S&P Italy - Pension training

The Italian pension system overview, impacts of latest reforms and perspectives

April 23rd 2024

Agenda

1. Overview of the current Italian pension system

2. Analysis of the impact on employees of the latest reforms

3. Complementary Pension Funds

4. Further considerations on Second Pillar Pension Funds

1

Overview of the current Italian pension system

The main reforms of the Italian public pension system (1/2)

The **Amato Reform of 1992**, which mainly provided for:

- review the retirement age
- increase the number of years of contribution required to retire
- modify the calculation of the final benefit
- modify the revaluation of the benefits in progress
- link certain benefits to household income

The **Dini Reform of 1995**, which mainly provided for:

- modify the calculation of the final benefit

The **Prodi Reform of 1997**, which mainly provided for:

- increase the requirements for entitlement to an old-age pension
- introduce so-called 'windows'

The **Maroni Reform of 2004**, which mainly provided for:

- introduce the so-called 'scalone' from 2008 and eliminate the possibility of flexible retirement
- provide the superbonus for workers who have decided to delay retirement

The **Prodi Reform of 2007**, which mainly provided for:

- eliminate the 'scalone Maroni' with a series of gradual increases in requirements

The main reforms of the Italian public pension system (2/2)

The **Sacconi Reform of 2009**, which mainly provided for:

- increasing the retirement age for women in the public sector
- introduce an automatic increase in the retirement age linked to the change in average life expectancy
- increase the period from the accrual of the requirement to the payment of the pension (windows)
- introduce the automatic revision of the coefficients to be adopted at retirement for conversion for the purposes of applying the contribution method of the theoretical amount accrued within INPS

The **Sacconi-Tremonti Reform of July 2011**, which mainly provided for:

- increasing the retirement age for women in the private sector;
- temporarily block the mechanism for the revaluation of pensions according to their amount;
- postpone the right to the start of the pension by a further month for retirement pensions with 40 years;
- reduce the pension of the surviving spouse with more than 20 years of difference with the predecessor over 70 years of age;
- introduce a solidarity contribution for annual pensions exceeding €90,000 and paid between 1 August 2011 and 31 December 2014.

The **Monti-Fornero Reform of December 2011**, which mainly provided for:

- introduce from 1 January 2012 the contribution calculation method for all workers;
- increase the requirements for old-age and seniority retirement;
- eliminate the limit of 3 years of contributions necessary to be able to total the insurance periods accrued in the various social security managements;
- substantially block the revaluation of INPS pensions in the process of being paid;
- introduce from 1/1/2019 the biennial (and no longer triennial) adjustment of all personal and contribution requirements related to future life expectancy.

Methods for calculating the INPS pension

Contribution and Retributive

Contribution Method

1. A **virtual bank account is set up** for each employee
2. The **contributions** paid in each year in favour of the employee **are credited** to the virtual current account (**33% of the gross annual salary**)
3. Contributions **are granted** an annual return equal to the **average increase in GDP.**
4. The **final pension is calculated** by converting, on the basis of a series of coefficients established by law that depend on the age of retirement, the revalued credited contributions

Retributive Method

1. On the basis of the salaries received in the period prior to retirement, an **average final salary (R.M.F.) is determined**.
2. **The pension is calculated by** initially multiplying the **R.M.F.** by an **annual return** that varies from 2.0% to 0.9% depending on the R.M.F.
3. The **final** pension is determined by multiplying the result obtained in the previous point by **the INPS seniority accrued**

From the Retributive Method to the Contribution Method

The Mixed Method

Mixed Method Monti - Fornero

Seniority as of 31/12/1995: at least 18 years

- The **retributive calculation method** applies **until 31/12/2011**
- The **contribution calculation method** applies **from 1/1/2012 onwards.**

Mixed Method Dini

Seniority as of 31/12/1995: less than 18 years

- The **retributive calculation method** applies **until 31/12/1995**
- The **contribution calculation method** applies **from 1/1/1996 onwards.**

