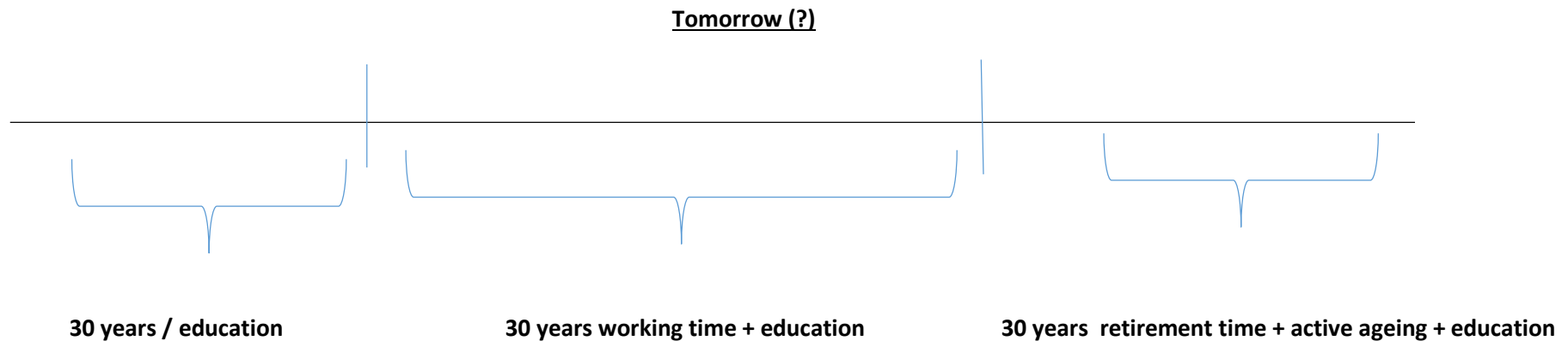
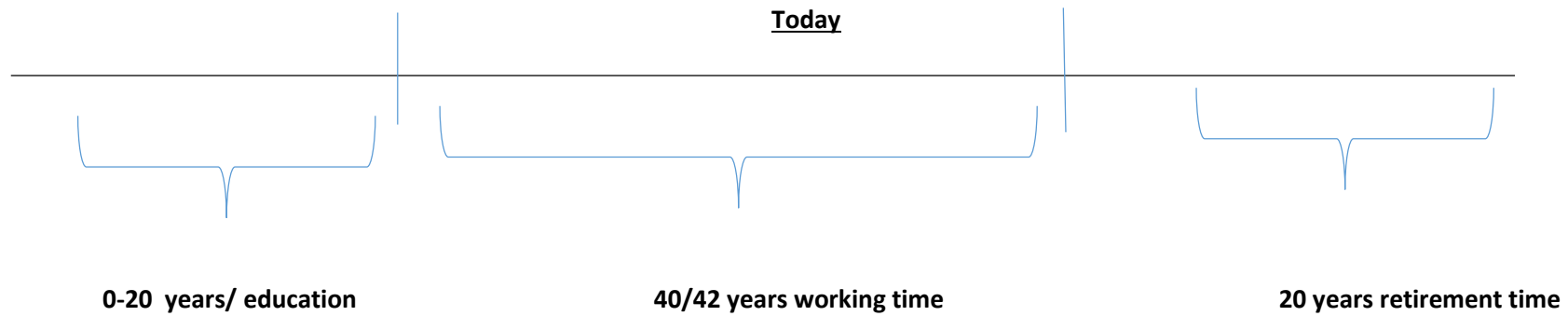
1. Barrier to retirement due to the so called minimum amount (SA) → Incentive to work
2. Workers with discontinuous careers and low wages risk a very low replacement rate
3. The reduction of replacement rate of the compulsory pension system should have been compensated by the complementary pension system that, however, **is not widespread in Italy** so far and it is favourable only to permanent employees, already guaranteed by the compulsory public pension system
4. Financial sustainability is ensured, but the social sustainability is at risk
5. Any pension system depends on the **labour market trend**, but NDC systems even more (23 mln workers too low)
6. The increase of seniority requirements for early retirement independent from age, caused by the increase of life expectancy (not considering temporary political choices) is going to make this kind of retirement obsolete
7. Coefficients do not reflect **individual** life expectancy

Critical aspects:

- «social inequality»,
- lack of flexibility for different jobs

- Who goes later in pension ?
- Owner of good job maybe easier as well
- At 71 years «**M**» (capital contribution accumulated) is higher and the Tc is higher (not for miner, for professors yes..)
- Who goes earlier in pension?
- Owner of worst job maybe tougher
- Owner of tougher jobs, hence with M lower (both because of lower wages and shorter contribution period) and with Tc lower...

