ACCRUED-TO-DATE PENSION ENTITLEMENTS IN SOCIAL INSURANCE: FACT SHEET

Italy

December 2023

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1. Table 29 column A: Defined contribution schemes (funded, non-general government)

1. General description of the scheme and the calculation model	
a. Coverage of the scheme	
As a result of the 1993 reform (Legislative Decree no. 124/1993), Italian private pension funds are based on the defined contribution (DC) system. In 2005, a major reform of private pensions was introduced (Legislative Decree no. 252/2005) in order to widen pension fund membership through the transfer of the annual flow of "*Trattamento di fine rapporto*" (a severance pay scheme that the employer has to pay to the employee in case of dismissal or retirement) into pension funds on a no-objection basis. At the end of 2021, new autonomous pension funds instituted after the 1993 legislation were 73: 33 contractual pension funds ("*fondi pensione negoziali*") and 40 open pension funds ("*fondi pensione aperti*") covering 5.1 million members altogether. There were also 204 pre-existing pension funds ("*fondi pensione preesistenti*"), funds that were already operating before the 1993 legislation, covering around 622,000 members. Pre-existing pension funds (autonomous and non-autonomous, i.e. book reserves) were instituted mainly in favour of the banking and insurance sectors and are structured as DC or DB (defined benefit) schemes even though the latter are not open to new members since 1992. At the end of 2021, there were 107 DC pre-existing pension funds, 81 DB funds and 16 funds with both DC and DB schemes. In this column pension entitlements are calculated as total resources for retirement provisions, totalling 161.9 billion euro at the end of 2021 (65.3 billion euro held by contractual pension funds, 29.0 by open pension funds and 67.6 by pre-existing pension funds). The private pension system includes also individual pension plans realised through life insurance policies ("*piani individuali pensionistici*", PIPs), which are outside the scope of Table 29 and have been excluded from the estimates. Those pension plans cover nearly 3.7 million members at the end of 2021: 3.4 million members of new PIPs, instituted after the Legislative Decree no. 252 of 2005, and 300,000 members of old PIPs, instituted before the same Decree and not allowed to collect new members. In the Italian private pension system membership is on a voluntary basis. In terms of the workforce, the participation rate at the end of 2021 was around 34.5% of the total if we look at the private pension system as a whole (including PIPs). However, if we look only at defined contribution pension funds (both autonomous and non-autonomous) the participation rate was approximately 22.5%. This column includes only annuities paid out directly by pension funds while those paid out by life insurance companies are excluded.	
b. Institutional set-up	
Data sources/ suppliers	COVIP – Pension Funds Supervisory Authority; Bank of Italy and IVASS – Institute for the Supervision of Insurance (own pension funds)
Which institution is running/managing the calculations?	COVIP – Pension Funds Supervisory Authority; Bank of Italy and IVASS – Institute for the Supervision of Insurance (own pension funds)
2. Any other comments	
Coverage: to ensure full coverage, data for DC pension funds of other supervisory authorities (Bank of Italy's *Fondo Pensione Complementare* (FPC) and IVASS *Cassa di Previdenza Dipendenti*) that by law are not subjected to the supervision of COVIP, has been collected and added to COVIP totals. Comments on specific rows of the column: - D.61, D.62 and D.8: with respect to ESA 2010 TP - Table 8 (September 2023 transmission), an improved version of the data source has been used as input for the estimation. In the next transmission of Table 8 (March 2024), revised amounts consistent with the estimates displayed here will be reported. - D.81: "Transfers between schemes" as reported in column C are positive because of members who transfer their pension entitlements from PIPs that are outside the scope of Table 29. This results in a positive entry in the total of column I. - D.82 "Change in entitlements due to negotiated changes in scheme structure": negotiated changes have been reported in some specific cases but their impact on pension entitlements cannot be quantified, so this item is reported as missing (not available).	

2. Table 29 column B: Defined benefit schemes and other non-defined contribution schemes (funded, non-general government)

1. General description of the scheme and the calculation model

a. Coverage of the scheme

As stated in the fact sheet for column A, DB schemes are only to be found in the "pre-existing pension funds" category, since all pension funds established after the 1993 reform are DC. These schemes were not allowed to collect new members since 1992 so that they are expected to disappear in the future when the last annuity will be paid. Presently, DB schemes are mostly made up of pensioners. At the end of 2021, there were 81 DB funds and 16 funds with both DC and DB schemes.

