Key findings

- The average income of people older than 65 is almost the same as for the whole population in Italy, while it is 12% lower on the OECD on average. At the same time, the effective age of labour market exit is about 3 years lower than the OECD.

- In the 2016, the normal retirement age is 66.6 years for men and 65.6 years for women in Italy compared with 64.3 and 63.7, respectively, on average in the OECD. In Italy, further increases in the normal retirement age, in line with changes in life expectancy, will take place to reach 67 years in 2019.

- The normal retirement age for the generation born in 1996 is projected to increase further to 71.2 years. Only Denmark will have a higher retirement age than Italy.

- Given the high retirement age, the future gross replacement rate for a full-career worker will be high at 83% compared to the OECD averages of 53%.

- Over the last two years, the means-tested old age benefit ("14th-month payment") was substantially increased and its coverage extended.

- There will be a large flexibility to retire from about four years before the normal retirement age after having contributed for at least 20 years. However, this means large flexibility from a high early-retirement age in the case of Italy. The benefit when retiring earlier or later is adjusted in line with accumulated entitlements and the remaining life expectancy.

- Gradual withdrawal from the labour market is not common in Italy: less than one-third of those older than 64 who do work do so part-time against about one-half in the OECD.

Overview – Recent reforms and flexible retirement.

Since 2011, there is an automatic link between the retirement age and life expectancy. From the current level of 66.6 years for men and 65.6 years for women, the statutory retirement age is expected to increase to at least 67 and 66.6 years in 2019, respectively, and then reach 71.2 years for the generation born in 1996 based on life expectancy projections. In the OECD, only Denmark and the Netherlands will have a retirement age above 70 for the same 1996 birth cohort, against an OECD average of 65.8 for men and 65.5 for women.

Future replacement rates in Italy will be high for those with long tenure; those with patchy careers or not working at all will likely face a high risk of old-age poverty. The notional defined contribution (NDC) pension scheme will give a net pension equal to 93% of last earnings for an average-wage worker with a full career from age 20. Replacement rates are only higher in the Netherlands, Portugal and Turkey.

Future replacement rates are high
Net replacement rates at normal retirement age by earnings
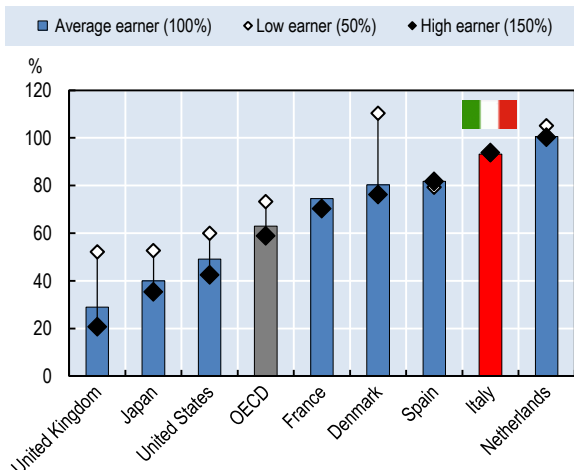
Source: [Figure 4.8].

Retirement age is and will be high
Current and future retirement age
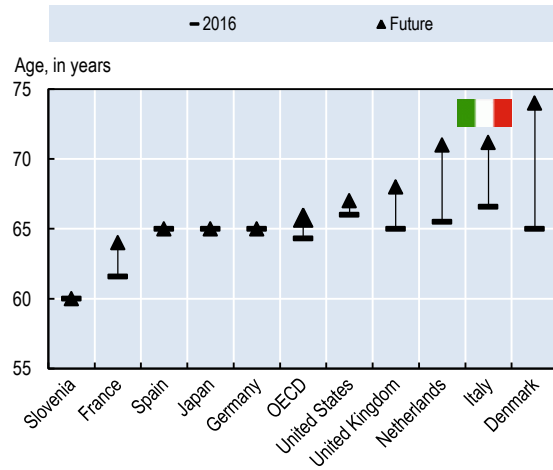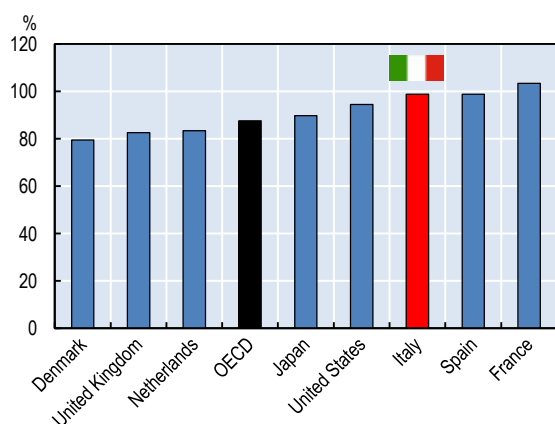

Source: [Figure 3.10].

