Italy

Italy: Pension system in 2016

The pension system is based on notional accounts. Contributions earn a rate of return related to real GDP growth. At retirement, the accumulated notional capital is converted into an annuity taking into account average life expectancy at retirement.

Key indicators: Italy

		Italy	OECD
Average worker earnings (AW)	EUR	30 642	34 803
	USD	32 243	36 622
Public pension spending	% of GDP	16.3	8.2
Life expectancy	at birth	83.2	80.9
	at age 65	20.9	19.7
Population over age 65	% of working- age population	37.8	27.9

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Qualifying conditions

Old-age pension requirements in 2016, for private and public employees, is 66 years and seven months with a minimum of 20 years of contributions. The retirement age for women employed in the private sector is still fixed at 65 years and seven months and 66 years and one month for self-employed women but it's expected to rise gradually to 66 years and seven months in 2018. The normal pension age under the new system will increase gradually for men and women. The updating occurs automatically in line with life expectancy at 65, every three years up to 2019 and every two years as of 2021. Further increases in line with life expectancy evolution will take place after 2018 to at least 67 years in 2019. The 2011 pension reform has however introduced a flexible window of retirement between 62 and 70 years, increasing with life expectancy. Old-age pensions, 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.

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probabilities of leaving a widow or widower behind and the expected duration of years that a survivor's benefit will be withdrawn. As a consequence, benefits are strongly related to retirement age – the lower the age, the lower the pension.

The transformation coefficients are reviewed every three years up to 2019 and every two years as of 2021. The transformation coefficients are available for ages 57 to 70. The latest available coefficients, applicable from the 1 January 2016 to 31 December 2018 are as follows.

Age	Divisor	Value	Age	Divisor	Value	Age	Divisor	Value
57	23.55	4.25%	62	20.593	4.86%	67	17.544	5.70%
58	22.969	4.35%	63	19.991	5.00%	68	16.922	5.91%
59	22.382	4.47%	64	19.385	5.16%	69	16.301	6.14%
60	21.789	4.59%	65	18.777	5.33%	70	15.678	6.38%
61	21.192	4.72%	66	18.163	5.51%			

Discount rate = 1.5%

Source: Ministerial Decree 22.06.2015 - Gazzetta Ufficiale n. 154/2015.

In 2016 the minimum pay for contribution purposes was EUR 200.76 per week (40% of the minimum pension). Maximum earnings for benefits were EUR 100 324 per year under the new scheme, or just over 199% of the minimum pension.

The indexation of pensions in payment is progressive and lower pensions are indexed more generously than higher pensions. In 2016 the indexation rule for pensions in payment is: 100% of the "cost-of-life" index for treatments up to three times the minimum pension; 95% of the "cost-of-life" index for pensions up to four times the minimum pension; 75% of the "cost-of-life" index for pensions up to five times the minimum pension; 50% of the "cost-of-life" index for pensions up to six times the minimum pension; 45% of the "cost-of-life" index for pensions higher than six times the minimum pension.

Social assistance

Under the old DB scheme, the amount of the pension is determined solely on the basis of contributions. However, for people with a contributory pension below a minimum level (EUR 501.89 a month in 2016), the system offers the possibility of social payments (Minimum Pension Supplement) to reach EUR 6 524.57 of pension income per year. The Minimum Pension Supplement does not apply to pensions calculated according to the contribution related calculation system.

Individuals without a contributory pension benefit can claim a means-tested tax-exempted social assistance benefit from the age of 65 years: the *assegno sociale* (old age social allowance). In 2016 this age increased to 65 years and seven months and the entitlement age will increase in line with life expectancy. In 2016 the *assegno sociale* for a single person was EUR 5 824.91 annually with 13 payments per year (EUR 448.07 per month). Beneficiaries of the *assegno sociale* aged 70 or over receive an additional monthly pension for up to EUR 190.26 which brings the benefit up to EUR 8 298.29 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. 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 a private pension fund is still low.

Variant careers

Early retirement

In 2016, early retirement is possible without penalty from age 62 if contributions have been paid for at least 42 years and ten months for men and 41 years and ten months for women. These requirements will increase in line with life expectancy. For every year of early pension withdrawal pension entitlements are reduced by one percentage point. This reduction increases to two percentage points for each additional year if the age of departure is two years below the minimum of 62. The penalty, however, does not apply to workers who will meet the contribution requirement by 2017.

For people under the contributive or mixed system, early retirement is possible only if the person fulfils the contribution requirement, without penalties due to age. Alternatively, these workers can retire at age 63 years and seven months given the condition that they have paid contributions for at least 20 years and that the pension amount is not lower than 2.8 times the old age social allowance in 2012, indexed with the five-year average of nominal GDP.

Late retirement

It is possible to defer retirement.

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. 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. In 2016 the maximum benefit was EUR 971.71 per month for workers with a working salary up to EUR 2 012.24 per month. For higher earnings the allowance equals EUR 1 167.91 per month. The payment is subject to a reduction of 5.84% for social contributions and the maximum monthly net benefits were EUR 914.96 and EUR 1 099.70 respectively. 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. 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 1 195.00 in 2016, indexed with inflation;

- 75% of EUR 1 195.00 in 2016 and 25% of the difference between the monthly average salary and the threshold.

In 2016 the benefit ceiling was equal to EUR 1 300.00 per month. After four months, the monthly allowance is lowered by 3% each month.

