

13. Summary and conclusions: current issues and proposals - trends of the pension and welfare system

This new final chapter is devoted to some topical issues and on some solutions. The hot topic in the field of pensions is readjusting the accounts following the de-indexation and solidarity contribution measures to be applied to some pensions; the Supreme Court issued an opinion with a very negative impact for both pensioners and the State, as indicated under 13.1.

As to supplementary health care benefits, Italy badly needs a specific law and a "single welfare plafond". How is it possible to finance it and reduce the huge tax evasion mentioned in Chapter 11? With the "conflict of interests" that Italian decision-makers do not even bother to consider.

13.1 A true intergenerational pact: from a solidarity contribution to an "intergenerational sustainability" contribution

Decision number 70/2015 of the Supreme Court outruled the de-indexation of the pensions three times above the minimum pension (par. 25, art. 24 of LD n. 201 of 6/12/2011), called Fornero Act, which opened a gap of over 5 billion, the State budget. However, this can be an opportunity to re-think of how to obtain a better balance between pensions and work. The rationale rests on some conditions: **1)** Italy has a *pay-as-you-go pension system* which means that pension benefits are paid by active workers' contributions; **2)** like any other pay-as-you-go regime, the Italian system too has a *generational pact*, under which each generation will allow the previous one to have a pension; Italian young people in Italy know that their contributions are used to pay the pension benefits of their fathers and of their grandfathers, and that when they retire, their pensions will be paid by other people's contributions; **3)** the employment rate in Italy is very low, almost in the last positions of the OECD ranking, in terms of the overall rate, of the rates for women, for people over 55 and under 29; **4)** the so-called tax wedge puts Italy in the top ranks among industrialized countries; in the first rank for social contributions and in the five top positions for tax burden; **5)** there is no doubt that all pensions calculated with the income-based system are far more generous (and promote rampant tax dodging) vs. the ones calculated with the contribution-based system; **6)** following the past reforms which introduced automatic stabilizers, the pension system is in equilibrium but, to be sustainable over time, the economy has to recover, with more growth and *more jobs*.

An acceptable ratio (in the present situation) may be about **24.5 million people employed vs. 16 million pensioners**, equal to 1.531. On December 31 2013, the number of actively working people was about 22.425 million and the number of pensioners was 16.393 million, with a 1.368 ratio. So this ratio should be improved by 12%. This target is expected to be reached over time as far as pensions are concerned; it is more complex to increase the number of active workers. In fact, over 1 million jobs were lost during the crisis, which means that 1 million people no longer pay contributions, the system suffers and runs a deficit, also due to the generous income-based benefits.

In summary: the employment rate is low also because of high contribution charges and taxes; a sustainable pension and welfare system requires a higher employment rate among the young generation (*up to 29 years*) and in the "tail", that is people *over 55* who are too young to retire and too expensive to stay. Moreover, in 2013, the overall cost of the system, erroneously called pension system, was **280 billion euros**, of which two thirds for pensions and one third for *pure welfare measures*. As shown in *II Report on the Italian pension system*, tax payers had to bear a cost equal to about **100 billion euros**.

So what can be done to increase employment especially in the under 29 and over 55 age brackets and make the Italian system more sustainable, without adopting erratic measures such as the de-indexation of some pension benefits and the solidarity contribution which may be again repealed by the Supreme Court? Second question: is it worth for pensioners to pay more for the intergenerational pact and for their benefits too? Third question: could the Supreme Court accept a provision designed to promote employment for the above-mentioned age group and so as to have a more sustainable pension and

welfare system (including all the income-support measures paid by general taxation)? Here are three answers:

I The Jobs Act laid the foundations to increase employment and now there are two options: **a)** all the **23.3 million benefits** being paid should have a 90% price adjustment in the next few years; **b)** a solidarity contribution should be paid for **all benefits, even the welfare benefits** generated by the income-based system; the contribution-based system for those who started working on January 1 1996, no longer provides for social allowances and supplementary benefits to which over 4.6 million pensioners are entitled out of 16.3 million; a huge number of people (not correlated with the Italian standard of living) who have paid few contributions for 65 years and perhaps very few taxes (they do not even pay taxes today on their benefits) and who must be supported by the young generations. For example, the **"intergenerational solidarity contribution"** will be 0.5% of the minimum pension (**about 2.5 € per month**) and will increase with the amount of pension benefits so as to get between **5 and 7 billion euros per year**; what can be done with these funds?

They can be used to set up a **"fund to support employment for people under 29 over and 55 years of age"** which finances every year **permanent and adjusted tax and contribution incentives** to give jobs to people in these age groups. These incentives are supposed to replace the current contribution incentives envisaged in the Jobs Act for the next 3 years for the new contracts with growing safeguards; the aim is to encourage enterprises to renew these contracts once these rebates (over 8000 euros per year and per person) expire. In fact, when the contribution incentives were eliminated for the southern regions on the basis of the 1994 Pagliarini – Van Miert agreement, it was a disaster for the south; and this may happen again after the three-year period; this would not happen with stable tax incentives (**a positive trap**, the more the company hires, the greater the incentives).

II Is it worth for pensioners to pay this price? Yes indeed! It is like an insurance policy which guarantees the sustainability of the Italian pay-as-you-go system; more active workers, more contributions and so more available resources to pay current pension benefits. Boosting employment is beneficial in general but has a positive effect specifically on the contribution levels and it helps reduce expenditure on social protection measures. This would kill the demand for subsidies (minimum income and so forth and so on) and would generate a virtuous circle (fewer people on the dole and more workers).

III On the basis of the considerations above, this project is not very popular for politicians and is expected to be labelled by the opposition as a measure to hit the poor social pensioners, but it may be supported by the Court since it is designed to ensure the sustainability of the pension system and more intergenerational equality between income and contribution-based pensions. Of course, for the same shallow electoral reasons, no-one in the opposition will ever ask (nobody has considered this issue yet) how come half of the pensioners paid no or very few contributions (and so they did not pay taxes as indicated in Chapter 12), but they had all the services, including health care, and they are supported by young people and by those who pay taxes. Major reforms are for the brave hearted and fortunately the current Government that can surely implement them.