Contribution Method

First contributions to INPS after 31/12/1995

- **The contribution calculation method** applies
- The pensionable salary ceiling of € 119,650 applies

Financing systems

Pay-as-you-go and funded schemes

Pay-as-you-go schemes

- Workers and companies pay contributions
- **Contributions** are **used to provide benefits to retirees**
- The contributions received could **not cover the benefits** to be paid

Funded schemes

- Workers and companies pay contributions
- **Contributions are set aside and invested**. On retirement, the employee will receive a benefit in line with the contributions paid and the returns obtained
- The **possibility of generating a financial imbalance is** much **lower**

The pension system in Italy (1/2)

Main requirements for INPS retirement

67 years

Workers registered with INPS for the first time until 31 December 1995

42 years and 10 months

if men

41 years and 10 months

If women

Workers with first INPS contributions after 1 January 1996

64 years

(20 years of contributions)

Women's Option

Quota 103, 102 and 100

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The pension system in Italy (2/2)

Main requirements for INPS retirement

THE OTHER MAIN OPTIONS	YEARS OF AGE	YEARS OF CONTRIBUTIONS	EFFECTIVE WINDOW
Quota 103 – private sector	**62**	41	7 months
Women's option – employees*	****61**	35	12 months

Note: (*) requirements accrued by 2023; (**) 60 years old with 1 child, 59 years old with at least 2 children or if they are made redundant or employed by companies in crisis.

The pension system in Italy

Expected trend of the main requirements for INPS old-age retirement

Year	Women	Men
2024	67 years	67 years
2030	67 years and 1 month	67 years and 1 month
2040	68 years and 1 month	68 years and 1 month
2050	68 years and 11 months	68 years and 11 months

Minimum contribution requirement: 20 years

The pension system in Italy

Expected trend of the main requirements for INPS early retirement

Year	Women	Men
2024	41 years and 10 months	42 years and 10 months
2030	41 years and 11 months	42 years and 11 months
2040	42 years and 11 months	43 years and 11 months
2050	43 years and 9 months	44 years and 9 months

Minimum contribution requirement: 20 years

The main benefits guaranteed by INPS

The main services

Old-age pension

Seniority pension

Disability pension

Disability pension

Death benefit pension

The main benefits guaranteed by INPS

Ordinary disability, ordinary disability and death disability

Ordinary disability pension

Reduction to at least 1/3 of the working capacity and at least 5 years of contributions, three of which in the five years prior to the disability

Ordinary disability pension

Total and permanent reduction in working capacity and at least 5 years of contributions, three of which in the five years prior to the incapacity

Death benefit pension

Presence of eligible survivors, at least 15 years of contributions or 5 of which three in the five years preceding the death

Calculation method: same as for old-age pension or INPS seniority. A reduction is applied to the death benefit which depends on the actual survivors (spouse only, spouse and children, children, etc.). Disability survivors are entitled to a length of service that is projected towards retirement

The main benefits guaranteed by INPS

Disability and privileged disability

Privileged disability pension

Event caused by service reasons with at least one weekly contribution paid

Privileged disability pension

As an ordinary disability, however, the event is caused by service reasons with at least one weekly contribution paid