Personal income tax and social security contributions

Taxation of pensioners

The contributory public pension is taxable. In 2016 the income brackets and tax rates remain unchanged: 23% for pension income up to EUR 15 000, 27 % between EUR 15 001 and EUR 28 000, 38% between EUR 28 001 and EUR 55 000, 41% between EUR 55 001 and EUR 75 000 and 43% above EUR 75 000. No personal tax is due for pensions below EUR 7 500 a year (EUR 8 000 for pensioners over 75 years). Contributions paid to the public pension system are fully deductible from income before taxes.

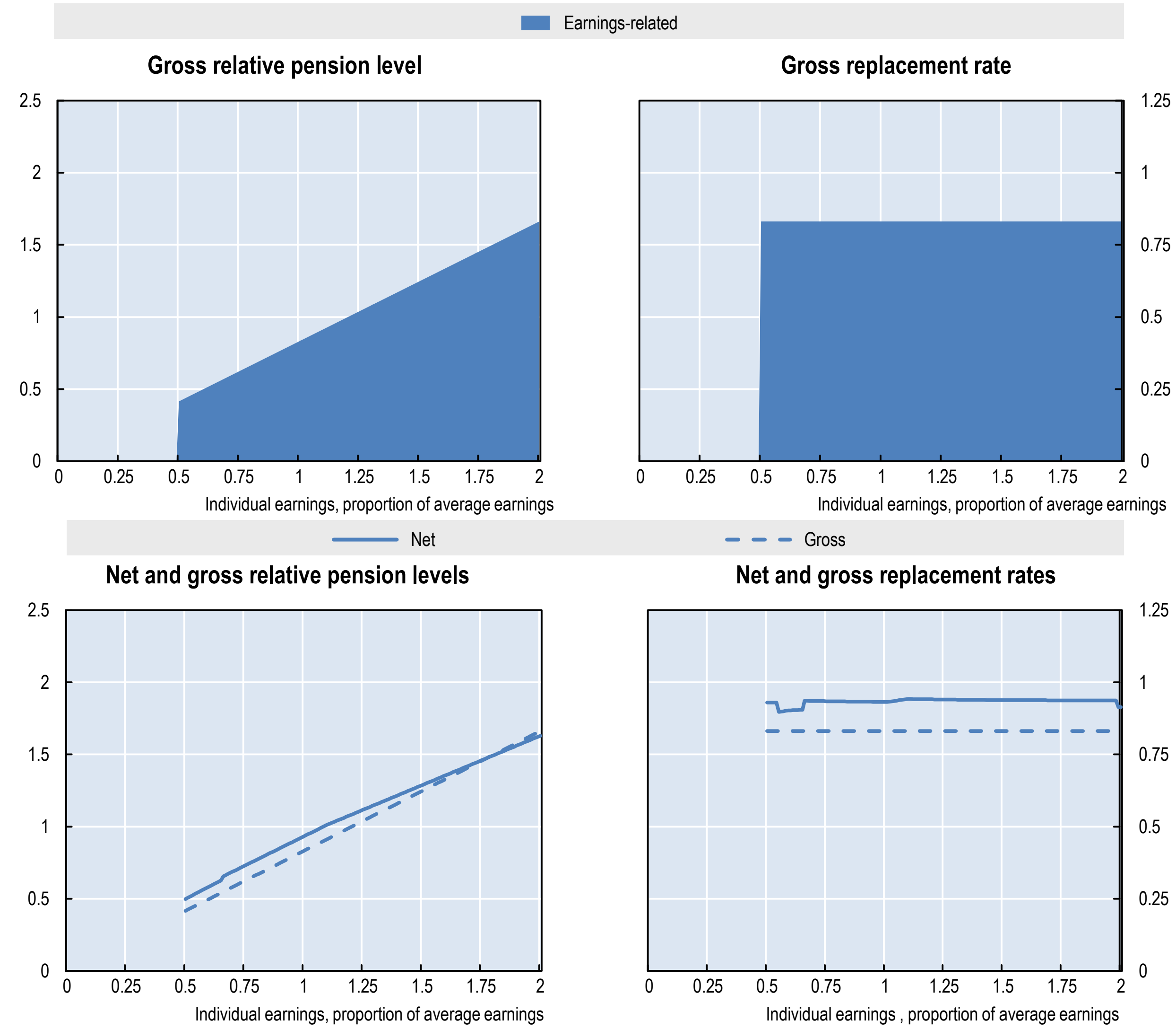
Taxation of pension income

There is no special relief for public pension income. Private pension incomes are only partially taxable reflecting the tax paid by the pension fund on its investment returns.

Social security contributions paid by pensioners

Social security contributions are not levied on pension income.

Pension modelling results: Italy in 2067 retirement at age 71



Men	Individual earnings, multiple of average					
Women (where different)	0.5	0.75	1	1.5	2	3
Gross relative pension level	41.6	62.3	83.1	124.7	166.2	247.1
(% average gross earnings)						
Net relative pension level	49.8	72.9	93.2	128.7	163.0	233.5
(% net average earnings)						
Gross replacement rate	83.1	83.1	83.1	83.1	83.1	82.4
(% individual gross earnings)						
Net replacement rate	93.0	93.4	93.2	93.8	91.4	92.7
(% individual net earnings)						
Gross pension wealth	13.3	13.3	13.3	13.3	13.3	13.1
(multiple of individual gross earnings)	*15.0*	*15.0*	*15.0*	*15.0*	*15.0*	*14.9*
Net pension wealth	14.8	14.9	14.9	15.0	14.6	14.8
(multiple of individual net earnings)	*16.8*	*16.8*	*16.8*	*16.9*	*16.5*	*16.7*

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 90%. Labour market entry occurs at age 20 in 2016. Tax system latest available: 2015.

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