The participation rate to DB pension schemes was approximately 0.1% of the total workforce at the end of 2021.

b. Institutional set-up

Data sources/ suppliers	COVIP –Pension Funds Supervisory Authority
Which institution is running/managing the calculations?	COVIP –Pension Funds Supervisory Authority

c. Major formulas: Benefit formula; Indexation of benefits

Benefit formula	Benefits are typically related by some formula to the worker's length of service and average wage.
Indexation of benefits	Benefit indexation is not mandatory. Inflation indexation is common.

d. Type and structure of the calculation model

In this column it is assumed that pension entitlements of DB schemes are equal to net assets covering technical provisions, corresponding to the total resources of these funds available for retirement purposes. Data on technical provisions of DB schemes are not available on an aggregate basis. In fact, these schemes differ in terms of the methodology used and the assumptions made in estimating technical reserves, which follow the scheme's rules. These rules are set in compliance with national law by means of an agreement between the social partners (typically the employer and the trade unions) and then translated in the scheme by-laws. As there is not a standardized methodology, the supervisory authority checks the estimates of the technical reserves made by schemes on a case-by-case basis.

2. Assumptions and methodologies applied

a. Discount rate

Please see 1.d. Discount rates vary across DB schemes and may depend on the expected returns on assets (as for Minister of Economy and Finance Decree 7 December 2012). Regulation imposes a cap on discount rates, currently set at max 4% nominal (2% real) over the long run.

b. Wage growth

Please see 1.d

c. Valuation method: ABO/PBO

Please see 1.d. Valuation methods vary across DB schemes. Technical reserves should be estimated by a projected actuarial method that is prudent enough in order to ensure the payment of benefits to current retirees and to comply with the pension entitlements accumulated so far by the scheme.

3. Data used to run the model

a. Mortality tables

Please see 1.d

b. Entitlement statistics; other relevant statistics

None

4. Reforms incorporated in the model

None

5. Specific assumptions

a. How are careers modelled?

Please see 1.d

b. How are survivor pensions calculated?

Please see 1.d

c. How is the retirement age modelled over time?

Please see 1.d
d. Other specific features of the model
Please see 1.d
6. Any other comments
Coverage: detailed data is presently not available for the DB pension fund (TQP – *Trattamento di Quiescenza del Personale*) of Bank of Italy, which as supervisory authority is by law not subjected to the supervision of COVIP. Comments on specific rows of the column: - D.81: "Transfers between schemes" as reported in column B are negative because of members who transfer their pension entitlements to DC pension schemes as the result of transformation of DB schemes into DC schemes, usually through agreements between the social partners (employers and trade unions).

3. Table 29 column D: Defined contribution schemes (funded, general government)

Funded general government DC schemes do not exist in Italy.

4. Table 29 column E: Defined benefit schemes (funded, for general government employees, classified in financial corporations)

Funded DB schemes for general government employees classified in financial corporations do not exist in Italy.

5. Table 29 column F: Defined benefit schemes (funded, for general government employees, classified in general government)

Funded DB schemes for general government employees classified in general government do not exist in Italy.

6. Table 29 column G: Defined benefit schemes (unfunded, for general government employees, classified in general government)

In Italy there is no separate pension regime established specifically for general government employees, who receive their pension from the National Social Security Institute (*Istituto Nazionale di Previdenza Sociale* – INPS, classified in S.1314) following the general rules of the social security pension scheme. In some specific cases separate regimes exist (e.g. employees of some autonomous regions, such as Sicily), but their size in terms of the workforce covered is very small, and no sufficiently detailed information is available for the separate estimation of all flows of pension entitlements. For this reason, the corresponding schemes are included in column H, and the items of column G are reported as missing (not available).

Coverage: constitutional bodies (the Chamber of Deputies, the Senate, the Presidency of the Republic, the Constitutional Court, the National Council for Economics and Labour — CNEL and the Supreme Council of Magistracy – CSM) are not included in the INPS databases used in the model (see fact sheet for column H). Therefore, they are excluded from the estimation of pension entitlements. It must be noted that the number of pensioners and contributors belonging to those institutions is limited (few thousands).