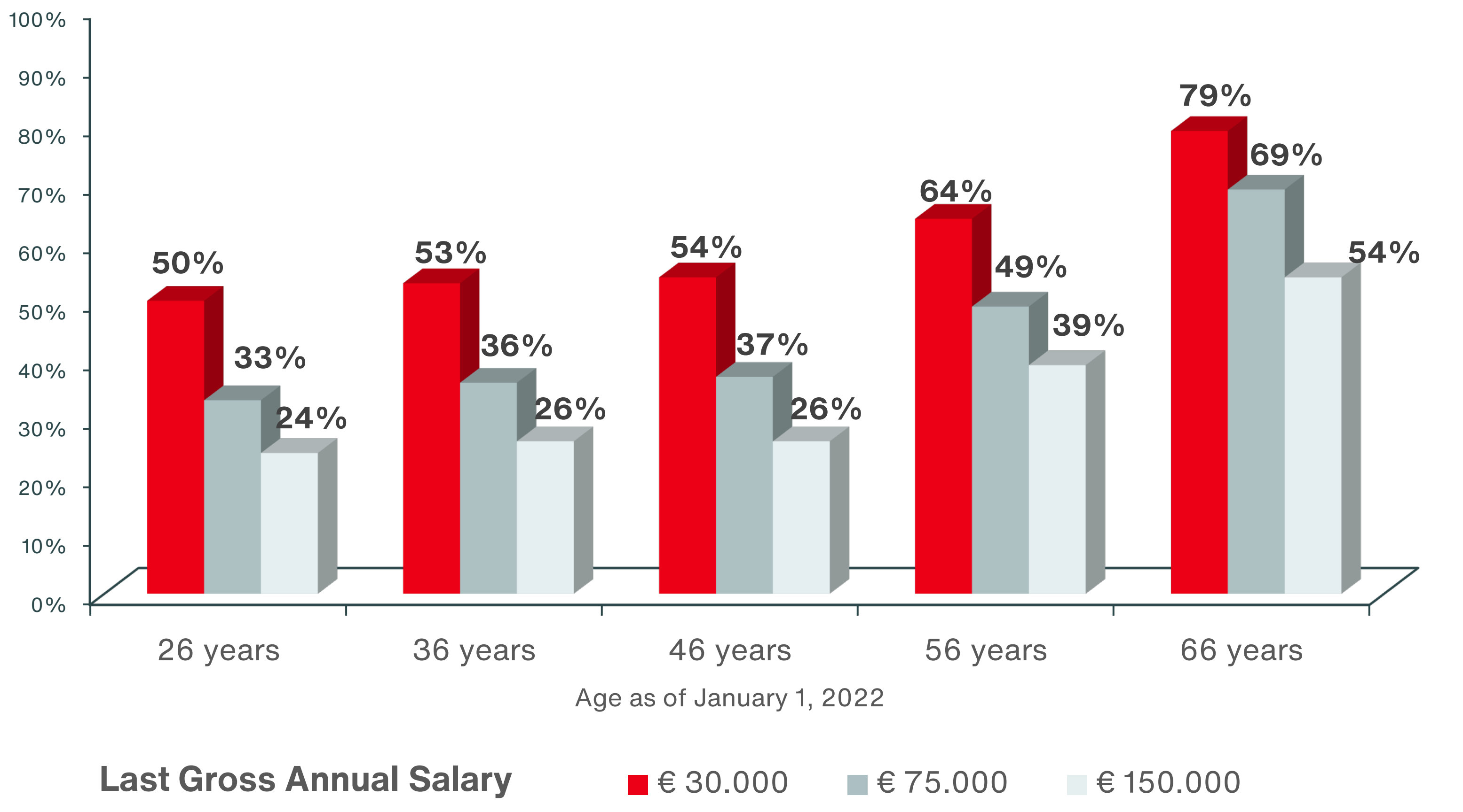
Calculation method: as disability and ordinary disability, with recognition of a projected seniority