Present and future of pension systems



More time for education and more innovation



1. Raise the bar for training and innovation (at 30 years)

2. to increase the value of the contribution (with the same years of work or with reduced years of work → 30 y)

3. To make the retirement period more socially as well as financially sustainable (on average over 30 y today, on average, it is no more than 20?25? y) + active ageing voluntary work + retirement

And Double scheme pension

- Voluntary second pillar of retirement can also be **public**. This allows to increase the value of the contribution (not the years of contributions) on the basis of an additional contribution (voluntary, capitalized, public). (Capitalization system)
- Merge the compulsory and the complementary in order to reach requirement for pension
- Investment in the Country: Today in Italy second pillar (private) worth 167 bln . Investment abroad (75%) in search of higher returns (however: today return of private pension funds is not so high).
- A public Voluntary second pillar would also guarantee investment in the real economy

Guaranteed Pension: tax-based?

- the value of the contribution, necessarily, in an increasingly digitalized world with less physical work and more technology, is also increased by other sources of funding of the pension system :
 1. Technological taxation (robots);
 2. General taxation;
 3. Financial rents.

These other sources need also to grow in order to support **a guarantee pension** in order to ensure those who do not access training or the labour market, and are excluded from the market

Life expectancy in Italy vs other EU Countries - Men

Country	2018
Italy	81,2
Cyprus	80,9
Sweden	80,9
Spain	80,7
Ireland	80,5
Malta	80,4
Netherlands	80,3
Luxembourg	80,1
France	79,7
Belgium	79,4
Austria	79,4
Greece	79,3
Denmark	79,1
Finland	79,1
Germany	78,6
Slovenia	78,5
Portugal	78,3
European Union - 27 countries (from 2020)	78,2
Czechia	76,2
Croatia	74,9
Estonia	74
Slovakia	73,9
Poland	73,7
Hungary	72,7
Romania	71,7
Bulgaria	71,5
Lithuania	70,9
Latvia	70,1

Men in Italy, in 2018, have the higher life expectancy at birth (81,2) among EU countries. The average in the European Union is 78,2.

Source: Eurostat, Life expectancy at birth by sex (online data code:TPS00208)

