

PENSION ENTITLEMENTS IN ITALY

Year 2021

The European System of Accounts (ESA) 2010, in force since September 2014 (EU Regulation No 549/2013), introduced the “Supplementary table on accrued-to-date pension entitlements in social insurance” (that is, Table 29) with the purpose of enhancing statistical coverage of old-age provisions and its comparability between countries. Table 29 aims at presenting a complete picture of entitlements of households from social insurance pension schemes, in the framework of national accounts.

EU member countries compiled Table 29 for the first time at the end of 2017 for the reference year 2015. Since the compilation is a statistical requirement to be fulfilled every three years, Table 29 is now at its third edition, with 2021 as the reference year.

Content and structure of Table 29

Social insurance covers funded collective employment-related pension schemes, such as pension funds, that are already included in the core national accounts and are recast in Table 29 (columns A to F). In Table 29, the unfunded components are also represented, that is pension schemes provided by general government as an employer (column G) and social security pension schemes (column H), both previously outside the scope of national accounts. These components are still excluded from the core national accounts and therefore, they do not contribute to the definition of households saving nor to the calculation of public finance balances.

Therefore, entitlements of households towards social security pension schemes, which are the most important source of pension obligations by the general government and other institutional sectors in the EU, are presented in the system of national accounts as supplementary data estimated on the basis of actuarial model calculations. The boundary of Table 29 includes old age pensions (including early retirement), survivors' and disability pensions, while individual pension plans are excluded, together with non-contributory pensions such as social assistance, for which the actuarial estimation of entitlements is not feasible.

Table 29 is structured as a balance sheet of accrued-to-date pension entitlements of households, showing the initial and final stock of entitlements (rows 1 and 10) in a given year and the underlying flows which account for the change in entitlements (rows 2 to 9). Accrued-to-date entitlements provide a measure of the actuarial value of pension rights accumulated by retired persons as well as by the current workforce up to the present, without taking into account entitlements that will be accrued in the future by the current workforce, nor by expected new entrants in the system.

The actuarial estimation of entitlements over a long time horizon requires hypotheses on the long term trends of key demographic and economic parameters, which must be harmonized between EU countries in order to ensure comparability. Among these, the discount rate applied to calculate the present value of accrued-to-date entitlements plays a key role, since it has a decisive influence on the final outcome: the lower the rate, the higher the estimate of the present value, and vice versa. For this reason, ESA 2010 provides for the transmission of two additional versions of Table 29 along with the baseline version for pension schemes not included in the core national accounts (columns G and H). These versions show to what extent the estimates based on actuarial model calculations change if the discount rate is set at one percentage point higher or lower than the one agreed for the baseline scenario, assumed at 4% nominal (2% real) for the reference year 2021.

The concept of accrued-to-date entitlements (or obligations, from the counterpart's point of view of pension managers) limits the time horizon to the present time, in accordance with the perspective of national accounts, and does not take into account expected flows of pension contributions. Hence, it is not by any means a measure of the sustainability of pension schemes, which necessarily requires the parallel projection of future pension benefits and contributions. At European level, the projected impact of pension schemes on the sustainability of public finances is addressed every three years by the European Commission in the Ageing Report, whose updated 2024 edition is due to be published soon, and by each EU member country in the context of the Stability Programme update.

Main statistical findings

The columns of Table 29 relevant for Italy are those about private pension funds, already included in the core national accounts albeit with less detail (columns A, B and C), and the one about public mandatory social security pension schemes (column H), introduced by ESA 2010. Column G regarding pension schemes provided by general government as an employer is not compiled, since in Italy there is no separate pension regime for general government employees as a whole. Pension entitlements accrued by this category are therefore included in column H.

Accrued-to-date pension entitlements towards pension funds at the end of 2021 are estimated at 162.8 billion euro or 8.9% of GDP (Table 1, column C). The main component is defined contribution schemes, which show an increase in entitlements with respect to the previous year, while defined benefit schemes show a decrease, as in the preceding editions of Table 29. This result is not surprising, since the latter are not allowed to collect new members since 1992 and are now mostly made up of pensioners.