7. Table 29 column H: Social security pension schemes (unfunded)

<table>
<tr><th colspan="2">1. General description of the scheme and the calculation model</th></tr>
<tr><td colspan="2">a. Coverage of the scheme</td></tr>
<tr><td colspan="2">The overall coverage of the workforce is close to 100%, since mandatory schemes exist for all categories of workers.
Together with social assistance pensions, pension supplements (“maggiorazioni sociali”, “quattordicesima”) have been excluded from the database, while topping-up to the minimum pension (“integrazione al minimo”) has been retained, as a solidarity component of the pension system (Constitutional Court, Sentence no. 240/1994). Severance pay schemes for private and public employees (“trattamento di fine rapporto”, TFR), granting a lump sum upon termination of the employment relationship, have also been excluded.</td></tr>
<tr><td colspan="2">b. Institutional set-up</td></tr>
<tr><td>Data sources/ suppliers</td><td>Data sources are the Central archive of pensioners (Casellario centrale dei pensionati) and the Central archive of current contributors (Casellario degli attivi), both managed by the National Social Security Institute (Istituto Nazionale di Previdenza Sociale - INPS).</td></tr>
<tr><td>Which institution is running/managing the calculations?</td><td>The model has been implemented by the National Institute of Statistics (ISTAT) and the Department of General Accounts of the Ministry of Economy and Finance (Dipartimento della Ragioneria Generale dello Stato – RGS).</td></tr>
<tr><td colspan="2">c. Major formulas: Benefit formula; Indexation of benefits</td></tr>
<tr><td>Benefit formula</td><td>With the 1995 pension reform (Law no. 335/1995), the Italian pension system adopted the Notional Defined Contribution (NDC) scheme, based on an actuarial equivalence between contributions paid and pension payments after retirement.
Up to 1995, under the Defined Benefit (DB) regime, the pension is calculated as a percentage of the reference wage, obtained multiplying 2% by the years of contribution, up to a maximum of 80%. The reference wage is an average of wages/labour income related to the last part of career, indexed to prices up to the year before that of retirement. The number of annual wages considered in the average varies depending on sector, time period to which the contribution is referred and retirement age.
The previous DB scheme still applies pro-rata to contributions accrued until 1995 (until 2011 for workers with 18 or more years of contribution at the end of 1995).
After 1995, under the NDC scheme, the pension is calculated as a product of two factors: the total lifelong contributions, capitalised with the nominal GDP growth rate (five-year average) and the transformation coefficient. The transformation coefficient is approximately the inverse of the average number of years for which a pension is expected to be paid to the pensioner or to her/his surviving spouse, the latter weighted with the reversibility rate. The calculation of the coefficient is mainly based on the probabilities of death, the probabilities of leaving a surviving spouse, and the average outliving period. As a consequence, the pension amount is proportional to the contribution rate and directly correlated to the contribution period and the age of retirement.
General calculation rules, as described above, also apply to disability pensions; an additional contribution period is acknowledged to those with 100% disability, up to the maximum contribution period or the Statutory Retirement Age, if lower.
In all regimes, survivors pensions account for a fraction of the amount received/accrued by the deceased pensioner/worker. The prevailing rates are: 60% if only the spouse survives, increasing with the number of sons to reach 100% with two sons; 70% if only a son survives, increasing with the number of sons to reach 100% with three sons; usually lower if only other relatives survive. A survivor's pension cannot be cumulated with other income sources for 25%, 40% or 50% of its amount if the survivor's total income exceeds, respectively, three, four or five times the minimum pension.</td></tr>
</table>

Indexation of benefits	Pensions are indexed to price inflation. According to current legislation, the rate of indexation to prices is decreasing by total pension income. In 2021 the rate of indexation is 100% of the inflation rate if total pension income is up to four times the minimum pension; lowers to 77%, then to 52%, to 47% and to 45% if pension income lies respectively between four and five, five and six, six and eight, eight and nine times the minimum, and finally reaches 40% if it exceeds this threshold. A safeguard clause provides that the indexation applied to total pension income in a certain class cannot be lower, in absolute value, than that applied to total pension income equal to the threshold of the immediately lower class. In 2022, as provided by Law no. 160/2019, the rate of indexation is 100% of the inflation rate for the share of total pension income up to four times the minimum pension, 90% for the share between four and five times the minimum, and 75% for the share above this threshold. In 2023 and 2024 the rate of indexation is 100% of the inflation rate if total pension income is up to four times the minimum pension; lowers to 85%, then to 53%, to 47% and to 37%, if pension income lies respectively between four and five, five and six, six and eight, eight and ten times the minimum, and finally reaches 32% if it exceeds this threshold. The same safeguard clause described for 2021 is provided. Starting from 2025, when Law no. 160/2019 is due to be enforced again, decreasing indexation rates will be applied by total pension income bracket, with the same percentages and brackets in force in 2022.