13.2 All households should be entitled to a "fourteen month year-end bonus" and to supplementary health care benefits

There is no doubt that Italian households have been impoverished by the financial crisis, also triggered by globalization which has eroded competitiveness and jobs. Moreover, the tax burden for those who pay taxes is one of the highest in Europe, a record level especially for retirement contributions, 33% of the income. The Renzi government has tried to put some money back into the pockets of Italian citizens, the famous 80 euros (less than 1000 euros per year) and has erroneously put the termination of employment benefit back into the paycheck but with higher taxes. Some parties have proposed other forms of support measures for households such as a **household quotient** (tax reductions according to the number of children), **the citizenship income** or a higher non taxable income level, **"incentives for households"**. All questionable solutions from the tax equality point of view, which

have a welfare flavour and are very expensive. Instead, there are two ways to promote a civic attitude among citizens (rights but also the often forgotten duties) that cost nothing or very little for the State and for all citizens; these solutions can also discourage a further increase in taxes, first of all VAT at 24%.

These two proposals are interconnected and have two objectives: the first is the introduction of the "**conflict of interests**", so as to obtain a "fourteen month year-end bonus", that is a saving equal to 1,650 euros; the second is a "**single tax deduction plafond**" so as to have resources for complementary pension schemes, not self sufficiency benefits and supplementary health care benefits. Since savings produce savings, if the 1,650 € saved are invested with the conflict of interests in a pension fund or in supplementary health benefits, one third more of this amount is saved because it can be "*deducted from taxes*".

1) The conflict of interests: it is designed to deduct all **direct and non intermediated** expenses borne by households for housing, vehicles (cars, motorcycles, bicycles) and for domestic services which end up with the same statement: "*the cost is 1,000 €, with the invoice it is 1,22, but since you do not need an invoice because you cannot deduct it, I will charge you only 900 €*". Italy has very few "tax heroes"; since it is possible to save 320 € and life does not change but money can help, in 9 cases out of 10 this becomes an "unregistered" transaction. Instead, each household should be entitled to deduct (for three years on an experimental basis) 5.000 € for these expenses for plumbing, upholstery, electricity and painting works or for car body or engine works or for house help for 4 hours per week; it sounds like a complex system; in this case, each household would have a "**fourteen month year-end bonus**" equal to 1,650 euros for a tax rate of 33% including personal income tax additions. Of course, these works should have a maximum VAT of 5%; but in this case too the State has an advantage; in fact, if only 1 invoice is issued out of 10 for the works described above, the State receives 22%; instead if all works are invoiced with a 5% VAT, the State receives 50% (not bad to cut tax dodging). Moreover, if households deduct these expenses from their taxes, suppliers too pay taxes, but especially social charges; this is a double benefit for the State which receives about 23% for social charges on the taxable income and manages to have the cake and eat it. Clearly, if these suppliers do not pay contributions, when they retire at 67, other tax payers will have to pay their benefits; this means higher expenditure for the State and a huge tax burden for the poor guys who are obliged to pay (even if they wish they could not pay). Finally, households should also be entitled to deduct expenses for professional services such a legal and medical expenses.

2) Households feel more protected and may decide to join a *supplementary health care fund*. In 2014, the out-of-pocket health care expenditure reached 30 billion euros. When people are ill they do not mind if a visit costs 100 or 200 € or if the doctor gives them an invoice or not. They pay. However, a specialist registered with a fund or with a health care scheme costs 80 euros while the cost may be up to 200 euros for uninsured individuals. So, if households invest this "fourteen month year-end bonus" in a health fund, they save money for future contingencies, avoid long waiting lists, they can choose better facilities and save on taxes; in fact, the 1,650 € paid for the health care scheme can be deducted from taxes; households with a tax rate equal to 33% will save 545€ and their health plan cost will be 1,105 €. They can use the rest of the money to pay for school items or for other useful things for the family.

Italy has the following tax incentives: 5,164.57 € for pension schemes; 3,600 € for supplementary health benefits and about 550 for other forms of welfare (kindergarden, summer schools, fellowships etc.). Households should be entitled to deduct this amount of money not only for pension or health care benefits but they should have a "plafond" of 9,000 € per year for all forms of welfare benefits according to their needs and contingencies; this would really help and protect the fundamental brick of the society: the family! With great advantages in terms of consumption, growth and employment. Moreover, this would help shrink the large underground economy, like with the conflict of interest method.

In Italy there are at least 8 million people who are self-employed, professionals and irregular workers (workers who receive income support benefits or illegal migrants) who provide a wide range of daily services to over 24 million households. It will suffice to read Chapter 11 to realize the extent of tax and contribution dodging and avoidance. The same for the results illustrated in Chapter 12 (conclusions) to understand that most of these individuals need to be supported once they reach the retirement age with social pensions, fake disability benefits, supplementary benefits and other social allowances, often provided by unidentified local authorities.

In sum, the typical Italian household spends 5000 € per year (more for larger households); with a 33% rate, it can save 1,650 € which can be invested in a health care fund) or in a pension fund or in a LTC scheme); by calculating the same tax rate, it can save again 33% (1,650€ - 33%) 1,105 €. But not only, this household may see a specialist twice during the year without paying anything. Without any of the above, the cost would be over 300 €, so more saving to be added to the 545 € deducted from taxes.

All these proposals are actually a true tax reform; it is necessary to dare more to create a virtuous circle with more advantages for households and for the State.

13.3 A "framework law" on supplementary welfare and health care benefits

It is necessary to introduce a law on supplementary health care schemes, exactly like the law on complementary pension schemes introduced in 2005. Under this law, individuals are free and flexible in choosing how much they want to contribute and how to use the resources accrued and they can deduct part of these expenses from taxes; it is considered one of the best laws in Europe. This law was introduced because of: **a)** a partial and progressive reduction of compulsory pension benefits **b)** dwindling resources to be allocated to welfare; **c)** the aging of the population which is expected to drive up the costs of the pension, welfare and health care system.

