CeRP Center for Research on Pensions and Welfare Policies

Enabling act (N. 2058) to the Italian Government on pensions

Presented to Parliament for the first time: December 2001
Amended by Parliament: October 2003

Summary of the most relevant issues covered by the document, currently under discussion
(as of February 5, 2004)

The main *objectives* of the act are:
a) to ensure the sustainability of the mandatory pension system
b) to promote the developing of supplementary pensions
c) to raise employment rates
d) to increase transparency and efficiency in the pension system and improve control and supervision on Social Security institutions

a) Measures to guarantee the financial sustainability of the mandatory pension system

It is proposed that:

- from 1/1/2008, the eligibility criteria for seniority pension in the earnings-base system will be at least 40 years of contributions;
- from 1/1/2008 the standard retirement age will be raised to 65 years for men and 60 for women;
- experimentally, as an exception to the above described rule, until 31/12/2015 an employee with at least 35 years of contributions and aged 57 or older (or a self employed with at least 35 years of contributions and aged 58 or older) can be eligible for a seniority pension; however, her/his pension benefit will be computed with the contribution-based method.
- the increase in retirement age affects also pension treatment for particular categories of workers, whose pension schemes have been harmonized with the Social Security system.
- experimentally, from 2004 to 2007 workers reaching the minimum seniority/age requirement will have the opportunity of asking their employer not to pay their payroll tax rate and have instead their wage increased by the corresponding amount. At retirement, the amount of the pension benefit will be the same as it would have been at the moment of eligibility, except for price indexation.
- In due course, workers who reach eligibility for a seniority pension will be allowed to continue working while cumulating seniority pension and wage. Upon agreement with their employer, they will be allowed to keep their job also after reaching eligibility for an old-age pension.

This section contains the most debated points.

b) Measures to support the supplementary privately-funded pension schemes

The objective is

1) to increase the financial resources to fund the developing of supplementary pensions;
2) to improve the efficiency of supplementary, privately-funded pension schemes.

Objective 1) is to be implemented by adopting (for categories of workers to be defined) measures aimed at allowing the possibility of a diversion of TFR flows to private pension schemes, thus setting the stage for a take off of the supplementary pension market; some measures, in terms of credit facilities, will be adopted for compensating firms for the loss of low-cost financing.

As for point 2), the portability of pension rights will be increased by eliminating some constraints to inter-fund transferability. The fiscal discipline will be redefined to favor participation in supplementary pension schemes, through an increase in fiscal deductibility and a decrease in the taxation on pension fund returns.

The growing responsibility of pension funds managers will be backed by a greater qualification to improve the efficiency of the system.

c). Measures to raise employment rates

In order to *encourage the creation of new employment*, it is proposed to reduce the contribution rate paid by employers by 5 percentage points for newly hired employees, without negative effects on their pension. The categories of workers that will be involved in such measure are still to be specified. The new legislation should also help in fighting irregular jobs.

d). Reorganization of pension institutions

The objective is to simplify and to homogenize the operation mechanisms of the social security institutions so as to improve the efficiency of the system and smooth the progress towards disjointing, in the social security system, the roles of giving social assistance from the role of providing adequate pensions.

The act establishes that measures shall be undertaken to:

- regulate the totaling of contributory spells under different schemes, so that a worker aged 65 with 40 years of seniority (at least 5 years under each scheme) can have each scheme pay its rate of the pension benefit. Also, cost-rationalization and regulatory measures for the social security bodies as well as simplifications on formal procedures for professional pension schemes are proposed.
- eliminate inequalities in treatment between different pension schemes, so that the same seniority and the same retributive profile generate an equal pension regardless of the pension scheme.

In view of a future rearrangement of the system, if at 31/12/2007 a worker is entitled to pension benefits and yet continues to work, his pension rights will be sanctioned by a certification, which allows her/him to claim her/his vested rights at any moment in the future.

The INPS archive of contributory positions

Another innovation proposed by the bill to increase transparency and efficiency in the pension system is the establishment of the INPS (National Social Security Institute) archive (*Casellario delle posizioni attive*). This is a central file, which records all the active contributory positions and whose data are shared by all public administrations and pension schemes. The archive manages the information on the participants in all mandatory pension schemes and in the optional professional schemes. It is also an informative instrument for workers, as it sends them an annual contributive account statement of their payroll record and calculates the amount of pension benefits – based on the certified accrued rights – for an insured individual, and a control organ (it monitors employment and verifies that the contributive obligations are met).