The estimate of individual pension entitlements towards social security pension schemes is the output of a dedicated simulation model, based on a very detailed data base concerning pensioners and current contributors (private employees, public employees, self-employed, professionals, other) provided by the National institute of social insurance (INPS). In the simulation model, separate modules are implemented for pensioners and for workers that are paying or have paid contributions. For pensioners, two submodules deal with direct pensions and survivors pensions. For contributors, two submodules concern the defined benefit regime in force until the 1995 reform, and the full-fledged notional defined contribution (NDC) regime following the completion of the transition under Law no. 214/2011. For the transition period to the NDC regime, both submodules are combined in the estimation of entitlements.

Following ESA 2010 rules, severance pay schemes for private and public employees (*trattamento di fine rapporto*, TFR, and the like) and social assistance pensions have been excluded from the estimates, together with pension supplements (*maggiorazioni sociali, quattordicesima*). Topping-up to the minimum pension (*integrazione al minimo*) has been retained, as a solidarity component inherent in the pension system (Constitutional Court, Sentence no. 240/1994).

At the end of 2021, accrued-to-date pension entitlements towards social security pension schemes are estimated at 7,913.5 billion euro or 434.2% of GDP (Table 1, column H). With respect to the end of 2020, the estimated increase in entitlements is equal to 233.0 billion in absolute value, but it translates into a decrease of their share of GDP by little less than 30 percentage points, due to the substantial rise of the denominator (+9.7%) after the 2020 recession. With respect to three years before, under the same discount rate (4% in the baseline) accrued-to-date pension entitlements towards social security pension schemes have increased from 6,930.9 billion euro at the end of 2018 to the above mentioned 7,913.5 billion at the end of 2021 (respectively, 391.3% and 434.2% of GDP).

The sensitivity analysis on column H provided for by ESA 2010 shows the high relevance of the discount rate parameter, set in the baseline at 4% nominal (2% real) as stated above. Setting the discount rate at one percentage point higher or lower than the baseline scenario has an impact on the estimates of nearly 65% and nearly 85% of GDP, respectively, in the opposite direction (Table 2).

Finally, total pension entitlements at the end of 2021 amount to 8,076.3 billion euro or 443.2% of GDP (Table 1, column I). This figure compares with totals recently estimated by other European countries for the same reference year and on the basis of homogeneous hypotheses at the European level (starting from the discount rate). In particular, in the main EU countries the ratio of total pension entitlements to GDP at the end of 2021 amounts to 507% in Spain, 398% in France and 353% in Germany.

The compilation of Table 29 has been made possible by the contribution of other institutions, such as the Ministry of Economy and Finance (State General Accounting Department (RGS) – I.GE.SPE.S) and INPS (General Statistical Actuarial Coordination). In particular, the update of the actuarial model underlying the estimation of column H derived from the cooperation between Istat, INPS and RGS. The cooperation of COVIP (Pension Funds Supervisory Authority) has been instrumental for the estimation of the other columns of Table 29.

Useful links:

Information on the Italian pension system in 2021 (Update of the Country Fiche on public pensions – Italy):

https://economy-finance.ec.europa.eu/publications/2021-ageing-report-economic-and-budgetary-projections-eu-member-states-2019-2070_en

Information on private pension funds in Italy:

<https://www.covip.it/en/annual-reports-publications/main-data>

Updated parameters used in the model projections underlying column H of Table 29:

https://economy-finance.ec.europa.eu/publications/2024-ageing-report-underlying-assumptions-and-projection-methodologies_en

ECB-Eurostat Technical Compilation Guide for Table 29 -- 2020 edition:

<https://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-GQ-20-008>

Estimates of accrued-to-date entitlements for other EU member states:

<https://ec.europa.eu/eurostat/web/pensions>

The 2021 European Commission Ageing Report (2024 edition is forthcoming):

https://economy-finance.ec.europa.eu/publications/2021-ageing-report-economic-and-budgetary-projections-eu-member-states-2019-2070_en

TABLE 1. ACCRUED-TO-DATE PENSION ENTITLEMENTS IN SOCIAL INSURANCE: BASELINE SCENARIO, 4% NOMINAL DISCOUNT RATE. Million euro