The complementary pension system regulated by this law was able to grow notwithstanding the crisis and with no problems for their accrued resources. Instead, ***supplementary health care schemes*** are more or less in the same situation as the complementary schemes in 1991. In fact, at that time, there were more than 1000 pension funds with over 2 million members and many resources; they had been set up over time by using and combining the provisions of the *Constitution, the civil code, the framework income tax law, the contract and labour law*. Of course, there was everything in this mix: bad schemes but also many healthy funds of different types: internal funds, budget items, associations not recognized under art. 36 of the cc, juridical persons or separate schemes under art. 2117 of the cc. The resistance against an ad-hoc legislation was very strong because they wanted to defend their own turf and to do whatever they liked with the pension system.

Today, the same situation can be found in the field of supplementary health care schemes; lack of a clear regulatory framework; lack of supervision; rules applied in a different way in similar situations. Each supplementary health care provider wants to defend its prerogatives as an "institutional source", saying, for example, that contractual funds are better than other types of schemes and therefore it is not possible to have a harmonized regulation.

With the complementary pension system, this mental attitude has been discarded and today no-one of the 33 subjects sitting around the "negotiating table" would ever go back.

The lack of a comprehensive law and not using a series of rules mainly based on article 9, paragraph 8, of the law decree n. 502 of December 30 **1992** has produced a series of inconsistencies (this decree was issued in one of the worst moments for Italy); the most incredible one is that if workers are registered with a contractual health care scheme (generally employed workers) they are entitled to deduct contributions up to 3,600 €, if they are self-employed (over 7.5 million workers) they are entitled to deduct only 19% of 2.5 million lira (about 1,291 €). But there are other negative examples within the framework of the over 300 schemes, such as simple insurance policies masked as funds or schemes only set up to obtain tax benefits.

Therefore, it is necessary to: **a)** launch a framework law with a series of themes related to: free or compulsory membership; terms and features of supplementary health care schemes; types of schemes; residual powers of "institutional sources"; taxation; common rules; long term care; supervision (Ministry of Health and Covip, as for the complementary pension system?); sanctions; requirements for management and control bodies; complementarity level and economies of scale, etc.; **b)** start talking about a single *plafond* (tax rebates for pension, health care and supplementary welfare schemes) to be used by households in a flexible way in the different phases of life.

13.4 The welfare system and local authorities

Whenever a proposal is made to reduce public expenditure of "**local authorities**", municipalities, and regions, their most frequent reaction is that they will have to reduce welfare benefits for their communities. But what kind of welfare are they talking about? What kind of benefits? How much do they cost? Where are these items in the public budget? Actually, it is not possible to give an answer to any of these questions for the simple reason that Italy does not have a cost-center accounting system specifying the weight of these expenses. Local authorities provide needy citizens with supplementary pension benefits, vouchers for goods and services, home care, housing support with reduced or zero rents, allowances for transportation, school meals and buses for children, incentives for classes, summer camps and much more. RGS is aware of these services but it does not have any accounting data; so these expenses (net of housing) are estimated to be 0.60% of GDP.

These are just two of the many paradoxes in Italy: **1)** There are no comprehensive accounts to know exactly how much the whole system spends; **2)** no-one knows the amount of benefits in cash or in kind provided to individuals and their families by the central and local governments. Therefore, there is no certainty that this money is spent well for two reasons: **a)** many municipalities do not have a real picture of the situation of the recipients of subsidies and their families, so they do not know whether another local authority (Region) or the State provide the same benefits in cash or in kind; for example, there are still many municipalities which do not transfer the data of the deceased to Inps and so often this institute pays pensions to dead people; **b)** the 8,100 Italian municipalities are small: the first 1000 have less than 300 inhabitants on average (Tergu is 7101th in the ranking for the number of inhabitants, 570 people), the second 1000 do not reach 550 inhabitants on average (6101th place for Temù with 1010 people), the third 1000 about 1,250 inhabitants, the fourth 1000 less than 2000 inhabitants (4101th place for Quero, Nanto, Calendasco, Beregazzo etc. with 2,312 people). An example to talk about efficiency: a typical municipality with 1,500 inhabitants, with three municipal law enforcement agents, two cars and one small office; for this service alone which has no positive impact on security at all (one works in the first shift, the second in the second and the third is sick), the cost is 100 € per person. In Italy, there are only 1,100 municipalities with at least 10000 inhabitants (the minimum to develop services). Regions too are cases in point; in 2015, regions like Valle d'Aosta (129000 inhabitants), Molise (315000), Basilicata (578000), Umbria (896000), Trentino Alto Adige (1,051,000), Friuli Venezia Giulia (1,230,000) have fewer inhabitants than a neighborhood in Milan or in Rome and this is crazy for public expenditure. So, no comment.

In order to reduce public expenditure and to improve welfare for the community and coordinate it well to the national system, it would be wise to structurally review the organization with more than one thousand community centers (a series of municipalities which keep their name and traditions but with a centralized and single elected administration to manage and organize all the functions including community welfare and security); and no more than 10/11 regions.

There is no doubt that only a well structured administration can effectively interact with users and monitor expenses; moreover, it is necessary to have an INPS general registry of welfare service applicants (INPS already has a general registry for active workers and pensioners) in order to cross-check the tax data; local authorities should have the overall economic picture of applicants and the list of subsidies provided including those provided by organizations which receive public contributions or the 5 x thousand. For example, health care cards should feature all the services

provided and they may be used by the public sector but also by individuals and their families to have more information about the costs incurred. At the same time, these cards should have the list of all the other social benefits provided. This system is already feasible today without spending too much and it can be used by the State and by local authorities to know their welfare expenditure; but it is especially useful for users to learn how much they have received from the State. Probably Istat would discover that the social expenditure/GDP ratio is not 129.7% as they have claimed for some time, but it is 1.5 % more (29% in the 28 EU member countries), and Italy may at last improve its image abroad; Italian citizens often complain they pay many taxes and it is important for them to know how much they receive. Over one-thirds of them would be impressed to discover that the "pay 1 get 2" formula is not only applicable to supermarkets.

13.5 Summary and conclusions: the performance of the pension and welfare systems

This Report has provided an insight in how the Italian “*pension system*” performs on the basis of some relevant data. To this end, social expenditure has been reclassified according to its allocated function: health care, pensions, welfare expenses managed by Inps and Inail at the central and local government level (municipalities, former provinces and regions). The different items have then been included in the State budget using the DEF data updated to September 19 2015 to obtain the ***total pension expenditure in the State budget***. **Table 13.1** provides an overall picture of the situation on which it is possible to make some considerations.

