- Italy spends more of its national income on public pensions than all other OECD countries. Also, spending grew at a faster rate since 1990 than in most of the rest of the OECD.

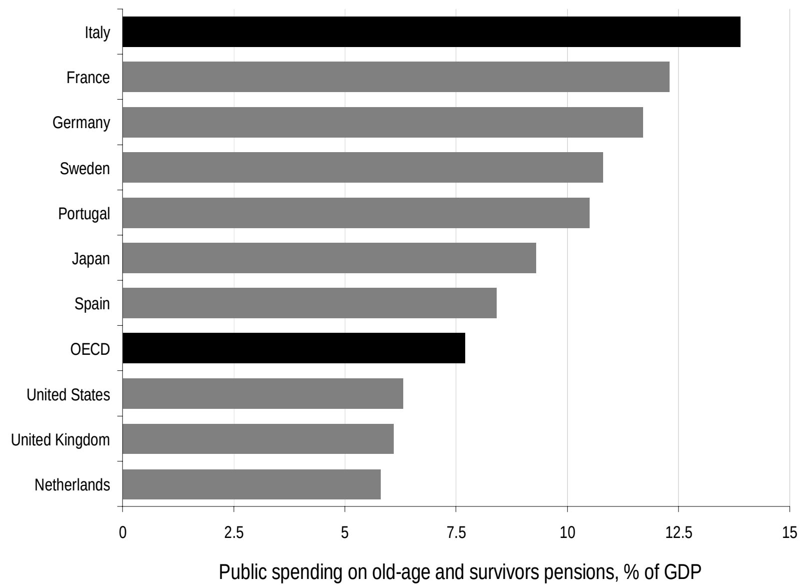
- Pension reforms over the last decade have significantly cut expected future retirement benefits.

- But the transition to the new system is very slow and may be further delayed from the original path.

Italy spent 13.9% of GDP on public pensions in 2003, compared with an average of 7.7% of GDP for the 30 OECD countries (Figure 1). Moreover, Italy saw the fourth highest increase in public pension spending between 1990 and 2003, behind only Japan, Poland and Portugal. But unlike Italy, these countries started from a much more favourable position, with spending in 1990 of a little over 6% of GDP, compared with more than 10% in Italy.

As a result, Italy has the highest pension contribution rates in the OECD: employee and employer contributions are together nearly 33% of individual earnings, compared with an OECD average of 20%.

Figure 1. **Public spending on pensions in 10 OECD countries, 2003**




Source: OECD Social Expenditure database; OECD *Pensions at a Glance*

The series of pension reforms in Italy over the past decade are expected to cut future retirement benefits substantially. The replacement rate – pension during retirement relative to earnings when working – is projected to fall from 90% to a little over 60% once the reforms are fully effective. For average earners, this is somewhat above the OECD average replacement rate of 54% (Table 1). But the closer link between contributions and benefits in the new system means that replacement rates for low earners – with half average earnings – are below the OECD average of 69% in Italy. And the replacement rate for high earners – with 150% of average pay – is 61% in Italy, compared with 49% in the OECD as a whole.

Table 1. **Gross replacement rate in 10 OECD countries at 50%, 100% and 150% of average earnings**

| | 50% | 100% | 150% |
|---|---|---|---|
| France | 61.4 | 59.6 | 54.1 |
| Germany | 38.6 | 35.5 | 35.5 |
| Japan | 45.5 | 32.1 | 27.6 |
| Netherlands | 78.6 | 76.3 | 75.5 |
| Portugal | 70.4 | 54.1 | 53.4 |
| Spain | 81.2 | 81.2 | 81.2 |
| Sweden | 75.9 | 57.2 | 60.6 |
| United Kingdom | 51.9 | 29.1 | 21.2 |
| United States | 55.2 | 41.2 | 36.5 |
| **OECD 30** | **69.2** | **54.1** | **49.2** |
| **Italy** | | | |
| Before reform | 90.0 | 90.0 | 90.0 |
| After reform | 61.0 | 61.0 | 61.0 |

Note: These results may differ from those published in OECD *Pensions at a Glance* for reasons explained in “Notes to editors” below. Where the replacement rate differs between men and owmen, the results shown are for men.

Source: OECD pension models.

The reduction in benefits for future retirees in Italy is one of the largest in the OECD countries: only Mexico, Portugal and Turkey plan to cut pensions by a larger amount. Reforms were necessary to put the finances of the pension system onto a sustainable path. However, reform is being phased in very slowly and so the financial benefits are long deferred. Moreover, the adjustment to benefits to take account of increased life expectancy did not happen on time. And there have recently been proposals to delay the tightening of conditions for early retirement.

Notes to editors

The Italian footnote.

Results in Table 1 are based on Italian government's preferred assumption of entry at age 25 and exit at age 65 (regardless of national normal pension age).