2

Analysis of the impact on employees of the latest reforms

INPS pensions

Retirement at 67 years of age



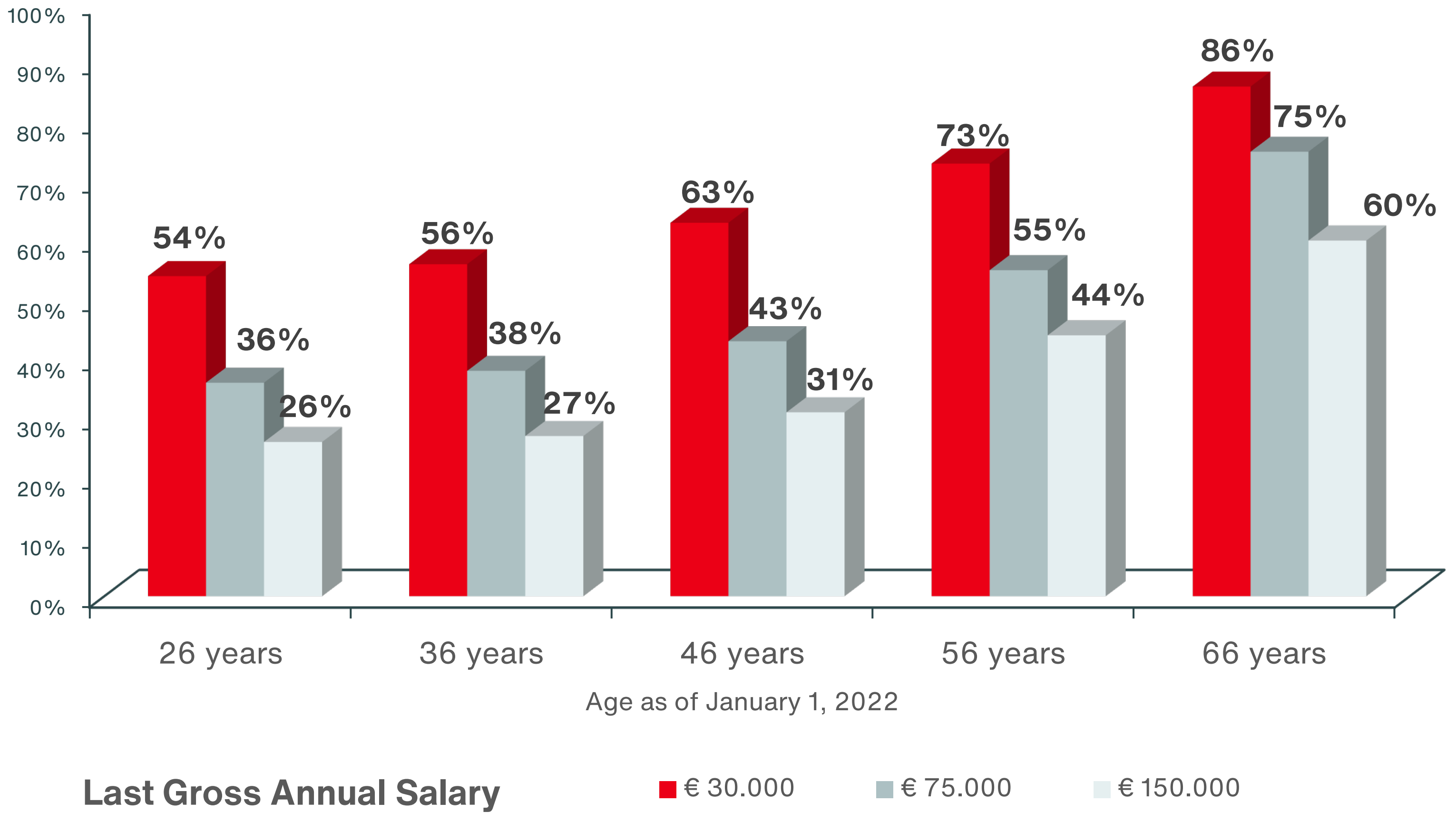
Steady career

Pensions as a percentage of gross annual earnings received in the year of service prior to retirement

First enrolment with INPS at the age of 25 with a gross annual salary of € 15,000