Life expectancy in Italy vs other EU Countries - Women

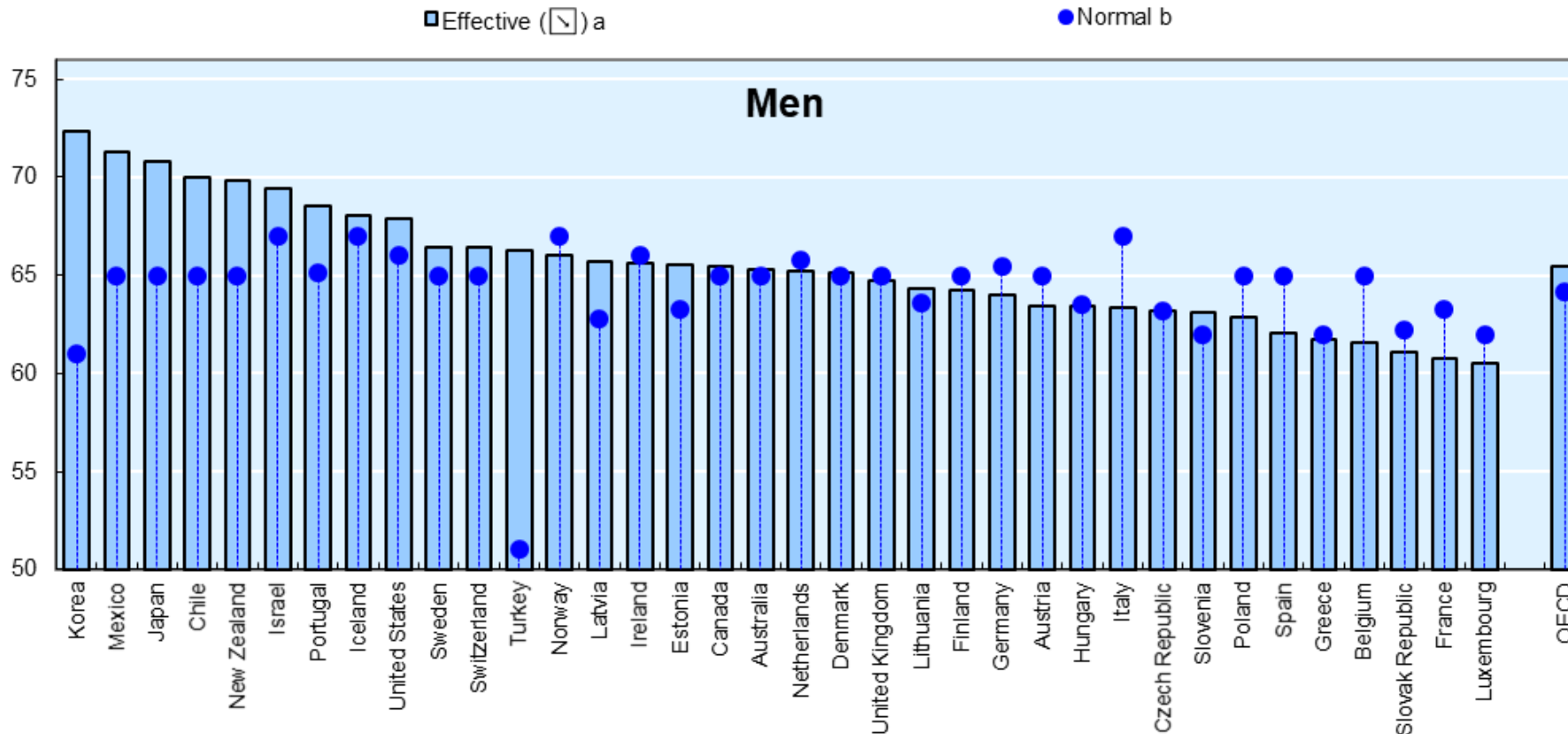
Country	2018
Spain	86,3
France	85,9
Italy	85,6
Cyprus	84,8
Luxembourg	84,6
Malta	84,6
Portugal	84,5
Finland	84,5
Greece	84,4
Slovenia	84,4
Sweden	84,3
Ireland	84,1
Austria	84,1
Belgium	83,9
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Estonia	82,7
Czechia	82
Poland	81,7
Croatia	81,5
Slovakia	80,8
Lithuania	80,7
Latvia	79,7
Hungary	79,6
Romania	79,2
Bulgaria	78,6

Women in Italy, in 2018, have the third higher life expectancy at birth (85,6) among EU countries. The average in the European Union is 83,7.

Source: Eurostat, Life expectancy at birth by sex (online data code:TPS00208)

Average effective age of retirement versus the normal age in 2018 in OECD countries

Average effective age of retirement versus the normal retirement age, 2013-2018



Men in Italy, on average over the considered period (2013-18), retire at the age of **63,3** (vs the **normal** retirement age: **67**).

OECD average for effective age of retirement **for men** is 65,4. The average for normal age is 64,2.

