A new path for Italian pensions

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A new Law Decree adopted on 28 January 2019 takes a further step towards tackling old-age poverty and easing access to early retirement.

Description

After two decades of substantial pension retrenchment and the harsh austerity reforms of the period 2009-11, a novel pension path was opened by the Poletti-Renzi reform in 2016. This was then further refined in 2018 (see ESPN Flash Reports 2017/12 and 2018/41) and followed by the adoption of Law Decree No. 4/2019 on 28 January 2019. The three reforms can be considered to be a reaction to the cost containment measures adopted during the crisis period, which made eligibility conditions far more restrictive in the short term. They are also an attempt to tackle the traditionally uneven distribution of Italian pensions, which provide weak protection against poverty in old age despite the high total pension expenditure: 15.5% of GDP in 2016 (the second in the EU after Greece). The reforms combine measures aimed at relaxing the eligibility requirements for (early) retirement with measures designed to support low-income pensioners.

The 2019 Di Maio-Salvini reform (named after the leaders of the two governing parties) comprises several measures. The two most important innovations are the "Quota 100 Pension" (Pensione quota 100) and the "Citizenship Pension" (Pensione di cittadinanza).

Introduced as a pilot measure for three years (2019-21), the **"Quota 100 pension"** makes it possible to retire before reaching both the legislated pensionable age (currently 67) and the contributory period for early retirement (42 years/10 months for males, 41 years/10 months for females; see below), subject to fulfilment of a combined contributory (38 years minimum) and age (62 years minimum) requirement (38+62=100). The "Quota 100" requirement is not linked to changes in life expectancy, unlike the standard pensionable age, which is automatically adjusted every two years. Early retirement through the "Quota 100 pension" cannot be combined with income from work of above €5,000/year. In addition, the reform suspended, until 31 December 2026, the automatic linkage of the contributory years for early retirement to changes in life expectancy: thus, as in 2018, the contribution period is currently set at 42 years/10 months for men and 41 years/10 months for women. Finally, with regard to access to retirement, the reform also: i) prolonged the so-called "woman's option" which allows female workers to retire at the age of 58 with 35 contributory years if they switch from the "mixed" pension calculation method (partly earnings-related, partly Notional Defined Contributions [NDC]) to the NDC which pays lower pensions than the former; ii) extended, until 31 December 2019, the so-called "APE" pension (see Jessoula 2017; Raitano and Jessoula 2018 for details), allowing some categories of disadvantaged workers - with at least 30 or 36 years of paid contributions, depending on the type of disadvantage - to exit early from the labour market (up to 3 years/7 months before the standard pensionable age) through the provision of an allowance of maximum €1,500/month.

Secondly, the **"Citizenship Pension"**, aimed at tackling old-age poverty, is a means-tested benefit for all those who have been resident in Italy for at least 10 years, aged 67 and above, with an annual equivalised income below €9,360. The monthly benefit amount for a single individual is set at €630, plus €150 as housing benefit.

Outlook & commentary

Though adopted by a different government, the 2019 pension reform is the third expansionary intervention, after those adopted in 2016-18. Significant additional costs are implied by the reform: 4 billion Euros in 2019, 8.3 in 2020, 8.7 in 2021, 8.2 in 2022, 7 in 2023 for measures aimed to facilitate early retirement (UPB 2019) plus the cost of the "Citizenship Pension". The reform also cuts two ways: the "Citizenship Pension" is an extension to the elderly of the anti-poverty minimum income scheme named "Citizenship Income" – the 5 Star Movement's flagship adopted with the same Decree No. 4/2019 – while the "Quota 100 pension" and the other measures concerning access to retirement add up to a milder version of the Northern League's electoral promise to fully repeal the 2011 Fornero reform.

Both sides of the reform address current problems concerning the social condition of Italian older people and those close to retirement, aiming to tackle existing challenges related to very high pensionable ages (independently of the health of the older person), the interplay between pension rules and labour market functioning, and the uneven distributional profile of current pension benefits.

In particular, the "Citizenship Pension" is expected to reduce the large proportion of low-income pensioners: according to the most recent data, in 2017, 12.6% of pensioners received pension income of below €500/month, and 24.9% received a pension between 500 and €1,000/month (INPS 2018). On the other hand, easier access to retirement may improve the prospects of the large share of unemployed aged 50+ - a segment of the population which has increased steeply, from ca. 130,000 individuals (2007) to 500,800 (2016) due to eligibility conditions which have been rapidly tightened in a phase of economic recession.

Nevertheless, the reform design has substantial flaws. A general relaxation of eligibility conditions for retirement may not be the most effective strategy to combine economic-financial sustainability with equity issues, which in fact requires more careful consideration of both life expectancy differentials and the gender dimension. With regard to the latter, the 38-year contributory requirement de facto penalises women in access to retirement, since the average contributory period in the age bracket 56-65 is 35.3 years for males and 29.9 for females in Italy – while the "woman's option" entitles to lower NDC pensions mentioned above.

Further reading

INPS (2018), *Prestazioni pensionistiche e beneficiari del sistema pensionistico italiano al 31.12.2017*: https://www.inps.it/bussola/VisualizzaDOC.aspx?iIDDalPortale=6840&sVirtualURL=%2Fbanchedatistatistiche%2Fmenu%2Fcasellario%2FStatisticheInBreve.pdf

Jessoula, M. (2017), *The 2016 Italian pension reform and the issue of equity*, ESPN Flash Report 2017/12: https://ec.europa.eu/social/keyDocuments.jsp?advSearchKey=ESPNFlash&mode=advancedSubmit&langId=en&search.x=0&search.y=0

Raitano, M. and Jessoula, M. (2018), *Changes in the pension debate under the new government in Italy*, ESPN Flash Report 2018/41: https://ec.europa.eu/social/keyDocuments.jsp?advSearchKey=ESPNFlash&mode=advancedSubmit&langId=en&search.x=0&search.y=0

Ufficio Parlamentare di Bilancio (2019), *Rapporto sulla politica di bilancio 2019*, http://www.upbilancio.it/wp-content/uploads/2019/01/Rapporto-politica-di-bilancio-2019-_per-sito.pdf

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