Pensions at a Glance 2019

How does ITALY compare?

27 November 2019

Key findings

- The average income of people above 65 is similar to that of the whole population in Italy, while it is 13% lower in the OECD. Public pension spending is the second highest in the OECD, exceeding 16% of GDP.
- In 2018, the normal retirement age at 67 was about three years above the OECD average. However, Italy recently backtracked on previous reforms by introducing the so-called "Quota 100", which enables retirement at age 62 with 38 years of contributions until 2021. The statutory retirement age was supposed to be revised in 2019 in response to changes in life expectancy but no revision has been implemented. The link to life expectancy of the career-length condition for early retirement, and of the statutory retirement age for some occupations, is frozen until 2026.
- As part of the new legislation on the "Citizen's Income" introduced in 2019, the "Citizen's Pension" has increased the level of the old-age means-tested benefit (safety net) from 19% to 24% of the gross average wage; this brings the benefit above the OECD average for such schemes but one third of OECD countries have higher levels.
- Part-time and temporary work, which typically imply low earnings, are more prevalent in Italy than in most OECD countries. These forms of work increase the risk of low future pensions as the Italian system strictly links entitlements to contributions.
- Likewise, the self-employed are generally covered by the pension system in Italy, but they often have lower contribution rates, translating into lower pension entitlements.

Italy has expanded early retirement options

On average among OECD countries, the normal retirement age – i.e. the age providing access to a full pension after an uninterrupted career from age 22 – will increase, based on current legislation, from 64.2 years for those retiring in 2018 to 66.1 years for those entering the labour market in 2018. Italy has among the highest future normal retirement age of 71 years, along with Denmark (74), Estonia (71) and the Netherlands (71).

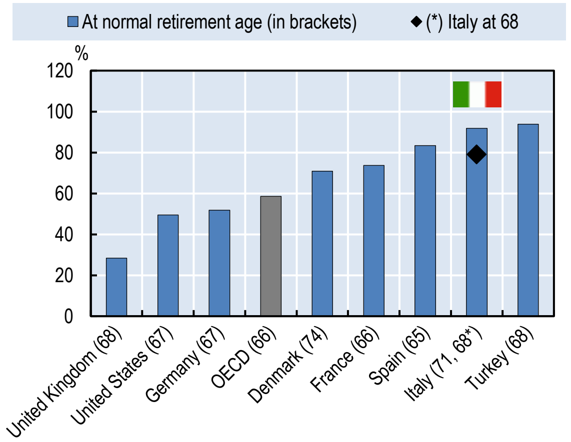
Still, for new labour market entrants, claiming a pension with actuarial adjustments of benefits will be possible in Italy from age 68 with 20 years of contributions. During the long transition to the notional defined contribution (NDC) system, up to the 2040s, the eligibility conditions to retire before the statutory retirement age are more complex in order to account for entitlements from both the old and the NDC schemes.

The Italian pension system combines a high statutory retirement age with a high pension contribution rate of 33%, and this will result in a very high net replacement rate, 92% for full-career average-wage workers against 59% on average in the OECD. If retiring 3 years earlier at 68 the net replacement rate falls substantially, but will remain high at 79%.

As in the Netherlands, the Slovak Republic and Spain, Italy backtracked on previously legislated policies to increase retirement ages. In 2019 Italy introduced the so-called "Quota 100", i.e. the possibility to retire from age 62 with 38 years of contributions until 2021. This new measure has temporarily made it easier to access pensions as retiring below the statutory retirement age (67 in 2018) previously required a contribution record of 42.8 years for men and 41.8 years for women. "Quota 100" allows combining work and pensions before the statutory retirement age, but subject to a labour-income ceiling, which limits work incentives. It is supposed to be a temporary measure applying until the end of 2021.

Future net replacement rates are high

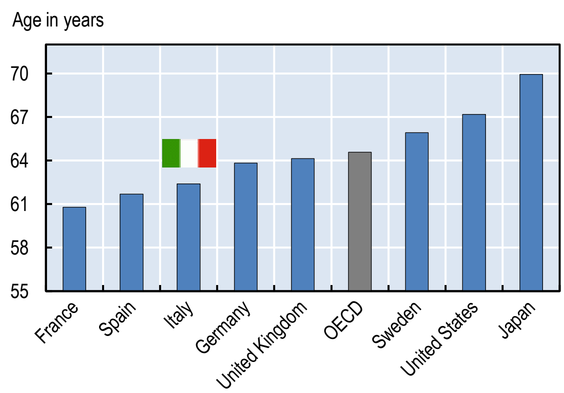
mandatory schemes, full career at the average wage



Source: [Table 5.6].

Effective age of labour market exit is low

average for men and women



Source: [Figure 6.9].

In addition, the life-expectancy links of the reference contribution period to be eligible to early retirement were suspended until 2026 for all workers. The link between the statutory retirement age and life expectancy was also suspended until 2026 for some workers, including those in arduous occupations. These measures partially and temporarily reversed the 2011 reforms that substantially tightened conditions to access pensions.