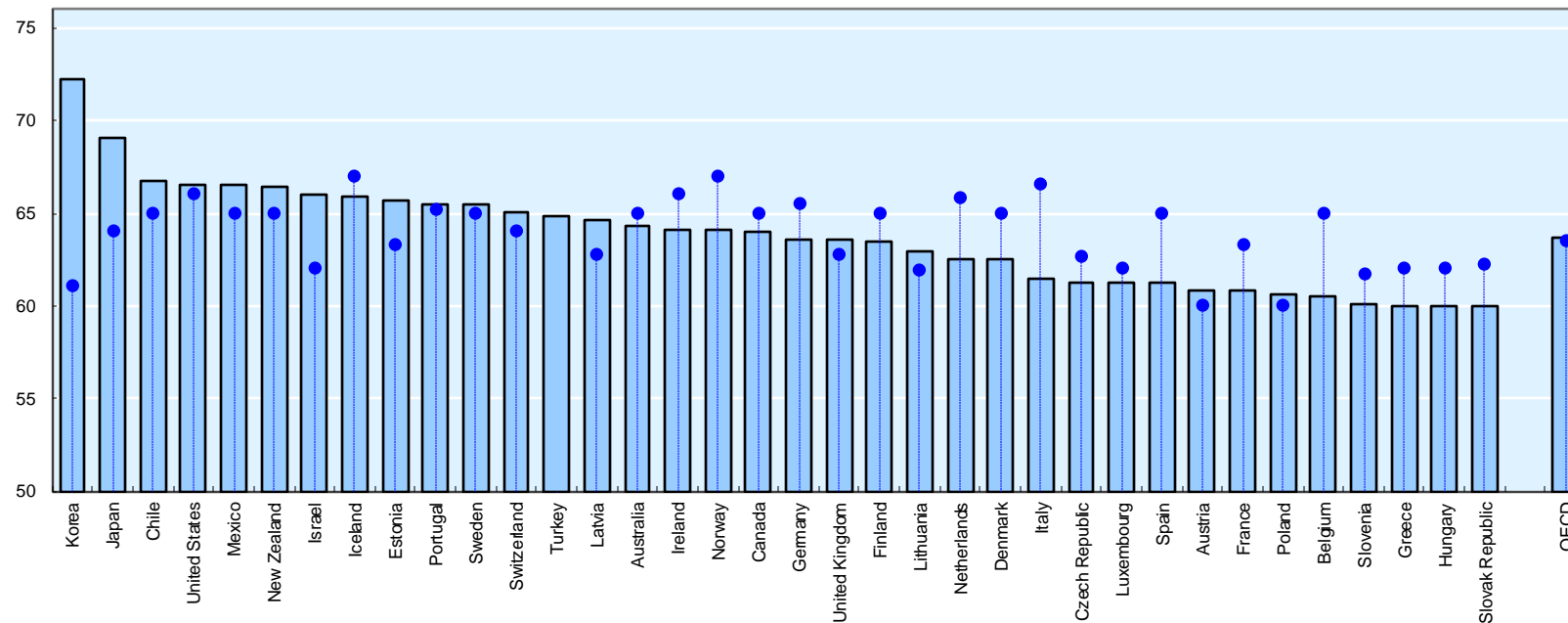
The **normal retirement age** is the age at which an **individual can retire in 2018** without **any reduction to their pension** having had a **full career** from **age 22**.

Source: OECD website, Ageing and Employment Policies - Statistics on average effective age of retirement, <https://www.oecd.org/els/emp/average-effective-age-of-retirement.htm>

Average effective age of retirement versus the normal age in 2018 in OECD countries

Average effective age of retirement versus the normal retirement age, 2013-2018

Women



Women in Italy, on average over the considered period (2013-18), retire at the age of **61,5** (vs the **normal** retirement age: **66,6**).

OECD average for effective age of retirement for **women** is 63,7. The average for normal age is 63,5.

Source: OECD website, Ageing and Employment Policies - Statistics on average effective age of retirement, <https://www.oecd.org/els/emp/average-effective-age-of-retirement.htm>

Pensions expenditure in Italy: NOT really 16.2%

Public expenditure on old-age and survivors benefits, level as % of GDP (2015)

Country	% of GDP
Greece	16,9
Italy	16,2
France	13,9
Portugal	13,3
Austria	13,3
Finland	11,4
Slovenia	11,1
Poland	11,1
Spain	11,0
Belgium	10,7
Germany	10,1
Hungary	9,2
Luxembourg	8,4
Denmark	8,1
Czech Republic	8,1
Slovak Republic	7,3
Sweden	7,2
Latvia	7,0
Estonia	7,0
Lithuania	6,7
Netherlands	5,4
Ireland	3,6

- In the eighth edition of its "Pensions at a Glance" report (2019), **OECD** shows that in **2015 public expenditure on old-age and survivors benefits in Italy** has been **16.2 percent of its GDP**.
- In the EU, **only Greece shows a higher ratio (16.9)**.