High replacement rates for those with long tenure are not only driven by the high future retirement age but also a high pension contribution rate of 33%. However, career breaks substantially reduce final pensions as there is a close relationship between individual contributions and benefits. Given low employment rates at younger and older ages – the employment rate among those aged 20-24 and 55-64 was 30% and 50%, respectively, in 2016, compared with 57% and 59% on average in the OECD - a full career might not be very common in the future.

Those with over 20 years of contributions will be able to choose to retire nearly four years before the statutory retirement age, with adjusted benefits because of the extended payment period. This adjustment ensures that earlier retirement decisions are neutral for the pension system finances over time. In the future, the system will therefore be equivalent to one with a future retirement age of 67 (with adjusted benefits) and no early retirement possibility.

However, currently, the flexibility to early retire is limited by short-term constraints on pension finances. The high share of public pension expenditure in GDP, at around twice the OECD average, reflects the high relative income of retirees and is associated with early ages of labour market exit (62.1 for men and 61.3 for women) as well as high life expectancy of 22.4 years at 65, i.e. around one year more than the OECD average. Hence, prolonging working lives is needed to keep pension promises in the pay-as-you-go pension in the short-to-medium term. In 2012, on top of the increase in the retirement age, the contribution period for early retirement at age 62 was raised from 35 to 42 years. These measures have contributed to extend working lives and raise the employment rate among the 55-64 from 38% in 2011 to 50% in 2016.

The pension system provides great flexibility when retiring around the statutory retirement age for the baseline full-career case, along with Chile, the Czech Republic, Estonia, Mexico, Norway, Portugal, the Slovak Republic and Sweden. Future benefits are more or less actuarially adjusted with the timing of retirement while combining work and pension is unrestricted.
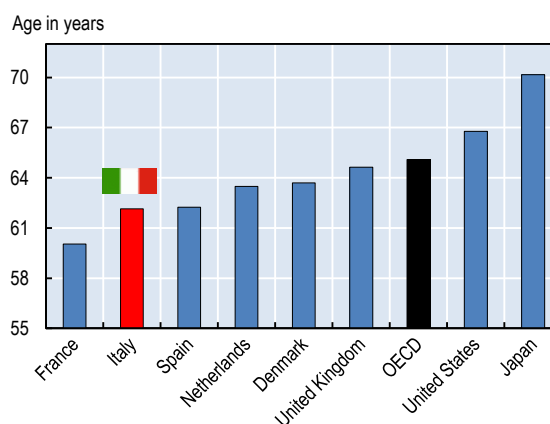
Working and deferring pension increases the benefit by around 7% per year of deferral. However, working at older ages, both full- and part-time, is uncommon in Italy: among the 65-69 only 9% worked, of whom about one-quarter work part time compared to the OECD averages of 26% and one-half, respectively, in 2015.

An early retirement option is being trialled in 2017 and 2018 following intense political pressure. First, a financial advance pension (APE) lets individuals take out a loan from a financial institution backed by future pensions provided they have reached age 63 with 20 years of contribution. This option seems to be neutral for public finances even though a guarantee fund was created. This mechanism acts as an early-retirement scheme. By providing the possibility to borrow against future assets, APE is an innovative way to address credit market imperfections by introducing reliable collateral. However, this option may only appeal to those with long contribution histories who would be able to afford the lower pension when retired.

Therefore, the trial also includes the "social advance pension" (social APE), a separate early-retirement scheme for some vulnerable groups: the long-term unemployed, persons with disabilities or assisting seriously disabled, and selected 'demanding' occupations; international experience shows that these are difficult to define, however. Eligibility requires reaching 63 years and having made between 30 and 36 years of contributions. Social APE increases current public expenditure without an actuarial reduction of future benefits. The set annual limit of 60 000 applications for both options was reached only two weeks after the introduction of the scheme.

The current challenge for Italy is to both limit pension spending in the short and medium run and address adequacy issues for future retirees. Increasing effective retirement ages should continue to be the priority in order to secure adequate benefits without threatening financial sustainability. This means focusing on increasing employment rates, especially among vulnerable groups. A more inclusive labour market would also reduce the future take-up rate of old-age social benefits.

Relative incomes of people aged 66+ are high
% of average income for the total population

Source: [Figure 6.1].

Effective age of labour market exit is low

Source: [Figure 1.6].