INPS pensions

Retirement at 70 years of age



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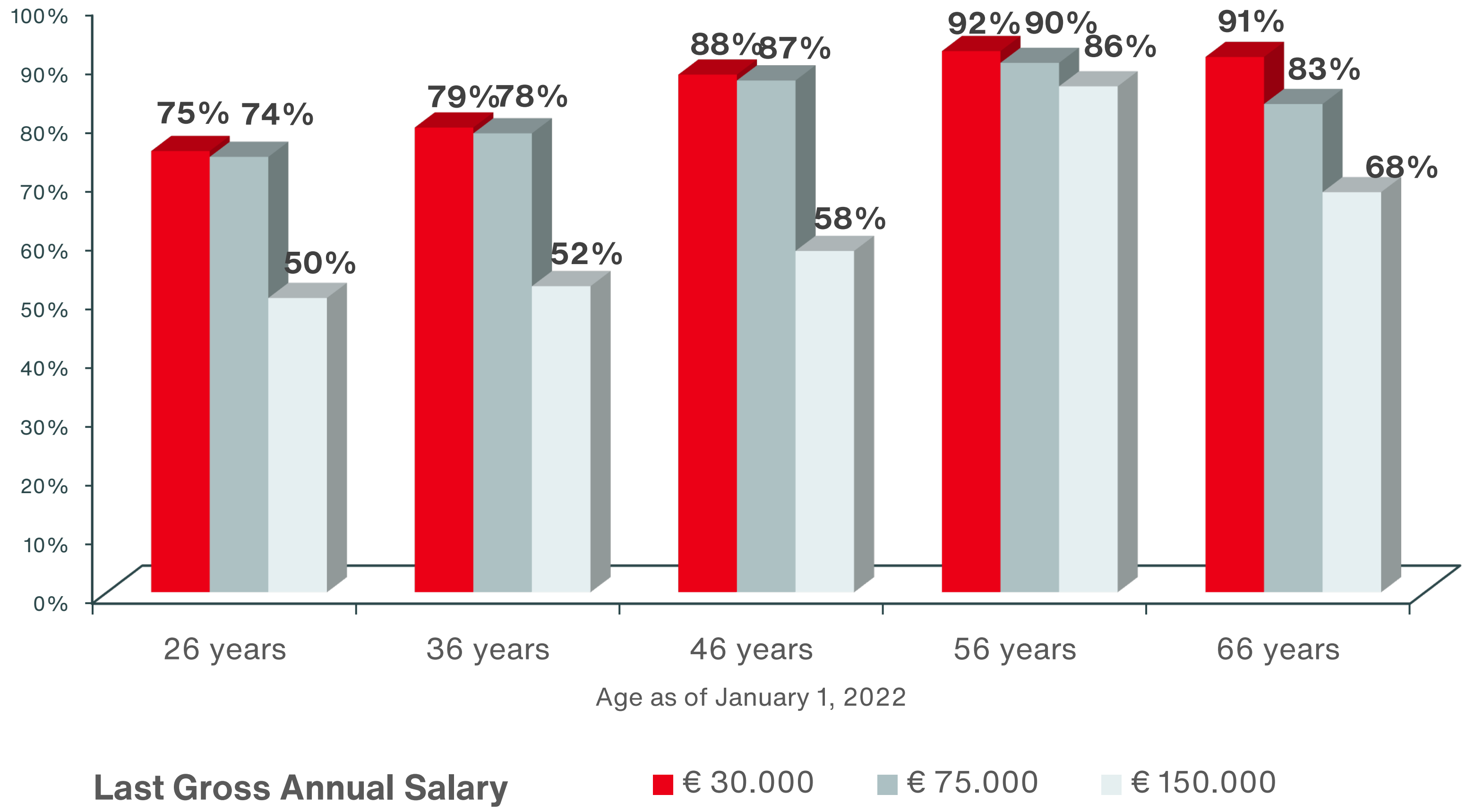

Highly anticipated career

Pensions as a percentage of gross annual earnings received in the year of service prior to retirement

First enrolment with INPS at the age of 25 with a gross annual salary of € 15,000