AMOUNT SPENT ON INSTITUTIONAL BENEFITS					
(Financial accrual based accounting - in € million)					
	2015	2016	2017	2018	2019
PENSION BENEFITS	259.400	258.852	261.212	266.243	272.478
Paid by social security funds	204.578	204.942	206.250	211.069	213.092
Paid by GIAS (welfare and social security support measures fund)	50.548	49.511	50.639	50.699	54.780
Paid by civil incapacity fund	3.557	3.679	3.641	3.805	3.964
Family allowances on pension - paid by GPT (Temporary benefits fund) and GIAS (Welfare and social security support measures fund)	717	720	682	671	643
OTHER BENEFITS PAID BY PENSION FUNDS	13.667	13.768	13.899	14.171	14.503
- as per cash benefits to the entitled to civil incapacity	13.617	13.692	13.802	14.082	14.417
TEMPORARY BENEFITS AND OTHER BENEFITS	34.764	35.401	37.038	37.958	44.075
Temporary Benefits GPT (income and family benefits, statutory sick pay o sick leave benefits and maternity allowances)	14.571	14.968	15.194	15.207	15.152
Social inclusion and income support measures paid by GIAS	11.732	11.622	11.411	10.913	15.367
Other expenditure (severance indemnities to civil servants, private employed workers and others)	8.461	8.811	10.433	11.838	13.556
TOTAL AMOUNT SPENT ON INSTITUTIONAL BENEFITS	307.831	308.021	312.149	318.373	331.056
	2015	2016	2017	2018	2019
NOMINAL GDP	1.655.355	1.695.787	1.736.593	1.766.168	1.787.664
AMOUNT SPENT ON INSTITUTIONAL BENEFITS AS A PROPORTION OF NOMINAL GDP					
	2015	2016	2017	2018	2019
PENSION BENEFITS	15,67%	15,26%	15,04%	15,07%	15,24%
Paid by social security funds	12,36%	12,09%	11,88%	11,95%	11,92%
Paid by GIAS (welfare and social security support measures fund)	3,05%	2,92%	2,92%	2,87%	3,06%
Paid by civil incapacity fund	0,21%	0,22%	0,21%	0,22%	0,22%
Family allowances on pension - paid by GPT (Temporary benefits fund) and GIAS (Welfare and social security support measures fund)	0,04%	0,04%	0,04%	0,04%	0,04%
OTHER BENEFITS PAID BY PENSION FUNDS	0,83%	0,81%	0,80%	0,80%	0,81%
- as per cash benefits to the entitled to civil incapacity	0,82%	0,81%	0,79%	0,80%	0,81%
TEMPORARY BENEFITS AND OTHER BENEFITS	2,10%	2,09%	2,13%	2,15%	2,47%
Temporary Benefits GPT (income and family benefits, statutory sick pay o sick leave benefits and maternity allowances)	0,88%	0,88%	0,87%	0,86%	0,85%
Social inclusion and income support measures paid by GIAS	0,71%	0,69%	0,66%	0,62%	0,86%
Other expenditure (severance indemnities to civil servants, private employed workers and others)	0,51%	0,52%	0,60%	0,67%	0,76%
TOTAL AMOUNT SPENT ON INSTITUTIONAL BENEFITS	18,60%	18,16%	17,97%	18,03%	18,52%

INPS – Final Balance Sheet for 2019

Government's transfer payments - GIAS

Finalità del trasferimento	Importo esercizio 2019
Social pension and social allowance	3.916
Cash benefits to the entitled to civil incapacity	18.873
Additional monthly benefit to over 64 aged pensioners (d.l. 81/2007)	1.571
Additional costs for early retirement allowance (so called "Quota 100")	2.131
Pension various allowances charges	39.273
Income support measures	7.106
Family benefits	6.012
Social security costs reduction	528
Reductions in social security contributions and measures to promote employment	15.759
Social inclusion benefits: Citizenship Income (Reddito di Cittadinanza) and Citizenship Pension (Pensione di Cittadinanza)	3.879
Other benefits	2.558
State Employees Pension Fund (CTPS) pensions financing	7.353
Italian Post Employees Fund pensions financing	881
Italian Railways Fund deficit financing	4.361
Port of Genoa and port of Trieste Fund deficit financing	42
Customs agents Fund deficit financing	27
TOTALE	114.270