Table 13.1 THE STATE BUDGET

EXPENDITURE ITEMS (in millions)	YEAR 2012	2012 as % of the total	YEAR 2013	2013 as % of the total	YEAR 2014	2014 as % of the total
PENSIONS (1)	211,088	25.74%	214,567	26.17%	216,035	26.15%
HEALTH	110,422	13.47%	110,044	13.42%	111,028	13.44%
Health care + inv, LTC + GIAS (2)	62,941	7.68%	65,515	7.99%	66,500	8.05%
Temporary benefits (3)	25,675	3.13%	27,566	3.36%	26,998	3.27%
INAIL benefits	10,409	1.27%	10,400	1.27%	9,109	1.10%
Welfare by Local Authorities (*)	9,690	1.18%	9,656	1.18%	9,696	1.17%
Remuneration of public sector employees (4)	128,347	15.65%	127,359	15.53%	126,351	15.29%
Operating expenses (5)	112,851	13.76%	118,924	14.50%	126,614	15.32%
Capital account expenses	64,532	7.87%	57,961	7.07%	58,749	7.11%
INTERESTS	84,086	10.25%	77,942	9.51%	75,182	9.10%
Total expenditure on social benefits	430,225	52.46%	437,748	53.39%	439,366	53.18%
TOTAL FINAL EXPENSES (6)	820,041	100%	819,934	100%	826,262	100%
GDP serie SEC 2010/incidence	1,615,131	26.64%	1,609,462	27.20%	1,616,048	27.19%
<p>(1) pension expenditure net of Gias (except for that of public employees equal to 7.553 billion) and before taxes, 42.9 billion euros; (2) The item features the total Gias transfers (tab 1 A) + welfare expenses (pensions and social allowances, disability and carers' allowances, veterans' benefits) + 14th month year-end bonus and the additional amount + 10.8 billions' worth of State contributions to the fund for public employees (10.5 billion in 2012; 10.6 in 2013). (*) estimate on RGS data, 0.6% of GDP excluding housing; (3) Expenses for temporary benefits including: family allowances and benefits, wage support measures, unemployment benefits, Aspi, sick and maternity benefits financed by GPT and by contributions from employers and partly by Gias (not included in the Gias amounts in table 1a); (4) In the “employed work income” section, the staff remuneration cost in the health sector is included in the health expenditure and so it is subtracted from the total remuneration of public employees; the cost of health care workers is 35.5 billion in 2012, 35.238 in 2013 and 35.487 in 2014; the same holds true for the 2.036 billion euros' worth of remuneration of pension schemes; (5) in the DEF, they are indicated as “intermediate consumption”; (6) data on “the update note to the 2015 DEF approved on 18/9/2015 that replaced the data used last year for the DEF updated up to 30/9/2014; NOTE 1: the slight differences in the figures under 3 and 4 vs. the DEF are due to a reclassification of some costs. NOTE 2: The 2014 costs of “social benefits” do not include operating expenses (2.164 billion) that should be added to the total expenses on social benefits, while they include the remuneration (2.036 billion) of the employees of public bodies (Inps e Inail).</p>						

Unlike what some observers often say, the reclassified budget shows that the expenditure on ***social benefits*** in Italy was equal to **439.366 billion** euros in 2014 and it accounted for over **53%** of the total

expenditure including the interests on public debt (over **58%** net of interests) which amounted to 826.262 billion. The annual deficits of the system were adjusted starting from 1980 (the first year of deficit) to the yield of treasury bills to repay the pension and welfare debt. In other words, the public debt is mainly generated by the sum of the annual pension and welfare expenditure deficits. The incidence of the social expenses considered in table 13.1 on GDP is equal to **27.19%**, to which should be added other social expenses for housing, social exclusion, family and operating cost incentives for a total of **30%**, one of the highest levels in the 28 EU member countries. This expenditure is not considered to be sustainable in the future; indeed, it is already hampering public investments on technology, research and development, which is the only way to promote competitiveness in Italy and to obtain a more favorable future for young generations already stifled by a huge public debt burden.

The main “figures” of the pension system: Table 13.2 provides a summary of the data examined in this Report, with a historical series from 1997 to 2014. It is interesting to look at the ratio of the number of benefits vs. the number of pensioners; in practice, each pensioner (each head) receives **1.434 benefits** which leads to an average pension from **11,695 €** to **16,638 €** per year, above 1000 euros per month. Another fundamental finding for the sustainability of the Italian pay-as-you-go system is the ratio of the number of employees vs. the number of pensioners. In 2014, it was only **1.379 active workers per pensioner**. Finally, the number of benefits vs. the population shows that the system pays one benefit every **2.607** inhabitants which means one benefit per family, this is the reason why pensions are a very sensitive issue.

Table 13.2: the extent of the pension issue

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Costo totale delle prestazioni(1)	122.948	122.818	128.463	132.039	138.128	144.249	151.080	158.035	164.722
Totale entrate contributive(1)	104.335	109.384	116.276	120.501	129.759	132.201	139.078	148.730	152.440
Saldo	-18.613	-13.434	-12.187	-11.538	-8.369	-12.048	-12.002	-9.305	-12.282
Rapporto spesa totale / PIL	11,7	11,3	11,4	11,1	11,1	11,1	11,3	11,4	11,1
N° dei lavoratori occupati(2)	20.384.000	20.591.000	20.847.000	21.210.000	21.604.000	21.913.000	22.241.000	22.404.000	22.563.000
N° dei pensionati(3)	16.204.000	16.244.618	16.376.994	16.384.671	16.453.933	16.345.493	16.369.382	16.561.600	16.560.879
N° delle pensioni(3)	21.602.473	21.800.058	21.589.000	22.035.864	22.410.701	22.650.314	22.828.365	23.147.978	23.257.480
N° abitanti residenti in Italia(2)	56.904.379	56.909.109	56.923.524	56.960.692	56.993.742	57.321.070	57.888.365	58.462.375	58.751.711
N° occupati per pensionato	1,258	1,268	1,273	1,295	1,313	1,341	1,359	1,353	1,362
N° pensioni per pensionato	1,333	1,342	1,318	1,345	1,362	1,386	1,395	1,398	1,404
Rapporto abitanti / pensioni	2,634	2,611	2,637	2,585	2,543	2,531	2,536	2,526	2,526
Importo medio annuo pensione(3)	7.189	7.436	7.874	7.888	8.073	8.357	8.633	8.985	9.239
Importo corretto pro-capite(3)	9.583	9.979	10.380	10.609	10.995	11.581	12.039	12.558	12.975
PIL(4) (valori a prezzi correnti)	1.048.766	1.091.361	1.127.091	1.191.057	1.248.648	1.295.226	1.335.354	1.391.530	1.490.409

