



The 2016 Italian pension reform and the issue of equity

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Italy's 2017 Stability Law includes several innovative measures in the field of pensions. These measures expand old-age pension expenditure and rely on the equity principle, aiming to both increase solidarity and tackle the most severe social consequences of the crisis. However, the design seems to be relatively ineffective.

Description

The “pension package” (Poletti-Renzi reform) included in Italy's 2017 Stability Law contains several measures mostly aimed at facilitating early retirement and increasing lower pension incomes.

On the first front, the so-called APE (“Anticipo finanziario a garanzia pensionistica”) is the main innovation and provides two different options. The “financial version” allows an individual to leave the labour market up to 3 years and 7 months earlier than the standard pensionable age (currently 66 years and 7 months) by means of a loan issued by a bank. Workers aged 63 and above may thus apply for such a loan in order to receive a monthly benefit until the pensionable age. Then they will repay their debt through monthly instalments over a 20-year period. The loan will be protected by an insurance contract to cover the risk of early death. The second option (the “social version” of APE) is state-subsidised. It allows certain categories of disadvantaged workers, with at least 30 years of paid contributions, to exit early from the labour market (also up to 3 years and 7 months before the standard pensionable age) through the provision of an allowance of maximum €1,500/month. The eligible workers are: i) unemployed individuals who have exhausted their right to unemployment benefits at least 3 months previously; ii) persons taking care of a severely disabled and dependent relative for at least 6 months; and iii) severely disabled workers. The same treatment applies to workers who have paid contributions for at least 36

years and have been employed in “hard” jobs (different from arduous or hazardous jobs, see below) for at least 6 years. Both the financial and social versions of APE will be implemented on a trial basis between 1.5.2017 and 31.12.2018.

In addition to APE, with regard to the eligibility conditions for retirement, the reform includes the following measures: i) an additional provision to protect former workers with no job and no pension due to the 2011 reform (“esodati”); ii) elimination of penalisation in case of early retirement before 62 years of age (after 1.1.2018, provided the worker has completed a contributory period of 42 years and 10 months); and iii) more favourable retirement conditions for disadvantaged workers (which include persons taking care of a disabled or dependent relative and the unemployed with no benefits) with at least 12 months of paid contributions before 19 years of age.

The Stability Law also brings about some important changes to the rules on workers in arduous or hazardous jobs (WAHJ, lavoratori in mansioni usuranti). Among these, the suspension (until 2025) of the automatic linking of retirement conditions to changes in life expectancy and the elimination of the waiting periods (12 months for employees, 18 months for self-employed) between the fulfilment of age/contribution requirements and the effective date of retirement. Also, WAHJ are no longer required to spend the last

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year before retirement in AHJ in order to be eligible for the special rules. Accordingly, since 1.1.2017, WAHJ are allowed to retire early provided they have worked as employees in relevant jobs for at least 7 out of the previous 10 years before applying for retirement or, alternatively, if they have worked in such jobs for half their career.

As for measures targeted at low-income pensioners, the reform includes the following: i) an increase in the amount of the 14th monthly pension instalment (quattordicesima) and extension of the latter to ca. 1.2 million individuals with low pension benefits; and ii) an increase up to €8,000/year of the “no tax area” for pensioners below 75 years.

Finally, the reform will facilitate the accumulation of contributions paid into different first pillar pension regimes and, with regard to supplementary pillars, it will allow workers entitled to APE to receive early Defined-Contribution pensions as well (on a trial basis between 1.5.2017 and 31.12.2018).

Outlook & Commentary

The pension package was adopted following negotiations with trade unions and it has mostly been welcomed in the Italian political debate. However, critical remarks have recently been made by the president of the National Social Insurance Institute (INPS), Tito Boeri, who warned about the expansion of “implicit debt” entailed by the reform and argued in favour of an alternative reform plan proposed by INPS in 2015.

The reform appears innovative when compared to austerity-driven interventions in 2009-11: it increases expenditure (about 6

billion Euros in 3 years) and relies on the principle of equity, thus going beyond the idea (well entrenched in the Italian pension debate of the last two decades) that pensions must be “actuarially neutral”. This is justified by the need to both modify the uneven distribution of resources among current retirees and to tackle the most severe social consequences of prolonged economic and labour market stagnation (primarily, the swift increase of unemployed persons aged 50 and above, from roughly 120,000 to almost 500,000 between 2008 and 2015).

Yet, when looking at details, weaknesses and potentially ineffective provisions also emerge. With regard to APE: the financial version is expensive for applicants due to intermediation costs linked to the involvement of banks and insurance companies. Also, only workers with an expected pension income above €1,400/month may apply, thus favouring mid-to-high income individuals. The social version is more appealing but the contributory requirements (30/36 years) may exclude a substantial share of potential beneficiaries. As for both the extension of coverage and the increase in the level of the 14th monthly instalments, analyses have shown that they indeed constitute progressive measures, but the non-application of means-testing of household incomes means that high-income families cannot be excluded from the beneficiaries. However, the measures for WAHJ are more positive, as is the possibility of combining contributions in different pension regimes and the option to receive supplementary pensions in order to retire before reaching the pensionable age.

Further reading

2017 Stability Law, Law No 232/2016: <http://www.gazzettaufficiale.it/eli/id/2016/12/21/16G00242/sg>

Baldini M., Casabianca E. and Giarda E. (2016), No-tax area e quattordicesime, cosa cambia per i pensionati [No-tax area and 14th monthly instalment: what changes for pensioners]: <http://www.lavoce.info/archives/43763/no-tax-area-e-quattordicesime-cosa-cambia-per-i-pensionati-2/>

Boeri, T. (2017), Perché è utile esplicitare il “debito implicito” [Why it is useful to make the “implicit debt” explicit]: <http://www.lavoce.info/archives/44921/perche-e-utile-esplicitare-il-debito-implicito/>

INPS (2015), Non per cassa, ma per equità [For equity, not for making cash] <https://www.inps.it/portale/default.aspx?NewsId=3011>

Jessoula, M. (2016), Le pensioni al nodo dell'equità: dalla Riforma Poletti-Renzi alla “Fase 2” [Pensions and the issue of equity: from the Poletti-Renzi reform to the “Phase 2”], in “La Rivista delle Politiche Sociali”, n. 3-4.

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