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**PENSION AWARENESS AND NATION-WIDE AUTO-
ENROLMENT: THE ITALIAN EXPERIENCE**

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1. **Introduction**

Auto-enrolment (i.e. the automatic enrolment of workers in a private pension plan, with the individual allowed to opt out) is gaining popularity as a means to increase participation in supplementary, defined contribution, pension plans².

Exploiting people

the constraints imposed by participation to the process of European monetary convergence and finally unification, from 1992 major reforms of public pensions were introduced, including (in 1995) the introduction of the so-called notional defined contribution system. The reforms stabilized the long term public expenditure on pensions; they also significantly reduced future benefits, albeit with a long transition phase.

As a result, the need for a diffusion of pension funds among all workers (and especially the young) became clear. In several stages from 1992-3, a comprehensive regulatory and supervisory framework for supplementary pension funds was introduced. Its main features included:

- an overarching favour for the regime of defined contribution, the only one admissible for new members and schemes instituted with the new legislation; the defined benefit regime could therefore survive only for the funds already in place before the reform, and only for the workers that were already enrolled in them⁴;
- for the employed private-sector workers, a leading role assigned to

the self-employed and to workers employed in sectors where no

fragmented and the productive units small, communication was poorer and membership rates stayed low.

In the aggregate, pension fund membership increased rapidly in the early years of the new system, when many contractual funds were launched, but slowed down since 2001, in particular for employed workers. At the end of 2003, pension fund members did not exceed 2,6 millions, about 12 per cent of the work force.

While the Italian pension fund system looked well-built in structural terms, it was clear that it needed a strong push, if it had to become an essential component of the Italian pension framework. More specifically, it became evident that relying on voluntary membership and on rising the awareness of the need for supplementary pensions was not going to increase membership as quickly as desired.

3. Nation-wide auto-enrolment:

Several other new rules were introduced with the purpose of increasing the scope for competition in the field of plans directed to private-sector employees¹¹. In particular, open pension funds were allowed to host occupational schemes for individual companies also in industries where a contractual fund was in place; additionally, constraints and fiscal rules were removed that in practice did not allow individual workers to freely select the open pension fund (or the insurance-based personal scheme) where they wished to direct the flow of TFR

Subsequently, COVIP had to consider all the applications and grant the approvals and the new licenses in time to allow the funds to collect the new members before the semester elapsed.

The employers were requested to inform their employees of the auto-enrolment mechanism, specifying the

Overall, the increase was significant, but certainly not satisfactory and at odds with previous experiences in other contexts and suggestions coming from behavioural economics. The more so, the great majority of new members came out from explicit adhesions, and not from the auto-enrolment. Only a number of workers estimated at 67.000 were automatically enrolled, around 5% of new members among private-sector workers.

The reasons for such outcome are discussed in the next section. Before doing so, it is useful to list some other information about the results:

- Membership rates continued to be very diverse across sectors and funds

- In the following two years, membership results did not improve much. At end-2009, total membership was slightly over 5 million workers¹⁴. Moreover, it is worth noting that the bulk of the new adhesions in 2008-09 were in favour of individual plans (mainly PIPs, the insurance-based personal plans

firms, employers may have influenced the choice of their workers regarding whether or not to enrol.

Fourth, the financial and economic crisis, although might not have had an effect on enrolment in the first half of 2007, certainly has made things more difficult in 2008 and 2009. The crisis has tightened liquidity constraints for potential members and for smaller firms, and has increased risk aversion, hindering confidence in pension plans investing in financial markets.

5.2 Implementation factors

Besides the factors listed above, that are difficult to overcome as they are embedded in the characteristics of the Italian economy, there are a few aspects of the implementation of auto-enrolment that still may be seen as sub-optimal; these aspects are of major interest in order to derive useful hints for the implementation of similar programs in the future.

First of all, the efforts to create pension awareness were insufficient, given the low level of financial literacy across Italian workers as well as their scarce knowledge of the implications of pension reforms of the nineties¹⁸. In particular, after the adoption of the notional defined contribution system individual workers were not informed of the amount of the annuity that they could reasonably expect to receive: no such a thing as the Swedish

written in the law, was put in doubt for some time. This uncertainty was reflected in the communication that was set up.²⁰

A second, possibly more tricky, aspect of the communication strategy that is worth discussing concerns specifically the auto-enrolment process. More than explaining the reasons why the option that would automatically apply should be considered appropriate, emphasis was put mainly on the

exception of those with severe liquidity constraints, that impeded them to pay for their matching contribution).

As regards the investment profile, a very conservative default option was set up by law: a guaranteed line of investment, ensuring the return of paid contributions, plus a yield

A specific survey run for one of these successful funds²⁴ suggests that an important role was played by the information flow among employees that is possible in large plants (a sort of

<i>Sample size</i>	981	224	757
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We asked five questions about financial literacy, replicating the questions suggested by Prof. A. Lusardi and used in surveys run in many countries.

The five questions asked on financial literacy show results in line with those found for other countries for the sample of employed workers. For each of the questions, correct answers are slightly higher for workers that declare to be members of supplementary pension plans.

It is worth noting that pension plans members showed a relatively higher understanding of the effects of diversification on risk. On the other hand, one may also note the very few correct answers received by the question on the relationship between the price and the yield of bonds.

Another set of questions was asked, regarding the awareness of workers on some key features of the reform of the public pension system.

Also in this case, replies show a positive correlation between

7. Conclusions and policy suggestions from the Italian experience

This paper has discussed the Italian experience in developing its system of private, supplementary pensions, as a case study for the implementation of nation-wide auto-enrolment mechanisms, devoting attention to pension awareness issues.

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A second major point is the importance of appropriate default options that back-up the individual when he is unable or unwilling to choose; default options are important not only because they gently force individuals to

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