d. Type and structure of the calculation model

A dedicated pension entitlements simulation model was developed, in order to estimate "accrued-to-date-liabilities" (ADL), based on microdata both on pensioners and current contributors which were aggregated in cells (see below, 3.b). Separate modules are implemented for pensioners and current contributors. For pensioners, two submodules deal with direct pensions and survivors pensions. For every position (depending on age, sex and type of pension), the model calculates a coefficient that indicates the number of pension payments that will be accrued. This coefficient has survival probabilities and indexation rules as numerator and the discount rate as denominator. For direct pensions, the coefficient is then augmented in order to take into account the probability to leave a survivors pension. For current contributors, two submodules have been developed concerning: 1) the DB regime in force until the 1995 reform; 2) the full-fledged NDC regime following the completion of the transition under Law no. 214/2011. For the transition period to the NDC regime, both submodules are combined in the estimation of individual pension entitlements. As a first step, it is necessary to make an assumption about the year of retirement, in order to calculate the pension benefit that will be due. Then the model calculates the coefficient indicating the number of pension payments that will be accrued, using survival probabilities starting from the year of retirement. Finally, the result is actualized to the base year by applying the discount rate.

2. Assumptions and methodologies applied

a. Discount rate

As agreed, the discount rates applied to run the model in the three scenarios are 3%, 4% and 5% (nominal).

b. Wage growth

The wage growth rate applied is the nominal labour productivity growth foreseen in *The 2024 Ageing Report - Underlying Assumptions & Projection Methodologies* (European Commission, November 2023).

c. Valuation method: ABO/PBO

The method applied is the PBO. For the DB regime, reference wages (or labour income in the case of the self-employed) at the end of the base year are projected to increase over time, applying the dynamics of productivity. For the NDC regime, the sum of lifelong contributions capitalised with the nominal GDP growth rate (five-year rolling geometric average) at the end of the base year is projected to increase over time according to the same rate of growth.

3. Data used to run the model

a. Mortality tables

The mortality tables used are those underlying the 2022-based population projections, released by Eurostat in March 2023.

b. Entitlement statistics; other relevant statistics

Entitlement statistics are embodied in INPS data sources listed under 1.b. Both microdata on pensioners and current contributors were aggregated in cells. For pensioners, cells are built by sex, age, type of pension (disability, old age and survivors) and category of pensioner (former private employees, public employees, self-employed, professionals, other). For workers, cells are built by sex, age in years and months, category of worker (private employees, public employees, self-employed, professionals, other), status (contributor at end of year, contributor during the year, not contributor but with a past contribution record: "*silente*"), regime (DB, mixed, NDC), total lifelong contributions in any sector of activity.
4. Reforms incorporated in the model
No relevant reform of pensions occurred. The last comprehensive reform of Italian pension system was introduced in 2011 (Law no. 214/2011). However Decree Law 4/2019 introduced the experimental and temporary early retirement channel "Quota 100", applicable in years 2019, 2020 and 2021.
5. Specific assumptions
a. How are careers modelled?
Individual careers are implicit in the base year wage/labour income structure. Initial pension entitlements are then valorized up to the age of retirement according to average wages/GDP growth (DB/NDC schemes respectively).
b. How are survivor pensions calculated?
Future survivor pensions depend on the probability to leave a family and the probability to be eliminated for new marriage. These probabilities are calculated by ISTAT. The survivor pension amount is estimated at 60% of the pension amount of the deceased pensioner / worker, implicitly assuming that the only survivor is the spouse.
c. How is the retirement age modelled over time?
Retirement age depends on the life expectancy underlying 2022-based population projections released by Eurostat in March 2023. The modeling of retirement behavior is based on the hypothesis that workers retire as soon as they reach the requisites set by the legislation.
d. Other specific features of the model
Age retirement requirements have been anticipated for the military forces (by 5 years) and for entertainment workers (by 8 years) in order to approximate the special rules provided for by the legislation for these categories. Since access to old age retirement under the NDC regime depends on reaching a fixed minimum amount of the pension, hypotheses have been made in order to distribute current contributors in three categories: standard retirement age (SRA), SRA – 3 years, SRA + 4 years. For example, for public employees the hypotheses are that 60% retire at the SRA, 20% at SRA – 3, and 20% at SRA + 4.
6. Any other comments

8. Table 29 column K: Entitlements of non-resident households

No data are transmitted for column K, since entitlements of non-resident households are not considerable in Italy.

9. Links to (national) publications providing further information on the pension schemes

Information on the Italian pension system in 2021 are available in the country fiche annexed to the 2021 Ageing Report:

https://economy-finance.ec.europa.eu/system/files/2021-05/it_-_ar_2021_final_pension_fiche.pdf

Information on supplementary pension funds in Italy (columns A and B):

https://www.covip.it/sites/default/files/relazioneannuale/supplementary_pension_funds_in_italy_2021_-main_data__0.pdf

Updated parameters used in the model projections underlying column H:

https://economy-finance.ec.europa.eu/system/files/2023-11/ip257_en_1.pdf