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Costo totale delle prestazioni(1)	170.457	177.540	185.035	192.590	198.662	204.343	211.086	214.567	216.107
Totale entrate contributive(1)	161.404	170.524	183.011	183.280	185.656	187.954	190.345	189.207	189.595
Saldo	-9.053	-7.016	-2.024	-9.310	-13.006	-16.389	-20.741	-25.360	-26.512
Rapporto spesa totale / PIL	11,0	11,0	11,3	12,2	12,4	12,5	13,0	13,3	13,4
N° dei lavoratori occupati(2)	22.988.000	23.222.000	23.404.689	23.024.992	22.872.328	22.963.750	22.885.000	22.425.212	22.421.559
N° dei pensionati(3)	16.670.893	16.771.604	16.779.555	16.733.031	16.708.132	16.194.948	16.533.152	16.393.369	16.259.491
N° delle pensioni(3)	23.513.261	23.720.778	23.808.848	23.835.812	23.557.241	23.700.000	23.400.000	23.322.278	23.198.474
N° abitanti residenti in Italia(2)	59.131.287	59.619.290	60.045.068	60.340.328	60.626.442	59.394.000	59.685.227	60.782.668	60.795.612
N° occupati per pensionato	1,379	1,385	1,395	1,376	1,369	1,418	1,384	1,368	1,379
N° pensioni per pensionato	1,410	1,414	1,419	1,424	1,410	1,463	1,415	1,423	1,427
Rapporto abitanti / pensioni	2,515	2,513	2,522	2,531	2,574	2,506	2,551	2,606	2,621
Importo medio annuo pensione(3)	9.511	9.822	10.187	10.640	11.229	11.410	11.563	11.695	11.943
Importo corretto pro-capite(3)	13.414	13.891	14.454	15.156	15.832	15.957	16.359	16.638	17.040
PIL(4) (valori a prezzi correnti)	1.549.188	1.610.305	1.632.933	1.573.655	1.605.694	1.638.857	1.628.004	1.618.904	1.616.048

(1) Nucleo di valutazione della Spesa Previdenziale fino all'anno 2010 – “Gli andamenti finanziari del sistema pensionistico obbligatorio al netto GIAS”

(2) Istat – “demo.istat.it”

(3) Inps – “Casellario Centrale dei Pensionati”

(4) Istat - SEC 2010

Total cost of benefits (10) Total contribution revenues (1) Balance Total expenditure/GDP ratio n. of employed workers (2) n. of pensioners (3) n. of pensions (3) n. of inhabitants in Italy (2) n. of employed workers per pensioner n. of pensions per pensioner inhabitants/pensions ratio average annual pension amount (3) per capita adjusted amount (3) GDP (4) (current prices)

(1) Nusvap up to 2010 - “Financial trends of the compulsory pension system net of GIAS”

The accounting framework: in 2014 *pension expenditure* for all funds and schemes (net of GIAS as shown in table 1a) reached **216,107 million euros** with a **0.69%** increase vs. 2013; **contribution revenues**, including transfers to support contributions, incentives and rebates equal to 16,948 million (not including an additional State contribution of 10,800 million euros under Act n. 335/1995, to finance Casse Trattamenti Pensionistici degli Statali (public employees' benefit schemes) amounted to **189,595 million euros** with respect to 189,364 million euros in 2013, with a very slight increase by **0.12%**; so there is a negative balance between contributions and benefits of **26,512 million**, up by **4.95%** i vs. the 25,262 million euros' worth of deficit in 2013.

There are only three INPS funds with a positive balance: the *fund for retailers* with **521 million**, the fund for *entertainment sector workers* with **279 million** and the fund for *atypical workers* with **6,943 million**; all the funds for professionals run a surplus (except for Inpgi and Cipag), with a positive balance of **3,364 million euros**. Without these surpluses, the general deficit would go up to **37.619 billion**.

The schemes with the most negative balances are: the *fund for public employees* with **26,1875 million euros'** worth of deficit, the ex *Ferrovie dello Stato fund* with an extremely negative result, - **4,233 million euros**; the *fund for artisans* with - **3,541 million euros**; the *CDCM fund* with - **3,146 million**.

Pension benefit expenditure: in 2014, *pension expenditure* reached **216,107 million euros** while *contribution revenues* amounted to **189,595 million euros** with a **negative balance of 26.512 billion**. But in order to calculate "*pension benefit expenditure*" that is the benefit expenses paid by contributions, it is necessary to reclassify this item as follows: the GIAS transfers from the State are subtracted from contribution revenues in order to obtain the actual contribution revenues, that is **172,647 million**. The taxes directly paid to the State are also subtracted, (there may be a balance at the end of the year), but since they are just a "clearing entry" and "not expenses", the total pension expenditure (including additional benefits to the minimum pension) drops to **173,207 million**. If welfare benefits are separated from pension benefits, the amount of supplementary benefits to the minimum pension should also be subtracted since it depends on the income and not on the contribution system (according to Eurostat, they should be among family support and social exclusion measures); in this case, pension benefit expenditure would be equal to **163,313 million**. If supplementary benefits to the minimum pensions are not considered, the pension system is almost in equilibrium, with a slight deficit of **560 million** (0.32% of the overall pension expenditure). This shows that the Italian system has been stabilized and made more sustainable thanks to the reforms of the last few years. In this connection, a more conservative approach should be adopted by the champions of additional reforms and cuts to pension benefits, or de-indexation measures and solidarity contributions; in fact these proposals together with rumors about the low pension benefits paid by Inps result in more extensive dodging and avoidance of contribution charges and discourage young people from adequately paying their contributions. Moreover, when the actual pension expenditure is calculated as indicated above, its ratio with respect to GDP drops from 15.46% to 10.72%, in line with other European Union member countries. Istat has communicated to Eurostat that the 2011 expenditure on disability, old-age and survivors' pensions is equal to 19% of GDP. The problem is that benefits like the minimum pension and social supplementary benefits and family allowances are charged as pension expenditure items. So, Italy is apparently in the top ranks in terms of pension expenditure in Europe, which irritates the other European partners; instead, it is in the lowest OECD and Eurostat ranks in terms of family, income, social exclusion and housing support measures. All these income-related benefits are designed to support households and to reduce poverty and social exclusion. With the right calculations, Italy is in line with the European average.