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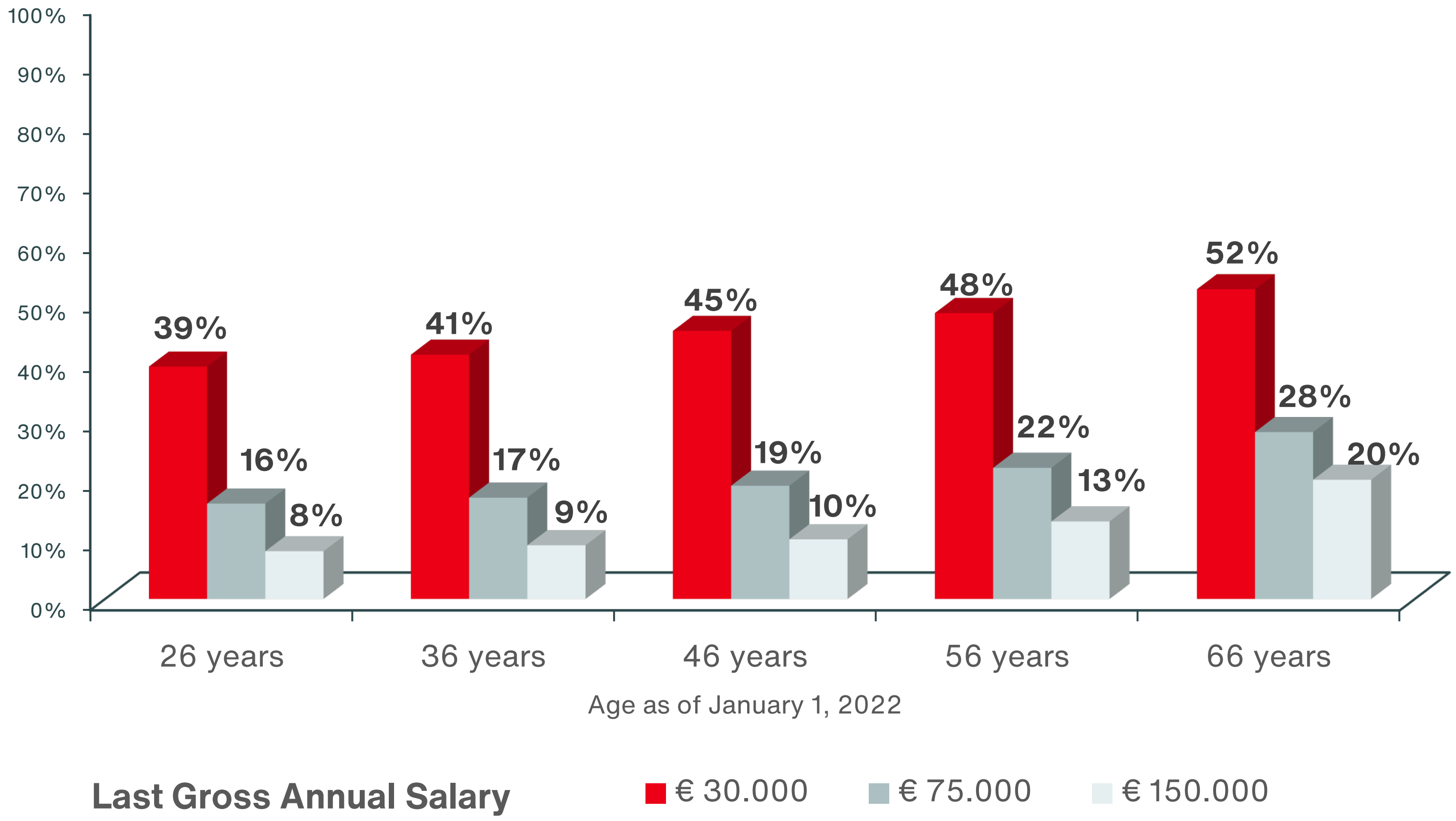
INPS pensions

Retirement at 70 years of age



Highly delayed career

Pensions as a percentage of gross annual earnings received in the year of service prior to retirement

First enrolment with INPS at the age of 25 with a gross annual salary of € 15,000

3

Complementary Pension Funds

The main features of contractual Pension Funds

- Defined by the National Collective Labor Agreement
- Defined contributions
- Individual contribution
- Voluntary adhesion

Contribution to the Contractual Pension Fund (1/2)

Different Sources

Membership with employer

Contribution paid by the Company	Contribution paid by the employee	TFR

Contribution to the Contractual Pension Fund (2/2)

Definition

Contributions to the Contractual Pension Fund are governed on the basis of the National Collective Labour Agreement (CCNL) to which they belong, which establishes, for example:

- The reference salary on which the contribution is to be calculated;
- The percentage of contributions to be paid by the worker and by the company to be applied to the reference salary;
- The maximum salary level, if any, on which the contribution is to be calculated;
- The minimum amount of company contribution, if any, (sometimes for members with a certain seniority)

It is possible to join the pension fund with the sole contribution of severance pay

Contribution to the Contractual Pension Fund (1/2)

Depending on the Category

For Non-Executives

Fon.Te. Pension Fund

Contribution paid by the Company	Contribution paid by the employee	Severance pay
1.55% of the gross annual salary useful for the purpose of calculating severance pay	0.55% of the gross annual salary useful for the purpose of calculating severance pay	on the basis of the provisions of Legislative Decree 252/05

Contribution to the Contractual Pension Fund (2/2)

Depending on the Category

For Executives

Mario Negri Pension Fund

A part of the Annual contribution from the employer is paid to the Fund - not to the individual position of Executives – corresponding to 2.43% of the conventional annual wage of € 59,225;

Contribution paid by the Company

Annual contribution is €9,056 for the employer – corresponding to 15.29% of the conventional annual wage of € 59,225;

Contribution paid by the employee

Annual contribution is € 592 for the employee - corresponding to 1.00% of € 59,225;

Severance pay

on the basis of the provisions of Legislative Decree 252/05

Open pension funds

The main features

- As an alternative to the Contractual Funds, employees have the opportunity to participate in another category of Pension Funds of the second pillar, the Open Pension Funds.
- These Funds are managed by Banks, Insurance Companies or Asset Management Companies.
- With respect to the Contractual Funds, the employer is not obliged to pay a minimum to the Open Fund in the event of an employee's participation.
- Through a company agreement, the employer can allow a contribution to be made into one or more Open Funds on behalf of its employees.

The main reforms of the Italian private pension system

Timeline

Legislative Decree 124/93, which regulated the pension fund market in Italy for the first time

Law 335/95, which revised, among other things, the tax treatment of contributions

Legislative Decree 47/2000, which further revised the tax treatment of contributions and benefits

Legislative Decree 252/2005, which established the silent consent for the payment of the T.F.R. to pension funds and revised again the tax treatment of contributions and benefits

Complementary Pension Funds

An increasingly important saving tool

- Complementary Pension Funds are a savings tool that allows employees to receive an additional pension to that provided by INPS
- With the downward trend in the replacement rate, participation in a complementary pension fund helps to close the gap to maintain a certain standard of living after retirement
- The employee's contribution also gives rise to a participation of the employer (contractual funds and open funds with a company agreement)
- It can also give the possibility of bringing forward (up to 5 years) the date of retirement through the RITA mechanism (Early Temporary Supplementary Pension)

The National Collective Labor Agreement
Additional savings opportunities

- The Company has established a company agreement which provides the employees with the possibility of participating with a monthly continuation equal to 2.0% of the Reference Salary in one of the following open pension funds (at the employee's choice):
  - Second Pension Fund (Amundi SGR)
  - Allianz Fund Insieme
  - Giustiniano Open Pension Fund

- Employees also have the option of contributing beyond the minimum level defined by the National Collective Labor Agreement with an additional percentage of TFR salary

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Further considerations on Second Pillar Pension Funds

The benefits guaranteed by contractual and open Pension Funds

- Old-age or Seniority retirement
- Advances
- Settlement

The portion of the benefit that the pensioner can receive as a lump sum at retirement

In any case, up to 50% of the individual position accrued can be requested

In some cases, the benefit may be received entirely in the form of a lump sum:

- If the participant is a so-called "old member"
- If the pension equivalent to 70% of the individual position accrued is less than 50% of the social allowance (approximately Euro 5,000)

Benefits provided by the pension fund

Types of services

During the build-up phase

Advances

At the time of retirement

Income

Capital

Special cases:

Settlement

Death

Transfer

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Benefits provided by the pension fund

