COUNTRY SPOTLIGHT | ITALY

Creating a masterpiece

Italians still rely heavily on the first pillar pension system for retirement income but regulation is focusing on sculpting out a strong second pillar to increase membership in supplementary schemes. Giovanni Legorano **reports**

Like many European pension systems, Italy's is structured around a first pillar of public pensions financed by workers' social contributions, and second and third pillars based on supplementary pension savings.

The first pillar is split between pensions paid by Italy's National Institute for Social Security (INPS) and a number of Casse di previdenza, the pension schemes of professions, like doctors and architects.

While INPS finances pension payments with the contributions of active workers, the Casse invest pension contributions paid by members and pay pensions with the proceeds from such investments.

Public pension payments equal 15 per cent of the country's gross domestic product. The Casse have around €114 billion in assets under management, according to the Commissione di Vigilanza sui Fondi Pensione (Covip), Italy's pensions watchdog.

The second and third pillars hinge on Fondi negoziali, industry-wide pension schemes regulated

by workers' collective agreements, Fondi pre-esistenti, normally for single large companies, such as banks, and Fondi aperti, other vehicles of savings sold by insurers or banks.

All these schemes represent supplementary pension savings and are voluntary, although are incentivised through tax breaks and employers matching employees' contributions.

Several challenges

The system faces a number of challenges affecting both public and private pensions.

The current average retirement age is 62, although a reform enacted in late 2011, when Italy was in the midst of the financial crisis, raised it to 67.

Such reform, and subsequent government decisions, provided a number of exceptions, which are maintaining a relatively low effective retirement age, despite it slowly rising.

Another problem is the country's demography. Italy has among the highest life expectancy rates in Europe but coupled with one of the lowest birth rates.

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In addition, the country's employment rate, albeit improving over the past few years, was around 63 per cent at the end of 2024, one of the lowest in Europe. A recent increase of such rate brought the ratio between active workers and pensioners to 1.46 per cent, or close to the 1.5 per cent 'safety threshold', for a pension system, according to Itinerari Previdenziali, a pension policy research centre.

Public pensions have also been slowly switching from a defined benefit method of calculation for pension benefits to a defined contribution method since the mid-1990s. This resulted in a gradual erosion of state pensions, which now equate to around 70 per cent of the final salary before retirement and are set to decline further.

So far, Italian workers have been slow in enrolling in private schemes to compensate for future lower public pensions. Around 25 per cent of workers were contributing members in private schemes at the end of 2023, consultants say, again lagging behind many European countries.

"The data describes a pension system that is now in equilibrium, but a number of changes will need to take place in order to preserve its stability," says Itinerari Previdenziali analyst, Bruno Bernasconi.

"For political reasons, many governments have intervened over the past years to either increase pensions or the requirements to retire earlier, undermining the stability of the system," he adds. "In the future, they will need to act to limit the number of exceptions that allow people to retire earlier, while enacting policies to increase the number of active workers and boost the birth rate."

He also says that more work is needed to push workers into saving more in private pension schemes to guarantee the same level of living standards once they retire.

Increasing membership

After lengthy discussions, Italian lawmakers approved legislation included in the country's 2025 budget that allows workers to retire at 64, or three years before the legal retirement age, if they have at least 25 years of contributions.

The additional caveat is that the retiree's monthly pension would need to be higher than three times the social allowance paid to low earners, or around €1,600, including pension benefit coming from private schemes.

"This is a totally new concept in the Italian pension system, because, for the first time, private schemes can be used to determine whether workers can retire earlier," says Prometeia Advisor SIM partner, Andrea Nanni.

"It's interesting because it is an attempt to mitigate the increases in retirement ages enacted to stabilise INPS's finances, while stimulating enrollment into private schemes."

However, Nanni cautions that for the time being the new law will only allow a small number of people to retire earlier. Yet, the effects of this provision could be interesting in the long run, he adds.

Politicians also discussed two other measures aimed at boosting enrolment into private pension schemes, but neither was introduced.

One was to automatically divert 25 per cent of the

severance payment (Trattamento di Fine Rapporto, or TFR) to pension funds to increase pension savings.

Currently, newly hired employees have six months to decide whether to leave the TFR to their employer (or for larger companies in a special fund held by INPS), which will pay it as a revalued lump sum when they leave that job, or to have it transferred into a pension scheme.

If they choose to enrol into a private pension scheme the choice is irrevocable. If they choose to leave the TFR to their employer, they can change such a choice at any time. However, if they don't express any choice, the TFR will be paid to a pension fund, under the so-called silent-consent mechanism.

The second suggested measure to boost membership in private schemes was to open a six-month silent-consent window, in which all workers, not only the newly hired, had to make an explicit choice, otherwise their severance payments would be transferred into a pension scheme.

"MANY PENSION FUNDS ARE CURRENTLY ASSESSING THEIR ASSET ALLOCATION ON THE BASIS OF THE CURRENT MARKET SITUATION"

Most observers favoured the second measure, while some criticised the first as it contained a mandatory requirement and contravened the principle that joining a private pension scheme is a free choice.

Although many attempts were made to increase membership into pension schemes, enrolment in Italy remains low compared to other European countries.

"Let's be very frank. In Italy, we are still in the Stone Age. When only one in four workers is an active member of a pension fund, we can conclude that this represents only a very marginal experience for them," says Aon Italy partner and head of wealth, Claudio Pinna.

He adds that there should be more and better financial education in Italy to win over the possible distrust many workers show towards supplementary pensions. In addition, there is a lack of political will to introduce the six-month-silent-consent window because this would deprive INPS of part of the annual TFR payments it now receives.

Instead, Pinna calls for automatic enrolment into pension schemes, coupled with an opt-out clause, to allow workers to leave if they wish.

Investments

Over recent years, Italian pension funds have begun to change their strategic allocation to chase better returns, consultants say. Not only have they increased their holdings of foreign stocks and corporate bonds, they have also embraced unlisted assets over the past four to five years, which many of their European and US peers did more than two decades ago.

Pension funds have begun to introduce investments in private equity, private debt and, more recently, investments in infrastructure in their portfolios. Investment in real estate has historically been an important part of Italian pension funds' assets under management.

"We structured portfolios, with a sizable share invested in private assets, even up to 15 per cent," says Mercer Italia SIM CEO, Luca De Biasi. "On average, I see 5-6 per cent invested in these types of assets."

He says there have also been cases of pension funds joining forces to make these types of investments. For instance, Fondo Gomma Plastica, Fopen, Pegaso and Previmoda decided in 2021 to collectively invest over three years €215 million in private debt.

Many pension funds are currently assessing their asset allocation on the basis of the current market situation, according to experts.

"We are analysing with attention all the aspects that may impact the financial markets' dynamic, which has been positive so far, starting with the potential implications of the economic policies of the new US administration on global growth," says Italy's largest pension fund Cometa director general, Federico Spiniello.

"The prospects for 2025 seem currently positive, but there are elements of uncertainty on the stability of this global economic cycle. This suggests caution and prudence. Therefore, we will proceed with the maximum possible level of diversification. The mix of stocks versus bonds could be marginally changed, but our long-term strategic approach remains unchanged."