Budget indicators for 2014 (million of euros) *pension balance*

Pension expenditure (net of GIAS)	216,107
Pension taxes	42,900
Pension expenditure net of taxes	173,207
Contribution revenues	189,595
GIAS and GPT share of contribution revenues	16,948
Revenues net of GIAS and GPT transfers	172,647
Balance	- 560,00
Minimum pension supplementary benefits	9,894.1
OPERATING BALANCE (table 1a)	- 26,512

Welfare expenditure: Table 13.3 provides an exhaustive picture of expenditure classified as “welfare expenditure” including benefits for disabled civilians, carers' allowances, pensions, social benefits and veterans' pensions.

Tabella 13.3 - Numero di prestazioni assistenziali e relativo importo annuo, complessivo e medio, per tipo di prestazione Trattamenti vigenti al 31 dicembre 2011, 2012, 2013 e 2014												
Tipo di prestazione	Numero				Importo annuo (milioni di euro)				Importo medio annuo (euro)			
	2011	2012	2013	2014	2011	2012	2013	2014	2011	2012	2013	2014
Pensioni di invalidità civile	841.725	857.725	871.317	891.062	2.835,0	2.953,9	3.077,6	3.168,0	3.368	3.444	3.532	3.555
Indennità di accompagnamento	1.892.245	1.923.896	1.967.381	1.994.740	10.522,8	11.520,9	11.274,4	11.559,0	5.561	5.988	5.731	5.795
Pensioni e assegni sociali	809.263	848.716	835.669	845.824	4.035,4	4.779,7	4.990,0	4.609,0	4.987	5.632	5.971	5.449
Pensioni di guerra	282.135	261.435	241.015	232.557	1.460,9	1.426,4	1.390,4	1.443,9	5.178	5.456	5.769	6.209
<i>dirette (1)</i>	<i>98.130</i>	<i>91.510</i>	<i>85.381</i>	<i>88.810</i>	<i>886,3</i>	<i>874,2</i>	<i>862,1</i>	<i>936,3</i>	<i>9.553</i>	<i>9.553</i>	<i>10.097</i>	<i>10.542</i>
<i>indirette</i>	<i>184.005</i>	<i>169.925</i>	<i>155.634</i>	<i>143.747</i>	<i>574,6</i>	<i>552,3</i>	<i>528,3</i>	<i>507,6</i>	<i>3.250</i>	<i>3.250</i>	<i>3.395</i>	<i>3.531</i>
Totale	3.825.368	3.891.772	3.915.382	3.964.183	18.854,1	20.680,9	20.732,4	20.779,9	4.929	5.314	5.295	5.242
Altre prestazioni assistenziali di cui:	4.937.149	8.147.722	7.644.242	7.304.569	13.853,1	13.255,9	12.871,4	12.347,2	2.806	1.627	1.684	1.690
Integrazioni al minimo	3.856.033	3.726.783	3.604.744	3.469.254	10.991,0	10.580,1	10.343,3	9.894,1	2.850	2.839	2.869	2.852
Altre maggiorazioni (2)	1.081.116				2.862,1				2.647			
Maggiorazioni sociali		1.097.626	1.038.069	998.012		1.583,4	1.522,6	1.488,4		1.443	1.467	1.491
Quattordicesima		2.463.580	2.266.318	2.199.756		962,2	893,5	867,4		391	394	394
Importo aggiuntivo		859.733	735.111	637.547		130,1	111,9	97,3		151	152	152

(1) Nel 2014 comprendono anche gli indennizzi concessi ai sensi della legge 25 Febbraio 1992, n. 210

(2) Per l'anno 2011 è disponibile il dato aggregato di maggiorazioni sociali, quattordicesima e importo aggiuntivo.

Fonte: Archivio delle pensioni INPS e Casellario Centrale dei Pensionati (pensioni di guerra)

Table 13.3 - Number of welfare benefits and their annual, total and average amount by type of benefits Benefits on December 31 2011, 2012, 2013 and 2014

Type of benefit Number Annual amount (millions of euros) Average annual amount (euros)

Disability pensions Carers' allowances Pensions and social allowances Veterans' pensions direct (1) indirect Total
other pension benefits: Supplementary benefits to minimum pensions Other additional benefits (2) Additional social allowances (2)
Fourteenth month year-end bonus Additional amount

(1) In 2014, it also includes the indemnities granted under Act n. 210 of February 25 1992

(2) For 2011, there is the aggregated data on social supplementary benefits, the fourteen month year-end bonus and additional amounts

Source: INPS Pension Archive and Central Registry of Pensioners (veterans' pensions).

These welfare benefits were provided to **3,964,183 subjects**, for a total cost **20.780 billion** per year (20.732 in the previous year). In the last 4 years, **pensions for disabled civilians** (+ 50,000) and **carers' allowances** (+ 102,000) have consistently grown; in 2014 the system provided disability pensions to 891,062 people and 1,994,740 carers' allowances. The same holds true for **social pensions** and **allowances** (845,824) while veterans' pensions consistently dropped to 88,810 in the form of direct benefits (including the indemnities envisaged by Act n. 210 of 1992) and to 143,747 of indirect benefits.