During the build-up phase

Advances

- **75%** of position At any time for health expenses as a result of very serious situations of one's own, spouse and children
- **75%** of the position with at least 8 years of participation for the purchase and renovation of the first home, own and those of the children
- **30%** of the position with at least 8 years of participation for “other needs"

Settlement

- **100%** of the position for permanent disability, premature death, unemployed for a period of more than 48 months
- **50%** of the position for Unemployed for a period between 12 and 48 months / mobility procedures, redundancy fund

Death

- **100%** of the position will be inherited by the heirs or persons named

Transfer

- **100%** of the position to another supplementary pension form for access to a new job after 2 years of membership

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Benefits provided by the pension fund

At the time of retirement

Annuities

- **Minimum of 50% up to a maximum of 100%** of the position accrued in life annuity, which can be revalued over time and paid at a frequency chosen by the member

Capital

- **A maximum of 50% of the accrued position** is converted into a lump sum and the remaining amount is converted into an annuity.
- **100%** of the accrued position in the form of a lump sum if you were a member of a pension fund before 29 April 1993, if you are less than 5 years a member of the fund or if you have a very small pension benefit.

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The tax regime for contributions paid to a pension fund from 1 January 2007

- Contributions paid in total, both by the company and by the employee, deductible from the taxpayer's income up to the limit of Euro 5,164.57

The taxation of contributions paid in addition to the established tax limits and of the returns obtained by the pension fund

- All sums paid by the employee and the company and not deducted must be reported to the pension fund by 31 December of the year following the year in which the payment was made or if earlier before the date of beginning of payment
- Their corresponding payment (lump sum or annuity) is not taxable
- The result of fund management is taxed in any case at the rate of 20%

Pension benefit from complementary pension fund

Applied taxes

Taxation of benefits paid in the form of **lump sum:**

Lumps sum payments	Maximum of 50% of the accrued amount
Total amount net of income already taxed (investments returns)	15% tax applied reduced by 0.30% per years over 15 years of seniority in Pension Fund. Maximum reduction of 6% (9% of tax Applied)

Taxation of benefits in the form of **life annuities**:

Total amount net of income already taxed (investments returns)	15% tax applied reduced by 0,30% per years over 15 years of seniority in Pension Fund. Maximum reduction of 6% (9% of tax applied)
Investments returns	Substitute tax of 20%

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Anticipated pension benefits

Applied taxes

Taxation of **advances:**

Medical Expenses	15% tax applied reduced by 0.30% per years over 15 years of seniority in Pension Fund. Maximum reduction of 6%(9% of tax applied)
First House Purchase / Others	23% withholding tax

Taxation of **settlement:**

Unemployment more than 12 months, mobility, redundancy, permanent disability resulting in the reduction of working capacity to less than one-third, and the death of the member before the accrual of the right to retirement benefits	15% tax applied reduced by 0.30% per years over 15 years of seniority in Pension Fund. Maximum reduction of 6%(9% of tax applied)
Other reason	23% withholding tax

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The TFR not transferred to a pension fund

Main rules

Termination of Service for Any Cause

Requirements:

- No requirements required

Scope of service:

- capital equivalent to the annual provisions recognized for each year of service (equal to approximately 6.9% of salary) revalued by 75% of the annual increase in the cost of living plus 1.5%

Anticipation

Requirements:

- need to incur a series of specific expenses (purchase of a first home, health expenses, etc.) with at least eight years of service

Scope of service:

- a maximum of 70% of the accrued benefit

The advantages of pension funds and TFR

Key aspects

Pension Fund Benefits	TFR Advantages
More favorable taxation	Disbursement in full in the form of capital
Expected higher long-term profitability	Fixed revaluation established by law

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How to increase your pension coverage

The main solutions

- Saving, saving, saving in addition to the INPS pension
- Continue to work after retirement
- Consider asking for buying back allowed periods

Possible buy back periods

The main advantages and disadvantages

+	-
Pension coverage is increased as well as the number of years of contributions You benefit from the tax deduction provided for on the contributions paid	There is a risk that the benefit will be subject to future further pension reforms