Relations	Row No.	Recording		Core national accounts					Not in the core accounts		Total Pension Schemes	Counterparts: entitlements of	
		Pension manager		Non-general government			General government			Social security pension schemes		Resident households	Non-resident households
		Defined contribution schemes	Defined benefit schemes and other non-defined contribution schemes	Total	Defined contribution schemes	Defined benefit schemes for general government employees		Classified in general government					
Column number		A	B	C	D	E	F		G	H	I	J	K
<i>Opening balance sheet - 31.12.2020</i>													
	1	Pension entitlements (incl. contingent pension entitlements)	146,251	6,281	152,532					7,680,544	7,833,076		
		<i>Pension entitlements (% of Gross Domestic Product 2020)</i>	8.8%	0.4%	9.2%					462.3%	471.5%		
<i>Changes in pension entitlements due to transactions</i>													
Σ (2.1 to 2.4) - 2.5	2	Increase in pension entitlements due to social contributions	12,708	123	12,831					501,950	514,781		
	2.1	Employer actual social contributions	8,634	67	8,701					121,207	129,908		
	2.2	Employer imputed social contributions		0	0						0		
	2.3	Household actual social contributions	3,774	22	3,796					73,521	77,317		
	2.4	Household social contribution supplements	1,048	49	1,097					307,222	308,319		
	2.5	Less: Pension scheme service charges	748	15	763					0	763		
	3	Other (actuarial) change of pension entitlements in social security pension schemes								11,122	11,122		
	4	Reduction in pension entitlements due to payment of pension benefits	8,546	951	9,497					280,107	289,604		
<i>Changes in pension entitlements due to other flows</i>													
2 + 3 - 4	5	Changes in pension entitlements due to social contributions and pension benefits	4,162	-828	3,334					232,965	236,299		
	6	Transfers of pension entitlements between schemes	32	-8	24					0	24		
	7	Change in entitlements due to negotiated changes in scheme structure	0	0	0					0	0		
	8	Changes in entitlements due to revaluations	6,975	-34	6,941					0	6,941		
	9	Changes in entitlements due to other changes in volume	0	0	0					0	0		
<i>Closing balance sheet - 31.12.2021</i>													
1+ Σ (5 to 9)	10	Pension entitlements (incl. contingent pension entitlements)	157,419	5,411	162,830					7,913,509	8,076,339		
		<i>Pension entitlements (% of Gross Domestic Product 2021)</i>	8.6%	0.3%	8.9%					434.2%	443.2%		

The cells shown as ■ are not applicable; the cells in ■ will contain data which are not in the core national accounts.

TABLE 2. ACCRUED-TO-DATE PENSION ENTITLEMENTS IN SOCIAL INSURANCE: SENSITIVITY ANALYSIS, COLUMN "H". Million euro

Relations	Row No.	Recording	Not in the core accounts		
		Pension manager	General government		
			Social security pension schemes		
		Nominal discount rate	3%	4%	5%
<i>Opening balance sheet - 31.12.2020</i>					
	1	Pension entitlements (incl. contingent pension entitlements)	9,178,051	7,680,544	6,542,296
		<i>Pension entitlements (% of Gross Domestic Product 2020)</i>	552.5%	462.3%	393.8%
<i>Changes in pension entitlements due to transactions</i>					
Σ (2.1 to 2.4) – 2.5	2	Increase in pension entitlements due to social contributions	470,070	501,950	521,843
	2.1	Employer actual social contributions	121,207	121,207	121,207
	2.2	Employer imputed social contributions			
	2.3	Household actual social contributions	73,521	73,521	73,521
	2.4	Household social contribution supplements	275,342	307,222	327,115
	2.5	Less: Pension scheme service charges	0	0	0
	3	Other (actuarial) change of pension entitlements in social security pension schemes	84,443	11,122	-39,534
	4	Reduction in pension entitlements due to payment of pension benefits	280,107	280,107	280,107
<i>Changes in pension entitlements due to other flows</i>					
2 + 3 - 4	5	Changes in pension entitlements due to social contributions and pension benefits	274,406	232,965	202,202
	6	Transfers of pension entitlements between schemes	0	0	0
	7	Change in entitlements due to negotiated changes in scheme structure	0	0	0
	8	Changes in entitlements due to revaluations	0	0	0
	9	Changes in entitlements due to other changes in volume	0	0	0
<i>Closing balance sheet - 31.12.2021</i>					
1+ Σ (5 to 9)	10	Pension entitlements (incl. contingent pension entitlements)	9,452,457	7,913,509	6,744,498
		<i>Pension entitlements (% of Gross Domestic Product 2021)</i>	518.7%	434.2%	370.1%

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