In order to complement this analysis, it is necessary to add other welfare measures to the pure welfare benefits described so far; in 2014 all the other measures dropped with respect to the previous years; these are: **a) the additional pension amount**, 637,547 benefits of which almost 70% to women as envisaged under the 2001 Budget Law (Act n. 388 23/12/2000) for pensioners whose benefits do not exceed the amount of the FLDP minimum benefits, with a cost equal to 97.3 million euros; **b) pensions with additional social benefits** for low-income subjects; 998,012 benefits of which almost

70% provided to women, 1,491 euros per year on average and a total cost of 1.488 billion euros; **c) the additional amount, the so-called fourteen month end-year bonus**, provided for under Act n.127 of 7/8/2007; it is paid to pensioners above 64 years of age whose income does not exceed 1.5 times the FPLD minimum benefits for a total of 2,199,756 benefits, down with respect to the previous years; the average amount is 394 euros, mainly provided to women (77%) and with a total cost of 867.4 million euros; **d) supplementary benefits to the minimum pension** to 3,469 beneficiaries, for a total cost of 9.894 billion euros (down in the last 4 years).

In **2014**, the number of beneficiaries of pure welfare benefits was **3,964,183** (first part of table 13.3) and the number of recipients of supplementary minimum pension and social benefits was **4,467,266** for a total of **8,431,449** subjects (down in the last 4 years), that is **51,85%** of pensioners. This figure should not include disability benefits when carers' benefits are provided; instead the fourteen month year-end bonus and the additional amount have not been added as number of benefits to the minimum pension and social supplementary benefits because, in most cases, these subjects already receive other welfare benefits. In any case, the number of pensions with additional welfare benefits is very high with respect to the total and does not reflect the general economic situation of the country. The total cost of welfare benefits for 2014 (excluding the minimum pension supplementary benefits which are welfare benefits but which are paid in a mutualistic way by each scheme, which therefore cannot be added to other welfare benefits) was equal to **23,233 million, all paid by tax payers**; all these benefits (including minimum pension supplementary benefits) are not taxed.

LTC expenditure: the above-mentioned welfare expenditure features an item that can be classified as LTC expenditure, which amounts to **14,727 million euros, (0.91% of GDP)**. According to the RGS data, the total public expenditure in Italy is about 1.9% of GDP, the rest is included in health care expenditure.

Expenditure paid by general taxes: the Italian social security system establishes that pension expenditure be financed by a purpose tax, that is by “**social charges**”. However, since total benefits exceed contribution revenues, also due to pervasive tax and contribution dodging, the share paid by general taxes in 2014 can be classified as follows: the first part paid by general taxes is the **overall deficit of the system** equal to **26.512 billion**, plus **GIAS transfers**, that is **33.358 billion (table 1 a)**, the **GIAS transfers** to support contribution revenues (see *BOX 1 of Chapter 4*) which amount to **10.453 billion** and **1/3 of 6.496 billion euros'** worth of State transfers, while 2/3 are covered by contributions paid by enterprises, the State contribution to the fund for public employees (*table 1a, note 1*, without which the overall deficit would be higher) equal to **10.8 billion**; plus the welfare part (*table 13.3*) described in *Chapter 4.6* for a total of **23.233 billion** (it includes pure welfare benefits, additional social benefits, the fourteen month year end bonus and the additional amount); finally, general taxes also pay GIAS transfers for the income support measures of unemployed people, equal to **8.756 billion** (*table 7.4, chapter 7*; 3.588 billion euros' worth of contributions are included in the 10.453 billion euros' worth of contribution revenues), **3.408 billion euros'** worth of household measures and **567 million euros'** worth of reduced charges (ex TBC).

Therefore, the total tax burden increased to **119.252 billion** (108,452 excluding the 10.8 billion that can also be accounted for as contributions from the employer, that is the State) equal to **7.37 % of GDP** (up with respect to the previous years).

These figures should also include the welfare expenses borne by local authorities, which do not appear under welfare expenditure because of national accounting problems; the estimates of these expenses are provided in *table 13.1*.

Table 13.4 expenditure financed by general taxes in 2014 and the number of welfare benefits (millions of euros)

EXPENDITURE FINANCED BY GENERAL TAXES	
Deficit	26,512.00
GIAS trasfers (net of the PA share)	33,358.00
GIAS trasfers to support cotribution revenues (10.453 + 2.165,3 billion)	12,618.30
Wage support benefits for the unemployed paid by GIAS	8,756.00
Pure welfare benefits	23,233.00
State contribution for the fund for public employees	10,800.00
GIAS houshold support charges	3,408.00
Charges to cover former retirement contributions (tbc)	567,00
Total paid by general taxes	119,252.30
NUMBER OF WELFARE BENEFITS	
Number of welfare benefits	3,694,183
other welfare benefits	4,467,266
of which minimum pension supplementary benefits	3,469,254
Total supported pensions	8,431,449
in % sul totale pensionati	51.85%

So, the cost to maintain social benefits at the current level, the part not covered by social charges and therefore by general taxes, amounts to 119.252 billion euros for welfare measures, 111.028 for health care and about 9.696 billion for the welfare services to be provided by local authorities for a total amount of **239.976 billion euros**. It is a huge redistribution which is equal to 3,973.11 euros per inhabitant if compared to the social contribution and the personal income tax levels.

Taxes on pensions: in 2014, the total amount of personal income taxes on pensions was 42.9 billion euros, of which **28.4 for INPS private pensioners and 14.5 for ex Inpdap pensioners** (public employees) and **ex Enpals retirees** (sports and entertainment sector). The analysis of these taxes shows that there is a huge evasion of contribution charges; in fact, public employees, who only account for 16% of the total, pay 1/3 of all the taxes. The remaining 84%, about 7 million pensioners (51%), practically do not pay taxes (pensions up to twice as much as the minimum pension – 1001.76 €); the remaining 27% (about 3,733,514 pensioners) pay a very low tax rate (see table 11.2 , source Tax Authorities). So the other **2,84 million pensioners** have to pay most of the **28.4 billion euros'** worth of personal income taxes. In sum, the whole pension tax burden pensions is shouldered by 30% of pensioners and mainly by the **770,00 pensioners** with benefits above a gross amount of 3000 euros per month. This should be food for thought. Most retirees who are tax exempted paid very few taxes or none at all while they were working.