This list adds to the measures introduced before, as from 2017 early labour market exit has been made possible from age 63 in two ways: a largely subsidised benefit under special conditions (so-called social APE) and through taking a preferential loan against future pensions (financial APE). The APEs are supposed to be temporary measures, applying until the end of 2019.

Recently, Italy substantially increased old-age safety-net levels. The introduction of "Citizen's Pension" in 2019 raised the means-tested old-age benefit by about 30%, from 19 to 24% of the gross average wage, thereby improving social protection for the most vulnerable.

Career breaks significantly reduce final pensions in Italy as there is a close relationship between individual contributions and benefits in NDC pensions. A 5-year career break of an average-wage earner will reduce pensions by 10% against 6% in the OECD on average.

A full contribution career is not common in Italy today and might be even less so in the future. The average age of labour market exit at 62 is 2 years below the average across OECD countries and 5 years below the statutory retirement age in Italy. Employment rates at younger and older ages are low - 31% among those aged 20-24 and 54% for the 55-64 in 2018, compared with 59% and 61%, respectively, on average in the OECD. The risk of incomplete careers might be magnified by the expansion of non-standard forms of work. In Italy, temporary employment increased steadily from 10% in 2000 to 15% in 2017, much faster than the OECD average.

Involuntary part-time employment, i.e. working part-time and fewer hours than desired, reached more than 10% of dependent employment in Italy compared to 5% in the OECD in 2017. Working shorter hours translates into both lower wages and lower contributions, leading ultimately to lower pensions with NDC. In principle, all NDC contributions translate into pension entitlements, but at low levels they might be fully offset by lower means-tested benefits.

More than 20% of workers are self-employed, compared with 15% in the OECD. On average across 15 OECD countries, current retirees whose career was dominated by self-employment have 22% lower median pensions than retired employees. Italy has among the highest gap, exceeding 30%, along with France, Germany and Poland.

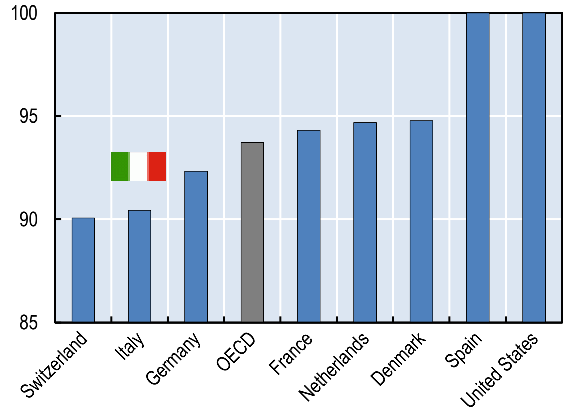
Most self-employed contribute to old-age pensions in Italy as contributing is mandatory. About half OECD countries including Italy have minimum contribution bases, i.e. the minimum income amounts to which contributions for the self-employed apply even if true income is lower. In Italy, this minimum base is among the highest in the OECD, at or above 50% of the average wage, similar to Poland and Slovenia, leading to high effective contribution rates for very low earners.

However, the Italian self-employed pay lower contribution rates at earnings higher than half the average wage: about 24% instead of 33% for a large group, including farmers, artisans, sole-traders, contract workers and the so-called "new" self-employed, i.e. workers in non-regulated professions, and between 10% and 33% for liberal professions, depending on occupations. Consequently, the self-employed contributing at 24% will have a future pension equal to 73% of that of an employee with a similar career and income, compared with an OECD average of 79%.

The current challenge for Italy is to maintain adequate old-age benefits while limiting fiscal pressure in the short, medium and long run. Increasing effective retirement ages should be the priority, highlighting the need to limit subsidised early retirement and to duly implement the links with life expectancy. Adequate future pensions call for focusing on increasing employment rates especially among vulnerable groups, which would also reduce the future take-up rate of old-age social benefits. Equal treatment of all labour income implies that the pension contribution rates should converge across all forms of work, increasing pensions for those with low contribution rates.

Career breaks substantially lower pensions in Italy

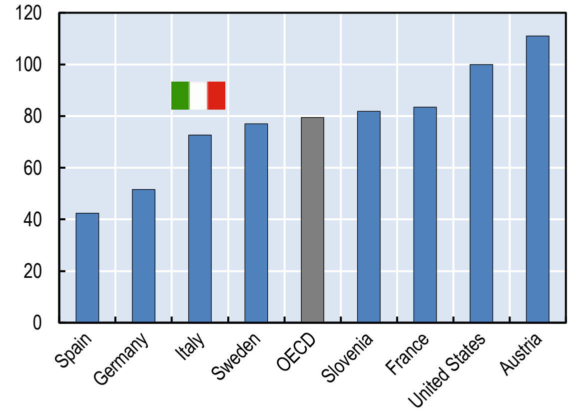
Future gross pensions of people experiencing a 5-year career break relative to a complete-career case at average earnings



Source: [Figure 5.13].

The self-employed can expect lower pensions

Future pensions of the self-employed relative to those of employees' with similar earnings



Source: [Figure 2.13].

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