Changes in the pension debate under the new government in Italy

ESPN Flash Report 2018/41

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After the light reforms legislated in 2016 and 2017, the plans to reform pensions make a turn with the proposals of the new Italian government which aim at relaxing eligibility conditions erga omnes, introducing a "citizenship pension" and cutting "gold pension" benefits.

Description

The 2011 "Fornero" reform severely tightened requirements for old-age and early retirement pension: in 2019, individuals will be allowed to claim either an old-age pension at 67 years of age or an early retirement benefit provided 43 years and 3 months of contributions (42 years and 3 months for females). In light of these strict eligibility conditions, in recent years there have been repeated call to make retirement conditions more flexible.

The previous government addressed this issue in the 2017 Budget Law, introducing (on a trial basis until 31 December 2018) the so-called APE (pension advance, "*Anticipo Pensionistico*"). The "financial" version of APE makes it possible for all workers to retire up to 3 years and 7 months before the standard pensionable age, through a (moderately state subsidised) loan issued by a bank. The "social APE" provides a fully state subsidised early exit option at the same age to some disadvantaged categories only: i) the long-term unemployed; ii) the severely disabled; and iii) those with 36 years of contributions employed for at least 6 of the last 7 years in 11 types of "hard jobs" (which are different from "arduous or hazardous jobs"; see details in Jessoula 2017). Subsequently, the 2018 Budget Law (adopted on 27 December 2017 and implemented since 1 January 2018) partly modified these rules, expanding (from 11 to 15) the "hard job" categories which provide entitlement to "social APE", as well as exempting (for a 2-year period) the same 15 worker categories from the automatic increase of the standard pensionable age (in accordance with demographic changes) which will be implemented in January 2019.

Moreover, to provide a better empirical basis for pension policymaking, the 2018 Budget Law also established 2 Expert Committees. These have been mandated to carry out detailed studies, by 30 September 2018, on: i) the criteria followed in EU countries to distinguish between public expenditure on social insurance and social assistance; and ii) the hardship of various jobs and related life expectancy differentials. In particular, the latter Committee should help to identify which worker categories would be hardest hit by the continuous increase in the pensionable age.

The recent change in government is, however, likely to substantially change the pension agenda. The "government agreement" signed in May 2018 between the League (*Lega*) and the Five Stars Movement proposed measures aimed at further amending the 2011 reform by allowing all workers to retire when they accrue either 41 contribution years, or 100 years as the sum of age + contribution years (so called "quota 100", at an age no lower than 64). The government proposes to allocate, in addition to current spending, €5 billion per year to this end.

The "government agreement" also states that a "citizenship pension" should be introduced, topping up poorer pensioners' benefits to €780/month (for couples, the citizenship pension would be increased according to household size based on an "equivalence scale"). Finally, it proposes to re-calculate the pension amount for those high-income retirees receiving earnings-related pensions above €5,000/month ("gold pensions"): the idea is to cut the share of benefit exceeding the amount which would have been obtained applying the Notional Defined Contribution (NDC) method.

Outlook & commentary

The APE was established with the aim of re-introducing flexibility to retirement conditions, favouring, in particular, the least advantaged workers through the "social APE". However, the 15 categories entitled to this scheme include a few workers only (around 13,000 in 2019; UPB 2018) and the choices made as to which workers can benefit from the social APE, and the specific entitlement conditions, are not based on robust scientific evidence, rather depending on budget constraints and political bargaining.

Therefore, neither the financial APE (which is costly for workers) nor the social APE are a definitive response to the need to introduce entitlement conditions suited to the heterogeneous needs of older workers, which vary according to health, family needs, and the hardship of the job throughout an individual's career. However, the Scientific Committee set up by the previous government to investigate older workers' ability to postpone retirement was not given enough time to provide crystal-clear results - members were appointed in late May 2018 and the final report is to be issued by the end of September 2018.

The new government has so far provided only vague statements about the expected pension reform. Thus, it is very difficult to assess both the budget costs as well as the winners and losers from the proposed measures. A change in policy direction is, nonetheless, evident since the new government aims to lower the retirement age for *all* workers rather than for the most disadvantaged categories only. The government neither intends to prolong the duration of APE after the end of the trial period, nor to consider more than 2 years of notional contributions (e.g. in case of unemployment) for being entitled to early retirement (i.e. with 41 years of contributions or "quota 100"): thus, some disadvantaged workers (for instance, those with long periods in unemployment) would be subject to tighter eligibility conditions under the rules proposed by the new government than under existing rules.

With respect to pension levels, the "citizenship pension" proposed in the government agreement of May 2018 is a flat-rate basic pension irrespective of previous career and employment history. This is at odds with the minimum "guarantee pension" (*pensione di garanzia*) which had been included in the 2016 agreement between the previous Renzi government and trade unions with the aim to tackle the risk of poverty in old age for those (young) workers subject to the NDC system. In fact, the "guarantee pension" would make the guaranteed amount dependent on "active years" - i.e. the number of years spent working or in unemployment, training or care.

Finally, the proposal to reduce current "gold" pensions to an amount dependent on the gap between the earnings-related pension and what would have been accrued by applying the NDC method may potentially be rejected by the Constitutional Court, since it affects pensioners' "acquired rights" - i.e. it would reduce pensions that were calculated according to valid rules when those pensioners retired.

Further reading

Contratto per il Governo del cambiamento [May 2018 government agreement]: https://s3-eu-west-1.amazonaws.com/associazionerousseau/documenti/contratto_governo.pdf

Jessoula, M. (2017), "The 2016 Italian pension reform and the issue of equity", ESPN Flash Report 2017/12.

Raitano M. (2017), "Poveri da giovani, poveri da anziani? Prospettive previdenziali e vantaggi della pensione di garanzia" [Poor young people, poor old people? Pension prospects and benefits of the guarantee pension], Social Cohesion Paper, n. 1.

Raitano M. (2018), "La flessibilità dell'età pensionabile: le novità della Legge di Bilancio per il 2018", Politiche Sociali/Social Policies [Flexible retirement age: the measures introduced by the 2018 Budget Law], vol. 4, n. 1.

UPB - Ufficio Parlamentare di Bilancio, "I requisiti ridotti di pensionamento per i lavori 'particolarmente faticosi e pesanti": le novità introdotte con la legge di bilancio per il 2018" [The reduced retirement requirements for "very hard and heavy jobs": the innovations introduced by the 2018 Budget Law], Focus Tematico, 2/2018.

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