The average pension: the analysis of the tables attached to this Report and of those found on the website provides some information about the average pension by category of workers and about the average pension/average income ratio. However, it is important to consider that the INPS income-based pensions often benefit from welfare transfers; for example, the average pension of employed workers may include some welfare measures (welfare benefits, supplementary and complementary benefits) and is characterized by a low level of contributions or no contributions at all and by the failure to recover contributions; the same is true for the pension levels of farmers and of self-employed

workers. The schemes for professionals used to pay very generous benefits on the basis of the previous calculation method. In many cases, the average contribution amount for certain categories is even lower than the maximum deductible amount of 5,164 euros provided for complementary schemes.

However, it is possible to make the following observations: **a)** all the pensions calculated with the income-based system are more generous than the ones calculated with the contribution-based system; the greatest advantages come from welfare and supplementary benefits and from average benefits; the pensions above a gross amount of 5,500 € per month have fewer advantages when the amount of benefits increases;; **b)** for the same level of contributions, public employees and the members of special funds (transportation, telephony, sports, airlines, railways, ex Inpdai) have higher pensions vs. private sector employees who are members of FPLD; **c)** farmers, tenant farmers and sharecroppers benefit from much higher pensions with respect to the ones calculated on the basis of the contributions paid; **d)** after the 1991 law, self-employed workers too greatly benefit from the generous income-based calculation method; **e)** over 50% of old-age pensions paid by INPS are supplemented and financed by tax payers.

Table 13.5 Average pensions by category of workers

CATEGORIE DI LAVORATORI	Pensione Media 2013 (migliaia di €)	Pensione Media 2014 (migliaia di €)	Reddito Medio 2013 (migliaia di €)	Reddito Medio 2014 (migliaia di €)	Rapporto tra PM e RM 2013 %	Rapporto tra PM e RM 2014 %
NOTAI	75,69	76,94	101,13	139,99	74,84	54,96
GIORNALISTI	57,51	54,06	67,37	67,7	85,36	79,85
DIRIG AZIENDE EX INPDAI	49,92	50,09	156,56	159,4	31,89	31,42
Fondo VOLO	46,95	45,44	34,29	19,98	136,92	227,43
COMMERCIALISTI	35,37	36,2	60,94	59,81	58,04	60,52
AVVOCATI	27,46	27	45,49	38,63	60,36	69,89
LAVORATORI TELEFONICI	25,87	26,11	38,78	38,21	66,71	68,33
RAGIONIERI	25,55	26,3	57,03	55,28	44,80	47,58
INGEGNERI, ARCHITETTI	18,44	18,95	26,4	25,53	69,85	74,23
DIPENDENTI STATALI	23,96	26,01	39,76	35,19	60,26	73,91
EX FERROVIE dello STATO	21,47	21,74	41,75	41,3	51,43	52,64
LAVORATORI TRASPORTI	21,13	21,34	31,49	31,13	67,10	68,55
DIPENDENTI ENTI LOCALI	18,81	19,12	31,37	29,77	59,96	64,23
EX POSTE (IPOST)	17,84	18	28,7	28,11	62,16	64,03
LAVORATORI SPETTACOLO	15,85	16,01	15,76	16,53	100,57	96,85
GEOMETRI	14,77	13,33	20,84	20,14	70,87	66,19
DIPENDENTI PRIVATI (FPLD)	12,19	12,47	23,16	22,07	52,63	56,50
ARTIGIANI	11,06	11,26	20,72	20,74	53,38	54,29
COMMERCianti	10,15	10,36	20,37	20,78	49,83	49,86
CONSULENTI LAVORO	10,14	10,27	66,47	65,78	15,26	15,61
MEDICI	6,94	6,98	30,92	31,1	22,45	22,44
AGRICOLI CDCM	7,58	7,73	9,18	10,99	82,57	70,34
FARMACISTI	6,07	6,06	30,65	30,42	19,80	19,92
VETERINARI	5,88	5,74	16,92	16,63	34,75	34,52

NOTE: the average pensions of the members of the privatized funds for professionals under LD 103/96, these schemes are too young and are not yet very significant. (1) Average pension before GIAS transfers. According to the accounts of this entity, the Notaries' income jumped from 481 million euros in 2013 to 666 million euros in 2014 but the contributions did not change; the income of the aviation fund went down from 329 million euros in 2013 to 192 million in 2014; for lawyers the reduction in their average income was due to the increase in the number of contributors, from 177000 in 2013 to 223,842 in 2014, as mentioned in Chapter 5.

Category of workers Average pension (thousands of euros) Average income AP/AI ratio
Notaries Journalists ex Inpdai executives Aviation Fund Certified Accountants Lawyers Telephony workers
Accountants Engineers and Architects public employees ex FFSS Transportation workers employees of local authorities
ex post (ipost) workers entertainment workers surveyors private sector employees (Fpld) artisans retailers labour
consultants doctors CDCM agricultural workers pharmacists veterinary doctors

Table 13.5 shows that the average pension ranking is led by notaries (their benefits are fully covered by contributions), followed by journalists, executives and by the aviation fund members (mainly Alitalia); then there are certified accountants, lawyers, telephony workers and accountants. But if constitutional bodies and entities are considered (chapter 8.1), the leaders of the ranking are the

Constitutional Court judges with **200,000 euros**, followed by retired (over **91000 €** per year), by deputies and regional councillors; immediately after the notaries there are the retired judges of the Supreme Court with over 68000 € per year, followed by retired senators, by the employees of the Chamber of Deputies, of the Senate and of the Presidency of the Republic, at the same level as journalists. Retired employees of the Sicily Region too have a very good position in the ranking.

All the new measures introduced in 2016, together with the ones already applicable in 2015, such as age requirements and length of contribution, transformation coefficients, pension indexation, solidarity contributions, flexibility options (women, part time) ***are reported in appendix 1*** with comments and in depth analyses. The number of pensions and of pensioners, by level of benefits, the comments on average pensions and on women's pensions are illustrated in Chapter 8; life annuities and the benefits of constitutional bodies are illustrated in Chapter 8.1